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

CONSOLIDATED FINANCIAL STATEMENTS AND UNIFORM GUIDANCE SUPPLEMENTAL REPORTS

Year Ended December 31, 2018
(with comparative totals for the year ended December 31, 2017)

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

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

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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, 2018, 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, 2018, 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 Affiliates'*** 2017 consolidated financial statements, and our report dated April 23, 2018, 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, 2017, 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 26, 2019 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, ***Valley of the Sun Young Men's Christian Association and Affiliates*** adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2018. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

April 26, 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2018
(with comparative totals at December 31, 2017)

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 120,183	$ 182,512
Accounts receivable, net	834,372	716,027
Merchandise inventories	81,950	89,665
Prepaid expenses	254,147	225,575
TOTAL CURRENT ASSETS	1,290,652	1,213,779
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT		
Cash and cash equivalents	82,334	147,248
Pledges receivable, net	-	82,061
TOTAL ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	82,334	229,309
REINVEST CAMPAIGN		
Cash and cash equivalents	110,000	940,235
Pledges receivable, net	82,976	183,221
TOTAL REINVEST CAMPAIGN	192,976	1,123,456
INVESTMENTS	1,632,417	1,397,488
PROPERTY AND EQUIPMENT, net	40,075,638	43,306,904
ASSETS WHOSE USE IS LIMITED	518,800	774,885
UNAMORTIZED DONATED LAND LEASE RECEIVABLE	637,238	677,577
TOTAL ASSETS	$ 44,430,055	$ 48,723,398

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2018
(with comparative totals at December 31, 2017)

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts payable	$ 963,462	$ 761,924
Accrued expenses	765,625	727,367
Custodian accounts	29,407	46,097
Deferred revenue	679,621	773,873
Current portion of deferred revenue from cell tower lease assignments	16,200	16,200
Current maturities of annual dues accrued	150,000	150,000
Current maturities of capital lease obligations	217,500	293,175
Current maturities of equipment loans	272,312	240,317
Current maturities of bank loan	331,272	353,653
Current maturities of forgivable loans	132,007	151,340
Current maturities of deferred rent	46,000	58,962
TOTAL CURRENT LIABILITIES	3,603,406	3,572,908
DEFERRED REVENUE FROM CELL TOWER LEASE ASSIGNMENTS, less current maturities	700,650	716,850
ANNUAL DUES ACCRUED, less current maturities	139,832	289,832
CAPITAL LEASE OBLIGATIONS, less current maturities	289,078	490,633
EQUIPMENT LOANS, less current maturities	440,400	634,947
FORGIVABLE LOANS, less current maturities	1,113,028	1,160,563
BANK LOAN, less current maturities	14,242,098	17,240,433
DEFERRED RENT, less current maturities	164,891	195,512
TOTAL LIABILITIES	20,693,383	24,301,678
NET ASSETS		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Board designated	837,000	1,462,493
Undesignated	15,836,824	15,652,236
NET ASSETS WITHOUT DONOR RESTRICTIONS	16,673,824	17,114,729
NET ASSETS WITH DONOR RESTRICTIONS	7,062,848	7,306,991
TOTAL NET ASSETS	23,736,672	24,421,720
TOTAL LIABILITIES AND NET ASSETS	$ 44,430,055	$ 48,723,398

