

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

**CONSOLIDATED FINANCIAL STATEMENTS AND  
UNIFORM GUIDANCE SUPPLEMENTAL REPORTS**

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

**VALLEY OF THE SUN YOUNG MEN'S CHRISTIAN  
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Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

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## 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, 2016, 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 from 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, 2016, 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** 2015 consolidated financial statements, and our report dated April 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, 2015, 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 28, 2017 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 28, 2017

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2016  
(with comparative totals at December 31, 2015)

	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 304,940	\$ 580,222
Funds held in trust	-	450,841
Account receivables	664,043	500,722
Merchandise inventories	118,730	130,344
Prepaid expenses	163,005	214,824
TOTAL CURRENT ASSETS	<u>1,250,718</u>	<u>1,876,953</u>
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT		
Cash and cash equivalents	118,248	337,903
Pledges receivable, net	35,000	309,953
TOTAL ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	<u>153,248</u>	<u>647,856</u>
PLEDGES RECEIVABLE - REINVEST CAMPAIGN, net	<u>936,808</u>	<u>-</u>
INVESTMENTS	<u>1,669,694</u>	<u>1,493,680</u>
PROPERTY AND EQUIPMENT, net	<u>46,726,578</u>	<u>49,410,673</u>
ASSETS WHOSE USE IS LIMITED	<u>1,378,059</u>	<u>-</u>
UNAMORTIZED DONATED LAND LEASE RECEIVABLE	<u>709,471</u>	<u>741,365</u>
TOTAL ASSETS	<u>\$ 52,824,576</u>	<u>\$ 54,170,527</u>

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2016  
(with comparative totals at December 31, 2015)

### LIABILITIES AND NET ASSETS

	<b>2016</b>	<b>2015</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,274,907	\$ 1,868,452
Accrued expenses	681,049	570,071
Custodian accounts	29,279	30,443
Deferred revenue	645,457	820,984
Deferred revenue from cell tower lease assignments	749,250	765,450
Current maturities of annual dues accrued	50,000	25,000
Current maturities of capital lease obligations	262,550	228,226
Current maturities of equipment loans	292,248	118,333
Current maturities of debt and other obligations	281,637	15,776,977
Current maturities of forgivable loans	174,740	94,740
Current maturities of deferred rent	34,000	34,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,475,117</b>	<b>20,332,676</b>
ANNUAL DUES ACCRUED, less current maturities	439,832	498,550
CAPITAL LEASE OBLIGATIONS, less current maturities	418,664	297,458
EQUIPMENT LOANS, less current maturities	709,237	103,655
FORGIVABLE LOANS, less current maturities	1,207,393	1,275,683
DEBT AND OTHER OBLIGATIONS, less current maturities	17,591,298	17,501,478
DEFERRED RENT, less current maturities	238,508	272,505
<b>TOTAL LIABILITIES</b>	<b>25,080,049</b>	<b>40,282,005</b>
<b>NET ASSETS</b>		
Unrestricted	19,709,930	6,455,500
Temporarily restricted	3,704,228	3,102,653
Permanently restricted	4,330,369	4,330,369
<b>TOTAL NET ASSETS</b>	<b>27,744,527</b>	<b>13,888,522</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 52,824,576</b>	<b>\$ 54,170,527</b>

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, 2016

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2016</u>	<u>2015</u>
<b>SUPPORT AND REVENUES</b>					
Contributions	\$ 5,093,056	\$ 1,192,311	\$ -	\$ 6,285,367	\$ 3,774,819
United Way allocations	616,445	4,598	-	621,043	778,711
Government grants	1,586,552	17,259	-	1,603,811	1,439,396
Membership dues	15,955,003	-	-	15,955,003	15,760,300
Program fees	7,978,884	-	-	7,978,884	8,583,505
Use of YMCA facilities	325,538	-	-	325,538	419,879
Sales to members	96,764	-	-	96,764	89,129
Investment income	55,996	-	-	55,996	22,334
Miscellaneous	253,454	-	-	253,454	274,599
Net assets released from restrictions:					
Satisfaction of program restrictions	352,381	(352,381)	-	-	-
Satisfaction of capital acquisition restrictions	29,133	(29,133)	-	-	-
Satisfaction of purpose restrictions	137,483	(137,483)	-	-	-
Expiration of time restrictions	93,596	(93,596)	-	-	-
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	<u>32,574,285</u>	<u>601,575</u>	<u>-</u>	<u>33,175,860</u>	<u>31,142,672</u>
<b>EXPENSES</b>					
Healthy living	17,811,683	-	-	17,811,683	17,172,748
Youth values	5,027,316	-	-	5,027,316	5,078,735
Child care	2,727,968	-	-	2,727,968	2,561,686
Summer day camp	1,421,148	-	-	1,421,148	1,196,528
Juvenile justice	1,762,374	-	-	1,762,374	1,658,065
Resident camp	1,310,617	-	-	1,310,617	1,382,121
Member services	653,809	-	-	653,809	594,206
Management and general	4,207,683	-	-	4,207,683	4,337,329
Fund raising	435,983	-	-	435,983	299,794
<b>TOTAL EXPENSES</b>	<u>35,358,581</u>	<u>-</u>	<u>-</u>	<u>35,358,581</u>	<u>34,281,212</u>
<b>GAINS (LOSSES)</b>					
Realized and unrealized gains (losses) on investments	8,444	-	-	8,444	(27,874)
Gain on sale of assets	-	-	-	-	39,615
Gain on uncollectible pledges	15,618	-	-	15,618	81,662
Gain on extinguishment of debt	16,014,664	-	-	16,014,664	-
<b>TOTAL GAINS (LOSSES)</b>	<u>16,038,726</u>	<u>-</u>	<u>-</u>	<u>16,038,726</u>	<u>93,403</u>
<b>CHANGE IN NET ASSETS</b>	<u>13,254,430</u>	<u>601,575</u>	<u>-</u>	<u>13,856,005</u>	<u>(3,045,137)</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>6,455,500</u>	<u>3,102,653</u>	<u>4,330,369</u>	<u>13,888,522</u>	<u>16,933,659</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 19,709,930</u>	<u>\$ 3,704,228</u>	<u>\$ 4,330,369</u>	<u>\$ 27,744,527</u>	<u>\$ 13,888,522</u>

