

**The Young Men's Christian  
Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Audited Financial Statements**

**December 31, 2017 and 2016**

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## **Independent Auditor's Report**

Board of Directors  
The Young Men's Christian Association (YMCA)  
of Frederick County, Maryland, Inc.  
Frederick, Maryland

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Supplemental Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *Schedule of Expenditures of Federal Awards*, as required by Title 2 U.S. Code of Federal Regulations (CFR) 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2018 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the Association's internal control over financial reporting and compliance.

*McLean, Koehler, Sparks & Hammond*

Frederick, Maryland  
May 30, 2018

**The Young Men's Christian Association (YMCA)  
of Frederick County, Maryland, Inc.**

**Statements of Financial Position**

December 31,	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 646,311	\$ 523,713
Cash and cash equivalents - restricted - South County	1,053,612	120,190
Accounts receivable	436,454	321,361
Investments	1,645,087	1,347,474
Promises to give, net - current	21,100	22,420
Promises to give, net - current - South County	232,760	190,060
Other current assets	<u>117,579</u>	<u>91,850</u>
Total current assets	<u>4,152,903</u>	<u>2,617,068</u>
<b>Property and Equipment</b> , net of accumulated depreciation	<u>12,015,747</u>	<u>15,156,532</u>
<b>Other Assets:</b>		
Cash and cash equivalents - for scholarship and endowment	172,964	79,251
Promises to give, net - non current	100,930	104,100
Promises to give, net - non current - South County	284,140	482,340
Other receivables - non current	15,395	60,973
Other assets - South County	140,312	70,729
Investments - restricted for scholarship and endowment	2,212,342	2,069,415
Unitrusts receivable	167,205	164,676
Charitable remainder trust	649,515	514,620
Beneficial interest in private foundation	450,180	403,143
Beneficial interest in perpetual trusts	<u>28,255</u>	<u>25,801</u>
Total other assets	<u>4,221,238</u>	<u>3,975,048</u>
<b>Total Assets</b>	<u>\$ 20,389,888</u>	<u>\$ 21,748,648</u>

	<u>2017</u>	<u>2016</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 158,012	\$ 74,683
Accounts payable	167,371	188,947
Accrued expenses	495,364	466,569
Deferred rent	32,265	25,057
Deferred revenue	<u>503,332</u>	<u>440,461</u>
Total current liabilities	1,356,344	1,195,717
<b>Long-Term Debt</b>	<u>2,851,513</u>	<u>3,059,475</u>
Total liabilities	<u>4,207,857</u>	<u>4,255,192</u>
<b>Net Assets:</b>		
Unrestricted:		
Board designated	1,757,074	1,378,655
Other	<u>9,757,140</u>	<u>12,402,861</u>
Total unrestricted	11,514,214	13,781,516
Temporarily restricted	3,559,517	2,606,094
Permanently restricted	<u>1,108,300</u>	<u>1,105,846</u>
Total net assets	<u>16,182,031</u>	<u>17,493,456</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 20,389,888</u>	<u>\$ 21,748,648</u>

The notes to financial statements are an integral part of these statements.

