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

CONSOLIDATED FINANCIAL STATEMENTS AND UNIFORM GUIDANCE SUPPLEMENTAL REPORTS

Year Ended December 31, 2017
(with comparative totals for the year ended December 31, 2016)

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

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

CONTENTS

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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 accompanying 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, 2017, 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, 2017, 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*** 2016 consolidated financial statements, and our report dated April 28, 2017, 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, 2016, 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 23, 2018 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.

Mayer Hoffman McCann P.C.

April 23, 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2017
(with comparative totals at December 31, 2016)

A S S E T S

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 182,512	$ 304,940
Account receivables	716,027	664,043
Merchandise inventories	89,665	118,730
Prepaid expenses	225,575	163,005
TOTAL CURRENT ASSETS	1,213,779	1,250,718
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT		
Cash and cash equivalents	147,248	118,248
Pledges receivable, net	82,061	35,000
TOTAL ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	229,309	153,248
REINVEST CAMPAIGN, net		
Cash and cash equivalents	940,235	-
Pledges receivable, net	183,221	936,808
TOTAL REINVEST CAMPAIGN	1,123,456	936,808
INVESTMENTS	1,397,488	1,669,694
PROPERTY AND EQUIPMENT, net	43,306,904	46,726,578
ASSETS WHOSE USE IS LIMITED	774,885	1,378,059
UNAMORTIZED DONATED LAND LEASE RECEIVABLE	677,577	709,471
TOTAL ASSETS	$ 48,723,398	$ 52,824,576

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2017
(with comparative totals at December 31, 2016)

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Accounts payable	$ 761,924	$ 1,274,907
Accrued expenses	727,367	681,049
Custodian accounts	46,097	29,279
Deferred revenue	773,873	645,457
Current portion of deferred revenue from cell tower lease assignments	16,200	16,200
Current maturities of annual dues accrued	150,000	50,000
Current maturities of capital lease obligations	293,175	262,550
Current maturities of equipment loans	240,317	292,248
Current maturities of bank loan	353,653	281,637
Current maturities of forgivable loans	151,340	174,740
Current maturities of deferred rent	58,962	34,000
TOTAL CURRENT LIABILITIES	3,572,908	3,742,067
DEFERRED REVENUE FROM CELL TOWER LEASE ASSIGNMENTS, less current maturities	716,850	733,050
ANNUAL DUES ACCRUED, less current maturities	289,832	439,832
CAPITAL LEASE OBLIGATIONS, less current maturities	490,633	418,664
EQUIPMENT LOANS, less current maturities	634,947	709,237
FORGIVABLE LOANS, less current maturities	1,160,563	1,207,393
BANK LOAN, less current maturities	17,240,433	17,591,298
DEFERRED RENT, less current maturities	195,512	238,508
TOTAL LIABILITIES	24,301,678	25,080,049
NET ASSETS		
UNRESTRICTRED NET ASSETS		
Board designated	940,235	-
Unrestrictred	16,174,494	19,709,930
TOTAL UNRESTRICTED NET ASSETS	17,114,729	19,709,930
Temporarily restricted	2,976,622	3,704,228
Permanently restricted	4,330,369	4,330,369
TOTAL NET ASSETS	24,421,720	27,744,527
TOTAL LIABILITIES AND NET ASSETS	$ 48,723,398	$ 52,824,576

