VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN ASSOCIATION AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND UNIFORM GUIDANCE SUPPLEMENTAL REPORTS

Year Ended December 31, 2015
(with comparative totals for the year ended December 31, 2014)

VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN ASSOCIATION AND AFFILIATES

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Year Ended December 31, 2015
(with comparative totals for the year ended December 31, 2014)

CONTENTS

Mayer Hoffman McCann P.C.
An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN ASSOCIATION AND AFFILIATES

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of ***Valley of the Sun Young Men's Christian Association and Affiliates***, which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility for the Consolidated Financial Statements

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Valley of the Sun Young Men's Christian Association and Affiliates*** as of December 31, 2015, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ***Valley of the Sun Young Men's Christian Association and Affiliate's*** 2014 consolidated financial statements, and our report dated February 29, 2016, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of ***Valley of the Sun Young Men's Christian Association and Affiliates*** as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2016 on our consideration of ***Valley of the Sun Young Men's Christian Association and Affiliates'*** internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ***Valley of the Sun Young Men's Christian Association and Affiliates'*** internal control over financial reporting and compliance.

April 29, 2016 Mayer Hoffman McCann P.C.

VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN ASSOCIATION AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2015
(with comparative totals at December 31, 2014)

ASSETS

	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	$ 580,222	$ 512,398
Funds held in trust	450,841	-
Bequest receivable	-	500,841
Account receivables	500,722	465,428
Merchandise inventories	130,344	135,747
Prepaid expenses	214,824	172,344
TOTAL CURRENT ASSETS	1,876,953	1,786,758
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT		
Cash and cash equivalents	337,903	370,999
Pledges receivable, net	309,953	277,864
TOTAL ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	647,856	648,863
INVESTMENTS, held for long-term purposes	1,493,680	1,494,346
PROPERTY AND EQUIPMENT, net	49,410,673	52,234,080
ASSETS WHOSE USE IS LIMITED	-	255,024
OTHER ASSETS		
Deferred bond and other costs, net	539,753	647,144
Unamortized donated land lease receivable	741,365	773,259
Intangible assets	-	13,835
TOTAL OTHER ASSETS	1,281,118	1,434,238
TOTAL ASSETS	$ 54,710,280	$ 57,853,309

VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN ASSOCIATION AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2015
(with comparative totals at December 31, 2014)

LIABILITIES AND NET ASSETS

	2015	2014
CURRENT LIABILITIES		
Accounts payable	$ 1,868,452	$ 1,651,856
Accrued expenses	570,071	519,423
Custodian accounts	30,443	20,332
Deferred revenue	820,984	820,349
Deferred revenue from cell tower lease assignments	765,450	781,650
Current maturities of annual dues accrued	25,000	180,000
Current maturities of capital lease obligations	228,226	261,438
Current maturities of equipment loans	118,333	203,804
Current maturities of debt and other obligations	15,776,977	15,909,412
Current maturities of forgivable loans	94,740	81,400
Current maturities of deferred rent	34,000	34,000
TOTAL CURRENT LIABILITIES	20,332,676	20,463,664
ANNUAL DUES ACCRUED, less current maturities	498,550	-
CAPITAL LEASE OBLIGATIONS, less current maturities	297,458	415,463
EQUIPMENT LOANS, less current maturities	103,655	221,990
FORGIVABLE LOANS, less current maturities	1,275,683	1,262,033
DEBT AND OTHER OBLIGATIONS, less current maturities	18,041,231	18,250,000
DEFERRED RENT, less current maturities	272,505	306,500
TOTAL LIABILITIES	40,821,758	40,919,650
NET ASSETS		
Unrestricted	6,455,500	9,579,384
Temporarily restricted	3,102,653	3,023,906
Permanently restricted	4,330,369	4,330,369
TOTAL NET ASSETS	13,888,522	16,933,659
TOTAL LIABILITIES AND NET ASSETS	$ 54,710,280	$ 57,853,309

See Notes to Consolidated Financial Statements

VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN ASSOCIATION AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2015
(with comparative totals for the year ended December 31, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2015	Totals 2014
SUPPORT AND REVENUES					
Contributions	$ 3,408,881	$ 365,938	$ -	$ 3,774,819	$ 5,599,781
United Way allocations	778,711	-	-	778,711	953,600
Government grants	1,414,396	25,000	-	1,439,396	1,675,079
Membership dues	15,760,300	-	-	15,760,300	15,550,146
Program fees	8,583,505	-	-	8,583,505	9,255,195
Use of YMCA facilities	419,879	-	-	419,879	445,145
Sales to members	89,129	-	-	89,129	107,259
Investment income	22,334	-	-	22,334	35,598
Miscellaneous	274,599	-	-	274,599	318,172
Net assets released from restrictions:					
Satisfaction of program restrictions	138,920	(138,920)	-	-	-
Satisfaction of capital acquisition restrictions	24,954	(24,954)	-	-	-
Satisfaction of purpose restrictions	65,943	(65,943)	-	-	-
Expiration of time restrictions	82,374	(82,374)	-	-	-
TOTAL REVENUE AND OTHER SUPPORT	31,063,925	78,747	-	31,142,672	33,939,975
EXPENSES					
Health living	17,172,748	-	-	17,172,748	17,491,657
Youth values	5,078,735	-	-	5,078,735	5,201,034
Child care	2,561,686	-	-	2,561,686	2,857,987
Summer day camp	1,196,528	-	-	1,196,528	1,187,937
Juvenile justice	1,658,065	-	-	1,658,065	1,996,312
Resident camp	1,382,121	-	-	1,382,121	1,459,020
Member services	594,206	-	-	594,206	587,775
Management and general	4,337,329	-	-	4,337,329	4,906,340
Fund raising	299,794	-	-	299,794	385,148
TOTAL EXPENSES	34,281,212	-	-	34,281,212	36,073,210
GAINS (LOSSES)					
Realized and unrealized gains (losses) on investments	(27,874)	-	-	(27,874)	45,047
Change in fair value of interest rate swap liability	-	-	-	-	(1,003,568)
Gain on sale of assets	39,615	-	-	39,615	277,900
Gain on uncollectible pledges	81,662	-	-	81,662	91,127
Loss on forfeiture of forgivable loan	-	-	-	-	(29,760)
Loss on return of assets	-	-	-	-	(578,660)
TOTAL GAINS (LOSSES)	93,403	-	-	93,403	(1,197,914)
CHANGE IN NET ASSETS	(3,123,884)	78,747	-	(3,045,137)	(3,331,149)
NET ASSETS, BEGINNING OF YEAR	9,579,384	3,023,906	4,330,369	16,933,659	20,264,808
NET ASSETS, END OF YEAR	$ 6,455,500	$ 3,102,653	$ 4,330,369	$ 13,888,522	$ 16,933,659

VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN ASSOCIATION AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015
(with comparative totals for the year ended December 31, 2014)

	Healthy Living	Youth Values	Child Care	Summer Day Camp	Juvenile Justice	Resident Camp	Member Services	Total Programs	Management and General	Fund Raising	Totals 2015	Totals 2014
Salaries	$ 6,317,015	$ 2,387,404	$ 1,175,238	$ 486,581	$ 934,320	$ 394,127	$ 197,646	$ 11,892,331	$ 1,469,318	$ 125,495	$ 13,487,144	$ 13,256,557
Employee Benefits	370,888	119,107	87,515	25,335	86,392	32,767	7,178	729,182	190,773	17,586	937,541	1,107,529
Payroll Taxes	550,552	216,076	102,269	42,753	81,212	35,103	17,366	1,045,331	116,351	10,923	1,172,605	1,166,478
Total salaries and related expenses	7,238,455	2,722,587	1,365,022	554,669	1,101,924	461,997	222,190	13,666,844	1,776,442	154,004	15,597,290	15,530,564
Professional Fees	653,229	521,512	26,879	15,359	24,389	47,479	7,494	1,296,341	803,706	78,762	2,178,809	2,405,842
Supplies	470,910	461,838	98,688	94,169	33,380	334,124	44,953	1,538,062	16,321	35,137	1,589,520	1,528,950
Telephone	198,629	33,143	29,851	14,229	6,230	32,520	21,967	336,569	197,532	-	534,101	591,404
Postage	5,157	789	569	266	64	9,281	120	16,246	9,075	1,857	27,178	35,234
Occupancy	3,394,652	829,818	415,156	225,449	259,092	221,582	113,672	5,459,421	228,056	379	5,687,856	5,587,077
Printing and Publications	400,878	72,964	26,377	32,893	9,463	63,041	11,604	617,220	26,054	841	644,115	1,061,242
Travel	167,631	76,577	59,362	28,558	27,660	54,234	5,368	419,390	52,087	20,102	491,579	435,789
Conferences and Conventions	46,941	14,610	3,823	1,093	1,140	2,616	493	70,716	6,946	7,392	85,054	71,468
National Dues	171,102	37,925	17,675	12,220	6,012	15,236	5,941	266,111	80,009	144	346,264	287,824
Miscellaneous Expenses	486,314	41,278	8,766	51,490	100,903	43,162	8,128	740,041	48,809	1,176	790,026	1,006,620
Interest Expense	522,947	73,053	62,977	32,118	-	-	14,485	705,580	100,537	-	806,117	1,360,087
Property Taxes	1,771	289	249	127	252	-	58	2,746	7,597	-	10,343	13,870
Total before depreciation and amortization and restructuring costs	13,758,616	4,886,383	2,115,394	1,062,640	1,570,509	1,285,272	456,473	25,135,287	3,353,171	299,794	28,788,252	29,915,971
Depreciation and Amortization	3,414,132	192,352	446,292	133,888	87,556	96,849	137,733	4,508,802	-	-	4,508,802	4,938,885
Restructuring costs	-	-	-	-	-	-	-	-	984,158	-	984,158	1,218,354
Total Functional Expenses	$ 17,172,748	$ 5,078,735	$ 2,561,686	$ 1,196,528	$ 1,658,065	$ 1,382,121	$ 594,206	$ 29,644,089	$ 4,337,329	$ 299,794	$ 34,281,212	$ 36,073,210