See Notes to Consolidated Financial Statements

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2016

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

	Healthy	Youth	Child	Summer Day	Juvenile	Resident	Member	Total	Management	Fund	Totals	
	Living	Values	Care	Camp	Justice	Camp	Services	Programs	and General	Raising	2016	2015
Salaries	\$ 6,492,568	\$ 2,422,662	\$ 1,270,005	\$ 595,546	\$ 987,204	\$ 410,889	\$ 198,758	\$ 12,377,632	\$ 2,146,317	\$ 260,326	\$ 14,784,275	\$ 13,487,144
Employee Benefits	413,564	116,981	101,137	28,692	100,647	41,997	14,699	817,717	287,597	27,570	1,132,884	937,541
Payroll Taxes	548,257	205,087	105,645	50,640	81,283	33,959	16,853	1,041,724	170,427	20,625	1,232,776	1,172,605
				-								
Total salaries and related expenses	7,454,389	2,744,730	1,476,787	674,878	1,169,134	486,845	230,310	14,237,073	2,604,341	308,521	17,149,935	15,597,290
Professional Fees	681,760	418,536	30,755	16,533	121,724	42,222	25,471	1,337,001	706,404	58,469	2,101,874	2,178,809
Supplies	511,328	481,600	110,468	156,782	45,274	275,811	47,689	1,628,952	27,267	34,120	1,690,339	1,589,520
Telephone	221,248	36,844	33,851	15,851	5,132	30,794	20,251	363,971	166,900	-	530,871	534,101
Postage	3,707	803	670	206	183	8,768	93	14,430	9,289	1,482	25,201	27,178
Occupancy	3,521,750	759,384	437,381	240,366	170,975	210,555	141,627	5,482,038	226,235	141	5,708,414	5,687,856
Printing and Publications	414,316	89,907	20,196	29,363	11,421	61,077	12,461	638,741	6,880	6,051	651,672	644,115
Travel	165,084	85,846	66,387	33,373	33,324	40,110	4,739	428,863	85,756	15,586	530,205	491,579
Conferences and Conventions	31,448	17,003	5,268	1,483	13,894	2,629	805	72,530	29,910	9,147	111,587	85,054
National Dues	209,469	47,452	20,117	17,222	7,501	18,088	6,833	326,682	44,180	13	370,875	346,264
Miscellaneous Expenses	556,307	69,046	11,232	57,994	100,371	43,000	9,789	847,739	29,031	2,453	879,223	790,026
Interest Expense	608,078	96,501	83,191	42,427	-	-	19,133	849,330	100,189	-	949,519	806,117
Property Taxes	1,539	251	217	111	90	-	49	2,257	1,862	-	4,119	10,343
Total before depreciation and amortization and restructuring costs	14,380,423	4,847,903	2,296,520	1,286,589	1,679,023	1,219,899	519,250	26,229,607	4,038,244	435,983	30,703,834	28,788,252
Depreciation and Amortization	3,431,260	179,413	431,448	134,559	83,351	90,718	134,559	4,485,308	57,480	-	4,542,788	4,508,802
Restructuring costs	-	-	-	-	-	-	-	-	111,959	-	111,959	984,158
Total Functional Expenses	\$ 17,811,683	\$ 5,027,316	\$ 2,727,968	\$ 1,421,148	\$ 1,762,374	\$ 1,310,617	\$ 653,809	\$ 30,714,915	\$ 4,207,683	\$ 435,983	\$ 35,358,581	\$ 34,281,212