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

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2017
(with comparative totals for the year ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2017	Totals 2016
SUPPORT AND REVENUES					
Contributions	$ 3,010,789	$ 691,753	$ -	$ 3,702,542	$ 6,285,367
United Way allocations	543,917	22,166	-	566,083	621,043
Government grants	2,025,003	3,623	-	2,028,626	1,603,811
Membership dues	15,159,939	-	-	15,159,939	15,955,003
Program fees	7,978,242	-	-	7,978,242	7,978,884
Use of YMCA facilities	271,856	-	-	271,856	325,538
Sales to members	73,633	-	-	73,633	96,764
Investment income	73,255	-	-	73,255	55,996
Miscellaneous	382,426	-	-	382,426	253,454
Net assets released from restrictions:					
Satisfaction of program restrictions	399,358	(399,358)	-	-	-
Satisfaction of capital acquisition restrictions	26,000	(26,000)	-	-	-
Satisfaction of purpose restrictions	186,753	(186,753)	-	-	-
Expiration of time restrictions	833,037	(833,037)	-	-	-
TOTAL REVENUE AND OTHER SUPPORT	30,964,208	(727,606)	-	30,236,602	33,175,860
EXPENSES					
Healthy living	16,722,800	-	-	16,722,800	17,811,683
Youth values	4,574,462	-	-	4,574,462	5,027,316
Child care	3,040,922	-	-	3,040,922	2,727,968
Summer day camp	1,406,081	-	-	1,406,081	1,421,148
Juvenile justice	1,807,158	-	-	1,807,158	1,762,374
Resident camp	1,252,988	-	-	1,252,988	1,310,617
Member services	634,408	-	-	634,408	653,809
Management and general	3,672,952	-	-	3,672,952	4,207,683
Fund raising	569,156	-	-	569,156	435,983
TOTAL EXPENSES	33,680,927	-	-	33,680,927	35,358,581
GAINS					
Realized and unrealized gains on investments	78,160	-	-	78,160	8,444
Gain on sale of assets	41,525	-	-	41,525	-
Gain on uncollectible pledges	1,833	-	-	1,833	15,618
Gain on extinguishment of debt	-	-	-	-	16,014,664
TOTAL GAINS	121,518	-	-	121,518	16,038,726
CHANGE IN NET ASSETS	(2,595,201)	(727,606)	-	(3,322,807)	13,856,005
NET ASSETS, BEGINNING OF YEAR	19,709,930	3,704,228	4,330,369	27,744,527	13,888,522
NET ASSETS, END OF YEAR	$ 17,114,729	$ 2,976,622	$ 4,330,369	$ 24,421,720	$ 27,744,527

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017
(with comparative totals for the year ended December 31, 2016)

	Healthy Living	Youth Values	Child Care	Summer Day Camp	Juvenile Justice	Resident Camp	Member Services	Total Programs	Management and General	Fund Raising	Totals 2017	Totals 2016
Salaries	$ 6,108,823	$ 2,090,210	$ 1,498,695	$ 629,958	$ 961,286	$ 452,405	$ 168,116	$ 11,909,493	$ 1,946,063	$ 339,779	$ 14,195,335	$ 14,784,275
Employee benefits	371,442	118,466	114,998	33,832	103,928	28,462	16,991	788,119	211,381	37,675	1,037,175	1,132,884
Payroll taxes	534,106	181,318	130,234	53,727	80,755	39,326	14,631	1,034,097	150,923	27,739	1,212,759	1,232,776
				-								
Total salaries and related expenses	7,014,371	2,389,994	1,743,927	717,517	1,145,969	520,193	199,738	13,731,709	2,308,367	405,193	16,445,269	17,149,935
Professional fees	633,739	374,187	21,628	11,833	208,288	36,609	57,109	1,343,393	572,499	106,142	2,022,034	2,101,874
Supplies	455,624	496,816	127,828	114,936	46,485	277,628	40,786	1,560,103	34,581	33,459	1,628,143	1,690,339
Telephone	217,389	36,138	34,617	15,590	4,057	25,622	20,849	354,262	143,102	-	497,364	530,871
Postage	3,769	1,046	535	308	65	6,176	94	11,993	13,589	1,599	27,181	25,201
Occupancy	3,039,343	675,476	400,272	211,727	105,199	148,711	145,362	4,726,090	359,624	1,289	5,087,003	5,708,414
Printing and publications	338,934	64,422	24,955	27,284	7,875	49,249	10,046	522,765	50,021	6,393	579,179	651,672
Travel	150,459	73,173	79,184	37,885	56,849	41,287	4,879	443,716	112,049	6,304	562,069	530,205
Conferences and conventions	30,303	20,719	10,006	-	10,562	-	899	72,489	28,683	7,355	108,527	111,587
National dues	249,949	56,841	25,924	20,883	4,983	20,030	7,853	386,463	3,595	-	390,058	370,875
Miscellaneous expenses	447,373	94,529	29,323	64,845	127,731	38,420	13,061	815,282	35,195	1,422	851,899	879,223
Interest expense	734,236	112,887	97,316	49,631	-	-	22,383	1,016,453	7,185	-	1,023,638	949,519
Property taxes	667	109	94	48	32	-	21	971	4,462	-	5,433	4,119
Total before depreciation and amortization and restructuring costs	13,316,156	4,396,337	2,595,609	1,272,487	1,718,095	1,163,925	523,080	24,985,689	3,672,952	569,156	29,227,797	30,703,834
Depreciation and amortization	3,406,644	178,125	445,313	133,594	89,063	89,063	111,328	4,453,130	-	-	4,453,130	4,542,788
Restructuring costs	-	-	-	-	-	-	-	-	-	-	-	111,959
Total functional expenses	$ 16,722,800	$ 4,574,462	$ 3,040,922	$ 1,406,081	$ 1,807,158	$ 1,252,988	$ 634,408	$ 29,438,819	$ 3,672,952	$ 569,156	$ 33,680,927	$ 35,358,581