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2018
(with comparative totals for the year ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	Totals 2018	Totals 2017
SUPPORT AND REVENUES				
Contributions	$ 3,291,148	$ 1,159,195	$ 4,450,343	$ 3,702,542
United Way allocations	423,808	13,000	436,808	566,083
Government grants	2,282,194	3,000	2,285,194	2,028,626
Membership dues	15,325,094	-	15,325,094	15,159,939
Program fees	8,101,485	-	8,101,485	7,978,242
Use of YMCA facilities	239,002	-	239,002	271,856
Sales to members	62,708	-	62,708	73,633
Investment income	45,058	36,750	81,808	73,255
Miscellaneous	327,343	-	327,343	382,426
Net assets released from restrictions:				
Satisfaction of program restrictions	409,253	(409,253)	-	-
Satisfaction of capital acquisition restrictions	110,000	(110,000)	-	-
Satisfaction of purpose restrictions	271,691	(271,691)	-	-
Expiration of time restrictions	591,685	(591,685)	-	-
TOTAL REVENUE AND OTHER SUPPORT	31,480,469	(170,684)	31,309,785	30,236,602
EXPENSES				
Healthy living	16,058,682	-	16,058,682	16,722,800
Youth values	5,112,637	-	5,112,637	4,574,462
Child care	3,097,106	-	3,097,106	3,040,922
Summer day camp	1,506,623	-	1,506,623	1,406,081
Juvenile justice	1,726,250	-	1,726,250	1,807,158
Resident camp	1,236,285	-	1,236,285	1,252,988
Member services	731,455	-	731,455	634,408
Management and general	3,918,351	-	3,918,351	3,672,952
Fund raising	770,879	-	770,879	569,156
TOTAL EXPENSES	34,158,268	-	34,158,268	33,680,927
GAINS				
Realized and unrealized gains (losses) on investments	(90,212)	(73,459)	(163,671)	78,160
Gain on sale of assets	2,327,106	-	2,327,106	41,525
Gain on uncollectible pledges	-	-	-	1,833
TOTAL GAINS	2,236,894	(73,459)	2,163,435	121,518
CHANGE IN NET ASSETS	(440,905)	(244,143)	(685,048)	(3,322,807)
NET ASSETS, BEGINNING OF YEAR	17,114,729	7,306,991	24,421,720	27,744,527
NET ASSETS, END OF YEAR	$ 16,673,824	$ 7,062,848	$ 23,736,672	$ 24,421,720

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018
(with comparative totals for the year ended December 31, 2017)

	Healthy Living	Youth Values	Child Care	Summer Day Camp	Juvenile Justice	Resident Camp	Member Services	Total Programs	Management and General	Fund Raising	Totals 2018	Totals 2017
Salaries	$ 5,796,369	$ 2,468,141	$ 1,530,103	$ 645,045	$ 1,046,987	$ 504,263	$ 189,261	$ 12,180,169	$ 2,089,626	$ 475,131	$ 14,744,926	$ 14,195,335
Employee benefits	402,535	179,786	125,116	44,399	123,126	30,906	26,506	932,374	282,945	48,949	1,264,268	1,037,175
Payroll taxes	514,133	218,110	134,603	57,565	89,581	43,931	16,565	1,074,488	164,471	40,183	1,279,142	1,212,759
				-								
Total salaries and related expenses	6,713,037	2,866,037	1,789,822	747,009	1,259,694	579,100	232,332	14,187,031	2,537,042	564,263	17,288,336	16,445,269
Professional fees	677,348	355,733	24,046	15,547	110,322	41,839	66,247	1,291,082	685,446	83,066	2,059,594	2,022,034
Supplies	440,239	501,931	136,955	109,562	13,603	218,966	37,027	1,458,283	35,297	60,618	1,554,198	1,628,143
Telephone	193,350	39,109	33,471	18,749	2,195	18,524	25,819	331,217	95,192	-	426,409	497,364
Postage	3,503	495	430	514	10	8,496	107	13,555	5,140	1,556	20,251	27,181
Occupancy	2,821,977	710,958	398,318	252,406	59,274	157,623	168,405	4,568,961	293,956	2,398	4,865,315	5,087,003
Printing and publications	471,777	89,897	35,139	37,915	4,818	51,503	13,160	704,209	41,497	28,317	774,023	579,179
Travel	135,130	76,454	91,010	43,060	17,884	36,250	6,020	405,808	157,925	13,238	576,971	562,069
Conferences and conventions	13,872	13,755	5,953	1,144	5,208	422	517	40,871	36,985	10,556	88,412	108,527
National dues	239,317	55,916	30,590	21,994	19,444	16,603	9,275	393,139	(4,757)	2,002	390,384	390,058
Miscellaneous expenses	378,870	105,051	23,407	69,174	160,696	27,959	16,177	781,334	13,894	4,865	800,093	851,899
Interest expense	644,827	121,849	93,254	59,103	-	159	26,956	946,148	6,261	-	952,409	1,023,638
Property taxes	643	129	98	62	-	306	29	1,267	14,473	-	15,740	5,433
Total before depreciation and amortization	12,733,890	4,937,314	2,662,493	1,376,239	1,653,148	1,157,750	602,071	25,122,905	3,918,351	770,879	29,812,135	29,227,797
Depreciation and amortization	3,324,792	175,323	434,613	130,384	73,102	78,535	129,384	4,346,133	-	-	4,346,133	4,453,130
Total functional expenses	$ 16,058,682	$ 5,112,637	$ 3,097,106	$ 1,506,623	$ 1,726,250	$ 1,236,285	$ 731,455	$ 29,469,038	$ 3,918,351	$ 770,879	$ 34,158,268	$ 33,680,927

