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

CONSOLIDATED FINANCIAL STATEMENTS AND UNIFORM GUIDANCE SUPPLEMENTAL REPORTS

Year Ended December 31, 2019
(with comparative totals for the year ended December 31, 2018)

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

CONSOLIDATED FINANCIAL STATEMENTS AND UNIFORM GUIDANCE SUPPLEMENTAL REPORTS

Year Ended December 31, 2019
(with comparative totals for the year ended December 31, 2018)

CONTENTS

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

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

Report on the Consolidated Financial Statements

We have audited the 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, 2019, 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, 2019, 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'*** 2018 consolidated financial statements, and our report dated April 26, 2019, 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, 2018, 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 September 21, 2020 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.

Adoption of New Accounting Standards

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. 2018-08, *Not-For-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, in 2019.

Additionally, as discussed in Note 1 to the consolidated financial statements, ***Valley of the Sun Young Men's Christian Association and Affiliates*** changed their method of accounting for revenue from contracts with customers effective January 1, 2019, under the modified retrospective method.

Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

September 21, 2020

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2019
(with comparative totals at December 31, 2018)

ASSETS

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	$ 388,053	$ 120,183
Accounts receivable, net	378,537	834,372
Merchandise inventories	85,020	81,950
Pledges receivable, net	447,587	-
Prepaid expenses	206,993	254,147
TOTAL CURRENT ASSETS	1,506,190	1,290,652
ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT		
Cash and cash equivalents	434,850	82,334
Pledges receivable, net	650,140	-
Construction in progress	271,472	-
TOTAL ASSETS RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	1,356,462	82,334
REINVEST CAMPAIGN		
Cash and cash equivalents	-	110,000
Pledges receivable, net	-	82,976
TOTAL REINVEST CAMPAIGN	-	192,976
INVESTMENTS	2,897,077	1,632,417
PROPERTY AND EQUIPMENT, net	36,905,029	40,075,638
ASSETS WHOSE USE IS LIMITED	288,920	518,800
UNAMORTIZED DONATED LAND LEASE RECEIVABLE	531,560	637,238
TOTAL ASSETS	$ 43,485,238	$ 44,430,055

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2019
(with comparative totals at December 31, 2018)

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Accounts payable	$ 1,003,762	$ 963,462
Accrued expenses	903,214	765,625
Custodian accounts	68,195	29,407
Deferred revenue	681,176	679,621
Current maturities 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	241,702	217,500
Current maturities of equipment loans	305,731	272,312
Current maturities of bank loan	345,587	331,272
Current maturities of forgivable loans	103,007	132,007
Current maturities of deferred rent	46,000	46,000
TOTAL CURRENT LIABILITIES	3,864,574	3,603,406
DEFERRED REVENUE FROM CELL TOWER LEASE ASSIGNMENTS, less current maturities	684,450	700,650
ANNUAL DUES ACCRUED, less current maturities	102,332	139,832
CAPITAL LEASE OBLIGATIONS, less current maturities	381,963	289,078
EQUIPMENT LOANS, less current maturities	261,394	440,400
FORGIVABLE LOANS, less current maturities	1,064,783	1,113,028
BANK LOAN, less current maturities	13,902,123	14,242,098
DEFERRED RENT, less current maturities	129,395	164,891
TOTAL LIABILITIES	20,391,014	20,693,383
NET ASSETS		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Board designated	835,714	837,000
Undesignated	13,030,377	15,836,824
NET ASSETS WITHOUT DONOR RESTRICTIONS	13,866,091	16,673,824
NET ASSETS WITH DONOR RESTRICTIONS	9,228,133	7,062,848
TOTAL NET ASSETS	23,094,224	23,736,672
TOTAL LIABILITIES AND NET ASSETS	$ 43,485,238	$ 44,430,055