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2017
(with comparative totals for the year December 31, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (3,322,807)	$ 13,856,005
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Change in discounts on pledges receivable	(15,933)	23,390
Gain on uncollectible pledges	(1,833)	(15,618)
Depreciation and amortization	4,453,130	4,542,788
Amortization of land lease agreements	31,894	31,894
Amortization of forgivable loan interest	46,510	48,450
Amortization of intangibles	6,965	5,804
Loan principal forgiven	(116,740)	(36,740)
Realized and unrealized gains on investments	(78,160)	(8,444)
Gain on sale of assets	(41,525)	-
Gain on extinguishment of debt	-	(16,014,664)
Contributions restricted for capital investment	(110,000)	(25,000)
Donated land, equipment, and stock	(102,364)	(425,800)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(51,984)	(163,321)
Pledges receivable	763,833	(673,760)
Merchandise inventories	29,065	11,614
Prepaid expenses	(62,570)	51,819
Board designated cash	(940,235)	-
Funds held in trust	-	450,841
Increase (decrease) in:		
Accounts payable	(512,983)	398,627
Accrued expenses	46,318	52,260
Annual dues accrued	(50,000)	25,000
Custodian accounts	16,818	(1,164)
Deferred rent	(18,034)	(33,997)
Deferred revenue	128,416	(175,527)
Deferred revenue from cell tower lease assignments	(16,200)	(16,200)
NET CASH PROVIDED BY OPERATING ACTIVITIES	81,581	1,908,257
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	804,553	371,416
Proceeds from the sale of property	57,050	-
Purchases of investments	(454,187)	(155,636)
Change in assets whose use is limited	603,174	(1,378,059)
Change in restricted cash	(29,000)	219,655
Purchases of property and equipment	(421,473)	(495,171)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	560,117	(1,437,795)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital pledges	70,459	29,133
Principal payments on bank loan	(285,814)	(208,769)
Principal payments on equipment loans	(286,223)	(118,329)
Principal payments under capital lease obligations	(262,548)	(303,680)
Payment of debt issuance costs	-	(144,099)
NET CASH USED IN FINANCING ACTIVITIES	(764,126)	(745,744)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(122,428)	(275,282)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	304,940	580,222
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 182,512	$ 304,940
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 977,131	$ 901,068
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired through equipment loans	$ 160,002	$ 897,826
Equipment acquired through capital lease agreements	$ 365,142	$ 459,210

See Notes to Consolidated Financial Statements

(1) Operations and summary of significant accounting policies

Nature of operations – The Valley of the Sun Young Men's Christian Association, including its 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.