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2018
(with comparative totals for the year December 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (685,048)	$ (3,322,807)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Change in discounts on pledges receivable	(9,755)	(15,933)
Gain on uncollectible pledges	-	(1,833)
Depreciation and amortization	4,346,133	4,453,130
Amortization of donated land lease receivable	(346,802)	31,894
Amortization of forgivable loan interest	45,805	46,510
Amortization of deferred financing costs	6,964	6,965
Loan principal forgiven	(93,340)	(116,740)
Realized and unrealized gains (losses) on investments	163,671	(78,160)
Gain on sale of property and equipment	(2,327,106)	(41,525)
Contribution gain on land agreement	(320,859)	-
Contributions restricted for capital investment	-	(110,000)
Contributions restricted for long term investment	(100,000)	-
Donated property and equipment	(113,287)	(102,364)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(118,345)	(51,984)
Pledges receivable	-	763,833
Merchandise inventories	7,715	29,065
Prepaid expenses	(28,572)	(62,570)
Board designated cash	830,235	(940,235)
Increase (decrease) in:		
Accounts payable	201,538	(512,983)
Accrued expenses	38,258	46,318
Annual dues accrued	(150,000)	(50,000)
Custodian accounts	(16,690)	16,818
Deferred rent	(43,583)	(18,034)
Deferred revenue	(94,252)	128,416
Deferred revenue from cell tower lease assignments	(16,200)	(16,200)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,176,480	81,581
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	546,739	804,553
Proceeds from the sale of property and equipment	3,087,394	57,050
Purchases of investments	(845,339)	(454,187)
Change in assets whose use is limited	256,085	603,174
Change in restricted cash	64,914	(29,000)
Purchases of property and equipment	(926,478)	(421,473)
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,183,315	560,117
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital pledges	192,061	70,459
Principal payments on bank loan	(3,027,680)	(285,814)
Principal payments on short term debt	(19,333)	-
Principal payments on equipment loans	(267,648)	(286,223)
Principal payments under capital lease obligations	(299,524)	(262,548)
NET CASH USED IN FINANCING ACTIVITIES	(3,422,124)	(764,126)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(62,329)	(122,428)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	182,512	304,940
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 120,183	$ 182,512
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 906,603	$ 977,131
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired through equipment loans	$ 105,097	$ 160,002
Equipment acquired through capital lease agreements	$ 22,293	$ 365,142
Purchases of property and equipment included within accounts payable	$ 23,041	$ -

(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*, including the adoption of Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit-Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities* in 2018. Under FASB ASC 958-205, the Association is required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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:

Net assets without donor restrictions
Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Association's management and the board of directors.

Net assets with donor restrictions
Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets.

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, 2017 from which the summarized information was derived.

Management's 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").

Accounts receivable – Accounts receivable 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, 2018 and 2017, the allowance was $186,968 and $106,087, 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 net realizable value.

Assets whose use is limited – As of December 31, 2018 and 2017, the Association had $518,800 and $774,885, respectively, on deposit in control accounts established as part of the debt restructuring described in Note 6 with a lender. As of December 31, 2018 and 2017, the cash balance is comprised of $510,205 and $757,186 as a Debt Service Reserve and $8,595 and $17,699 as a Deferred Maintenance Reserve, respectively.

(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, net of investment fees) is included in net assets without restriction 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, 2018 and 2017.

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 2018 or 2017.

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 contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor restrictions. All contributions with donor restrictions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 contributions without donor restrictions. Additionally, contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of net assets without donor restrictions 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 net assets with donor restrictions 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 directly attributable to a specific functional area of the Association are reported as expenses of those functional areas while indirect costs that benefit multiple areas have been allocated among the various functional areas based on the time and effort incurred or square footage assigned. The expenses that are allocated include depreciation, interest, branch expenses and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

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.

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

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.

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.

Advertising – Advertising costs are expensed as incurred. Advertising expenses totaled $606,291 and $482,372 for the years ended December 31, 2018 and 2017, 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, 2018 or 2017.

The federal and state tax returns of the Association for 2015, 2016 and 2017 are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed. The 2018 returns have not yet been filed as of the date of this report.

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.

(1) <u>Operations and summary of significant accounting policies (continued)</u>

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 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, 2018, a non-current right of use asset of approximately $3,247,000 and a corresponding current and non-current lease liability of $403,000 and $2,844,000 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 risk-free rate of 2.69%.