See Notes to Consolidated Financial Statements

VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN ASSOCIATION AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2015
(with comparative totals for the year December 31, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (3,045,137)	$ (3,331,149)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Change in discounts on pledges receivable	(9,801)	(3,098)
Gain on uncollectible pledges	(81,662)	(91,127)
Loss on forgivable loan discounts	-	29,760
Depreciation and amortization	4,508,802	4,938,885
Amortization of land lease agreements	31,984	31,984
Amortization of forgivable loan interest	50,390	51,626
Amortization of intangibles	114,130	215,412
Loan principal forgiven	(23,400)	(1,556,740)
Realized and unrealized losses (gains) on investments	27,875	(45,047)
(Gain) loss on sale of assets	(39,615)	(277,900)
Change in value of interest rate swaps	-	1,003,568
Contributions restricted for capital investment	-	(131,869)
Donated land, equipment and stock	(1,285,627)	(71,841)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts, pledges and bequests receivable	465,547	(335,704)
Merchandise inventories	5,403	13,691
Prepaid expenses	(42,480)	20,713
Assets held in trust	(450,841)	-
Other assets	-	-
Increase (decrease) in:		
Accounts payable	216,596	(209,297)
Accrued expenses	394,198	179,149
Custodian accounts	10,111	(65,895)
Deferred rent	(33,995)	(42,000)
Deferred revenue	635	(297,682)
Deferred revenue from cell tower lease assignments	(16,200)	(16,200)
NET CASH PROVIDED BY OPERATING ACTIVITIES	796,913	9,239
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	72,158	1,553,523
Proceeds from the sale of property	39,615	3,665,031
Payment on Excel Sports Acquisition agreement	-	(50,000)
Purchases of investments	(99,367)	(1,468,295)
Change in assets whose use is limited	255,024	924,976
Change in restricted cash	33,096	(170,999)
Purchases of property and equipment	(244,477)	(240,056)
NET CASH PROVIDED BY INVESTING ACTIVITIES	56,049	4,214,180
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions and pledges restricted for capital investment	59,374	502,500
Payments on line of credit	-	(600,000)
Principal payments on debt and other obligations	(341,204)	(3,951,053)
Principal payments on forgivable loans	-	(74,650)
Principal payments on equipment loans	(225,371)	(355,116)
Principal payments under capital lease obligations	(247,937)	(505,208)
Payment of debt issuance costs	(30,000)	(133,256)
NET CASH USED IN FINANCING ACTIVITIES	(785,138)	(5,116,783)
NET CHANGE IN CASH AND CASH EQUIVALENTS	67,824	(893,364)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	512,398	1,405,762
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 580,222	$ 512,398
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 207,341	$ 1,348,635
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired through capital lease agreements	$ 118,284	$ 250,376
Note issued in settlement of interest rate swap agreement	$ -	$ 4,234,000
Forgivable loan transferred	$ -	$ 60,000

See Notes to Consolidated Financial Statements

(1) Operations and summary of significant accounting policies

Nature of operations – The Valley of the Sun Young Men's Christian Association, including its affiliate, Desert Foothills YMCA and Community Center, (the "Association"), serving the metropolitan Phoenix area, is an Arizona not-for-profit association established in 1892, which operates 19 branches including two resident camps. The Association provides a variety of services to individuals of all ages, ethnic groups, and religious affiliations who are united in a common effort to put Christian principles and values into practice and to enrich the quality of mental, physical, spiritual, and social life for individuals, families, and the community. The Association's primary revenue sources are from program fees, membership dues, contributions, and government grants.

The Desert Foothills YMCA and Community Center ("Desert Foothills"), a consolidated affiliate, was formed under the laws of the State of Arizona in July 2005, for the purpose of facilitating the fund raising and financing of the acquisition and construction of facilities to be used by the Association and the Foothills Community Foundation. The facilities are used for the delivery of services within the Carefree, Cave Creek and North Scottsdale areas of Maricopa County, Arizona. Upon the completion of the construction, the facilities were turned over to the Association. Upon completion of the fund raising process all remaining assets were turned over to the Association at which time Desert Foothills was dissolved on December 17, 2014.

On September 1, 2012, the Valley of the Sun Young Men's Christian Association entered into an agreement with the city of El Mirage to provide services to the community by operating the Northwest Valley Family YMCA. The Association formed a consolidated subsidiary (Northwest Valley Family YMCA, LLC) on July 27, 2012 to carry out the actions of this agreement. The agreement is contingent on certain future events. See Note 11 for information on the leasing arrangement entered into in connection with this agreement.

On February 27, 2015, Working Poor Support, LLC was formed under the laws of the State of Arizona for the purpose of providing services to the working poor population at the Association's branch locations. These services include subsidized childcare, day camp, and exercise programs, a workforce development program, medical and dental clinics, residential housing, and senior citizen programs. The Association is the sole member of Working Poor Support, LLC.

The significant accounting policies followed by the Association are as follows:

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Valley of the Sun Young Men's Christian Association, Desert Foothills YMCA and Community Center, Northwest Valley Family YMCA, LLC and Working Poor Support LLC which are consolidated as they are under common management and control. Inter-company transactions and balances have been eliminated in consolidation.

Basis of presentation – The accompanying consolidated financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under FASB ASC 958-205, the Association is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

(1) Operations and summary of significant accounting policies (continued)

The Association maintains its accounts on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets
Unrestricted net assets are not subject to donor imposed stipulations.

Temporarily Restricted Net Assets
Temporarily restricted net assets are those which are subject to donor-imposed stipulations that may or will be met by the actions of the Association and/or the passage of time.

Permanently Restricted Net Assets
Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned on related investments for general or specific purposes.

Prior year summarized information – The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's consolidated financial statements for the year ended December 31, 2014 from which the summarized information was derived.

Managements use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – The Association considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents and are stated at fair value. Cash deposits at commercial banks are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC").

Funds held in trust – Funds held in trust consist of cash deposits placed with a third-party that is not a financial institution. The funds are available to be called by that Association on demand.

Account receivables – Account receivables are stated at the amount management expects to collect under the terms of the contract agreements. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Merchandise inventories – Merchandise inventories consist of fitness clothing, supplies and equipment which are generally sold to members. These inventories are valued at the lower of cost, with cost determined using the first-in, first-out ("FIFO") method, or market.

Assets whose use is limited – As of December 31, 2014, the Association had $255,024 of investments held in a "minimum collateral" account in the custody of US Bank. In February 2015, the Association executed a $255,000 partial redemption of outstanding bonds payable obligations (Note 7). As of December 31, 2015, the remaining balance in the account was $0.

(1) Operations and summary of significant accounting policies (continued)

Investments – The Association accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities*. Under FASB ASC 958-320, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statement of financial position. Investment income or loss (including unrealized and realized gains and losses on investments, interest, and dividends) is included in unrestricted net assets unless the associated income or loss is restricted. Declines in the fair value of investments below their cost that are deemed to be other than temporary are reflected as realized losses. There were no declines in fair value of investments below their cost that were deemed to be other than temporary during the years ended December 31, 2015 and 2014.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect account balances and the amounts reported in the accompanying consolidated financial statements.

Fair value measurements – FASB ASC 820, *Fair Value Measurement,* provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

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

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets of liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

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

Following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy.

The fair value of investments is readily available and is based upon market value. Equity securities, money market funds, and other funds listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active, at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

(1) Operations and summary of significant accounting policies (continued)

Debt securities consist of government agency debt obligations, corporate bonds and beneficial interests in assets held by a community foundation. Debt securities are valued using propriety valuation models incorporating live data from active market makers and inter-dealer brokers as reported on electronic communication networks. The valuation models incorporate benchmark yields, reported trades, broker/dealer quotes, bids, offers, and other data. Such securities are classified within Level 2 of the valuation hierarchy.