**The Young Men's Christian Association (YMCA)  
of Frederick County, Maryland, Inc.**

**Statements of Activities**

For the years ended December 31,

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenue:</b>								
Public Support:								
Head Start federal grant	\$ 2,179,306	\$ -	\$ -	\$ 2,179,306	\$ 2,341,839	\$ -	\$ -	\$ 2,341,839
State and federal contracts	446,320	-	-	446,320	329,624	-	-	329,624
Contributions	464,648	1,080,459	-	1,545,107	775,079	461,215	-	1,236,294
Head Start in-kind contributions	641,011	-	-	641,011	528,455	-	-	528,455
Fundraising organizations	17,317	-	-	17,317	20,939	-	-	20,939
Revenue:								
Membership	3,145,838	-	-	3,145,838	3,058,302	-	-	3,058,302
Class fees	7,064,942	-	-	7,064,942	6,614,100	-	-	6,614,100
Special events	184,435	-	-	184,435	183,531	-	-	183,531
Sales	24,512	-	-	24,512	26,028	-	-	26,028
Miscellaneous income	23,487	-	-	23,487	22,310	-	-	22,310
Interest and dividends	44,862	71,359	-	116,221	36,431	63,353	-	99,784
Realized loss on disposal of equipment	(536)	-	-	(536)	1,026	-	-	1,026
Change in value of property	(2,860,000)	-	-	(2,860,000)	-	-	-	-
Net realized/unrealized gain on investments	227,357	163,094	-	390,451	65,929	167,891	-	233,820
Unrealized (loss) gain on bequest	(8,078)	-	-	(8,078)	2	-	-	2
Change in value of charitable remainder trust	-	134,895	-	134,895	-	2,130	-	2,130
Change in value of unitrusts	-	2,529	-	2,529	-	21,294	-	21,294
Unrealized appreciation (depreciation) of beneficial interest in perpetual trusts	-	-	2,454	2,454	-	-	734	734
Change in value of beneficial interest in private foundation	-	55,306	-	55,306	-	9,809	-	9,809
Net assets released from restriction	554,219	(554,219)	-	-	731,764	(731,764)	-	-
<b>Total support and revenue</b>	<b>12,149,640</b>	<b>953,423</b>	<b>2,454</b>	<b>13,105,517</b>	<b>14,735,359</b>	<b>(6,072)</b>	<b>734</b>	<b>14,730,021</b>
<b>Expenses:</b>								
Programs:								
Membership service	2,729,308	-	-	2,729,308	2,773,598	-	-	2,773,598
Family service	5,144,308	-	-	5,144,308	4,995,355	-	-	4,995,355
Adult programs	608,776	-	-	608,776	581,404	-	-	581,404
Youth and community programs	1,662,975	-	-	1,662,975	1,390,428	-	-	1,390,428
Head Start	3,159,278	-	-	3,159,278	3,094,633	-	-	3,094,633
Fundraising	430,602	-	-	430,602	553,700	-	-	553,700
Building and administrative	681,695	-	-	681,695	649,528	-	-	649,528
<b>Total expenses</b>	<b>14,416,942</b>	<b>-</b>	<b>-</b>	<b>14,416,942</b>	<b>14,038,646</b>	<b>-</b>	<b>-</b>	<b>14,038,646</b>
<b>Change in net assets</b>	<b>(2,267,302)</b>	<b>953,423</b>	<b>2,454</b>	<b>(1,311,425)</b>	<b>696,713</b>	<b>(6,072)</b>	<b>734</b>	<b>691,375</b>
<b>Net assets, beginning of year</b>	<b>13,781,516</b>	<b>2,606,094</b>	<b>1,105,846</b>	<b>17,493,456</b>	<b>13,084,803</b>	<b>2,612,166</b>	<b>1,105,112</b>	<b>16,802,081</b>
<b>Net assets, end of year</b>	<b>\$ 11,514,214</b>	<b>\$ 3,559,517</b>	<b>\$ 1,108,300</b>	<b>\$ 16,182,031</b>	<b>\$ 13,781,516</b>	<b>\$ 2,606,094</b>	<b>\$ 1,105,846</b>	<b>\$ 17,493,456</b>

The notes to financial statements are an integral part of these statements.