(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, 2016 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. As of December 31, 2017 and 2016, the allowance was $106,087 and $13,357, respectively.

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, 2017, the Association had $774,885 on deposit in control accounts established as part of the debt restructuring described in Note 6 with a lender. The cash balance is comprised of $757,186 as a Debt Service Reserve and $17,699 as a Deferred Maintenance Reserve. As of December 31, 2016, the balance of assets whose use is limited was $1,378,059 and was comprised of $753,458 as a Debt Service Reserve, $610,903 in Reinvestment Campaign Contributions and $13,698 as a Deferred Maintenance Reserve. During the year ended December 31, 2017, Reinvestment Campaign Contributions were released from lender restrictions and recorded under non-current assets in the accompanying consolidated financial statements, due to them now being board designated.

Reinvest in the Y Campaign – As of December 31, 2017, amounts designated by the board as the reinvest in the Y campaign funds included cash of $940,235 and pledges receivable of $183,221. As of December 31, 2016, the reinvest in the Y campaign fund included pledges receivable of $936,808 and $610,903 of cash held in the assets whose use is limited account discussed above. The nature of the designation is to build operational capacity that will enable the Association to grow its mission driven work in the community. The funds can only be utilized by the Association upon approval by the Association's board.

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

Investments – The Association accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities*. Under FASB ASC 958-320, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statement of financial position. Investment income or loss (including unrealized and realized gains and losses on investments, interest, and dividends) is included in unrestricted net assets unless the associated income or loss is restricted. Declines in the fair value of investments below their cost that are deemed to be other than temporary are reflected as realized losses. There were no declines in fair value of investments below their cost that were deemed to be other than temporary during the years ended December 31, 2017 and 2016.

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

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

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

Level 2: Inputs to the valuation methodology include:

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

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

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

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

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

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

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 2017 or 2016.

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.

(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 and opportunity youths.

(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 $0 and $111,959 of restructuring costs related to the reorganization of operations and restructuring of its debt for the years ended December 31, 2017 and 2016, 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 $482,372 and $581,590 for the years ended December 31, 2017 and 2016, 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, 2017 or 2016.

The federal and state tax returns of the Association for 2014, 2015 and 2016 are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed. The 2017 returns have not yet been filed as of the date of this report.

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

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

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

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

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

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

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

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

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU requires that a lease liability and related right-of use-asset representing the lessee's right to use or control the asset be recorded upon the commencement of all leases except for short-term leases. The lease obligation is to be measured on a discounted basis. The ASU requires a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest period presented in the 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 ended December 31, 2017, a non-current right of use asset of approximately $2,447,000 and a corresponding current and non-current lease liability of $422,000 and $2,025,000 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 4.69% representing the Association's estimated incremental borrowing rate (see Note 6).

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.

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 23, 2018 which is the date the consolidated financial statements were available to be issued.

(2) Association financial condition and management's plans

In 2016 and 2017, the Association embarked on a series of both financial and operational restructuring activities in its efforts to strengthen both the financial condition of the organization, as well as reverse a trend of declining revenue. The Association successfully refinanced its long-term debt in 2016, and further modified this debt structure in March of 2018 by reducing the note interest rate on both long-term bank loans and extending the maturity schedule of this liability. The net result was a reduction in debt service of $70,000 annually. In 2017, the Association implemented a series of organizational restructuring efforts designed to streamline headcount and rationalize its branch structure in its efforts to reverse a multi-year decline in operating revenue. While the Association experienced a decline in net assets of $3,322,807, and a working capital ratio less than 1.0 in 2017, Management is working to stabilize and grow its operating revenue from the prior downward trend. 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 was 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. Required reserves, including a debt reserve ($757,186 as of December 31, 2017) to fund debt service in the event of default, were established in 2016 and implementation of strategic initiatives have begun. The Association raised the $5,000,000 campaign goal. As of December 31, 2017, $940,235 of cash collections from the campaign have been reserved in a board designated account which can only be used by the Association for purposes as determined by the board. In addition to the goals and reserves described above, should the need arise for additional liquidity, the Association would consider the liquidation of assets to fund debt service and operational needs. However, there can be no assurance that such plans will be sufficient to meet the long-term goals of the Association.