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, 2016  
(with comparative totals for the year December 31, 2015)

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 13,856,005	\$ (3,045,137)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Change in discounts on pledges receivable	23,390	(9,801)
Gain on uncollectible pledges	(15,618)	(81,662)
Depreciation and amortization	4,542,788	4,508,802
Amortization of land lease agreements	31,894	31,984
Amortization of forgivable loan interest	48,450	50,390
Amortization of intangibles	5,804	114,130
Loan principal forgiven	(36,740)	(23,400)
Realized and unrealized losses (gains) on investments	(8,444)	27,875
Gain on sale of assets	-	(39,615)
Gain on extinguishment of debt	(16,014,664)	-
Contributions restricted for capital investment	(25,000)	-
Donated land, equipment, and stock	(425,800)	(1,285,627)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts and pledges receivable	(837,081)	465,547
Merchandise inventories	11,614	5,403
Prepaid expenses	51,819	(42,480)
Funds held in trust	450,841	(450,841)
Increase (decrease) in:		
Accounts payable	398,627	216,596
Accrued expenses	77,260	394,198
Custodian accounts	(1,164)	10,111
Deferred rent	(33,997)	(33,995)
Deferred revenue	(175,527)	635
Deferred revenue from cell tower lease assignments	16,200	(16,200)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,908,257</u>	<u>796,913</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	371,416	72,158
Proceeds from the sale of property	-	39,615
Purchases of investments	(155,636)	(99,367)
Change in assets whose use is limited	(1,378,059)	255,024
Change in restricted cash	219,655	33,096
Purchases of property and equipment	(495,171)	(244,477)
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<u>(1,437,795)</u>	<u>56,049</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital pledges	29,133	59,374
Principal payments on debt and other obligations	(208,769)	(341,204)
Principal payments on equipment loans	(118,329)	(225,371)
Principal payments under capital lease obligations	(303,680)	(247,937)
Payment of debt issuance costs	(144,099)	(30,000)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(745,744)</u>	<u>(785,138)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(275,282)	67,824
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>580,222</u>	<u>512,398</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 304,940</u>	<u>\$ 580,222</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 901,068</u>	<u>\$ 207,341</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Equipment acquired through equipment loans and capital lease agreements	<u>\$ 1,357,036</u>	<u>\$ 118,284</u>

See Notes to Consolidated Financial Statements

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

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

**Nature of operations** – The Valley of the Sun Young Men's Christian Association, including its affiliates, Northwest Valley Family YMCA, LLC and Working Poor Support, LLC, (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.

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 10 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, 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.

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.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

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

**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, 2015 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 which 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. All cash deposits in funds held in trust were withdrawn at full cash value during the year ended December 31, 2016.

**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, 2016, the Association had \$1,378,059 on deposit in control accounts established as part of the debt restructuring described in Note 2 with a lender. The cash balance is comprised of \$753,438 as a Debt Service Reserve, \$610,903 in Reinvestment Campaign Contributions and \$13,698 as a Deferred Maintenance Reserve. As of December 31, 2015, the balance of assets whose use is limited was \$0.

**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, 2016 and 2015.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

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

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 or 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.

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 live 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.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

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

**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 2016 or 2015.

**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 \$0 and \$13,800 of amortization was taken on these assets during the years ended December 31, 2016 and 2015, respectively. No amortizable intangible assets remained at December 31, 2016 and 2015, respectively.

**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.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

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

**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.

**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.

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.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

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

**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 \$111,959 and \$984,158 of restructuring costs related to the reorganization of operations and restructuring of its debt for the years ended December 31, 2016 and 2015, respectively. The restructuring costs primarily consisted of professional consulting and legal fees and are included in restructuring costs in the accompanying consolidated statement of functional expenses. These activities were completed as of December 31, 2016.

**Advertising** – Advertising costs are expensed as incurred. Advertising expenses totaled \$581,590 and \$580,983 for the years ended December 31, 2016 and 2015, respectively.

**Income taxes** – The Valley of the Sun Young Men's Christian Association qualifies as a tax-exempt organization 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 qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. 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, 2016 or 2015.

The federal and state tax returns of the Association for 2013, 2014 and 2015 are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed. The 2016 returns have not yet been filed as of the date of this report.

**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,

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

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

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. 2015-03, *Interest-Imputation of Interest (Topic 835)*. This ASU requires debt issuance costs related to a recognized debt liability be presented in the consolidated statement of financial position 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 adopted ASU 2015-03 retrospectively to December 31, 2015. As a result of the retrospective adoption, the Association reclassified unamortized debt issuance costs of \$168,296 and \$539,753 as of December 31, 2016 and 2015, respectively, from deferred bond and other costs, net to a reduction in debt and other obligations in the consolidated statement of financial position. Adoption of ASU 2015-03 did not impact the combined results of operations, change in net assets, or cash flows in the current or prior year.