Property and equipment – Property and equipment are initially recorded at cost or fair market value at date of donation and are depreciated using the straight-line method over their useful lives, which range from 3 to 15 years for equipment and 10 to 25 years for buildings and building improvements. Donated land is reflected as contributions at the fair market value at the date of receipt. Maintenance and repairs are charged to expense as incurred and betterments are capitalized. Leasehold improvements and assets held under capital leases are amortized on the straight-line basis over the shorter of the lease terms or estimated useful lives of the assets.

Impairment of long-lived assets – The Association reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate 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 undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Association did not recognize any impairment charges in 2015 or 2014.

Deferred bond and other costs – Certain costs incurred in connection with the issuance of bonds described in Note 7 have been deferred and are being amortized using the effective interest method over the term of the bonds. At December 31, 2015 and December 31, 2014, the Association had capitalized $671,948 with accumulated amortization of $162,195 and $139,024 at December 31, 2015 and 2014, respectively. Amortization expense for the years ended December 31, 2015 and 2014 amounted to $23,171.

Additionally, the Association had capitalized $30,000 and $293,925 at December 31, 2015 and 2014, respectively of deferred financing costs in connection with other debt agreements described in Note 2 and Note 7 which are being amortized using the effective interest method over the related terms of the agreements. Accumulated amortization was $0 and $192,805 at December 31, 2015 and 2014, respectively. Amortization expense for the years ended December 31, 2015 and 2014 amounted to $114,130 and $179,705, respectively.

Excel agreement payable – During 2012, the Association acquired the programs of Excel Youth Sports Foundation, Inc. (“Excel”). In connection with this acquisition, the Association recognized $83,000 of intangible assets related to the trade name, customer list, and the club program organization. Management estimates the life of these assets to be 3 years. Approximately $13,800 and $27,700 of amortization was taken on these assets during the years ended December 31, 2015 and 2014, respectively, Approximately $0 and $13,800 of amortizable intangible assets remained at December 31, 2015 and 2014, respectively. Concurrent to this acquisition, the Association recognized a contingent liability of $100,000 representing payments to be made to Excel under the agreement contingent upon neither party terminating the agreement at any time prior to the second anniversary of the effective-date of the agreement. The amount was payable in two installments of $50,000 at the end of each year of the agreement. During 2013, the first of two installment payments was made. The remaining installment payment was made during 2014. At December 31, 2015, no amounts were outstanding to Excel.

(1) Operations and summary of significant accounting policies (continued)

Contributions – The Association accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Restricted support where restrictions are met in the same period as the donation is made is shown as additions to unrestricted support. Additionally, contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class.

Contributions of cash or other assets to be used to acquire land, buildings and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be released at the time such long-lived assets are placed into service.

Donated materials and services – Donated materials are recorded at their estimated fair value as of the date of donation. Donated services are recorded in accordance with FASB ASC 958-605 at their estimated fair value if they (a) create or enhance the Association’s nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Association utilizes the services of volunteers to perform a variety of tasks that assist the Association with specific programs, campaign solicitations, and various committee assignments. This support has not been recorded as a component of contributions as it does not meet the recognition criteria under FASB ASC 958-605.

Promises to give – Unconditional promises to give (pledges) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management’s assessment of many factors, including when the pledge is expected to be collected, the creditworthiness of the other parties, the Association’s past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the pledge’s collectability. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Bequests receivable – Bequests receivable are recognized as contribution revenue in the period the Association receives notification the court has found the will of the donor’s estate to be valid and all conditions have been substantially met. Bequests receivable are considered by management to be collectible in full and, accordingly, an allowance for uncollectable bequests receivable has not been provided as of December 31, 2015 and 2014.

Government grants – The Association recognizes amounts received from government grants as earned when services are rendered under unit of service contracts or as allowable costs are incurred under cost reimbursement contracts. A receivable is recorded to the extent the amount earned exceeds cash advances. Conversely, a liability is recorded when cash advances exceed amounts earned.

(1) Operations and summary of significant accounting policies (continued)

Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Association with the terms of the grants or contracts. Additionally, if the Association terminates its activities, all unearned amounts are to be returned to the funding sources.

Membership dues and program fees – Membership dues and program fees are recognized as revenue in the period in which the membership or program applies. When membership dues or program fees are received prior to the applicable membership period, they are reflected as deferred revenue.

Functional expenses – The Association performs two functions: program services and support services. Expenses which benefit more than one function are allocated among the functions based on the relative benefit to each. The following program categories are used:

Healthy Living: Activities performed by the Association which promote healthy lifestyles, build self-esteem, and develop leadership qualities.

Youth Values: Activities performed by the Association which promote the development of specific skills in a variety of youth sports and aquatics safety as well as the development of leadership skills, teamwork, and self-confidence.

Child Care: Activities performed by the Association which promote the strengthening of family relationships and personal growth through values oriented child care.

Summer Day Camp: Activities performed by the Association which promote the strengthening of family relationships and personal growth through values oriented day camping experiences during the summer.

Juvenile Justice: Activities performed by the Association which provide diversion programs of counseling, behavior modification, and personal growth for court referred first offender youths.

Resident Camp: Activities performed by the Association which promote personal growth, values clarification and leadership development through a resident camping experience.

Member Services: Activities performed by the Association which provide low income, transitional housing, and create a healthy environment for individuals new to the community.

Management and General: All management and general costs not identifiable with a single program or fund raising activity, but indispensable to the conduct of such programs and activities and to the overall direction of the Association, business management, general record keeping, budgeting, financial reporting, and activities related to these functions such as salaries, rent, supplies, equipment, and other general overhead.

Fund Raising: Activities performed by the Association to generate funds to operate programs and provide financial assistance for program participation to those in need.

Restructuring costs – The Association incurred $984,158 and $1,218,354 of restructuring costs related to the reorganization of operations and restructuring of its debt for the years ended December 31, 2015 and 2014, respectively. The restructuring costs primarily consisted of professional consulting and legal fees and are included in restructuring costs in the accompanying consolidated statements of functional expenses. These activities were ongoing as of December 31, 2015; however upon completion of the reorganization and debt restructuring plan in 2016, the Association does not anticipate that these will be recurring costs.

(1) Operations and summary of significant accounting policies (continued)

Advertising – Advertising costs are expensed as incurred. Advertising expenses totaled $580,983 for the year ended December 31, 2015 and $996,577 for the year ended December 31, 2014.

Income taxes – The Valley of the Sun Young Men's Christian Association and Desert Foothills, which was dissolved in December 2014, qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code) and, therefore, there is no provision for income taxes in the accompanying consolidated financial statements. In addition, the Valley of the Sun Young Men's Christian Association and Desert Foothills qualify for the charitable contribution deduction under Section 170 of the Code and have been classified as organizations that are not private foundations. Income determined to be unrelated business taxable income ("UBTI") would be taxable. Northwest Valley Family YMCA, LLC and Working Poor Support, LLC are treated as disregarded entities for income tax purposes, and accordingly, all income and expenses are passed through to the Valley of the Sun Young Men's Christian Association. The Association evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filing, and discussions with outside experts. Management does not believe any significant uncertain tax positions exist as of December 31, 2015 or 2014.

The federal and state tax returns of Valley of the Sun Young Men's Christian Association and Desert Foothills for 2012, 2013 and 2014 are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed.

Recent accounting pronouncement – In May 2015, the FASB issued Accounting Standard Update ("ASU") No. 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which amends FASB Topic 820 to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. ASU 2015-07 is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. The Association is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements,

In April 2015, the FASB issued ASU No. 2015-3, *Interest-Imputation of Interest (Topic 835)*. This ASU requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. The ASU requires retrospective application and represents a change in accounting principle. The ASU is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. The Association is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

(1) Operations and summary of significant accounting policies (continued)

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606), which changed the effective date of the provisions of FASB ASU No. 2014-09. As a result, the new effective dates for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the guidance in FASB ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. The Association is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). ASU 2016-01 also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, ASU 2016-01 eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in ASU 2016-01 earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

Early application by public business entities to financial statements of fiscal years or interim periods that have not yet been issued or, by all other entities, that have not yet been made available for issuance of the following amendments in this ASU are permitted as of the beginning of the fiscal year of adoption:

1. An entity should present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

2. Entities that are not public business entities are not required to apply the fair value of financial instruments disclosure guidance in the General Subsection of Section 825-10-50.