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 June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the scope and accounting guidance for contributions received and contributions made. ASU 2018-08 clarifies the characterization of grants and similar contracts with governmental agencies as either reciprocal transactions (exchanges) or nonreciprocal transactions (contributions). ASU 2018-08 also provided additional guidance to distinguish between conditional and unconditional contributions. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Association is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

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. Certain amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. The Association adopted ASU 2016-14 in 2018.

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

In accordance with the amendments of this ASU, the Association expanded disclosures around the presentation of expenses by function and nature. Additionally, the Association disclosed and elected not to present comparative information around the liquidity and availability of resources (Note 20).

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 is as follows:

	ASU 2016-14 Classifications		
Net Asset Classifications	Without donor restrictions	With donor restrictions	Total Net Assets
As previously reported:			
Unrestricted	$ 17,114,729	$ -	$ 17,114,729
Temporarily Restricted	-	2,976,622	2,976,622
Permanently Restricted	-	4,330,369	4,330,369
Net assets, as reclassified	$ 17,114,729	$ 7,306,991	$ 24,421,720

Subsequent events – The Association has evaluated subsequent events through April 26, 2019 which is the date the consolidated financial statements were available to be issued.

(2) Association liquidity and management's plans

In 2018, the Association continued on a path of both financial and operational restructuring activities in its efforts to strengthen both the financial condition of the Association, 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 December of 2018, the Association sold its property located at 207 N Mesa Drive in Mesa. A portion of the proceeds from the sale were used to pay off the $2,707,536 B note with the remaining cash available to meet short and long term needs of the Association. The net result of the sale was a reduction in debt service of $128,000 annually and the elimination of annual branch operating losses of $130,000 annually. Additionally, during 2018, the Association renegotiated several operating agreements that will result in $135,000 annually in increased revenues and decreased expenses. During 2018, the Association continued the implementation of a series of organizational restructuring efforts designed to streamline and redirect headcount, increase revenues and improve its operating net. While the Association experienced a decline in net assets of $685,048, and a working capital ratio less than 1.0 in 2018, Management is confident that its restructuring efforts from an operational and asset deployment standpoint will move it closer to its financial goals. The financial goals of the Association are to generate cash sufficient to fund operations and restore liquidity, reduce the amount of debt on the consolidated statement of financial position and rebuild the Association's net assets. Cash and current pledges receivable from the 'Reinvest in the Y' campaign available for use by the Association with board approval equal $193,000. Required debt service reserves to fund debt service in the event of default, were reduced in 2018 by $250,000 to $500,000. The $250,000 was returned to the endowment fund as net assets without donor restrictions designated 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.

(2) Association liquidity and management's plans (continued)

The Association's cash flows include a stable monthly component from membership dues and a seasonal component with variations during the year attributable to program offerings and contributions received in the first half of the calendar and fiscal year. The Association's financial asset structure combined with its monthly and seasonal cash flows provide liquidity for its general expenditures, liabilities and other obligations as they come due. The Association also invests cash in excess of weekly requirements in short term investments. In addition, program purpose restrictions for 95% of the $713,650 restricted by donors for program purpose restrictions will be met during 2019. While the Association does not intend to spend board designated Reinvest in the Y and quasi-endowment funds or required bank reserves for purposes other than those for which they are intended, the amounts could be made temporarily available for current operations or debt service with board and/or lender approval if necessary.

(3) Pledges receivable

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

	2018	2017
Pledges receivable before unamortized discount and allowance for uncollectible pledges	$ 119,976	$ 312,061
Less unamortized discount using rate of 5.28%	-	(9,779)
	119,976	302,282
Less allowance for uncollectible pledges	(37,000)	(37,000)
Pledges receivable, net	82,976	$ 265,282
Amounts due in:		
Less than one year	$ 119,976	$ 173,000
One to five years	-	139,061
Total	119,976	$ 312,061

Included in pledges receivable are pledges for the Reinvest in the Y campaign which are funds designated 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 consent of the Association's Board of Directors. See Note 11.