**The Young Men's Christian Association (YMCA)  
of Frederick County, Maryland, Inc.**

**Statement of Functional Expenses (with comparative totals for 2016)**

For the years ended December 31,

2017

	<b>Programs</b>					<b>Other</b>		<b>Total 2017</b>	<b>Total 2016</b>
	<u>Membership Services</u>	<u>Family Services</u>	<u>Adult Programs</u>	<u>Youth and Community Programs</u>	<u>Head Start</u>	<u>Fundraising</u>	<u>Building and Administration</u>		
<b>Personnel:</b>									
Salaries and wages	\$ 716,550	\$ 2,694,019	\$ 356,261	\$ 871,199	\$ 1,420,657	\$ 150,938	\$ 961,139	\$ 7,170,763	\$ 6,743,360
Employee benefits	83,781	426,199	21,221	44,626	293,951	27,207	107,159	1,004,144	990,111
Payroll taxes	54,629	197,020	26,407	66,744	167,728	9,892	113,237	635,657	603,078
Total personnel	<u>854,960</u>	<u>3,317,238</u>	<u>403,889</u>	<u>982,569</u>	<u>1,882,336</u>	<u>188,037</u>	<u>1,181,535</u>	<u>8,810,564</u>	<u>8,336,549</u>
<b>Operating:</b>									
Interest	-	-	-	-	-	-	96,938	96,938	85,529
Plant and equipment	24,353	349,401	14,744	39,501	496,382	-	1,458,117	2,382,498	2,506,732
Depreciation and amortization	-	-	-	-	110,807	-	536,214	647,021	625,401
Professional fees	25,901	44,999	21,557	39,048	307,601	26,288	391,072	856,466	915,202
Supplies	34,159	177,340	10,249	201,181	191,879	3,229	33,416	651,453	594,733
Transportation	6,663	57,531	-	17,701	97,300	1,799	23,065	204,059	165,981
Communication	8,538	32,324	-	4,030	25,591	3,698	36,347	110,528	102,352
Dues	50,408	72,604	-	19,997	5,616	5,793	20,199	174,617	184,821
Training and meetings	879	33,458	2,337	15,437	27,953	25,114	53,459	158,637	164,945
Special events	-	-	-	-	-	81,982	545	82,527	92,759
Bad debt and discount expense	-	6,799	-	-	-	8,450	-	15,249	21,067
Write off of debt acquisition cost	-	-	-	-	-	-	-	-	-
Miscellaneous	16,447	99,614	-	1,473	13,813	212	94,826	226,385	242,575
Total operating	<u>167,348</u>	<u>874,070</u>	<u>48,887</u>	<u>338,368</u>	<u>1,276,942</u>	<u>156,565</u>	<u>2,744,198</u>	<u>5,606,378</u>	<u>5,702,097</u>
Subtotal of expenses	1,022,308	4,191,308	452,776	1,320,937	3,159,278	344,602	3,925,733	14,416,942	14,038,646
<b>Allocation of building and administrative</b>	<u>1,707,000</u>	<u>953,000</u>	<u>156,000</u>	<u>342,038</u>	<u>-</u>	<u>86,000</u>	<u>(3,244,038)</u>	<u>-</u>	<u>-</u>
<b>Total Expenses</b>	<u>\$ 2,729,308</u>	<u>\$ 5,144,308</u>	<u>\$ 608,776</u>	<u>\$ 1,662,975</u>	<u>\$ 3,159,278</u>	<u>\$ 430,602</u>	<u>\$ 681,695</u>	<u>\$ 14,416,942</u>	<u>\$ 14,038,646</u>

The notes to financial statements are an integral part of these statements.