(1) Operations and summary of significant accounting policies (continued)

The Association has elected to early adopt ASU 2016-01 as of December 31, 2015 relative to the requirement to apply the fair value of financial instruments disclosure guidance in the General Subsection of Section 825-10-50. Accordingly, the Association's consolidated financial statements no longer include the disclosures previously required by Section 825-10-50.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU requires that a lease liability and related right-of use-asset representing the lessee's right to use or control the asset be recorded upon the commencement of all leases except for short-term leases. The lease obligation is to be measured on a discounted basis. The ASU requires a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest period presented in the financial statements and would not require any transition accounting for leases that expired before the earliest period presented in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Association is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

Subsequent events – The Association has evaluated subsequent events through April 29, 2016 which is the date the consolidated financial statements were available to be issued.

(2) Subsequent restructuring of Association long-term debt

In February 2016, the Association refinanced several long-term debt obligations. The restructuring resulted in new debt obligations as described below:

The Association executed a loan agreement with KS State Bank totaling $18,250,000 to provide funding for the extinguishment of certain long-term bank debt agreements and associated obligations (see Note 6 and Note 7). The loan consisted of two components: (a) a $13,000,000 note structured as a 25-year fully amortizing loan with a fixed annual interest rate of 4.89% for the first five years and adjusted annually thereafter to the greater of the *Wall Street Journal* one-year Treasury Constant Maturities rate plus 3.50% or 4.89% with payments due monthly; and (b) a $5,250,000 note structured as a three year interest only loan with a variable interest rate equal to the Bank Prime Loan rate published in the *Wall Street Journal* plus 1.64% with a floor of 4.89% and interest payments due monthly.

Aggregate future maturities of the extinguished bank obligations detailed in Note 7 as well as the obligations under the new bank loans entered into in February 2016 are as follows:

Years Ending December 31,	
2016	$ 15,776,977
2017	281,637
2018	295,922
2019	5,560,931
2020	325,031
Thereafter	11,577,710
Total	$ 33,818,208

The loan and security agreement has covenants requiring the Association to maintain certain cash reserves, financial ratios and reporting requirements. The required reserve accounts include a debt service reserve with a minimum balance of $750,000 and a deferred maintenance reserve with an initial deposit of $8,333 and additional monthly deposits of the same amount. The loans are secured by the Association's inventories, furniture and equipment, investments, receivables, and other assets as well as the real property utilized for 13 of the Association's branch locations. The loan and security agreement also places limits on the amount of debt the Association can have outstanding on its capital lease and P-Card obligations.

(2) Subsequent restructuring of Association long-term debt (continued)

The goal of the Association is to generate cash sufficient to fund operations and restore liquidity, reduce the amount of debt on the consolidated statement of financial position and rebuild their net assets. Integral to this goal is a $5,000,000 pledge campaign to raise unrestricted contributions to fund strategic initiatives to increase contributed support and membership and program revenue generation over a three year period. Required reserves were established in 2016, and the $5,000,000 campaign and implementation of strategic initiatives have begun. Pledges raised under this campaign are to be deposited into a control account with KS State Bank. Management believes that the normalized cash flow for debt service of $2,500,000 in 2016 will be sufficient to meet the Association's restructured debt obligations and the Association will be in compliance with financial and reporting requirements. However, no assurance can be provided that the Association will achieve these goals.

(3) Pledges receivable

Pledges receivable as of December 31, consist of the following:

	2015	2014
Pledges receivable before unamortized discount and allowance for uncollectible pledges	$ 951,850	$ 1,056,224
Less unamortized discount using rate of 5.28%	(2,322)	(12,123)
	949,528	1,044,101
Less allowance for uncollectible pledges	(639,575)	(766,237)
Pledges receivable, net	$ 309,953	$ 277,864
Amounts due in:		
Less than one year	$ 928,100	$ 935,661
One to five years	23,750	120,563
Total	$ 951,850	$ 1,056,224

(4) Investments and fair value measurements

The following table presents assets and liabilities measure at fair value by classification within the fair value hierarchy as of December 31, 2015:

	Cost	Market	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income – bond funds	$ 347,560	$ 338,772	$ 338,772	$ -	$ -
Government bond fund	7,095	3,132	3,132	-	-
Money market funds	587,544	587,544	587,544	-	-
Real estate funds	2,914	5,066	5,066	-	-
Commodities	29,226	14,186	14,186	-	-
Equity mutual funds:					
International	97,033	92,564	92,564	-	-
World allocation	74,222	71,160	71,160	-	-
Large growth/blend funds	221,721	225,120	225,120	-	-
Large value funds	126,459	122,535	122,535	-	-
Long-short funds	17,029	18,239	18,239	-	-
Mid cap funds	5,391	8,363	8,363	-	-
Small growth/blend funds	5,477	5,968	5,968	-	-
Other funds	1,115	1,031	1,031	-	-
Total investments	$ 1,522,786	$ 1,493,680	$ 1,493,680	$ -	$ -

(4) Investments and fair value measurements (continued)

The following table presents assets and liabilities measure at fair value by classification within the fair value hierarchy as of December 31, 2014:

	Cost	Market	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income – bond funds	$ 341,739	$ 342,870	$ 342,870	$ -	$ -
Government bond fund	6,906	4,215	4,215	-	-
Money market funds	562,416	562,932	562,932	-	-
Real estate funds	2,786	5,373	5,373	-	-
Commodities	30,159	20,226	20,226	-	-
Equity mutual funds:					
International	98,083	97,524	97,524	-	-
World allocation	67,729	71,534	71,534	-	-
Large growth/blend funds	198,421	235,392	235,392	-	-
Large value funds	116,150	117,813	117,813	-	-
Long-short funds	17,625	19,071	18,981	90	-
Mid cap funds	5,040	8,200	8,200	-	-
Small growth/blend funds	5,588	6,808	6,808	-	-
Other funds	2,423	2,388	2,388	-	-
Total investments	$ 1,455,065	$ 1,494,346	$ 1,494,256	$ 90	$ -

Expenses relating to investment revenues, including custodial fees and investment advisory fees of approximately $11,000 for 2015 and $11,400 for 2014 were charged to operations and included in management and general expense in the accompanying consolidated statement of activities and changes in net assets.

(5) Property and equipment

Property and equipment consist of the following at December 31:

	2015	2014
Land	$ 7,673,118	$ 7,673,118
Buildings and building improvements	83,214,955	83,202,495
Equipment	24,791,335	24,142,518
Total	115,679,408	115,018,131
Less accumulated depreciation and amortization	(67,512,943)	(63,313,909)
Total	48,166,465	51,704,222
Construction in process	1,244,208	529,858
Total property and equipment, net	$ 49,410,673	$ 52,234,080

Depreciation and amortization expense on property and equipment was $4,467,796 for 2015 and $4,881,716 for 2014, respectively, which includes amortization expense on assets held under capital leases.

Construction in process at December 31, 2015 and 2014 consisted of renovations and improvements to several branches and donated software licenses not activated as of December 31, 2015. No additional funds have been committed to the completion of the branch renovation projects. Completion of these projects is contingent upon raising additional funds for construction and management is re-evaluating the projects to be completed. For the years ended December 31, 2015 and 2014, no interest costs were capitalized as a component of construction in process.

Equipment under capital leases and equipment loans have been included in buildings and building improvements and equipment at a total cost of $1,625,758 and $2,277,365 as of December 31, 2015 and 2014, respectively. Accumulated amortization related to these leased assets totaled $819,995 and $948,615 as of December 31, 2015 and 2014, respectively.

(6) Line of credit

The Association had a $600,000 revolving line of credit with a bank to help finance its working capital needs. Interest was payable monthly on outstanding balances at an annual rate of the greater of 5% or 175 basis points plus the bank’s prime rate with a maturation date of October 15, 2014. The line of credit was secured by a pledge agreement for the Association’s Endowment fund assets held at Wells Fargo Advisors, LLC. In August 2014, the Association repaid the $600,000 outstanding balance on the revolving line of credit from its board designated endowment funds and closed the revolving line of credit.

(7) Debt and other obligations

Loans payable to bank

On May 1, 2013, the Association renewed a credit loan with a bank with an outstanding balance of $1,078,597. The remaining unpaid balance was due on November 1, 2013. The Association failed to make the payment required on the maturity date and failed to comply with certain financial and non-financial covenants. In January 2014, the Association and the bank executed a forbearance agreement extending the maturity date to March 31, 2014. The Association made a $250,000 principal payment at the time of execution of the forbearance agreement. Under the agreement, interest payments were due each month at an annual rate of 300 basis points plus one month LIBOR. After expiration of the forbearance agreement, the Association continued to make monthly interest payments at an annual rate of 300 basis points plus one month LIBOR while negotiating a restructuring agreement with the bank. On August 14, 2014, the Association and the bank executed a restructuring agreement. Under the agreement, principal payments of $8,700 were due each month with interest at an annual rate of 300 basis points plus one month LIBOR. The maturity date of the loan was extended to December 31, 2015. The loan was secured through a first priority security interest in all business assets of the Association. The outstanding, unpaid balance was $650,463 and $696,667 at December 31, 2015 and 2014, respectively. The annual rate was 3.2437% at December 31, 2015. This loan was extinguished in February 2016.