(4) Investments and fair value measurements

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of December 31, 2018:

	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	$ 604,968	$ 582,165	$ 582,165	$ -	$ -
Money market funds	104,493	89,378	89,378	-	-
Equity mutual funds:					
International	186,950	166,731	166,731	-	-
World allocation	130,195	119,530	119,530	-	-
Large growth/blend funds	366,922	358,073	358,073	-	-
Large value funds	188,923	161,077	161,077	-	-
Long-short funds	53,519	155,463	155,463	-	-
Total investments	$ 1,628,970	$ 1,632,417	$ 1,632,417	$ -	$ -

The following table presents assets and liabilities measured 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	-	-
Common stock	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	$ -	$ -

(5) Property and equipment

Property and equipment consists of the following at December 31:

	2018	2017
Land	$ 8,471,600	$ 7,673,118
Buildings and building improvements	79,634,879	83,559,562
Equipment	25,442,332	26,731,251
Total	113,548,811	117,963,931
Less accumulated depreciation and amortization	(73,919,816)	(75,280,970)
Total	39,628,995	42,682,961
Construction in process	446,643	623,943
Total property and equipment, net	$ 40,075,638	$ 43,306,904

The Association executed the sale of its Mesa property located at 207 N Mesa Drive on December 18, 2018. The sale of the property generated net cash proceeds of $3,087,394, of which $2,710,643 of the cash proceeds were applied to debt reduction, including interest and principal, of Term Loan B (Note 6). The Association recognized a gain on the sale of assets of $2,327,106, which is included in gain on sale of assets in the consolidated statement of activities and changes in net assets.

Depreciation and amortization expense on property and equipment was $4,346,133 for 2018 and $4,453,130 for 2017, respectively, which includes amortization expense on assets held under capital leases.

Construction in process at December 31, 2018 and 2017 consisted of renovations and improvements to several branches. 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, 2018 and 2017, 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 $2,840,047 and $2,712,657 as of December 31, 2018 and 2017 respectively. Accumulated amortization related to these leased assets totaled $1,754,549 and $1,109,671 as of December 31, 2018 and 2017, respectively.

(6) Bank loan

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 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).

(6) Bank loan (continued)

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 (4.74% at December 31, 2018). 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.

On December 18, 2018, the Association paid the principal amount of $2,707,536 of Term Loan B, plus accrued interest of $3,107, thereby extinguishing the Loan B portion of the debt.

Total debt outstanding on the loan agreement with KS State Bank was $14,727,737 and $17,755,417 as of December 31, 2018 and 2017 respectively, which is reported net of unamortized debt issuance costs of $154,367 and $161,331, respectively, in the accompanying consolidated statements of financial position.

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

Years Ending December 31,	
2019	331,272
2020	349,214
2021	366,131
2022	383,267
2023	402,463
Thereafter	12,895,390
Total	$ 14,727,737

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 reduced to $500,000 in 2018 as described previously, 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 12 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:

	2018	2017
Loan equipment 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.	$ 17,943	$ 22,229
Loan equipment 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.	32,418	40,164
Loan equipment agreement with KS 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.	508,805	706,962
Loan equipment agreement with KS State Bank; original amount of $96,221; payable in monthly installments of $2,912, including interest at 5.64%, through February 2021; secured by equipment.	71,101	-
Loan equipment agreement with Wells Fargo Equipment Finance; original amount of $8,875; payable in monthly installments of $740, including interest at 4.30%, through October 2019; secured by equipment.	6,656	-
Loan equipment agreement with KS 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
Loan equipment agreement with KS 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
Loan equipment 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.	43,288	50,817
Loan equipment agreement with KS State Bank; original amount of $41,979; payable in monthly installments of $798, including interest at 5.30%, through September 2022; secured by equipment.	32,501	40,133
Total	712,712	875,264
Less current maturities	(272,312)	(240,317)
Long-term maturities of equipment loans payable	$ 440,400	$ 634,947

(7) Equipment loans payable (continued)

Future maturities of equipment loans payable are as follows:

Years Ending December 31,	
2019	272,312
2020	276,390
2021	125,614
2022	25,222
2023	7,528
Thereafter	5,646
Total annual maturities	$ 712,712

(8) Forgivable loans

Forgivable loans as of December 31 consist of the following:

	2018	2017
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.	$ 1,840,000	$ 1,920,000
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.	159,980	173,320
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.	38,667	58,000
Total	2,038,647	2,151,320
Less unamortized present value discount	(793,612)	(839,417)
Total forgivable loans	$ 1,245,035	$ 1,311,903

Future maturities of forgivable loans are as follows:

Years Ending December 31,	
2019	132,007
2020	93,340
2021	93,340
2022	93,340
2023	93,340
Thereafter	1,533,280
Total	$ 2,038,647