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.



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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

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

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.

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 consolidated financial statements and would not require any transition accounting for leases that expired before the earliest period presented in the consolidated financial statements. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Association has estimated that if they were to adopt the standard for the year ending December 31, 2016, a non-current right of use asset of approximately \$2,587,000 and a corresponding current and non-current lease liability of \$416,000 and \$2,171,000 respectively, would be recorded in the accompanying consolidated statement of financial position. The estimate was calculated using the minimum future lease payments (see Note 10) and a discount rate of 4.89% representing the Association's incremental borrowing rate (see Note 2).

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

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

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*. This ASU requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in the ASU do not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for all nonpublic business entities for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Association is evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

FASB ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in ASU 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. FASB ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. The Association adopted ASU 2014-15 in 2016 with no significant impact to the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 improves the current net asset classification requirements and the information presented in consolidated financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. 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 28, 2017 which is the date the consolidated financial statements were available to be issued.

### (2) Restructuring of Association long-term debt

The Association had multiple long term debt obligations payable to a bank with a total balance of \$33,818,208 as of December 31, 2015, secured by all business assets of the Association. In February 2016, the Association refinanced these long-term debt obligations. The Association recognized a gain from extinguishment of debt of \$16,014,664, which is included in gain on extinguishment of debt in the accompanying consolidated statement of activities and changes in net assets and is comprised of the following:

Principal amount of debt cancelled	\$ 33,818,208
Accrued interest on debt cancelled	670,078
Expenses and fees related to debt cancelled	424,889
Deferred bond costs on debt cancelled	(507,822)
Loss on capitalized interest	(38,121)
Cash paid to prior lender	(102,568)
Loan from new lender	<u>(18,250,000)</u>
Gain on extinguishment of debt	<u>\$ 16,014,664</u>

The restructuring resulted in new debt obligations as described on the following page:

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

### (2) Restructuring of Association long-term debt (continued)

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). 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.

Total debt outstanding on the loan agreement with KS State Bank as of December 31, 2016 was \$18,041,231, which is reported net of unamortized debt issuance costs of \$168,296 in the accompanying consolidated statement of financial position. Future maturities of the obligations under the new bank loans entered into in February 2016 are as follows:

<u>Years Ending December 31,</u>	
2017	\$ 281,637
2018	295,922
2019	5,560,931
2020	325,031
2021	343,188
Thereafter	<u>11,234,522</u>
Total	<u>\$ 18,041,231</u>

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.

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 (Reinvest in the Y campaign) to raise unrestricted contributions to fund strategic initiatives to increase contributed support and membership and program revenue generation over a three year period. However, there can be no assurance that such plans will be sufficient to meet the long-term goals of the Association. Required reserves were established in 2016, and the Association raised \$3,748,000 of the \$5,000,000 campaign goal and implementation of strategic initiatives have begun. Pledges raised under this campaign are deposited into a control account with KS State Bank.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

### (3) Pledges receivable

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

	<u>2016</u>	<u>2015</u>
Pledges receivable before unamortized discount and allowance for uncollectible pledges	\$ 1,036,352	\$ 951,850
Less unamortized discount using rate of 5.28%	<u>(25,712)</u>	<u>(2,322)</u>
	1,010,640	949,528
Less allowance for uncollectible pledges	<u>(38,832)</u>	<u>(639,575)</u>
Pledges receivable, net	<u>\$ 971,808</u>	<u>\$ 309,953</u>
Amounts due in:		
Less than one year	\$ 819,710	\$ 928,100
One to five years	<u>216,642</u>	<u>23,750</u>
Total	<u>\$ 1,036,352</u>	<u>\$ 951,850</u>

Included in pledges receivable are pledges for the Reinvest in the Y campaign which are unrestricted funds generally to provide for operating and deferred maintenance needs. Once collected, these pledges are to be held by the Association's lender and may not be spent without the lender's consent until such time as the Association raises a cumulative \$5 million of contributions for the campaign. Upon raising the full \$5 million of contributions, the funds will be released to the Association.

### (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, 2016:

	<u>Cost</u>	<u>Market</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Fixed income – bond funds	\$ 331,199	\$ 324,268	\$ 324,268	\$ -	\$ -
Government bond fund	8,730	5,255	5,255	-	-
Money market funds	380,332	380,332	380,332	-	-
Common stock	383,350	383,350	383,350	-	-
Commodities	37,622	25,402	25,402	-	-
Equity mutual funds:					
International	113,332	106,021	106,021	-	-
World allocation	86,257	84,839	84,839	-	-
Large growth/blend funds	230,705	232,180	232,180	-	-
Large value funds	103,337	103,485	103,485	-	-
Long-short funds	<u>22,516</u>	<u>24,562</u>	<u>24,562</u>	-	-
Total investments	<u>\$ 1,697,380</u>	<u>\$ 1,669,694</u>	<u>\$ 1,669,694</u>	<u>\$ -</u>	<u>\$ -</u>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
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### (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, 2015:

	<u>Cost</u>	<u>Market</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
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	<u>\$ 1,522,786</u>	<u>\$ 1,493,680</u>	<u>\$ 1,493,680</u>	<u>\$ -</u>	<u>\$ -</u>

Expenses relating to investment revenues, including custodial fees and investment advisory fees of approximately \$8,000 for 2016 and \$11,000 for 2015 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:

	<u>2016</u>	<u>2015</u>
Land	\$ 7,673,118	\$ 7,673,118
Buildings and building improvements	83,247,933	83,214,955
Equipment	26,469,600	24,791,335
Total	117,390,651	115,679,408
Less accumulated depreciation and amortization	(72,049,801)	(67,512,943)
Total	45,340,850	48,166,465
Construction in process	1,385,728	1,244,208
Total property and equipment, net	<u>\$ 46,726,578</u>	<u>\$ 49,410,673</u>

Depreciation and amortization expense on property and equipment was \$4,542,788 for 2016 and \$4,467,796 for 2015, respectively, which includes amortization expense on assets held under capital leases.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

### (5) Property and equipment (continued)

Construction in process at December 31, 2016 and 2015 consisted of renovations and improvements to several branches and donated software licenses not activated as of December 31, 2016. 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, 2016 and 2015, 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 \$2,386,447 and \$1,625,758 as of December 31, 2016 and 2015, respectively. Accumulated amortization related to these leased assets totaled \$776,597 and \$819,995 as of December 31, 2016 and 2015, respectively.

### (6) Debt and other obligations

#### **Loans payable to bank**

At December 31, 2014, the Association had an outstanding credit loan with a bank with an outstanding principal balance of \$696,667. Under the terms of 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 and the maturity date of the loan was December 31, 2015. The loan was secured through a first priority security interest in all business assets of the Association. The loan was extinguished in connection with the restructuring of Association debt executed in February 2016 (see Note 2). The outstanding, unpaid balance was \$0 and \$650,463 at December 31, 2016 and 2015, respectively.

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 8). 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 8). 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 loan was extinguished in connection with the restructuring of Association debt executed in February 2016 (see Note 2). The outstanding, unpaid balance was \$0 and \$4,410,000 at December 31, 2016 and 2015, respectively.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

### (6) Debt and other obligations (continued)

#### Bonds payable

Bonds payable as of December 31 were:

	<u>2016</u>	<u>2015</u>
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. This was extinguished in the debt restructuring in February 2016 (see Note 2).	\$ -	\$ 24,950,000

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. 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 Association's obligation related to the bonds payable was extinguished in February 2016.

#### Interest rate swap agreements

As of December 31, 2014, the Association had an interest rate swap termination fee agreement with a 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 \$0 and \$3,807,745 at December 31, 2016 and 2015, respectively. This swap termination fee obligation was extinguished in February 2016 (See Note 2).

### (7) Equipment loans payable

Equipment loans as of December 31 were:

	<u>2016</u>	<u>2015</u>
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. Repaid in full during the year ended December 31, 2016.	\$ -	\$ 21,195
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. Repaid in full during the year ended December 31, 2016.	-	5,712
Loan equipment agreement with Kansas State Bank; original amount of \$897,831; payable in monthly installments of \$18,449, including interest at 3.753%, through January 2021; secured by equipment.	897,831	-

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

**(7) Equipment loans payable (continued)**

	2016	2015
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. Refinanced balance through March 2018.	88,084	166,802
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.	15,570	28,279
Total	1,001,485	221,988
Less current maturities	(292,248)	(118,333)
Long-term maturities of equipment loans payable	\$ 709,237	\$ 103,655

Future maturities of equipment loans payable are as follows:

**Years Ending December 31,**

2017	\$ 292,248
2018	200,432
2019	205,723
2020	213,578
2021	89,504
Total annual maturities	\$ 1,001,485

**(8) Forgivable loans**

Forgivable loans as of December 31 consist of the following:

	2016	2015
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.	23,400	46,800
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.	186,660	200,000



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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

**(8) Forgivable loans (continued)**

	<b>2016</b>	<b>2015</b>
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	2,268,060	2,304,800
Less unamortized present value discount	(885,927)	(934,377)
Total forgivable loans	<b>\$ 1,382,133</b>	<b>\$ 1,370,423</b>

Future maturities of forgivable loans are as follows:

**Years Ending December 31,**

2017	\$ 174,740
2018	93,340
2019	93,340
2020	93,340
2021	93,340
Thereafter	1,719,960
Total	<b>\$ 2,268,060</b>