The Association executed a loan agreement with a bank and the Phoenix Community Development & Investment Corporation (“PCDIC”) totaling $6,000,000 to provide funds for the construction of a new YMCA facility in Maryvale, Arizona. The loan consisted of two components: (a) a $4,500,000 note through the bank structured as a seven-year interest-only loan synthetically fixed at 6.99% with payments due monthly and (b) a $1,500,000 note (forgivable portion of the loan no less than 95%) funded through PCDIC at 3.7% interest-only for seven years with payments due monthly (Note 9). In year seven, the Association would be required to issue a 5% put option on this portion of the loan. The funds were issued to the Association on March 30, 2007. Annual interest payments on these instruments total $370,050 with the principal portion due December 27, 2013, for $4,500,000 to the bank and a put option for the portion of the PCDIC forgivable loan (Note 9). The loan agreement required the Association to comply with certain financial and nonfinancial covenants. The Association failed to make the payment required on the maturity date and failed to comply with certain financial and non-financial covenants. On January 22, 2014, the Association and the bank executed a forbearance agreement extending the maturity date to March 31, 2014 and the Association exercised the put option of $91,800 and the $1,500,000 forgivable portion of the loan was forgiven. The forbearance agreement gave the bank a first priority interest in the Association’s Chauncey Ranch Camp and Sky Y Camp locations. Under the forbearance agreement, interest payments were due each month on the remaining $4,500,000 term loan at an annual rate of 175 basis points plus the one month LIBOR. After expiration of the forbearance agreement, the Association continued to make monthly interest payments at an annual rate of 175 basis points plus one month LIBOR while negotiating a restructuring agreement with the bank. On August 14, 2014, the Association and the bank executed a restructuring agreement. Under the agreement, principal payments of $15,000 were due each month with interest at an annual rate of 175 basis points plus one month LIBOR. The maturity date of the loan was extended to December 31, 2015. The outstanding, unpaid balance was $4,410,000 and $4,440,000 at December 31, 2015 and 2014, respectively. The annual rate was 1.9937% at December 31, 2015. This loan was extinguished in February 2016.

(7) Debt and other obligations (continued)

Bonds payable

Bonds payable as of December 31 were:

	2015	2014
Industrial Development Authority Series 2008 Variable Rate Bonds, due December 31, 2037 in an aggregate principal amount, interest at the defined variable rate payable monthly; principal payable annually; secured by a letter of credit from two banking institutions as a co-lead; secured with deeds of trusts on the Association's facilities.	$ 24,950,000	$ 25,205,000

The letter of credit, which expired on November 1, 2014, was extended to December 31, 2015 as part of the restructuring agreement on August 14, 2014. The letter of credit was secured by Deeds of Trust on twelve of the Association's properties. They included properties at East Valley, Chris-Town, Desert Foothills, Lincoln Downtown, Flagstaff, Mesa, Scottsdale, Chandler, Tempe, Southwest Valley, Chauncey Ranch, and Sky Y. Additionally, the agreement required $255,000 to be deposited in a custody account which is included in assets whose use is limited as disclosed in Note 1 and included certain financial and non-financial covenants. The letter of credit fee was 150 basis points plus a startup fee of 15 basis points payable at closing. On December 1, 2015, the banking institution acting as trustee drew on the letter of credit to satisfy all outstanding amounts due with respect to the bonds payable. The interest rate on the letter of credit loan was 2.74375% at December 31, 2015. The Association's obligation related to the bonds payable was extinguished in February 2016.

Interest rate swap agreements

The Association is exposed to interest rate risk through its borrowing activities. Most of the Association's long-term borrowings are variable rate instruments. The Association has previously entered into interest rate swap contracts under which the Association agreed to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and receives in return an amount equal to a specified variable rate of interest times the same notional principal amount.

The Association accounted for their interest rate swap agreements in accordance with FASB ASC 958-815, *Not-for-Profit Entities – Derivatives and Hedging,* FASB 958-815 requires that all derivative instruments be recorded at fair value and changes in fair value be recorded each period as a change in net assets.

The Association maintained an interest-rate risk management strategy that used derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest-rate volatility. The Association's specific goals were (1) to manage interest-rate sensitivity by modifying the repricing or maturity characteristics of certain debt instruments and (2) to lower (where possible) the cost of its borrowed funds. Interest-rate fluctuations create an unrealized appreciation or depreciation in the market value of the Association's debt when compared with its cost. The effect of this unrealized appreciation or depreciation in market value, however, will generally be offset by income or loss on derivative instruments that are linked to the debt.

By using derivative financial instruments to hedge exposure to a change in interest rates, the Association exposed itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Association, which creates repayment risk for the Association. When the fair value of a derivative contract is negative, the Association owes the counterparty and therefore, it does not possess repayment risk. The Association minimized the credit (or repayment) risk in derivative instruments by (1) entering into transactions with high-quality counterparties, and (2) limiting the amount of exposure to the counterparty. The Association did not anticipate nonperformance by the counterparties.

(7) Debt and other obligations (continued)

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by the establishment and monitoring of parameters that limit the types and degree of market risk that may be undertaken.

In November 2006, the Association entered into an interest rate swap agreement with a financial institution. The Association paid a fixed rate of interest of 3.53% on a notional amount of $9,260,000 as an extension of the maturity date of the initial swap through the life of the Industrial Development Authority Series 2008 Variable Rate Bonds described above. The financial institution paid the Association interest based on the Bond Market Association municipal Swap Index. The purpose of this derivative financial instrument is to hedge the risk of higher interest rates in the future. The Association terminated the swap agreement as part of a restructuring agreement on August 14, 2014 described below.

On January 19, 2007, the Association entered into an interest rate swap agreement with the bank for the bank's portion of the $4,500,000 construction loan. The effective date of the swap was May 1, 2007 and it expired May 1, 2014. The agreement synthetically fixed the interest rate to 6.99% over the seven year period. The Association did not enter into a new agreement.

On July 9, 2007, the Association entered into an interest rate swap agreement with a bank which was subsequently assumed by a separate bank in October 2008. The intent of the swap was to mimic the existing fixed rates for tax exempt bonds currently offered in the market. The Association believed that the best course of action was to lock in approximately half of the notional value of the bond or $11,000,000. At the closing trade date the fixed rate was 4.318% on a notional amount of $11,800,000. The Association terminated the swap agreement as part of a restructuring agreement on August 14, 2014.

On August 14, 2014, the Association terminated the two unexpired interest rate swap agreements and executed a swap termination fee agreement with the bank. Under the terms of the agreement, the swap termination fee of $4,234,000 was to be repaid in principal payments of $5,000 per month plus monthly interest payments at an annual rate of 4.00% with payments to begin in September 2014 and a maturity date of December 31, 2015. The outstanding, unpaid balance was $3,807,745 and $3,817,745 at December 31, 2015 and 2014, respectively. In connection with the termination of these interest rate swap agreements, the Association recognized a loss in 2014 of $1,003,568 which is included in the accompanying consolidated statement of activities and changes in net assets. This swap termination fee obligation was extinguished in February 2016.

In February 2016, the Association extinguished all obligations, including both principal and accrued interest, for the loans payable to bank, bonds payable, and interest rate swap termination fee agreement for a payment of $18,250,000 and recognized a gain on the extinguishment. Simultaneously with these transactions, the Association entered into a new loan agreement (see Note 2).