(9) Capital lease obligations

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

	2018	2017
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.	$ 261,193	$ 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.	26,231	133,067
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
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.	23,300	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.	6,037	15,017
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.	45,842	98,524
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.	60,332	78,357
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.	16,441	21,352
Capital lease obligation payable to Key Equipment Finance; original amount of $22,293; payable in monthly installments of $516 including interest at 4.25% through November 2022, secured by equipment.	21,866	-

(9) Capital lease obligations (continued)

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.	45,336	69,257
Total	506,578	783,808
Less current maturities	(217,500)	(293,175)
Long-term maturities of capital lease obligations	$ 289,078	$ 490,633

Future minimum capital lease payments are as follows:

Years Ending December 31,	
2019	229,970
2020	129,496
2021	114,800
2022	61,902
Total minimum lease payments	536,168
Less amount representing interest	(29,590)
Present value of minimum lease payments	$ 506,578

(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,	
2019	415,542
2020	399,022
2021	373,725
2022	344,815
2023	336,000
Thereafter	1,777,500
Total	$ 3,645,604

Rent expense totaled $457,389 for the year ended December 31, 2018 and $505,016 for the year ended December 31, 2017. 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 2019.

The Association has entered into solar power system leases at fourteen of its locations. The leases contain twenty year non-cancelable 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 $178,197 for 2018 and $171,719 for 2017.

(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 cancelable under certain conditions after the fourth year and the non-cancelable 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. An addendum was executed in 2018 which extended the rent reduction for four twelve month terms and removed the certain conditions from the original lease agreement. 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. Included in contributions for the year ended December 31, 2018 is approximately $400,000 relating to the rent reductions to be received through December 2022. As of December 31, 2018, the unamortized balance of the lease of $368,320 is included under donated land lease receivables in the accompanying consolidated statement of financial position.

On December 31, 2017 the Association also leased 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. On November 14, 2018, the Association entered into an agreement to exchange the termination of the land lease at the Glendale location for the donation of 5 acres of deeded land at the Glendale location. The transaction resulted in the recognition of an additional contribution of $320,859, which represents the difference between the carrying value of the lease receivable and the fair value of the contributed land as of the transaction date. For the years ended December 31, 2018 and 2017, the Association recognized $21,518 and $31,894 of amortization on these receivables, respectively. As of December 31, 2018 and 2017, the unamortized balance of these donated land lease receivables totaled $268,918 and $677,577, respectively.

(11) Net assets without donor restrictions

Net assets without donor restrictions that have been designed by the board of directors for specific purposes were as follows for the years ended December 31:

	2018	2017
Reinvest campaign cash and cash equivalents	$ 110,000	$ 940,235
Board designated endowment funds	727,000	522,258
Total net assets with board designations	$ 837,000	$ 1,462,493

Reinvest in the Y Campaign – 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. As of December 31, 2018 and 2017, amounts designated by the board as the reinvest in the Y campaign funds included cash of $110,000 and $940,235 and pledges receivable of $82,976 and $183,221.

Board designated endowment funds – The board has designated funds be set aside to establish and maintain an endowment for the purpose of securing the Association's long-term financial viability and continuing to meet the needs of the Association. The endowment funds totaled $727,000 and $522,258 at December 31, 2018 and 2017, respectively.

(12) Net assets with donor restrictions

Net assets with donor restrictions are restricted for purposes or periods as follows at December 31:

	2018	2017
Investment in perpetuity, the income from which is expendable to support any activities of the Association	$ 636,385	$ 636,385
Land required to be used as a branch facility	563,907	563,907
Land required to be used as a camp	1,050,360	1,050,360
Land required to be used as a branch facility	1,830,000	1,830,000
Annuity agreement	87,457	87,457
Investment for which the Association acts as trustee as part of a Unitrust Agreement	162,260	162,260
Total net assets restricted in perpetuity	4,330,369	4,330,369
Subject to expenditure for a specified purpose:		
Assets restricted to specific programs	$ 713,650	$ 689,059
Purpose restricted assets held in a quasi-endowment	100,000	-
Accumulated deficit on perpetual endowment fund	(36,709)	-
Assets restricted to investment in property and equipment	82,334	229,309
Subject to expenditure over time:		
Interest contribution on forgivable loans	802,890	847,356
Pledges receivable	82,976	183,221
Donated land leases	637,238	677,577
Land required to be used as a branch facility	350,100	350,100
Total net assets with donor restrictions	$ 7,062,848	$ 7,306,991