**The Young Men's Christian Association (YMCA)  
of Frederick County, Maryland, Inc.**

**Statement of Functional Expenses**

For the year ended December 31,

2016

	<b>Programs</b>					<b>Other</b>		<b>Total 2016</b>
	<b>Membership Services</b>	<b>Family Services</b>	<b>Adult Programs</b>	<b>Youth and Community Programs</b>	<b>Head Start</b>	<b>Fundraising</b>	<b>Building and Administration</b>	
<b>Personnel:</b>								
Salaries and wages	\$ 684,768	\$ 2,567,359	\$ 339,949	\$ 718,121	\$ 1,385,030	\$ 148,567	\$ 899,566	\$ 6,743,360
Employee benefits	86,545	417,961	19,436	35,568	304,807	24,675	101,119	990,111
Payroll taxes	56,359	186,612	25,320	54,754	164,213	9,856	105,964	603,078
Total personnel	<u>827,672</u>	<u>3,171,932</u>	<u>384,705</u>	<u>808,443</u>	<u>1,854,050</u>	<u>183,098</u>	<u>1,106,649</u>	<u>8,336,549</u>
<b>Operating:</b>								
Interest	-	-	-	-	-	-	85,529	85,529
Plant and equipment	29,687	359,974	5,073	29,555	501,549	-	1,580,894	2,506,732
Depreciation and amortization	-	-	-	-	111,306	-	514,095	625,401
Professional fees	40,449	44,982	18,390	34,780	266,643	145,338	364,620	915,202
Supplies	20,971	183,015	10,164	150,335	201,758	2,566	25,924	594,733
Transportation	1,884	39,410	-	17,749	80,598	1,486	24,854	165,981
Communication	9,432	29,033	-	3,211	22,889	2,174	35,613	102,352
Dues	60,956	79,465	-	17,991	1,131	5,818	19,460	184,821
Training and meetings	4,829	42,258	1,072	17,062	38,766	20,084	40,874	164,945
Special events	-	-	-	-	-	91,576	1,183	92,759
Bad debt and discount expense	-	5,551	-	-	-	13,756	1,760	21,067
Write off of debt acquisition cost	-	-	-	-	-	-	-	-
Miscellaneous	14,718	84,295	-	1,263	15,943	27,804	98,552	242,575
Total operating	<u>182,926</u>	<u>867,983</u>	<u>34,699</u>	<u>271,946</u>	<u>1,240,583</u>	<u>310,602</u>	<u>2,793,358</u>	<u>5,702,097</u>
Subtotal of expenses	1,010,598	4,039,915	419,404	1,080,389	3,094,633	493,700	3,900,007	14,038,646
<b>Allocation of building and administrative</b>	<u>1,763,000</u>	<u>955,440</u>	<u>162,000</u>	<u>310,039</u>	<u>-</u>	<u>60,000</u>	<u>(3,250,479)</u>	<u>-</u>
<b>Total Expenses</b>	<u>\$ 2,773,598</u>	<u>\$ 4,995,355</u>	<u>\$ 581,404</u>	<u>\$ 1,390,428</u>	<u>\$ 3,094,633</u>	<u>\$ 553,700</u>	<u>\$ 649,528</u>	<u>\$ 14,038,646</u>

The notes to financial statements are an integral part of these statements.

**The Young Men's Christian Association (YMCA)  
of Frederick County, Maryland, Inc.**

**Statements of Cash Flows**

For the years ended December 31,	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (1,311,425)	\$ 691,375
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	647,021	625,401
Amortized interest expense on financing costs	7,044	7,044
Bad debt expense	6,799	7,311
Loss (gain) on disposal of equipment	536	(1,026)
Change in value of property	2,860,000	-
Realized/unrealized (gain) loss on investments	(390,451)	(237,484)
Discount and allowance for promises to give	8,450	41,581
Contributions restricted for long-term purposes	(1,141,959)	(448,500)
Change in value of charitable remainder trust	(134,895)	(2,130)
Change in value of unitrust	(2,529)	(21,294)
Change in value of beneficial interest in perpetual trust	(2,454)	(734)
Unrealized appreciation of beneficial interest in private foundation	(55,306)	(6,147)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(121,892)	180,860
Promises to give	151,540	(258,251)
Other assets	(95,312)	15,817
Other receivables	45,578	(2)
(Decrease) increase in:		
Accounts payable	(21,576)	(106,287)
Accrued expenses and deferred rent	36,003	67,015
Deferred revenue	62,871	45,001
<b>Net cash provided by operating activities</b>	<u>548,043</u>	<u>599,550</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(367,501)	(522,240)
Proceeds from sale of property and equipment	729	3,500
Purchase of investments	(1,232,481)	(318,105)
Proceeds from sale of investments	1,190,661	324,664
<b>Net cash used in investing activities</b>	<u>(408,592)</u>	<u>(512,181)</u>

The notes to financial statements are an integral part of these statements.