(8) Equipment loans payable

Equipment loans as of December 31 were:

	2015	2014
Loan equipment agreement with Key Equipment Finance; original amount of $138,474; payable in monthly installments of $2,204, including interest at 8.67%, through October 2016; secured by equipment.	$ 21,195	$ 44,695
Loan equipment agreement with Key Equipment Finance; original amount of $34,048; payable in monthly installments of $542, including interest at 8.67%, through November 2016; secured by equipment.	5,712	11,449
Loan equipment agreement with Jules & Associates, Inc.; original amount of $90,041; payable in quarterly installments of $5,285, including interest at 5.87%, through April 2015; secured by equipment. Upon maturity the balance was repaid in full.	-	6,953
Loan equipment agreement with Jules & Associates, Inc.; original amount of $43,240; payable in monthly installments of $1,359, including interest at 6.83%, through January 2015, secured by equipment. Upon maturity the balance was repaid in full.	-	1,359
Loan equipment agreement with Jules & Associates, Inc.; original amount of $114,000; payable in monthly installments of $3,576, including interest at 6.72%, through May 2015, secured by equipment. Upon maturity the balance was repaid in full.	-	17,523
Loan equipment agreement with Jules & Associates, Inc.; original amount of $130,004; payable in monthly installments of $3,420, including interest at 8.01%, through May 2015; secured by equipment. Upon maturity the balance was repaid in full.	-	16,762
Loan equipment agreement with Jules & Associates, Inc.; original amount of $209,894; payable in monthly installments of $8,817, including interest at 6.47%, through May 2015; secured by equipment. Upon maturity the balance was repaid in full.	-	43,997
Loan equipment agreement with Kansas State Bank; original amount of $374,547; payable in monthly installments of $6,967, including interest at 5.44%, through March 2017; secured by equipment.	166,802	242,634
Loan equipment agreement with Kansas State Bank; original amount of $61,308; payable in monthly installments of $1,144, including interest at 5.21%, through February 2018; secured by equipment.	28,277	40,422
Total	221,988	425,794
Less current maturities	(118,333)	(203,804)
Long-term maturities of equipment loans payable	$ 103,655	$ 221,990

(8) Equipment loans payable (continued)

Future maturities of equipment loans payable are as follows:

Years Ending December 31,	
2016	$ 118,333
2017	101,379
2018	2,276
Total annual maturities	$ 221,988

(9) Forgivable loans

Forgivable loans as of December 31 consist of the following:

	2015	2014
Note payable to City of Phoenix for the construction of residential rental housing; not to exceed $2,000,000; principal to be forgiven starting in 2017 for 24 years, provided the housing is used for the operation of affordable housing; interest-free (discounted to a rate of 1.87%); secured by a deed of trust on real property.	$ 2,000,000	$ 2,000,000
Note payable to the City of Phoenix for the renovation of the former Palo Verde library into a child care center; not to exceed $117,000; principal is to be forgiven starting in 2013 for 5 years if the service requirement has been met; interest-free (discounted to a rate of 5.28%); secured by a promissory note.	46,800	70,200
Note payable to City of Phoenix for the construction of a public facility to support Maryvale ball field activities by providing restrooms, vending and a concession stand; not to exceed $200,000; principal is to be forgiven starting in 2016 for 15 years if the service requirement has been met; interest free (discounted to a rate of 5.25%); secured by a deed of trust on real property.	200,000	200,000
Recoverable grant from the Arizona Community Foundation to support predevelopment costs of affordable student housing; not to exceed $58,000; payable no later than April 30, 2014. Grant balance remains outstanding; ACF may waive payment of all or part of the recoverable grant if the conditions outlined in the grant agreement are met.	58,000	58,000
Total	2,304,800	2,328,200
Less unamortized present value discount	(934,377)	(984,767)
Total forgivable loans	$ 1,370,423	$ 1,343,433

(9) Forgivable loans (continued)

Future maturities of forgivable loans are as follows:

Years Ending December 31,	
2016	$ 94,740
2017	116,740
2018	93,340
2019	93,340
2020	93,340
Thereafter	1,813,300
Total	$ 2,304,800

(10) Capital lease obligations

Capital lease obligations as of December 31, consist of the following:

	2015	2014
Capital lease obligation payable to California First Leasing; original amount of $155,499; payable in monthly installments of $3,115, including interest at 5.64% through October 2016, secured by equipment.	$ 27,179	$ 63,846
Capital lease obligation payable to CISCO Leasing; original amount of $89,250; payable in monthly installments of $2,595, including interest at 3.0% through September 2015, secured by equipment. Upon maturity ownership of the equipment was transferred to the Association for a nominal payment.	-	20,532
Capital lease obligation payable to CISCO Leasing; original amount of $82,141; payable in monthly installments of $1,626, including interest at 6.99% through November 2017, secured by equipment.	34,913	51,357
Capital lease obligation payable to Creekridge Capital; original amount of $25,970; payable in monthly installments of $527, including interest at 8.04% through June 2018, secured by equipment.	14,282	19,240
Capital lease obligation payable to CSI Leasing; original amount of $344,324; payable in monthly installments of $8,812 with balloon payment of $68,865, including interest at 7.59% through February 2016, secured by equipment. The Association refinanced the balloon payment in eight monthly installments of $8,812 through September 2016.	77,609	169,470
Capital lease obligation payable to CISCO Leasing; original amount of $93,460; payable in monthly installments of $4,457, including interest at 13.3%, through May 2015; secured by equipment. Upon maturity ownership of the equipment was transferred to the Association for a nominal payment.	-	21,565

(10) Capital lease obligations (continued)

Capital lease obligation payable to MacroLease; original amount of $250,376; payable in monthly installments of $4,678, including interest at 4.59%, through October 2019; secured by equipment.	196,976	242,921
Capital lease obligation payable to CSI Leasing; original amount of $139,300; payable in monthly installments of $2,712 with balloon payment of $27,859, including interest at 6.33% through February 2018, secured by equipment.	61,578	87,970
Capital lease obligation payable to Dell Financial Services; original amount of $118,284; payable in monthly installments of $2,279, including interest at 5.79%, through September 2020; secured by equipment.	113,147	-
Total	525,684	676,901
Less current maturities	(228,226)	(261,438)
Long-term maturities of capital lease obligations	$ 297,458	$ 415,463

Future minimum capital lease payments are as follows:

Years Ending December 31,	
2016	$ 250,668
2017	138,273
2018	86,648
2019	74,129
2020	20,512
Total minimum lease payments	570,230
Less amount representing interest	(44,546)
Present value of minimum lease payments	$ 525,684

(11) Lease commitments

Certain branches of the Association are leased facilities under non-cancelable operating leases. The Association is responsible for most executor costs. The Association also leases various pieces of office equipment, fitness equipment, solar equipment and vehicles under non-cancelable operating leases.

Future minimum payments under these non-cancelable operating lease commitments are as follows:

Years Ending December 31,	
2016	$ 647,673
2017	603,797
2018	524,242
2019	465,915
2020	463,898
Thereafter	3,779,205
Total	$ 6,484,730

Rent expense totaled $1,051,948 for the year ended December 31, 2015 and $1,062,183 for the year ended December 31, 2014. It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties; thus, it is anticipated that future rent expense will be greater than the future minimum lease payments shown for 2015.

(11) Lease commitments (continued)

The Association has entered into solar power system leases at fourteen of its locations. The leases contain twenty year non-cancellable terms expiring in 2031 and 2032. The leases provide for rents to be paid on a contingent basis and are based on a factor of the utility savings realized by the Association as a result of using solar power. Included in rent expense above is contingent rent expense of $205,933 for 2015 and $213,911 for 2014.

On September 1, 2012, the Association entered into an operating lease agreement with the City of El Mirage. The lease term is 30 years with 2 options for extensions of 5 years each. However, the lease may be cancellable under certain conditions after the fourth year and the non-cancellable term is considered to be four years. Base rent under the lease is $8,333 per month throughout the term of the lease. An addendum was executed in 2014 to reduce the first 30 months of base rent to $1 per month subject to certain conditions. As a part of the agreement, the Association will offer discounts to residents of El Mirage up to a specified amount that will be reimbursed by the City of El Mirage.

The Association also leases the land for three locations that require nominal payments each per year. The leases expire in various years ranging from 2027 to 2063. The Association has recognized a receivable for the donated use of these long-lived assets. To determine the value of the receivable, the Association used the lower of the fair value rent payments discounted over the lease term using discount rates ranging from 8% to 15% or the fair value of the land upon inception of the lease. Amortization of the receivable is recognized as rent expense on an annual basis. For the years ended December 31, 2015 and 2014, the Association recognized $31,984 and $31,984 of amortization on these receivables, respectively. As of December 31, 2015 and 2014, the unamortized balance of these donated land lease receivables totaled $741,365 and $773,259, respectively.