(13) Net assets released from donor 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:

Satisfaction of program restrictions:	2018	2017
Youth Values program expense		
Healthy Living program expense	$ 149,297	$ 155,774
Child Care program expense	44,878	25,949
Summer Day Camp program expense	169,594	149,512
Juvenile Justice program expense	7,579	3,816
Resident Camp	12,219	59,647
Member Services	17,475	900
Total satisfaction of program restrictions	8,211	3,760
Satisfaction of program restrictions:	$ 409,253	$ 399,358
Satisfaction of purpose restriction:		
Youth Values	105,220	69,754
Healthy Living	16,124	3,096
Child Care	69,732	39,085
Summer Day Camp	43,968	40,498
Juvenile Justice	16,655	16,599
Resident Camp	15,183	16,201
Member Services	4,809	1,520
Total satisfaction of purpose restrictions	$ 271,691	$ 186,753
Expiration of time restrictions	$ 591,685	$ 833,037
Satisfaction of capital acquisition restrictions	$ 110,000	$ 26,000

(14) Endowment

The Association's endowment consists of six individual funds. Its endowment includes donor-restricted perpetual endowment, donor-restricted quasi-endowment 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 net assets restricted in perpetuity (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 as net assets restricted in perpetuity is classified as net assets subject to purpose or time restrictions based upon the presence or absence of direction from the donor and are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by MCFA. In accordance with MCFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment net asset compositions by type of fund as of December 31, 2018 were as follows:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted perpetual endowment fund	$ -	$ 599,676	$ 599,676
Donor-restricted quasi-endowment fund	-	100,000	100,000
Board-designated endowment funds	727,000	-	727,000
Total funds	$ 727,000	$ 699,676	$ 1,426,676

The changes in endowment net assets for the year ended December 31, 2018 were as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 522,258	$ 636,385	$ 1,158,643
Investment return:			
Investment income, net	28,201	36,750	64,951
Net depreciation (realized and unrealized)	(73,459)	(73,459)	(146,918)
Other changes:			
Contributions and additions	250,000	100,000	350,000
Endowment net assets, end of year	$ 727,000	$ 699,676	$ 1,426,676

(14) Endowment (continued)

Endowment net asset compositions by type of fund as of December 31, 2017 were as follows:

	Without donor restrictions	With donor restrictions	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:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 389,911	$ 636,385	$ 1,026,296
Investment return:			
Investment income	39,915	26,139	66,054
Net appreciation (realized and unrealized)	32,483	33,810	66,293
Other changes:			
Appropriation of assets for expenditures	59,949	(59,949)	-
Endowment net assets, end of year	$ 522,258	$ 636,385	$ 1,158,643

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. Concurrent with the debt reduction in Note 6, in March 2018, the debt reserve requirement by KS State Bank was reduced by $250,000, and these funds were returned to the board designated 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 in accordance with MCFA. From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The board of the Association has interpreted MCFA to permit spending from underwater endowments in accordance with prudent measures required under law.

At December 31, 2018, funds with original gift values of $636,385, fair values of $599,676, and deficiencies of $36,709 were reported in net assets with donor restrictions. These deficiencies were primarily caused by unfavorable market conditions. There were no funds with deficiencies at December 31, 2017.

(15) Retirement plan – defined contributions

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

In accordance with the agreement with the Retirement Fund, contributions made by the Association are a percentage of the participating employees' salary and are to be remitted to the Young Men's Christian Association Retirement Fund monthly. Total Association contributions charged to retirement costs in 2018 and 2017 aggregated $796,679 and $570,621, respectively.

(16) Annuity agreements

The Association has entered into a Unitrust Agreement, under which the Association has received funds to invest and manage as trustee. The Association is obligated to pay the beneficiaries of the trust 5% of the net fair market value of the trust assets on an annual basis for the remainder of their lives. The Association has invested these funds in investments that provide income to contribute toward the required payments to the beneficiaries as stipulated by the trust agreement. The investment income earned in 2018 and 2017 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 $145,985 and $168,346 at December 31, 2018 and 2017, 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 2018 and 2017 was not sufficient to cover the required payments to the beneficiary. The investment's market value was $35,196 and $45,861 at December 31, 2018 and 2017, respectively and is included in investments in the consolidated statements of financial position. Subsequent to year end, the Association was informed that the beneficiary had passed at the end of January 2019. The remaining balance in the account was transferred to the Association's endowment fund as a board designated endowment.