**The Young Men's Christian Association (YMCA)  
of Frederick County, Maryland, Inc.**

**Statements of Cash Flows** (continued)

For the years ended December 31,	<u>2017</u>	<u>2016</u>
<b>Cash flows from financing activities:</b>		
Principal payments on line of credit	\$ -	\$ (500,000)
Principal payments of long-term debt	(131,677)	-
Contributions restricted for long-term purposes	<u>1,141,959</u>	<u>448,500</u>
<b>Net cash provided by (used in) financing activities</b>	<u>1,010,282</u>	<u>(51,500)</u>
Net increase in cash and cash equivalents	1,149,733	35,869
Cash and cash equivalents, beginning of year	<u>723,154</u>	<u>687,285</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,872,887</u>	<u>\$ 723,154</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 89,894	\$ 78,187
<b>Components of cash and cash equivalents:</b>		
Cash and cash equivalents - unrestricted	\$ 646,311	\$ 523,713
Cash and cash equivalents - restricted for South County	1,053,612	120,190
Cash and cash equivalents - restricted for scholarship and endowment	<u>172,964</u>	<u>79,251</u>
	<u>\$ 1,872,887</u>	<u>\$ 723,154</u>

The notes to financial statements are an integral part of these statements.

# The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc.

## Notes to Financial Statements

For the years ended December 31, 2017 and 2016

### 1. Nature of Organization and Summary of Significant Accounting Policies

#### **Nature of Organization**

The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc. (the "Association") is a not-for-profit charitable organization that was founded in 1858. It is an association of persons of all ages who are united in a common effort to put Christian principles into practice through programs that promote healthy lifestyles, strengthen the family, develop leadership in youth, build international understanding, and assist in community development in Frederick, Maryland. The Association's primary focus is to provide opportunities for healthy living, youth development, and social responsibility.

The following is a summary of the Association's significant accounting policies:

#### **Basis of Accounting**

The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Expenditures reported on the Schedule of Expenditures of Federal Awards (the "Schedule") are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

#### **Basis of Presentation**

The financial statement presentation follows the accounting standards related to financial statements of not-for-profit organizations. According to these standards, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted net assets* – Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. These assets are currently available to support the Association's operations.

*Temporarily restricted net assets* – Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and otherwise removed by actions of the Association pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

# The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc.

## Notes to Financial Statements

For the years ended December 31, 2017 and 2016

### 1. Nature of Organization and Summary of Significant Accounting Policies (continued)

#### **Basis of Presentation** (continued)

*Permanently restricted net assets* – Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Association's actions.

#### **Schedule of Federal Expenditures**

The Schedule of Federal Expenditures includes the federal funding activity of the Association under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Association, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Association.

#### **Long-Term Debt and Debt Issuance Costs**

*Long-Term Debt and Debt Issuance Costs* - In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU No. 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), which resulted in the reclassification of debt issuance costs from "Other Assets" to inclusion as a reduction of the reportable "Long-Term Debt" balance on the Statements of Financial Position at December 31, 2016. Since ASU 2015-03 does not address deferred issuance costs for line-of-credit arrangements, the FASB issued ASU No. 2015-15, *Interest – Imputation of Interest: Present and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* (ASU 2015-15), in August 2015. ASU 2015-15 allows a company to defer debt issuance costs associated with line of credit arrangements, including arrangements with no outstanding borrowings, classify them as an asset and amortize them over the term of the arrangements. The Association adopted ASU 2015-03 at January 2, 2016 with full retrospective application as required by the guidance and ASU 2015-15. These standards did not have a material impact on the Statements of Financial Position and had no impact on the cash flows provided by or used in operations for any period presented.

*Debt Acquisition Costs and Reclassification* - Debt acquisition costs are being amortized over the term of the debt using the interest method. The amortization of these costs of \$7,044 and \$7,044 are now included within interest expense in the Statements of Financial Position for the years ended December 31, 2017 and 2016, respectively. Net debt acquisition costs included in "long-term debt" on the Statements of Financial Position are \$18,798 and \$25,842 at December 31, 2017 and 2016, respectively.