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

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2019
(with comparative totals for the year ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	Totals 2019	Totals 2018
SUPPORT AND REVENUES				
Contributions	$ 2,644,343	$ 3,164,787	$ 5,809,130	$ 4,450,343
United Way allocations	260,708	12,375	273,083	436,808
Government grants	2,046,647	4,400	2,051,047	2,285,194
Membership dues	15,427,277	-	15,427,277	15,325,094
Program fees	8,682,990	-	8,682,990	8,101,485
Use of YMCA facilities	286,284	-	286,284	239,002
Sales to members	49,371	-	49,371	62,708
Investment income	37,800	24,353	62,153	81,808
Miscellaneous	348,701	-	348,701	327,343
Net assets released from restrictions:				
Satisfaction of program restrictions	557,971	(557,971)	-	-
Satisfaction of capital acquisition restrictions	123,347	(123,347)	-	-
Satisfaction of purpose restrictions	204,754	(204,754)	-	-
Expiration of time restrictions	250,324	(250,324)	-	-
TOTAL REVENUE AND OTHER SUPPORT	30,920,517	2,069,519	32,990,036	31,309,785
EXPENSES				
Healthy living	15,980,245	-	15,980,245	16,058,682
Youth values	5,306,834	-	5,306,834	5,112,637
Child care	3,106,561	-	3,106,561	3,097,106
Summer day camp	1,593,919	-	1,593,919	1,506,623
Juvenile justice	1,456,295	-	1,456,295	1,726,250
Resident camp	1,201,767	-	1,201,767	1,236,285
Member services	614,818	-	614,818	731,455
Management and general	3,858,226	-	3,858,226	3,918,351
Fund raising	701,993	-	701,993	770,879
TOTAL EXPENSES	33,820,658	-	33,820,658	34,158,268
GAINS				
Realized and unrealized gains (losses) on investments	114,765	95,766	210,531	(163,671)
(Loss) gain on sale of assets	(22,357)	-	(22,357)	2,327,106
TOTAL GAINS	92,408	95,766	188,174	2,163,435
CHANGE IN NET ASSETS	(2,807,733)	2,165,285	(642,448)	(685,048)
NET ASSETS, BEGINNING OF YEAR	16,673,824	7,062,848	23,736,672	24,421,720
NET ASSETS, END OF YEAR	$ 13,866,091	$ 9,228,133	$ 23,094,224	$ 23,736,672

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019
(with comparative totals for the year ended December 31, 2018)

	Healthy Living	Youth Values	Child Care	Summer Day Camp	Juvenile Justice	Resident Camp	Member Services	Total Programs	Management and General	Fund Raising	Totals 2019	Totals 2018
Salaries	$ 6,021,211	$ 2,701,594	$ 1,619,356	$ 795,884	$ 866,230	$ 517,418	$ 152,263	$ 12,673,956	$ 2,016,254	$ 478,018	$ 15,168,228	$ 14,744,926
Employee benefits	468,379	204,821	110,951	43,022	112,550	44,535	20,802	1,005,060	312,752	48,949	1,366,761	1,264,268
Payroll taxes	495,614	223,575	135,112	66,389	70,832	42,462	12,694	1,046,678	146,731	40,183	1,233,592	1,279,142
Total salaries and related expenses	6,985,204	3,129,990	1,865,419	905,295	1,049,612	604,415	185,759	14,725,694	2,475,737	567,150	17,768,581	17,288,336
Professional fees	711,648	355,575	17,679	16,385	82,932	39,485	72,846	1,296,550	770,854	45,692	2,113,096	2,059,594
Supplies	405,294	515,564	138,987	136,901	12,641	200,152	43,261	1,452,800	28,265	32,240	1,513,305	1,554,198
Telephone	240,907	40,979	38,055	17,305	177	17,696	18,022	373,141	72,556	-	445,697	426,409
Postage	2,728	348	254	165	27	301	51	3,874	6,715	2,798	13,387	20,251
Occupancy	2,770,633	711,733	380,175	198,019	48,413	132,243	136,826	4,378,042	207,725	805	4,586,572	4,865,315
Printing and publications	370,750	67,260	34,847	27,405	2,387	53,017	12,359	568,025	62,761	33,798	664,584	774,023
Travel	116,379	65,021	81,150	49,738	16,315	30,449	3,330	362,382	138,689	7,172	508,243	576,971
Conferences and conventions	17,375	13,924	5,738	994	2,801	169	439	41,440	52,449	2,490	96,379	88,412
National dues	239,097	54,241	30,945	19,258	1,731	17,401	9,242	371,915	14,954	-	386,869	390,384
Miscellaneous expenses	508,406	106,001	40,872	64,911	159,829	26,690	16,081	922,790	23,212	9,848	955,850	800,093
Interest expense	567,577	86,348	74,438	37,963	-	319	17,120	783,765	4,164	-	787,929	952,409
Property taxes	6,057	990	853	435	-	-	196	8,531	22	-	8,553	15,740
Total before depreciation and amortization	12,942,055	5,147,974	2,709,412	1,474,774	1,376,865	1,122,337	515,532	25,288,949	3,858,103	701,993	29,849,045	29,812,135
Depreciation and amortization	3,038,190	158,860	397,149	119,145	79,430	79,430	99,286	3,971,490	123	-	3,971,613	4,346,133
Total functional expenses	$ 15,980,245	$ 5,306,834	$ 3,106,561	$ 1,593,919	$ 1,456,295	$ 1,201,767	$ 614,818	$ 29,260,439	$ 3,858,226	$ 701,993	$ 33,820,658	$ 34,158,268