(3) Pledges receivable

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

	2017	2016
Pledges receivable before unamortized discount and allowance for uncollectible pledges	$ 312,061	$ 1,036,352
Less unamortized discount using rate of 5.28%	(9,779)	(25,712)
	302,282	1,010,640
Less allowance for uncollectible pledges	(37,000)	(38,832)
Pledges receivable, net	$ 265,282	$ 971,808
Amounts due in:		
Less than one year	$ 173,000	$ 819,710
One to five years	139,061	216,642
Total	$ 312,061	$ 1,036,352

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. During the year ended December 31, 2017, the Association raised the full cumulative $5 million of contributions and the operating funds were released from lender restrictions.

(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, 2017:

	Cost	Market	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income – bond funds	$ 449,353	$ 446,273	$ 446,273	$ -	$ -
Government bond fund	9,147	5,601	5,601	-	-
Money market funds	126,793	126,793	126,793	-	-
Commodities	50,121	36,978	36,978	-	-
Equity mutual funds:					
International	134,007	150,131	150,131	-	-
World allocation	116,336	124,721	124,721	-	-
Large growth/blend funds	300,846	339,530	339,530	-	-
Large value funds	130,452	134,174	134,174	-	-
Long-short funds	28,885	33,287	33,287	-	-
Total investments	$ 1,345,940	$ 1,397,488	$ 1,397,488	$ -	$ -

The following table presents assets and liabilities measure at fair value by classification within the fair value hierarchy as of December 31, 2016:

	Cost	Market	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income – bond funds	$ 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	22,516	24,562	24,562	-	-
Total investments	$ 1,697,380	$ 1,669,694	$ 1,669,694	$ -	$ -

Expenses relating to investment revenues, including custodial fees and investment advisory fees of approximately $9,000 for 2017 and $8,000 for 2016 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 consists of the following at December 31:

	2017	2016
Land	$ 7,673,118	$ 7,673,118
Buildings and building improvements	83,559,562	83,247,933
Equipment	26,731,251	26,469,600
Total	117,963,931	117,390,651
Less accumulated depreciation and amortization	(75,280,970)	(72,049,801)
Total	42,682,961	45,340,850
Construction in process	623,943	1,385,728
Total property and equipment, net	$ 43,306,904	$ 46,726,578

Depreciation and amortization expense on property and equipment was $4,453,130 for 2017 and $4,542,788 for 2016, respectively, which includes amortization expense on assets held under capital leases.

Construction in process at December 31, 2017 and 2016 consisted of renovations and improvements to several branches and renovations and improvements to Sky-Y Camp as of December 31, 2017. 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, 2017 and 2016, 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 $2,712,657 and $2,386,447 as of December 31, 2017 and 2016, respectively. Accumulated amortization related to these leased assets totaled $1,109,671 and $776,597 as of December 31, 2017 and 2016, respectively.

(6) Bank loan

Debt restructuring

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	(18,250,000)
Gain on extinguishment of debt	$ 16,014,664

(6) Bank loan (continued)

In February 2016, 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 as described above. The loan consists 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 (6.14% at December 31, 2017).

Total debt outstanding on the loan agreement with KS State Bank was $17,755,417 and $18,041,231 as of December 31, 2017 and 2016 respectively, which is reported net of unamortized debt issuance costs of $161,331 and $168,296 in the accompanying consolidated statement of financial position.