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 2018 and 2017 totaled $19,026 and $18,560, respectively.

(17) Concentration of risk

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

There were one and two pledge receivables accounting for approximately 69% and 85% of the total gross pledges receivable as of December 31, 2018 and 2017, respectively.

(18) Commitments, related party transactions and contingencies

The Association participates in a number of federal and state-assisted grant and contract programs which are subject to financial and compliance audits. Audits of these programs for, or including, the year ended December 31, 2018 have not been accepted. Accordingly, the Association's compliance with applicable grant or contract requirements may be established at some future date. The amount, if any, of expenditures or fees for units of service which may be disallowed by the granting or contracting agencies cannot be determined at this time, although Association management expects such amounts, if any, to be immaterial.

Certain board members of the Association are employees of companies that provide services to the Association, including utilities, insurance, leases, and fixed asset maintenance. The total amount paid for services, excluding utilities, approximated $108,800 for the year ended December 31, 2018 and $103,300 for the year ended December 31, 2017, respectively.

The Association paid annual dues payments to the National YMCA Fund Incorporation which totaled $540,384 and $440,058 for the years ended December 31, 2018 and December 31, 2017, respectively. As of December 31, accrued unpaid dues were approximately $289,832 and $439,832 for the years ended 2018 and 2017, 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,	
2019	150,000
2020	139,832
Total	$ 289,832

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.

(19) Cell tower lease assignment

In April 2013, the Association entered into easement and assignment agreements on certain property at four of its branch locations. Under these agreements, the Association assigned its rights to revenue streams totaling approximately $1,580,000 from existing sublease agreements with cell phone service providers for the use of rooftop space at the branch locations. In exchange, the Association received $810,000 and the right to receive 60% of revenues ("Owner Revenue") under any new sublease agreements entered into by the assignee for the use of this property or property at 13 of its other locations. The payment of $810,000 is being recognized as revenue over the 50 year term of the agreements. 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, 2018.

(20) Availability of resources

Financial asset available for general expenditure as of December 31, 2018 are as follows:

Cash and cash equivalents	$ 120,183
Accounts receivable	834,372
Assets restricted to investment in property and equipment	82,334
Reinvest campaign	192,976
Assets whose use is limited	518,800
Investments	1,632,417
Total financial assets available within one year	3,381,082
Less	
Amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with program purpose restrictions	(713,650)
Donor restricted quasi-endowment	(100,000)
Investments held for annuity agreement	(87,457)
Perpetual donor restricted endowments	(636,385)
Capital campaign restricted assets	(82,334)
Required reserves due to bank loan agreement	(500,000)
Investment for which the association acts as a trustee as part of a Unitrust agreement	(162,260)
Total amounts unavailable for general expenditures within one year	(2,282,086)
Amounts unavailable to management without board's approval	
Board designated endowment	(727,000)
Reinvest in the Y campaign	(192,976)
Total amounts unavailable to management without board's approval	(919,976)
Total financial assets available within one year after board designations	$ 179,020

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, 2018

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 Grants/Entitlement Grants	14.218	131813	$ 8,756
Total U.S. Department of Housing and Urban Development			8,756
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	15,823
Total U.S. Department of Justice - Office of Juvenile Justice and Delinquency Prevention			15,823
U.S. Department of Labor			
Pass through City of Phoenix			
Workforce Investment and Opportunity Act (WIOA) - Youth Activities	17.259	123797-007	1,506,559
Total U.S. Department of Labor			1,506,559
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	None	100,113
Pass through Arizona Department of Health Services			
Pass through Bureau of Women's and Children's Health			
Maternal and Child Health Services Block Grant to the States	93.994	None	40,259
Total U.S. Department of Health and Human Services			140,372
U.S. Department of Education			
Pass through the State of Arizona			
Preschool Development	84.419		109,265
Total U.S. Department of Education			109,265
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,780,775

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, 2018

(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, 2018. 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, 2018.

(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 minimus 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 2018 *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, 2018, 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 26, 2019.

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 26, 2019

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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, 2018. ***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, 2018.

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 26, 2019

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2018

Section I – Summary of Auditors' Results

Financial Statements

1. Type of report the auditor issued on whether the consolidated 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?	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?	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 federal 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, 2018

Section II – Financial Statement Findings

None

Section III – Federal Awards Findings and Questioned Costs

None