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2019
(with comparative totals for the year December 31, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (642,448)	$ (685,048)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Change in discounts on pledges receivable	53,060	(9,755)
Depreciation and amortization	3,971,613	4,346,133
Amortization of donated land lease receivable	105,678	(346,802)
Amortization of forgivable loan interest	45,101	45,805
Amortization of deferred financing costs	7,027	6,964
Loan principal forgiven	(93,340)	(93,340)
Realized and unrealized gains (losses) on investments	(210,531)	163,671
(Gain) loss on sale of assets	22,357	(2,327,106)
Contribution gain on land agreement	-	(320,859)
Contributions restricted for capital investment	(1,460,500)	-
Contributions restricted for long term investment	(1,053,273)	(100,000)
Donated property and equipment	(114,456)	(113,287)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	355,835	(118,345)
Pledges receivable	(417,671)	-
Merchandise inventories	(3,070)	7,715
Prepaid expenses	47,154	(28,572)
Increase (decrease) in:		
Accounts payable	(49,722)	201,538
Accrued expenses	100,089	38,258
Annual dues accrued	-	(150,000)
Custodian accounts	38,788	(16,690)
Deferred rent	(35,496)	(43,583)
Deferred revenue	1,555	(94,252)
Amortization of rent contribution	100,000	-
Deferred revenue from cell tower lease assignments	(16,200)	(16,200)
NET CASH PROVIDED BY OPERATING ACTIVITIES	751,550	346,245
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	3,707,909	546,739
Proceeds from the sale of property and equipment	44,959	3,087,394
Purchases of investments	(4,762,038)	(845,339)
Purchases of property and equipment	(377,992)	(926,478)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,387,162)	1,862,316
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital pledges	850,360	192,061
Principal payments on bank loan	(332,693)	(3,027,680)
Principal payments on short term debt	(29,000)	(19,333)
Principal payments on equipment loans	(275,991)	(267,648)
Principal payments under capital lease obligations	(309,831)	(299,524)
Payments on pledges for long term investment	1,013,273	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	916,118	(3,422,124)
NET CHANGE IN CASH AND CASH EQUIVALENTS	280,506	(1,213,563)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	831,317	2,044,880
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$ 1,111,823	$ 831,317
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 787,929	$ 906,603
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired through equipment loans	$ 130,404	$ 105,097
Equipment acquired through capital lease agreements	$ 426,918	$ 22,293
Purchases of property and equipment included within accounts payable	$ 90,022	$ 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*. 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 (or certain grantor) 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 statement 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, 2018 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, 2019 and 2018, the allowance was $315,041 and $186,968 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, 2019 and 2018, the Association had $288,920 and $518,800 respectively, on deposit in control accounts established as part of the debt restructuring described in Note 6 with a lender. As of December 31, 2019 and 2018, the cash balance is comprised of $263,681 and $510,205 as a Debt Service Reserve and $16,906 and $8,595 as a Deferred Maintenance Reserve, respectively.

Assets restricted to investment in property and equipment – The Association classifies cash and cash equivalents as restricted when the cash equivalents are unavailable for general withdrawal or uses. The Association has received cash and pledges receivable as part of the capital campaign to revitalize the Sky-Y Camp. In 2019, a portion of these proceeds is included in construction in progress (see Note 5).

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

The following table provides a reconciliation of cash and cash equivalents, and restricted cash and cash equivalents reported in the consolidated statement of financial position that aggregate to the total of the same such amounts shown in the consolidated statement of cash flows:

	2019	2018
Cash and cash equivalents	$ 388,053	$ 120,183
Cash and cash equivalents restricted to investment in property and equipment	434,850	82,334
Cash and cash equivalents included in the Reinvest Campaign	-	110,000
Cash and cash equivalents included in Assets Whose Use is Limited	288,920	518,800
Total cash and cash equivalents and restricted cash	$ 1,111,823	$ 831,317

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, 2019 and 2018.

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.

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

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.

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 2019 or 2018.