(12) Permanently and temporarily restricted net assets

Permanently restricted net assets of December 31, 2015 are as follows:

Investment in perpetuity, the income from which is expendable to support any activities of the Association	$ 636,385
Land required to be used as a branch facility	563,907
Land required to be used as a camp	1,050,360
Land required to be used as a branch facility	1,830,000
Annuity agreement	87,457
Investment for which the Association acts as trustee as part of a Unitrust Agreement	162,260
Total	$ 4,330,369

Permanently restricted net assets of December 31, 2014 are as follows:

Investment in perpetuity, the income from which is expendable to support any activities of the Association	$ 636,385
Land required to be used as a branch facility	563,907
Land required to be used as a camp	1,050,360
Land required to be used as a branch facility	1,830,000
Annuity agreement	87,457
Investment for which the Association acts as trustee as part of a Unitrust Agreement	162,260
Total	$ 4,330,369

(12) Permanently restricted net assets (continued)

Temporarily restricted net assets are primarily restricted for capital acquisitions and start-up expenses of new branches. Temporarily restricted net assets are available for future use for the following restricted purposes as of December 31, 2015:

Program restriction	$ 406,178
Capital campaign restrictions:	
Cash and cash equivalents	337,903
Construction in progress (included in property and equipment)	9,525
Pledges receivable	309,953
Total capital campaign restrictions	657,381
Time restriction:	
Interest contribution on forgivable loans	947,629
Donated land leases	741,365
Land required to be used as a branch facility	350,100
Total time restricted	$ 2,039,094
Total temporarily restricted net assets	$ 3,102,653

Temporarily restricted net assets are primarily restricted for capital acquisitions and start-up expenses of new branches. Temporarily restricted net assets are available for future use for the following restricted purposes as of December 31, 2014:

Program restriction	$ 220,103
Capital campaign restrictions:	
Cash and cash equivalents	370,999
Construction in progress (included in property and equipment)	33,472
Pledges receivable	277,864
Total capital campaign restrictions	682,335
Time restriction:	
Interest contribution on forgivable loans	998,109
Donated land leases	773,259
Land required to be used as a branch facility	350,100
Total time restricted	$ 2,121,468
Total temporarily restricted net assets	$ 3,023,906

(13) Net assets released from restrictions

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

	2015	2014
Satisfaction of program restrictions:		
Youth Values program expense	$ 27,896	$ 56,356
Healthy Living program expense	23,462	71,401
Child Care program expense	15,983	75,169
Summer Day Camp program expense	23,375	8,022
Juvenile Justice program expense	48,204	84,955
Resident Camp program expense	-	929
Total satisfaction of program restrictions	$ 138,920	$ 296,834
Satisfaction of purpose restriction:		
Youth Values	15,363	8,462
Healthy Living	24,912	-
Child Care	12,328	3,230
Summer Day Camp	7,125	2,688
Juvenile Justice	6,215	457
Resident Camp	-	1,034
Total satisfaction of purpose restrictions	$ 65,943	$ 15,871
Expiration of time restrictions	$ 82,374	$ 113,370
Satisfaction of capital acquisition restrictions	$ 24,954	$ 237,294
Release of deed restriction	$ -	$ 590,000

During 2014, a donor requested the return of unspent funds amounting to $578,660 as the donor desired greater control over the administration and direction of the funds. The Association recognized this return of funds as a loss in the accompanying consolidated statement of activities and changes in net assets.

(14) Endowment

The Association’s endowment consists of six individual funds. Its endowment includes both donor-restricted and board-designated endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In September 2008, the State of Arizona enacted ARS§10-11801 et seq Management of Charitable Funds Act (“MCFA”). The Board of Directors of the Association has interpreted MCFA 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 classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by MCFA. In accordance with MCFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Association and the donor-restricted endowment fund
3. The possible effects of market volatility
4. The expected total return from income and the appreciation of investments
5. The investment policies of the organization

(14) Endowment (continued)

Endowment net asset compositions by type of fund as of December 31, 2015 were as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ -	$ 636,385	$ 636,385
Board-designated endowment funds	609,918	-	609,918
Total funds	$ 609,918	$ 636,385	$ 1,246,303

The changes in endowment net assets for the year ended December 31, 2015 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 608,406	$ -	$ 636,385	$ 1,244,791
Investment return:				
Investment income	8,734	9,135	-	17,869
Net depreciation (realized and unrealized)	(11,203)	(9,135)	-	(20,338)
Other changes:				
Investment fees	(6,109)	-	-	(6,109)
Contributions	10,090	-	-	10,090
Appropriation of assets for expenditures	-	-	-	-
Endowment net assets, end of year	$ 609,918	$ -	$ 636,385	$ 1,246,303

Endowment net asset compositions by type of fund as of December 31, 2014 were as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ -	$ 636,385	$ 636,385
Board-designated endowment funds	608,406	-	608,406
Total funds	$ 608,406	$ 636,385	$ 1,244,791

The changes in endowment net assets for the year ended December 31, 2014 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 631,324	$ -	$ 636,385	$ 1,267,709
Investment return:				
Investment income	14,571	14,689	-	29,260
Net appreciation (realized and unrealized)	19,375	19,530	-	38,905
Other changes:				
Investment fees	(7,718)	-	-	(7,718)
Contributions	518,052	-	-	518,052
Appropriation of assets for expenditures	(567,198)	(34,219)	-	(601,417)
Endowment net assets, end of year	$ 608,406	$ -	$ 636,385	$ 1,244,791

(14) Endowment (continued)

The investment objective of the endowment is, commensurate with a prudent level of risk, the preservation and enhancement of the real purchasing power of the contributed principal of the endowment while providing a predictable and satisfactory stream of income. In order of priority, the investment objective of the endowment is: (1) the preservation of contributed principal; (2) the growth of such principal to more than offset inflation and (3) the production of a satisfactory level of current income. The target return for the endowment is the Consumer Price Index plus 5 percent, net of fees, over a 5-year rolling period.

For board designated funds, the Association plans annual planned disbursements from the endowment of up to 5% of the trailing twelve months average market value of the endowment as of December 31st net of current year additions. The exact percentage to be allocated on an annual basis is determined by governance. During 2014, the Board approved additional draws on the board-designated endowment of $567,198 to fund operations and to repay amounts due on its long-term debt obligations. No such additional draws on the board-designated endowment were approved in 2015. For restricted funds, disbursements will be made in accordance with the restrictions associated with such funds. In the absence of explicit donor restrictions on disbursements from restricted funds, the board of directors will make disbursements at its discretion and in accordance with MCFA.

(15) Retirement plan – defined contributions

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

In accordance with the agreement with the Retirement Fund, contributions made by the Association are a percentage of the participating employees' salary and are to be remitted to the Young Men's Christian Association Retirement Fund monthly. Total Association contributions charged to retirement costs in 2015 and 2014 aggregated $519,772 and $604,676, respectively.

(16) Annuity agreements

The Association has entered into a Unitrust Agreement, under which the Association has received funds to invest and manage as trustee. The Association is obligated to pay the beneficiaries of the trust 5% of the net fair market value of the trust assets on an annual basis for the remainder of their lives. The Association has invested these funds in investments that provide income to contribute toward the required payments to the beneficiaries as stipulated by the trust agreement. The investment income earned in 2015 and 2014 was not sufficient to cover the required payments to the beneficiaries of the trust. Upon the death of the beneficiaries, the accumulated principal of the trust will be distributed to the Association as an endowment. The investment's market value was $158,598 and $171,066 at December 31, 2015 and 2014, respectively and is included in investments on the consolidated statements of financial position.

During 2003, the Association executed a charitable gift annuity with an individual. The assets are held in trust at a financial institution. The Association is obligated to pay the beneficiary a monthly amount for the remainder of the beneficiary's life. The investment income in 2015 and 2014 was not sufficient to cover the required payments to the beneficiary. The investment's market value was $64,387 and $78,394 at December 31, 2015 and 2014, respectively and is included in investments in the consolidated statements of financial position.

(16) Annuity agreements (continued)

The annuity liabilities for the above agreements were fully relieved in 2011 and 2012. Accordingly, annual payments to the annuitants are expensed as incurred. The annual payments for 2015 and 2014 totaled $19,266 and $21,420, respectively.

(17) Concentration of risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash, cash equivalents and investments and pledges receivable. The Association places its cash and investments with high-credit quality financial institutions and generally limits the amount of credit exposure to the amount in excess of the FDIC insurance coverage limit. Certain accounts are not insured by the FDIC, but may be insured by the Securities Investor Protection Corporation (SIPC).

There were three pledge receivables accounting for approximately 58% and 52% of the total gross pledges receivable as of December 31, 2015 and 2014, respectively.

(18) Commitments, related party transactions and contingencies

The Association participates in a number of federal and state-assisted grant and contract programs which are subject to financial and compliance audits. Audits of these programs for, or including, the year ended December 31, 2015 have not been accepted. Accordingly, the Association’s compliance with applicable grant or contract requirements may be established at some future date. The amount, if any, of expenditures or fees for units of service which may be disallowed by the granting or contracting agencies cannot be determined at this time, although Association management expects such amounts, if any, to be immaterial.

Certain board members of the Association are employees of companies that provide construction and other services to the Association, including utilities, insurance, leases, and fixed asset maintenance. The total amount paid for other services excluding utilities and construction services approximated $119,000 for the year ended December 31, 2015 and $423,000 for the year ended December 31, 2014, respectively. The total amount paid for construction services approximated $0 for the year ended December 31, 2015 and $56,000 for the year ended December 31, 2014.

As of December 31, 2015, the Association did not have any commitments on uncompleted construction contracts.

The Association paid annual dues payments to the National YMCA Fund Incorporation which totaled $0 and $105,890 for the years ended December 31, 2015 and December 31, 2014, respectively. As of December 31, accrued unpaid dues were approximately $523,550 and $182,000 for the years ended 2015 and 2014, respectively, and are included in annual dues accrued in the accompanying consolidated statement of financial position. In January 2016, the Association signed an agreement to repay the accrued unpaid dues.