On March 1, 2018, the association executed the First Amendment to the Loan and Security Agreement with KS State Bank. The terms of the amendment advanced funds under Term Loan A and applied the funds to a reduction in the outstanding principal amount of Term Loan B, extended the maturity dates of Term Loan A and Term Loan B and modified the interest rates of both Term Loan A and Term Loan B. The amendment increased the principal amount of Term Loan A to $15,000,000 and decreased the principal amount of Term Loan B to $2,707,536. The maturity date of Term Loan A was extended to February 10, 2043, structured as a 25 year fully amortizing loan with a fixed interest rate of 4.74% per year until February 1, 2023. Beginning February 1, 2023, the interest rate will be adjusted annually on February 1 thereafter using the rate of the *Wall Street Journal* one-year Treasury Constant Maturities rate plus 3.50% or 4.74% with payments due monthly. The maturity date of Term Loan B was extended to February 10, 2022 with a fixed annual interest rate of 4.59% with interest payments due monthly. The amendment also reduced the Debt Service Reserve requirement from $750,000 to $500,000.

Future maturities of the debt and obligations under the First Amendment are as follows:

Years Ending December 31,	
2018	$ 353,653
2019	333,078
2020	349,213
2021	366,131
2022	3,091,403
Thereafter	13,260,378
Total	$ 17,753,856

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, which was subsequently reduced as described above, 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.

(7) Equipment loans payable

Equipment loans as of December 31 were:

	2017	2016
Loan agreement with Ally Financial; original amount of $23,274; payable in monthly installments of $437, including interest at 4.69%, through September 2022; secured by vehicle.	$ 22,229	$ -
Loan agreement with Ally Financial; original amount of $42,050; payable in monthly installments of $789, including interest at 4.69%, through September 2022; secured by vehicle.	40,164	-
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.	706,962	897,831
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. The agreement matured on March 2018 and was paid off in full.	12,684	88,084
Loan equipment agreement with Kansas State Bank; original amount of $61,308; payable in monthly installments of $1,144, including interest at 5.21%, secured by equipment. The agreement matured on February 2018 and was paid off in full.	2,275	15,570
Loan agreement with John Deere Finance; original amount of $52,699; payable in monthly installments of $627 including interest at 0%, through September 2024; secured by equipment.	50,817	-
Loan equipment agreement with Kansas State Bank; original amount of $41,979; payable in monthly installments of $798, including interest at 5.30%, through September 2022; secured by equipment.	40,133	-
Total	875,264	1,001,485
Less current maturities	(240,317)	(292,248)
Long-term maturities of equipment loans payable	$ 634,947	$ 709,237

Future maturities of equipment loans payable are as follows:

Years Ending December 31,	
2018	$ 240,317
2019	233,915
2020	242,812
2021	119,831
2022	25,214
Thereafter	13,175
Total annual maturities	$ 875,264

(8) Forgivable loans

Forgivable loans as of December 31 consist of the following:

	2017	2016
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.	$ 1,920,000	$ 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
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.	173,320	186,660
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	2,151,320	2,266,060
Less unamortized present value discount	(839,417)	(885,927)
Total forgivable loans	$ 1,311,903	$ 1,382,133

Future maturities of forgivable loans are as follows:

Years Ending December 31,	
2018	$ 151,340
2019	93,340
2020	93,340
2021	93,340
2022	93,340
Thereafter	1,626,620
Total	$ 2,151,320

(9) Capital lease obligations

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

	2017	2016
Capital lease obligation payable to Key Equipment Finance; original amount of $331,353; payable in monthly installments of $6,842 with a balloon payment of $39,978, including interest at 3.99% through January 2022, secured by equipment.	$ 331,353	$ -
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.	133,067	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
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.	3,090	8,910
Capital lease obligation payable to TCF Equipment Leasing; original amount of $33,791; payable in monthly installments of $1,123 including interest at 6.05% through November 2020, secured by equipment.	33,791	-
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.	15,017	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.	98,524	148,878
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.	78,357	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.	21,352	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

(9) Capital lease obligations (continued)

	2017	2016
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.	69,257	91,836
Total	783,808	681,214
Less current maturities	(293,175)	(262,550)
Long-term maturities of capital lease obligations	$ 490,633	$ 418,664

Future minimum capital lease payments are as follows:

Years Ending December 31,	
2018	$ 316,764
2019	228,364
2020	141,068
2021	108,609
2022	42,186
Total minimum lease payments	836,991
Less amount representing interest	(53,183)
Present value of minimum lease payments	$ 783,808

(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:

Years Ending December 31,	
2018	$ 422,196
2019	401,607
2020	387,585
2021	369,454
2022	343,096
Thereafter	999,000
Total	$ 2,922,938

Rent expense totaled $505,016 for the year ended December 31, 2017 and $665,953 for the year ended December 31, 2016. 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 2018.