Contributions – The Association receives contributions to support operating activities, endowments and capital projects. The Association adopted FASB Accounting Standards Update ("ASU") No. 2018-08, *Not-for-Profit Entities (Topic 958)*, effective January 1, 2019 on a modified prospective basis. ASU 2018-08 clarifies the characteristics 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. In accordance with ASU 2018-08, the Association evaluates grants and contributions for evidence of the transfer of commensurate value from the Association to the grantor or resource provider. The transfer of commensurate value from the Association to the grantor or resource provider may include instances when a) the goods or services provided by the Association directly benefit the grantor or resource provider, or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Association. When such factors exist, the Association accounts for the grants or contributions as exchange transactions under ASC 606, *Revenue from Contracts with Customers*, or other appropriate guidance. In the absence of these factors, the Association accounts for the award under the contribution accounting model.

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

In the absence of the transfer of commensurate value from the Association to the resource provider, the Association evaluates the contribution for criteria indicating the existence of measurable barriers to entitlement for the Association or the right of return to the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Association and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Association to use the funds. Should the existence of a measurable performance barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or a release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and right of return do not exist, the contribution is unconditional.

The Association recognizes amounts received from unconditional contributions at the time the Association receives notification of the award. Contributions that include conditions imposed by the grantor or resource provider are recognized when those conditions are met by the Association.

In accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, 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.

Government grants – The Association has contracts with the city, state and federal agencies to provide a variety of program services to the public based on contract requirements, including eligibility, procurement, reimbursement, staffing, and other requirements. These program services range from child care after school programs and family programs. These contracts from government agencies were determined to be conditional contributions and are recorded as revenue as the conditions are met, which is generally when the related expenditures are incurred over the period the service is provided. As these are generally non-exchange contracts, amounts for billed unpaid services are included in contributions receivable in the accompanying consolidated statement of financial position. Advances are recorded as deferred revenue upon receipt.

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.

As of December 31, 2019, the Association had various government grants that are conditional in nature and the revenue can only be recognized once funds have been spent on qualified costs. As of December 31, 2019, the remaining amount of conditional promises to give under these governmental grants is approximately $666,000.

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

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

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

Revenue recognition under Topic 606

The Association has multiple revenue streams that are accounted for as exchange transactions including membership and program fees. Because the Association's performance obligations relate to contracts with a duration of less than one year, the Association has elected to apply the practical expedient to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

Membership dues – Membership dues are recognized over time as the Association stands ready to deliver the performance obligations under the membership agreement. Members join for varying lengths of time and may cancel with fifteen days' notice. Members generally pay a one-time joining fee plus monthly dues in advance. Memberships provide use of the recreation facilities, access to free classes, programs and activities, and discounts to fee-based programs. Unearned membership dues are reflected as deferred revenue on the consolidated statement of financial position. Amounts billed but unpaid are recorded as accounts receivable in the accompanying consolidated statement of financial position.

Program fees – Program fees are reported at an amount that reflects the consideration to which the Association expects to be entitled in exchange for providing services to their program participants. Program fees include fitness classes, child care, day camps, overnight camps, swim lessons, and various other programs operating at YMCA locations, program sites, camps, or schools. Program fees are usually paid in advance. Cancellation provisions vary by program, but most transactions are cancellable with 15 to 30 days' notice. Refunds may be available for services not provided. Performance obligations are determined based on the nature of the services provided to the Association. Performance obligations are generally providing a service at a point in time. Revenue is recognized at the time the program is held. Unearned program fees are reflected as deferred revenue on the consolidated statement of financial position. Amounts billed but unpaid are recorded as accounts receivable in the accompanying consolidated statement of financial position.

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

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.

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 $527,838 and $606,291 for the years ended December 31, 2019 and 2018, respectively.

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

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, 2019 or 2018.

The federal and state tax returns of the Association for 2016, 2017 and 2018 are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed. The 2019 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.

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 adopted this standard as of January 1, 2019, using a modified retrospective approach to contracts that were not completed as of this date. Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to beginning net assets. Amounts reported related to 2018 are unadjusted for the effects of ASC Topic 606. The timing of revenue recognition was not affected by the adoption of Topic 606. As a result there was no adjustment to net assets as of January 1, 2019.

For contracts that were modified before the beginning of the earliest reporting period presented, the Association applied the practical expedient to reflect the aggregate effect of all modifications that occurred before the beginning of the earliest period presented with respect to identifying the satisfied and unsatisfied performance obligations and determining the transaction price.

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

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, 2020. 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 1.92%.

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 standard has been adopted during the year ended December 31, 2019. Accordingly, the Association decreased the cash provided by operating activities by $830,235 and decreased cash provided by investing activities by $320,999 in the 2018 statement of cash flows to conform to the new presentation requirements.

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 adopted this standard during the year ended December 31, 2019 under the modified prospective approach. There was no impact on revenue recognition as a result of adoption.