The future payments for the National YMCA unpaid dues are as follows:

Years Ending December 31,	
2016	$ 25,000
2017	50,000
2018	150,000
2019	150,000
2020	148,550
Total	$ 523,550

(18) Commitments, related party transactions and contingencies (continued)

The Association is contingently liable with respect to claims incidental to the ordinary course of its operations. In the opinion of management, based on consultation with legal counsel, the effect of such matters will not have a material adverse effect on the Association's consolidated financial position, results of operation, or liquidity. Therefore, no provision has been made in the accompanying consolidated financial statements for losses, if any, that might result from the ultimate outcome of these matters.

(19) Cell tower lease assignment

In April 2013, the Association entered into easement and assignment agreements on certain property at four of its branch locations. Under these agreements, the Association assigned its rights to revenue streams totaling approximately $1,580,000 from existing sublease agreements with cell phone service providers for the use of rooftop space at the branch locations. In exchange, the Association received $810,000 and the right to receive 60% of revenues ("Owner Revenue") under any new sublease agreements entered into by the assignee for the use of this property or property at 13 of its other locations. The payment of $810,000 is being recognized as revenue over the 50 year term of the agreements. In connection with the extension of the letter of credit agreement described in Note 7, the Association assigned its rights to any Owner Revenue to US Bank.

UNIFORM GUIDANCE
SUPPLEMENTAL REPORTS

VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN ASSOCIATION AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2015

Federal Grantor / Pass-Through Agency / Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Pass through City of Phoenix			
Community Development Block Grant - Ahwatukee - Y OPAS	14.218	131813	$ 12,895
Total U.S. Department of Housing and Urban Development			12,895
U.S. Department of Justice - Office of Juvenile Justice and Delinquency Prevention			
Pass through YMCA of San Francisco			
Juvenile Mentoring Program - Reach & Rise	16.726	None	109,975
Pass through YMCA of San Francisco			
Juvenile Mentoring Program - Reach & Rise - Enhancement	16.726	None	63,536
Total U.S. Department of Justice - Office of Juvenile Justice and Delinquency Prevention			173,511
U.S. Department of Labor			
Pass through City of Phoenix			
Workforce Investment Act (WIA) - Youth Activities - Project Achieve	17.259	123797-007	743,809
Total U.S. Department of Labor			743,809
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 930,215

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2015

(1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of ***Valley of the Sun Young Men's Christian Association and Affiliates*** under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of ***Valley of the Sun Young Men's Christian Association and Affiliates***, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of ***Valley of the Sun Young Men's Christian Association and Affiliates***. ***Valley of the Sun Young Men's Christian Association and Affiliates*** did not provide federal awards to sub-recipients during the year ended December 31, 2015.

(2) Summary of significant accounting policies

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable either the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. ***Valley of the Sun Young Men's Christian Association and Affiliates*** has not elected to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

(3) Catalog of federal domestic assistance (CFDA) numbers

The program titles and CFDA numbers were obtained from the 2015 *Catalog of Federal Domestic Assistance*.

MHM
Mayer Hoffman McCann P.C.
An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of

VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN ASSOCIATION AND AFFILIATES

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of ***Valley of the Sun Young Men's Christian Association and Affiliates***, which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered ***Valley of the Sun Young Men's Christian Association and Affiliates'*** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***Valley of the Sun Young Men's Christian Association and Affiliates'*** internal control. Accordingly, we do not express an opinion on the effectiveness of ***Valley of the Sun Young Men's Christian Association and Affiliates'*** internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ***Valley of the Sun Young Men's Christian Association and Affiliates'*** consolidated financial statements are free from material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Valley of the Sun Young Men's Christian Association and Affiliates' Response to Finding

Valley of the Sun Young Men's Christian Association and Affiliates' response to the finding identified in our audit is described in the accompanying Corrective Action Plan. ***Valley of the Sun Young Men's Christian Association and Affiliates'*** response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 29, 2016 Mayer Hoffman McCann P.C.

MHM
Mayer Hoffman McCann P.C.
An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of

VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN ASSOCIATION AND AFFILIATES

Report on Compliance for Each Major Federal Program

We have audited ***Valley of the Sun Young Men's Christian Association and Affiliates'*** compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on ***Valley of the Sun Young Men's Christian Association and Affiliates'*** major federal program for the year ended December 31, 2015. ***Valley of the Sun Young Men's Christian Association and Affiliates'*** major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for ***Valley of the Sun Young Men's Christian Association and Affiliates'*** major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ***Valley of the Sun Young Men's Christian Association and Affiliates'*** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of ***Valley of the Sun Young Men's Christian Association and Affiliates'*** compliance.

Opinion on Each Major Federal Program

In our opinion, ***Valley of the Sun Young Men's Christian Association and Affiliates*** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on their major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of ***Valley of the Sun Young Men's Christian Association and Affiliates*** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ***Valley of the Sun Young Men's Christian Association and Affiliates'*** internal control over compliance with the requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ***Valley of the Sun Young Men's Christian Association and Affiliates'*** internal control over compliance.

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

April 29, 2016 Mayer Hoffman McCann P.C.

VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN ASSOCIATION AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2015

Section I – Summary of Auditors' Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified?	Yes
3. Noncompliance material to financial statements noted?	No

Federal Awards

1. Internal control over major programs:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified?	None reported
2. Type of auditors' report issued on compliance for major programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
4. Identification of major programs:	

CFDA Number	Name of Federal Program or Cluster
17.259	Workforce Investment Act (WIA) – Youth Activities – Project Achieve

5. Dollar threshold used to distinguish between type A and type B programs:	$ 750,000
6. Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Item: **2015-001**

Criteria or Specific Requirement: Generally accepted accounting principles (GAAP), as stated within FASB ASC 360-10 *Property, Plant, and Equipment*, requires the cost of property and equipment be spread over the expected useful life of the property and equipment in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the property and equipment.

Condition: ***Valley of the Sun Young Men's Christian Association and Affiliates*** required adjustments to correct the reported balances for 2015. The balances in the accompanying consolidated financial statements for the year ended December 31, 2015 were adjusted to correct a misstatement related to depreciation of fixed assets. The effect of this adjustment was to increase the reported change in net assets and assets by $328,411.

Context: Errors were noted during our recalculation of depreciation expense on selected assets. As a result, depreciation was recalculated on the entire population to quantify the total error.

Effect: The Association's previously unadjusted 2015 consolidated financial statements were misstated and not presented in accordance with accounting principles generally accepted in the United States of America. This could result in conflicting information for management and outside users.

Cause: Limited staff size and the use of manually created Excel-based depreciation schedules resulted in errors made during the calculation of depreciation that went undetected.

Recommendation: We recommend that ***Valley of the Sun Young Men's Christian Association and Affiliates*** establish policies and procedures that require an additional staff member review the depreciation calculations once completed by the preparer. Additionally, we recommend the Organization implement the use of standardized fixed asset software that eliminates the need for Excel-based subsidiary ledgers and reduces the likelihood of errors in depreciation calculations.

Section III – Federal Awards Findings and Questioned Costs

None.

FOR YOUTH DEVELOPMENT
FOR HEALTHY LIVING
FOR SOCIAL RESPONSIBILITY

Corrective Action Plan and Summary Schedule of Prior Audit Findings

Corrective Action Plan

Item:	**2015-001**
Criteria or Specific Requirement:	Generally accepted accounting principles (GAAP), as stated within FASB ASC 360-10 *Property, Plant, and Equipment*, requires the cost of property and equipment be spread over the expected useful life of the property and equipment in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the property and equipment.
Condition:	***Valley of the Sun Young Men's Christian Association and Affiliates*** required adjustments to correct the reported balances for 2015. The balances in the accompanying consolidated financial statements for the year ended December 31, 2015 were adjusted to correct a misstatement related to depreciation of fixed assets. The effect of this adjustment was to increase the reported change in net assets and assets by $328,411.
Name of Contact Person:	Susan Suman, Vice President Finance
Phone Number:	602-257-5126
Anticipated Completion Date:	December 31, 2016
Views of Responsible Officials and Corrective Actions:	The Association will research the implementation of standardized fixed asset software. If implementation is not complete by year end 2016, procedures will be established to have the Excel based subsidiary ledger reviewed by another staff member.

Summary Schedule of Prior Audit Findings

Item:	**2014-001**
Subject:	Audit adjustments posted to consolidated financial statements
Condition:	***Valley of the Sun Young Men's Christian Association and Affiliates*** required adjustments to correct the reported balances for 2014. The balances in the accompanying consolidated financial statements for the year ended December 31, 2014 were adjusted to correct a misstatement related to the recognition of one bequest receivable. The effect of this adjustment was to increase the reported change in net assets and assets by $500,841.
Current Status:	Corrective action taken.

VALLEY OF THE SUN YMCA
350 N 1st Avenue
Phoenix, AZ 85003
602-257-5120