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 2033. 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 $171,719 for 2017 and $202,638 for 2016.

(10) Lease commitments (continued)

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, 2017 and 2016, the Association recognized $31,894 and $31,984 of amortization on these receivables, respectively. As of December 31, 2017 and 2016, the unamortized balance of these donated land lease receivables totaled $677,577 and $709,471, respectively.

(11) Permanently and temporarily restricted net assets

Permanently restricted net assets of December 31, 2017 and 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	162,260
Total	$ 4,330,369

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, 2017:

Program restriction	$ 689,059
Capital campaign restrictions:	
Cash and cash equivalents	147,248
Pledges receivable	82,061
Total capital campaign restrictions	$ 229,309

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

Time restriction:	
Interest contribution on forgivable loans	847,356
Pledges receivable	183,221
Donated land leases	677,577
Land required to be used as a branch facility	350,100
Total time restricted	$ 2,058,254
Total temporarily restricted net assets	$ 2,976,622

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	$ 668,674
Capital campaign restrictions:	
Cash and cash equivalents	118,248
Pledges receivable	35,000
Total capital campaign restrictions	$ 153,248
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	350,100
Total time restricted	$ 2,882,306
Total temporarily restricted net assets	$ 3,704,228

(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:

	2017	2016
Satisfaction of program restrictions:		
Youth Values program expense	$ 155,774	$ 114,645
Healthy Living program expense	25,949	73,061
Child Care program expense	149,512	117,211
Summer Day Camp program expense	3,816	5,800
Juvenile Justice program expense	59,647	41,064
Resident Camp	900	400
Member Services	3,760	200
Total satisfaction of program restrictions	$ 399,358	$ 352,381
Satisfaction of purpose restriction:		
Youth Values	69,754	49,461
Healthy Living	3,096	22,837
Child Care	39,085	29,743
Summer Day Camp	40,498	26,492
Juvenile Justice	16,599	7,300
Resident Camp	16,201	75
Member Services	1,520	1,575
Total satisfaction of purpose restrictions	$ 186,753	$ 137,483
Expiration of time restrictions	$ 833,037	$ 93,596
Satisfaction of capital acquisition restrictions	$ 26,000	$ 29,133

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.

(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:

(13) Endowment (continued)

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, 2017 were as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ -	$ 636,385	$ 636,385
Board-designated endowment funds	522,258	-	522,258
Total funds	$ 522,258	$ 636,385	$ 1,158,643

The changes in endowment net assets for the year ended December 31, 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 389,911	$ -	$ 636,385	$ 1,026,296
Investment return:				
Investment income	47,194	26,139	-	73,333
Net appreciation (realized and unrealized)	32,483	33,810	-	66,293
Other changes:				
Investment fees	(7,279)	-	-	(7,279)
Appropriation of assets for expenditures	59,949	(59,949)	-	-
Endowment net assets, end of year	$ 522,258	$ -	$ 636,385	$ 1,158,643

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

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

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

(13) Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 609,918	$ -	$ 636,385	$ 1,246,303
Investment return:				
Investment income	18,919	19,692	-	38,611
Net depreciation (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	(250,000)	(22,080)	-	(272,080)
Endowment net assets, end of year	$ 389,911	$ -	$ 636,385	$ 1,026,296

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 31st 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. As discussed in Note 6, subsequent to the end of the year, the debt reserve requirement by KS State Bank was reduced by $250,000, and these funds were returned to the endowment fund. 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.