**(9) Capital lease obligations**

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

	<b>2016</b>	<b>2015</b>
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
Capital lease obligation payable to CISCO Leasing; original amount of \$312,398; payable in monthly installments of \$9,028 including interest at 0% through February 2019, secured by equipment.	239,903	-
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.	17,280	34,913
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.	8,910	14,282
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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

**(9) Capital lease obligations (continued)**

	2016	2015
Capital lease obligation payable to CISCO Leasing; original amount of \$26,852; payable in monthly installments of \$761, including interest at 1%, through August 2019; secured by equipment.	23,908	-
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.	148,878	196,976
Capital lease obligation payable to Key Equipment Finance; original amount \$94,259; payable in monthly installments of \$1,736, including interest at 4%, through January 2022, secured by equipment.	94,259	-
Capital lease obligation payable to Key Equipment Finance; original amount \$25,686; payable in monthly installments of \$473, including interest at 4%, through January 2022, secured by equipment.	25,686	-
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.	30,554	61,578
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.	91,836	113,147
Total	681,214	525,684
Less current maturities	(262,550)	(228,226)
Long-term maturities of capital lease obligations	\$ 418,664	\$ 297,458

Future minimum capital lease payments are as follows:

**Years Ending December 31,**

2017		\$ 278,538
2018		229,121
2019		132,951
2020		47,013
2021		26,501
Thereafter		2,207
Total minimum lease payments		716,331
Less amount representing interest		(35,117)
Present value of minimum lease payments		\$ 681,214

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

### (10) 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:

<u>Years Ending December 31,</u>	
2017	\$ 416,314
2018	377,349
2019	359,262
2020	346,074
2021	325,779
Thereafter	<u>1,323,000</u>
Total	<u>\$ 3,147,778</u>

Rent expense totaled \$665,953 for the year ended December 31, 2016 and \$544,329 for the year ended December 31, 2015. 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 2016.

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 \$202,638 for 2016 and \$205,933 for 2015.

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. An addendum was executed in 2016 which extended the rent reduction for twelve month terms for the term of the lease. 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, 2016 and 2015, the Association recognized \$31,894 and \$31,984 of amortization on these receivables, respectively. As of December 31, 2016 and 2015, the unamortized balance of these donated land lease receivables totaled \$709,471 and \$741,365, respectively.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

### (11) Permanently and temporarily restricted net assets

Permanently restricted net assets of December 31, 2016 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	<u>162,260</u>
Total	<u>\$ 4,330,369</u>

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	<u>162,260</u>
Total	<u>\$ 4,330,369</u>

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, 2016:

Program restriction	<u>\$ 668,674</u>
Capital campaign restrictions:	
Cash and cash equivalents	118,248
Pledges receivable	<u>35,000</u>
Total capital campaign restrictions	<u>\$ 153,248</u>
Time restriction:	
Interest contribution on forgivable loans	885,927
Pledges receivable	936,808
Donated land leases	709,471
Land required to be used as a branch facility	<u>350,100</u>
Total time restricted	<u>\$ 2,882,306</u>
Total temporarily restricted net assets	<u>\$ 3,704,228</u>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

### (11) Permanently and temporarily 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	<u>657,381</u>
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	<u>\$ 2,039,094</u>
Total temporarily restricted net assets	<u>\$ 3,102,653</u>

### (12) 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:

	<u>2016</u>	<u>2015</u>
Satisfaction of program restrictions:		
Youth Values program expense	\$ 114,645	\$ 27,896
Healthy Living program expense	73,061	23,462
Child Care program expense	117,211	15,983
Summer Day Camp program expense	5,800	23,375
Juvenile Justice program expense	41,064	48,204
Resident Camp	400	-
Member Services	200	-
Total satisfaction of program restrictions	<u>\$ 352,381</u>	<u>\$ 138,920</u>
Satisfaction of purpose restriction:		
Youth Values	49,461	15,363
Healthy Living	22,837	24,912
Child Care	29,743	12,328
Summer Day Camp	26,492	7,125
Juvenile Justice	7,300	6,215
Resident Camp	75	-
Member Services	1,575	-
Total satisfaction of purpose restrictions	<u>\$ 137,483</u>	<u>\$ 65,943</u>
Expiration of time restrictions	<u>\$ 93,596</u>	<u>\$ 82,374</u>
Satisfaction of capital acquisition restrictions	<u>\$ 29,133</u>	<u>\$ 24,954</u>

During 2016, a donor gave permission for pledge balances totaling \$500,000 restricted to capital improvement projects to be utilized for the Reinvest in the Y campaign.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

### (13) 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

Endowment net asset compositions by type of fund as of December 31, 2016 were as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment fund	\$ -	\$ 636,385	\$ 636,385
Board-designated endowment funds	389,911	-	389,911
Total funds	<u>\$ 389,911</u>	<u>\$ 636,385</u>	<u>\$ 1,026,296</u>