Subsequent events – The Association has evaluated subsequent events through September 21, 2020 which is the date the consolidated financial statements were available to be issued.

(2) Association liquidity and management's plans

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a 'pandemic'. First identified in late 2019 and now known as COVID-19, the outbreak has impacted over twenty-nine million worldwide, over six million in the United States and nearly two hundred thousand in Arizona. In response, local, state and national governments have implemented measures to combat the outbreak that have impacted business operations. The COVID-19 outbreak is also disrupting supply chains of personal protective equipment and other medical supplies. The extent of the impact of COVID-19 on the Association's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, measures taken by local and state governments to reduce the spread, availability of relief funding from government and private sources and scientific and medical advancements toward effective treatments and vaccines.

The Association closed all branch locations during the spring and summer of 2020 with the exception of the provision of emergency childcare. Because of the closings, the Association laid off full time and some senior staff in addition to all part time staff. This resulted in nearly a 50% reduction in payroll costs. These payroll reductions were necessary as monthly membership revenue declined significantly due to facility closures. The Association did not collect program fees for youth sports, camping, aquatics, teen and health and wellness programs that were paused. The Association reduced supply, occupancy, equipment and other operating expenses associated with the facility closures and paused programs. The timely expense reductions were implemented to preserve the Association's limited cash flows.

In response to the pandemic, the US Government enacted fiscal and monetary stimulus measures to counteract the disruption caused by the coronavirus. The Association received funding from the state of Arizona to provide emergency child care programs and has been granted funding to support distance learning for students in need of internet access. The Association will continue to seek opportunities and funding to support the needs of youth and families through childcare and other programming necessitated by the changing environment and coronavirus pandemic. In April 2020, the Association was awarded a $3.14 million Payroll Protection Program ("PPP") forgivable loan under the CARES Act. The Association anticipates the loan will ultimately be forgiven in accordance with the stimulus regulations. However, there can be no assurance that the loan will be forgiven.

The Association forecasts that the combination of expense reductions, contributions, grants and other funding for emergency childcare and distance learning under the CARES Act, the PPP loan and limited revenues as facilities and programs begin to open in September 2020 will provide sufficient cash flow to support Association operations. Modest membership and program growth during 2021 will continue to support the cash flow needs of the Association.

The Association has put contingency plans in place should the timing of reopening, restart of programs, return of members and/or other uncertainties materialize. In March 2020, the Association secured a Priority Line of Credit with a financial institution. The maximum available credit under the Priority Line of Credit is subject to market fluctuation and is $1.697 million as of the date of issuance. Additionally, the Association is reviewing its portfolio of fixed assets for potential opportunities to generate cash. Finally, the Association will continue to monitor new government fiscal and monetary stimulus legislation for opportunities to support programs and operations.

(3) Pledges receivable

Pledges receivable consist of the following as of December 31:

	2019	2018
Receivable in less than one year	$ 786,756	$ 119,976
Receivable in two to five years	436,031	-
Total pledges receivable	1,222,787	119,976
Less: unamortized discount using rate of 4.74%	(53,060)	-
Less: allowance for uncollectible pledges	(72,000)	(37,000)
Pledges receivable, net	$ 1,097,727	$ 82,976

Included in pledges receivable in 2018 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.

Included in pledges receivable in 2019 are pledges for the Capital Campaign which are funds restricted for investment in property and equipment additions to revitalize the Sky-Y camp.

(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, 2019:

	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	$ 254,037	$ 266,542	$ 266,542	$ -	$ -
Money market funds	1,055,900	1,055,900	1,055,900	-	-
Real estate funds	22,665	24,666	24,666	-	-
Commodities	21,272	20,639	20,639	-	-
Equity mutual funds:					
Stocks	96,366	106,133	106,133		
International	214,572	233,868	233,868	-	-
World allocation	23,035	24,891	24,891	-	-
Large growth/blend funds	195,803	274,054	274,054	-	-
Large value funds	203,257	210,790	210,790	-	-
Long-short funds	85,033	85,033	85,033	-	-
Mid cap funds	134,704	155,017	155,017	-	-
Small growth/blend funds	101,117	109,340	109,340	-	-
Corporate bonds	59,097	62,038	-	62,038	-
Long Government	253,536	268,166	268,166	-	-
Total investments	$ 2,720,394	$ 2,897,077	$ 2,835,039	$ 62,038	$ -

(4) Investments and fair value measurements (continued)

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	$ 1,635,970	$ 1,632,417	$ 1,632,417	$ -	$ -

(5) Property and equipment

Property and equipment consists of the following at December 31:

	2019	2018
Land	$ 8,471,600	$ 8,471,600
Buildings and building improvements	79,105,859	79,634,879
Equipment	26,050,092	25,442,332
Total	113,627,551	113,548,811
Less accumulated depreciation and amortization	(77,189,920)	(73,919,816)
Total	36,437,631	39,628,995
Construction in process	738,870	446,643
Total property and equipment, net	$ 37,176,501	$ 40,075,638

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 was 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 $3,971,613 for 2019 and $4,346,133 for 2018, respectively, which includes amortization expense on assets held under capital leases.