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 2017 and 2016 aggregated $570,621 and $548,987, 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 2017 and 2016 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 $168,346 and $156,924 at December 31, 2017 and 2016, 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 2017 and 2016 was not sufficient to cover the required payments to the beneficiary. The investment's market value was $45,861 and $56,651 at December 31, 2017 and 2016, 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 2017 and 2016 totaled $18,560 and $18,644, 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 two and four pledge receivables accounting for approximately 85% and 89% of the total gross pledges receivable as of December 31, 2017 and 2016, 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, 2017 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.

(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 $103,300 for the year ended December 31, 2017 and $111,500 for the year ended December 31, 2016, respectively. The total amount paid for construction services approximated $0 for the years ended December 31, 2017 and 2016.

As of December 31, 2017, the Association had $130,174 in commitments on uncompleted construction contracts.

The Association paid annual dues payments to the National YMCA Fund Incorporation which totaled $440,058 and $404,596 for the years ended December 31, 2017 and December 31, 2016, respectively. As of December 31, accrued unpaid dues were approximately $439,832 and $489,832 for the years ended 2017 and 2016, 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,		
2018	$	150,000
2019		150,000
2020		139,832
Total	$	439,832

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. The Association has assigned its rights to any Owner Revenue to US Bank. The terms of the assignment are active and ongoing through December 31, 2017.

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, 2017

Federal Grantor / Pass-Through Agency / Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Pass through City of Phoenix			
Community Development Block Grant - Ahwatukee - Y OPAS	14.218	131813	$ 13,667
Total U.S. Department of Housing and Urban Development			13,667
U.S. Department of Justice - Office of Juvenile Justice and Delinquency Prevention			
Pass through YMCA of the USA			
Juvenile Mentoring Program - Reach & Rise	16.726	None	35,207
Juvenile Mentoring Program - Reach & Rise - Enhancement	16.726	None	22,365
Total U.S. Department of Justice - Office of Juvenile Justice and Delinquency Prevention			57,572
U.S. Department of Labor			
Pass through City of Phoenix			
Workforce Investment and Opportunity Act (WIOA) - Youth Activities	17.259	123797-007	1,321,540
Total U.S. Department of Labor			1,321,540
U.S. Department of Health and Human Services			
Pass through Substance Abuse and Mental Health Services Administration			
Pass through Cenpatico Integrated Care			
Block Grants for Prevention and Treatment of Substance Abuse	93.959		101,492
Total U.S. Department of Health and Human Services			101,492
U.S. Department of Education			
Pass through the State of Arizona			
Preschool Development	84.419		53,560
Total U.S. Department of Education			53,560
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,547,831

See Independent Auditors' Report
See Notes to Schedule of Expenditures of Federal Awards

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2017

(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, 2017. 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, 2017.

(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 2017 *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, 2017, 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 23, 2018.

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.

Mayer Hoffman McCann P.C.

April 23, 2018

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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 U.S. Office of Management and Budget ("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, 2017. ***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, 2017.

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.

Mayer Hoffman McCann P.C.

April 23, 2018

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2017

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 that are not considered to be material weaknesses?	None reported
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 that are not considered to be material weaknesses?	None reported
2. Type of auditors' report issued on compliance for major programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
4. Identification of major programs:	

CFDA Number	Name of Federal Program or Cluster
17.259	Workforce Investment 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?	Yes

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2017

Section II – Financial Statement Findings

None

Section III – Federal Awards Findings and Questioned Costs

None

FOR YOUTH DEVELOPMENT
FOR HEALTHY LIVING
FOR SOCIAL RESPONSIBILITY

Corrective Action Plan and Summary Schedule of Prior Audit Findings

Section V – Corrective Action Plan

None

Summary Schedule of Prior Audit Findings

Item:	**2016-001**
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:	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.
Current Status:	Effective May 1, 2017, corrective action taken.

VALLEY OF THE SUN YMCA
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