The changes in endowment net assets for the year ended December 31, 2016 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 609,918	\$ -	\$ 636,385	\$ 1,246,303
Investment return:				
Investment income	18,919	19,692	-	38,611
Net appreciation (realized and unrealized)	2,295	2,388	-	4,683
Other changes:				
Investment fees	(6,179)	-	-	(6,179)
Contributions	14,958	-	-	14,958
Appropriation of assets for expenditures	<u>(250,000)</u>	<u>(22,080)</u>	<u>-</u>	<u>(272,080)</u>
Endowment net assets, end of year	<u>\$ 389,911</u>	<u>\$ -</u>	<u>\$ 636,385</u>	<u>\$ 1,026,296</u>

Amounts appropriated from the Board designated endowment are expected to be replenished in a future period.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

### (13) Endowment (continued)

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

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>\$ 609,918</u>	<u>\$ -</u>	<u>\$ 636,385</u>	<u>\$ 1,246,303</u>

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 disbursements from the endowment of up to 5% of the trailing twelve months average market value of the endowment as of December 31<sup>st</sup> net of current year additions. The exact percentage to be allocated on an annual basis is determined by governance. During 2016, the Board approved a draw on the board-designated endowment fund of \$250,000 to transfer to a debt reserve at KS State Bank as a requirement of the restructured debt agreement (Note 2). 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.

### (14) 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.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

### (14) Retirement plan – defined contributions (continued)

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 2016 and 2015 aggregated \$548,987 and \$519,772, respectively.

### (15) 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 2016 and 2015 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 \$156,924 and \$158,598 at December 31, 2016 and 2015, 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 2016 and 2015 was not sufficient to cover the required payments to the beneficiary. The investment's market value was \$56,651 and \$64,387 at December 31, 2016 and 2015, respectively and is included in investments in the consolidated statements of financial position.

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 2016 and 2015 totaled \$18,644 and \$19,266, respectively.

### (16) 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 four and three pledge receivables accounting for approximately 89% and 58% of the total gross pledges receivable as of December 31, 2016 and 2015, respectively.

### (17) 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, 2016 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.



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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016  
(with comparative totals for the year ended December 31, 2015)

### (17) Commitments, related party transactions and contingencies (continued)

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 \$111,500 for the year ended December 31, 2016 and \$119,000 for the year ended December 31, 2015, respectively. The total amount paid for construction services approximated \$0 for the years ended December 31, 2016 and 2015.

As of December 31, 2016, 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 \$404,596 and \$0 for the years ended December 31, 2016 and December 31, 2015, respectively. As of December 31, accrued unpaid dues were approximately \$490,000 and \$523,550 for the years ended 2016 and 2015, 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,

2017	\$	50,000
2018		150,000
2019		150,000
2020		<u>139,832</u>
Total	\$	<u>489,832</u>

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.

### (18) 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 6, 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, 2016

<u>Federal Grantor / Pass-Through Agency / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>			
Pass through City of Phoenix			
Community Development Block Grant - Ahwatukee - Y OPAS	14.218	131813	\$ 12,969
<b>Total U.S. Department of Housing and Urban Development</b>			<u>12,969</u>
<b>U.S. Department of Justice - Office of Juvenile Justice and Delinquency Prevention</b>			
Pass through YMCA of the USA			
Juvenile Mentoring Program - Reach & Rise	16.726	None	71,735
Juvenile Mentoring Program - Reach & Rise - Enhancement	16.726	None	<u>62,896</u>
<b>Total U.S. Department of Justice - Office of Juvenile Justice and     Delinquency Prevention</b>			<u>134,631</u>
<b>U.S. Department of Labor</b>			
Pass through City of Phoenix			
Workforce Investment and Opportunity Act (WIOA) - Youth Activities	17.259	123797-007	<u>914,747</u>
<b>Total U.S. Department of Labor</b>			<u>914,747</u>
<b>U.S. Department of Health and Human Services - Substance Abuse and Mental Health Services Administration</b>			
Pass through Cenpatico Integrated Care			
Block Grants for Prevention and Treatment of Substance Abuse	93.959		<u>95,095</u>
<b>Total U.S. Department of Health and Human Services - Substance     Abuse and Mental Health Services Administration</b>			<u>95,095</u>
 <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			 <u>\$ 1,157,442</u>

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

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2016

(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, 2016. 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, 2016.

(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 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 2016 *Catalog of Federal Domestic Assistance*.



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**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, 2016, 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 28, 2017.

**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. 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.

### **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*

### **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.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive script.

April 28, 2017



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**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, 2016. *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 their federal awards applicable to their 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, 2016.

## Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on the major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## 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 28, 2017



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

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2016

### 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?  | No         |
| 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?  | No         |
| 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)? | Yes        |
| 4. Identification of major programs:  |            |

CFDA Number

17.259

Name of Federal Program or Cluster

Workforce Investment and Opportunity Act (WIOA) –Youth Activities

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

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

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2016

### Section II – Financial Statement Findings

None.