(5) Property and equipment (continued)

Construction in process at December 31, 2019 and 2018 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.

Construction in progress at December 31, 2019 also includes approximately $270,000 of improvements to the Sky-Y camp utilizing funds raised through the Association's Capital Campaign. For the years ended December 31, 2019 and 2018, 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 $2,725,158 and $2,840,047 as of December 31, 2019 and 2018, respectively. Accumulated amortization related to these leased assets totaled $1,428,603 and $1,754,549 as of December 31, 2019 and 2018, 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.

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

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.

In October 2019, there was an additional amendment to reduce the Debt Service Reserve requirement to $250,000.

Total debt outstanding on the loan agreement with KS State Bank was $14,395,030 and $14,727,737 as of December 31, 2019 and 2018, respectively, which is reported net of unamortized debt issuance costs of $147,320 and $154,347, respectively, in the accompanying consolidated statement of financial position.

(6) Bank loan (continued)

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

Year Ending December 31,	
2020	$ 345,587
2021	366,131
2022	383,867
2023	402,463
2024	421,960
Thereafter	12,475,022
Total	$ 14,395,030

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 and to $250,000 in 2019 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 consist of the following as of December 31:

	2019	2018
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.	$ 13,400	$ 17,943
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.	24,100	32,418
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.	303,661	508,805
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.	39,360	71,101

(7) Equipment loans payable (continued)

	2019	2018
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 John Deere Finance; original amount of $52,699; payable in monthly installments of $627 including interest at 0%, through September 2024; secured by equipment.	34,760	43,288
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.	24,443	32,501
Loan equipment agreement with KS State Bank; original amount of $130,404; payable in monthly installments of $2,972, including interest at 5.03%, through November 2023; secured by equipment.	127,401	-
Total	$ 567,125	$ 712,712
Less current maturities	(305,731)	(272,312)
Long-term maturities of equipment loans payable	$ 261,394	$ 440,400

Future maturities of equipment loans payable are as follows:

Year Ending December 31,	
2020	$ 305,731
2021	158,231
2022	58,256
2023	41,097
2024	3,810
Total annual maturities	$ 567,125

(8) Forgivable loans

Forgivable loans as of December 31 consist of the following:

	2019	2018
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.	$ 1,760,000	$ 1,840,000
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.	146,634	159,980
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.	9,667	38,667
Total	$ 1,916,301	$ 2,038,647
Less unamortized present value discount	(748,511)	(793,612)
Total forgivable loans	$ 1,167,790	$ 1,245,035

Future maturities of forgivable loans are as follows:

Year Ending December 31,	
2020	$ 103,007
2021	93,340
2022	93,340
2023	93,340
2024	93,340
Thereafter	1,439,934
Total annual maturities	$ 1,916,301

(9) Capital lease obligations

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

	2019	2018
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.	$ 188,423	$ 261,193
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
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.	11,088	23,300
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
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
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.	41,572	60,332
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.	11,329	16,441
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.	16,608	21,866
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.	20,079	45,336

(9) Capital lease obligations (continued)

	2019	2018
Capital lease obligation payable to Key Equipment Finance; original amount $39,943; payable in monthly installments of $924, including interest at 4.79%, through December 2022, secured by equipment.	30,560	-
Capital lease obligation payable to Key Equipment Finance; original amount of $263,018; payable in monthly installments of $6,021 including interest at 4.49% through January 2023, secured by equipment.	206,566	-
Capital lease obligation payable to Key Equipment Finance; original amount of $123,957; payable in monthly installments of $2,826 including interest at 4.38% through January 2023, secured by equipment.	97,440	-
Total	$ 623,665	$ 506,578
Less current maturities	(241,702)	(217,500)
Long-term maturities of capital lease obligations	$ 381,963	$ 289,078

Future minimum capital lease payments are as follows:

Year Ending December 31,	
2020	$ 269,425
2021	232,063
2022	164,443
2023	7,237
Total minimum lease payments	673,168
Less amount representing interest	(49,503)
Present value of minimum lease payments	$ 623,665

(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:

Year Ending December 31,	
2020	$ 477,647
2021	452,350
2022	348,503
2023	436,000
2024	436,000
Thereafter	3,441,500
Total	$ 5,592,000

(10) Lease commitments (continued)

Rent expense totaled $487,018 for the year ended December 31, 2019 and $457,389 for the year ended December 31, 2018. 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 2020.