# **The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc.**

## **Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

### **1. Nature of Organization and Summary of Significant Accounting Policies (continued)**

#### **Financial Risk**

The Association has a potential concentration of credit risk if they maintain deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The maximum deposit insurance amount for interest and non-interest bearing accounts is \$250,000, which is applied per depositor, per insured bank for each account ownership category. The Association's total cash in excess of federally insured limits was \$526,941 and \$431,705 at December 31, 2017 and 2016, respectively. See Note 18 for subsequent activity.

The Association invests in a professionally managed portfolio that contains common shares and bonds of publicly traded companies, U.S. obligations, mutual funds, and money market funds. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

#### **Cash Equivalents**

The Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

#### **Accounts Receivable**

The Association's receivables consist primarily of childcare fees receivable, grant receivables, and promises to give. Childcare fees are generally recorded as receivables on a monthly basis.

Reimbursable grants are recorded as receivables when the Association recognizes the related expenses, and unconditional promises to give are recorded as receivables as donor pledge cards are received.

The need for any provision for uncollectible accounts is based on management's evaluation of the collectibility of receivables. All accounts receivable at December 31, 2017 and 2016 are considered collectible, and therefore no loss provision is deemed necessary. Accounts receivable are reviewed quarterly for troubled accounts, which are written off when management deems them uncollectible. Recoveries of receivables previously written off are recorded when received. A childcare account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 15 days. Interest is not charged on past due amounts. Bad debt expense was \$6,799 and \$7,220 for the years ended December 31, 2017 and 2016, respectively.

**The Young Men's Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**1. Nature of Organization and Summary of Significant Accounting Policies (continued)**

**Promises to Give**

Contributions are recognized when the donor makes a promise to give to the Association that is, in substance, unconditional. In accordance with accounting standards for contributions received and contributions made, promises to give which are to be received in a future period are discounted to their net present value at the time the revenue is recorded. Promises to give range over a one to ten year period and are discounted at a rate of 4.25% and 3.5%, a rate which is selected based on the Association's minimum borrowing rate for the years ended December 31, 2017 and 2016, respectively.

**Investments**

Investments with readily determinable fair values are reflected at fair market value. The change in fair market value is charged or credited to current operations.

Realized gains and losses on sale of investments are computed using the first-in, first-out specific identification method. All realized gain and losses on sale of investments are recorded on the trading date of the transaction in the appropriate net asset category.

**Other Current Assets**

Other current assets consists of prepaid insurance, prepaid property taxes, and payroll advances.

**Other Assets – South County**

Other assets – South County consists of costs incurred related to the planned South County branch facility.

**Property and Equipment**

Property and equipment is stated at cost. Contributed property and equipment is recorded at fair value at the date of contribution. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as temporarily restricted net assets if the donor has restricted the use of the property or equipment to a particular program. If donors specify a length of time over which the property or equipment must be used, the restrictions expire evenly over the required period. Absent that type of restriction for use, the Organization considers the restriction met when the assets are placed in service. The Association capitalizes all property and equipment purchased with a cost of \$5,000 or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Useful lives range from 3-7 years for furniture and equipment to 40 years for buildings and improvements.

# **The Young Men’s Christian Association (YMCA) of Frederick County, Maryland, Inc.**

## **Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

### **1. Nature of Organization and Summary of Significant Accounting Policies (continued)**

#### **Valuation of Long-Lived Assets**

The Association accounts for the valuation of long-lived assets under accounting standards for the impairment or disposal of long-lived assets. This accounting standard requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the 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 estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. During 2017, the Association noted impairment on a piece of land held (see note 4).

#### **Remainder Interests – Charitable Remainder Trust and Unitrusts Receivable**

The Association has been named beneficiary of various charitable remainder trusts and unitrusts. A qualifying charitable remainder trust or unitrust provides lifetime income to the donor and/or the donor’s family members, with the remaining trust assets passing to the Association when the trust ends. These trusts are created by donors independently of the Association and are neither in the possession nor under the control of the Association. The trusts are administered by outside fiscal agents as designated by the donor. The Association records the present value of the remainder interest discounted at the IRS Section 7520 rate of 2.6% and 1.8% for 2017 and 2016, retrospectively. Charitable remainder trusts and unitrusts are recognized as revenue when the Association is notified that they have been named as a beneficiary.