### Section III – Federal Awards Findings and Questioned Costs

<b>Item:</b>	<b>2016-001</b>
<b>CFDA Number:</b>	17.259
<b>Program:</b>	Workforce Investment and Opportunity Act (WIOA) – Youth Activities
<b>Federal Agency:</b>	U.S. Department of Labor
<b>Award Year:</b>	July 1, 2015-June 30, 2016 and July 1, 2016-June 30, 2017
<b>Compliance Requirement:</b>	Allowable costs/cost principles
<b>Questioned Cost:</b>	\$33,968
<b>Condition:</b>	<p>In the original sample of 40 payroll transactions, which included 11 unique employees, we noted 1 of the 11 unique employees tested did not have support for the actual time incurred relative to the program and had time allocated based on budgeted expectations. It was determined that salaried administrative employees do not have the same routine procedures in place to track the relative time spent in connection with federal and non-federal programs. Rather, in order to determine the employees' compensation allocable to the program, management performed an analysis of the employees' responsibilities and estimated the percentage of time the employees would work on the program and the costs allocated to the program were consistent with the program budget. Based on the total population of employees with payroll costs allocated to the program, there are only two such administrative employees. In total, administrative charges to the program for these two employees were less than 4% (33,968) of total expenditures for the program. Relative to indirect program expenses, as the Association has not elected to receive the de minimis reimbursement rate of 10% for indirect program expenses established under Uniform Guidance, the Association is required to comply with the payroll allocation documentation standards contained in 2 CFR 200.430 for indirect payroll expenses allocated to the program.</p>
<b>Criteria:</b>	<p>Under cost principles established by 2 CFR 200.430, compensation costs allocated to federal awards must reflect the relative time spent by the employee under the program. Budget estimates alone determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes if certain conditions are met.</p>
<b>Effect:</b>	<p>If the compensation costs allocated to the grant cannot be supported in accordance with the Uniform Guidance, the granting agency could determine that these costs are not allowable.</p>
<b>Cause:</b>	<p>The Association does not require salaried administrative employees who work on the program to complete a timecard or otherwise track time associated with the administration of the program.</p>
<b>Recommendation:</b>	<p>The Association should implement a policy for salaried administrative employees who work on federal programs to contemporaneously document their time spent on the administration of the program.</p>



FOR YOUTH DEVELOPMENT  
FOR HEALTHY LIVING  
FOR SOCIAL RESPONSIBILITY

## Corrective Action Plan and Summary Schedule of Prior Audit Findings

### Section V – Corrective Action Plan

**Item:** 2016-001

**CFDA Number:** 17.259

**Program:** Workforce Investment and Opportunity Act (WIOA) – Youth Activities

**Criteria or specific requirement:** Under cost principles established by 2 CFR 200.430, compensation costs allocated to federal awards must reflect the relative time spent by the employee under the program. Budget estimates alone determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes if certain conditions are met.

**Condition:** In the original sample of 40 payroll transactions, which included 11 unique employees, we noted 1 of the 11 unique employees tested did not have support for the actual time incurred relative to the program and had time allocated based on budgeted expectations. It was determined that salaried administrative employees do not have the same routine procedures in place to track the relative time spent in connection with federal and non-federal programs. Rather, in order to determine the employees' compensation allocable to the program, management performed an analysis of the employees' responsibilities and estimated the percentage of time the employees would work on the program and the costs allocated to the program were consistent with the program budget. Based on the total population of employees with payroll costs allocated to the program, there are only two such administrative employees. In total, administrative charges to the program for these two employees were less than 4% (33,968) of total expenditures for the program. Relative to indirect program expenses, as the Association has not elected to receive the de minimis reimbursement rate of 10% for indirect program expenses established under Uniform Guidance, the Association is required to comply with the payroll allocation documentation standards contained in 2 CFR 200.430 for indirect payroll expenses allocated to the program.

**Name of Contact Person:** Susan Suman, Vice President Finance

**Phone Number:** 602-257-5126

**Anticipated Completion Date:** December 31, 2017

**Views of Responsible Officials and Corrective Actions:** The Association will implement the same timekeeping procedures for salaried administrative employees as are currently in place for salaried program employees.

VALLEY OF THE SUN YMCA  
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Phoenix, AZ 85003  
602-257-5120



FOR YOUTH DEVELOPMENT  
FOR HEALTHY LIVING  
FOR SOCIAL RESPONSIBILITY

**Summary Schedule of Prior Audit Findings**

**Item:** 2015-001

**CFDA Number:** 17.259

**Program:** Workforce Investment and Opportunity Act (WIOA) – Youth Activities

**Federal Agency:** U.S. Department of Labor

**Award Year:** July 1, 2015-June 30, 2016 and July 1, 2016-June 30, 2017

**Questioned Cost:** None

**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.

**Current Status:** Corrective action taken.

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