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 $187,707 for 2019 and $178,197 for 2018.

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 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. The unamortized balance of the lease was $276,240 and $368,320 as of December 31, 2019 and 2018, respectively, and 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, 2019 and 2018, the Association recognized $21,607 and $21,518 of amortization on these receivables, respectively. As of December 31, 2019 and 2018, the unamortized balance of these donated land lease receivables totaled $255,320 and $268,918, 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:

	2019	2018
Reinvest campaign cash and cash equivalents	$ -	$ 110,000
Board designated endowment funds	835,714	727,000
Total net assets with board designations	$ 835,714	$ 837,000

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, 2019 and 2018, amounts designated by the board as the reinvest in the Y campaign funds included cash of $0 and $110,000 and pledges receivable of $0 and $82,976 .

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 $835,714 and $727,000 at December 31, 2019 and 2018, respectively.

(12) Net assets with donor restrictions

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

	2019	2018
Investment in perpetuity, the income from which is expendable to support any activities of the Association	$ 1,689,658	$ 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
Investment for which the Association acts as trustee as part of a Unitrust Agreement	162,260	162,260
Total net assets restricted in perpetuity	5,296,185	4,330,369
Subject to expenditure for a specified purpose:		
Assets restricted to specific programs	767,510	713,650
Purpose restricted assets held in a quasi-endowment	100,000	100,000
Accumulated earnings (deficit) on perpetual endowment fund	83,410	(36,709)
Assets restricted to investment in property and equipment	1,356,462	82,334
Subject to expenditure over time:		
Interest contribution on forgivable loans	742,906	802,890
Pledges receivable	-	82,976
Donated land leases	531,560	637,238
Land required to be used as a branch facility	350,100	350,100
Total net assets with donor restrictions	$ 9,228,133	$ 7,062,848

(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:

	2019	2018
Satisfaction of program restrictions:		
Youth values program expense	$ 174,839	$ 149,297
Healthy living program expense	69,713	44,878
Child care program expense	144,318	169,594
Summer day camp program expense	29,249	7,579
Juvenile justice program expense	90,133	12,219
Resident camp	35,935	17,475
Member services	13,784	8,211
Total satisfaction of program restrictions	$ 557,971	$ 409,253
Satisfaction of purpose restriction:		
Youth values program expense	$ 79,268	$ 105,220
Healthy living program expense	5,464	16,124
Child care program expense	56,359	69,732
Summer day camp program expense	41,415	43,968
Juvenile justice program expense	-	16,688
Resident camp	13,760	15,183
Member services	8,488	4,809
Total satisfaction of purpose restrictions	$ 204,754	$ 271,724
Expiration of time restrictions	$ 250,324	$ 591,685
Satisfaction of capital acquisition restrictions	$ 123,347	$ 110,000

(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.

(14) Endowment (continued)

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, 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted perpetual endowment fund	$ -	$ 1,689,658	$ 1,689,658
Accumulated earnings on perpetual endowment fund	-	83,410	83,410
Donor-restricted quasi-endowment fund	-	100,000	100,000
Board-designated endowment funds	835,714	-	835,714
Total funds	$ 835,714	$ 1,873,068	$ 2,708,782

The changes in endowment net assets for the year ended December 31, 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 727,000	$ 699,676	$ 1,426,676
Investment return:			
Investment income, net	24,353	24,353	48,706
Net appreciation (realized and unrealized)	95,766	95,766	191,532
Other changes:			
Investment fees	(11,405)	-	(11,405)
Contributions and additions	-	1,053,273	1,053,273
Endowment net assets, end of year	$ 835,714	$ 1,873,068	$ 2,708,782

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted perpetual endowment fund	$ -	$ 636,385	$ 636,385
Accumulated deficit on perpetual endowment fund	-	(36,709)	(36,709)
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

(14) Endowment (continued)

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

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, 2019.

(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.

(15) Retirement plan – defined contributions (continued)

In accordance with the agreement with the Retirement Fund, contributions made by the Association are a percentage of the participating employees' salary and are to be remitted to the Young Men's Christian Association Retirement Fund monthly. Total Association contributions charged to retirement costs in 2019 and 2018 aggregated $802,986 and $796,679, 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 2019 and 2018 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 $163,590 and $145,985 at December 31, 2019 and 2018, respectively and is included in investments on the consolidated statement of financial position.

During 2003, the Association executed a charitable gift annuity with an individual. The assets were held in trust at a financial institution. The Association was obligated to pay the beneficiary a monthly amount for the remainder of the beneficiary's life. The investment income in 2019 and 2018 was not sufficient to cover the required payments to the beneficiary. The investment's market value was $35,196 at December 31, 2018 and was included in investments in the consolidated statement of financial position. 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 2019 and 2018 totaled $7,201 and $19,026, 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").

As of December 31, 2019, there were two pledge receivables accounting for approximately 37% of total net pledges receivable. As of December 31, 2018, there were two other pledge receivables accounting for approximately 69% of the total net pledges receivable.

(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, 2019 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.

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

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.

The Association paid annual dues payments to the National YMCA Fund Incorporation which totaled $373,832 and $540,384 for the years ended December 31, 2019 and December 31, 2018, respectively. In January 2016, the Association signed an agreement to repay the accrued unpaid dues. In June 2019, the National YMCA Fund Incorporation agreed to forgive 50% of the dues owed, contingent upon the Associating remaining compliant with membership standards for 2 years (during 2019 and 2020). Since the forgiveness is contingent, the full liability balance is included in the accompanying statement of financial position. As of December 31, accrued unpaid dues were approximately $252,332 and $289,832 for the years ended 2019 and 2018, respectively, and are included in annual dues accrued in the accompanying consolidated statement of financial position. The future payments for the National YMCA unpaid dues are as follows:

Year Ending December 31,	
2020	$ 150,000
2021	102,332
Total	$ 252,332

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, 2019.

(20) Availability of resources

Financial assets available for general expenditure are as follows as of December 31:

	2019	2018
Cash and cash equivalents	$ 388,053	$ 120,183
Accounts receivable	378,537	834,372
Pledges receivable, current	447,587	-
Assets restricted to investment in property and equipment	1,084,990	82,334
Reinvest in the Y campaign	-	192,976
Assets whose use is limited	288,920	518,800
Investments	2,897,077	1,632,417
Total financial assets	5,485,164	3,381,082
Less		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with program purpose restrictions	(767,510)	(713,650)
Donor restricted quasi-endowment	(100,000)	(100,000)
Accumulated earnings on perpetual endowment fund	83,410	-
Investments held for annuity agreement	-	(87,457)
Perpetual donor restricted endowments	(1,689,658)	(636,385)
Capital campaign restricted assets	(1,084,990)	(82,334)
Required reserves due to bank loan agreement	(250,000)	(500,000)
Investment for which the association acts as a trustee as part of a Unitrust agreement	(162,260)	(162,260)
Total amounts unavailable for general expenditures within one year	(3,971,008)	(2,282,086)
Amounts unavailable to management without Board's approval		
Board-designated endowment	(835,714)	(727,000)
Reinvest in the Y campaign	-	(192,976)
Total amounts unavailable to management without Board's approval	(835,714)	(919,976)
Total financial assets available within one year after board designations	$ 678,442	$ 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, 2019

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	$ 5,055
Total U.S. Department of Housing and Urban Development			5,055
U.S. Department of Transportation			
Pass through City of Phoenix			
Ahwatukee - Y OPAS	20.513	None	8,782
Total U.S. Department of Transportation			8,782
U.S. Department of Labor			
Pass through City of Phoenix			
Workforce Investment and Opportunity Act (WIOA) - Youth Activities	17.259	123797-007	1,234,080
Total U.S. Department of Labor			1,234,080
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	101,650
Total U.S. Department of Health and Human Services			101,650
U.S. Department of Education			
Pass through the State of Arizona			
Preschool Development	84.419	None	50,845
Total U.S. Department of Education			50,845
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,400,412

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, 2019

(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, 2019. 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, 2019.

(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 2019 *Catalog of Federal Domestic Assistance*.

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

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

To the Board of Directors of

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of ***Valley of the Sun Young Men's Christian Association and Affiliates***, which comprise the consolidated statement of financial position as of December 31, 2019, 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 September 21, 2020.

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.

September 21, 2020

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

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

To the Board of Directors of

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

Report on Compliance for Each Major Federal Program

We have audited ***Valley of the Sun Young Men's Christian Association and Affiliates'*** compliance with the types of compliance requirements described in the 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, 2019. ***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, 2019.

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.

September 21, 2020

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2019

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2019

Section II – Financial Statement Findings

None

Section III – Federal Awards Findings and Questioned Costs

None