#### **Private Foundation**

The Association has been named beneficiary of the Benjamin Shuff Trust (the “Trust”). The Association recorded the fair value of the Trust as a temporarily restricted asset, and records income from the Trust as unrestricted revenue. Realized gains recorded as a release from restriction were \$11,437 and \$3,662 for the years ended December 31, 2017 and 2016, respectively. The Trust is required to distribute 5% of its net assets annually.



# **The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc.**

## **Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

### **1. Nature of Organization and Summary of Significant Accounting Policies (continued)**

#### **Perpetual Trust**

Perpetual trusts are considered permanently restricted net assets. The fair value of the assets held by the trusts is reported on the Association's Statements of Financial Position. In cases where the donor has granted variance power to a third party, the Association does not record its interest in the future income of the trusts as assets, but rather, records only the income distributions that it receives from the third party.

#### **Fair Value of Financial Instruments**

Financial instruments include cash, evidence of an ownership interest in an entity or a contract that both 1) imposes on an entity a contractual obligation to deliver or exchange cash or another financial instrument to another entity and 2) conveys to the other entity a contractual right to receive or exchange cash or another financial instrument from the first entity. Financial instruments can include cash equivalents, investments, receivables, payables, revolving credit facilities, short-term and long-term debt, and derivatives such as interest rate swaps, options and foreign currency contracts.

The Association estimates that the carrying amounts of its financial instruments approximate fair value due to the short term nature of those instruments. The estimated fair value amounts have been determined by the Association using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly the estimates may not be indicative of the amounts the Association could realize in a current market. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

#### **Fair Value Measurements**

The Association applies fair value measurement standards which apply whenever other authoritative literature requires certain assets and liabilities to be measured at fair value. Items carried at fair value on a recurring basis consist primarily of financial instruments which are valued primarily based on quoted prices in active or brokered markets for identical as well as similar assets and liabilities. Items carried at fair value on a non-recurring basis generally consist of assets held for sale. The Association also uses fair value concepts to test long-lived assets for impairment, if applicable.

**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**1. Nature of Organization and Summary of Significant Accounting Policies (continued)**

**Fair Value Measurements** (continued)

In accordance with accounting standards, the Association has characterized its investments in securities based on the priority of inputs used to value the investments, based on a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within three different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investments. Available-for-sale securities recorded in the financial statements are categorized based on the inputs to valuation techniques as follows:

Level 1 – These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Association has the ability to access. All investments currently held by the Association are considered to be level one.

Level 2 – These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. The Association currently has no level two investments.

Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. The Association currently has no level three investments.

Following is a description of the valuation methodologies used for investments measured at fair value at December 31, 2017 and 2016:

Corporate stocks, mutual funds, and exchange traded funds: Valued at the closing price reported in the active market in which the individual securities are traded.

Corporate bonds: Valued at the closing price reported in the active market in which the bonds are traded.

**Gifts-In-Kind**

Gifts-in-kind are valued at fair value at the date of the gift.

**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**1. Nature of Organization and Summary of Significant Accounting Policies (continued)**

**Donated Services and Materials**

Volunteers make significant contributions of time to the Association. In accordance with GAAP, the Association records only the value of contributed services that require specialized skills that create or enhance a non-financial asset, are provided by individuals possessing those skills or licenses, and for which the Association would need to purchase if the services were not donated.

Donated materials and professional services are recorded at their estimated fair value at the date of donation. The Association recorded donated materials and services revenue and related expense of \$641,011 and \$528,455 for the years ended December 31, 2017 and 2016, respectively.

**Restricted and Unrestricted Revenue**

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions.

All donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as “net assets released from restriction.” Temporarily restricted revenue earned and released within the same year is recorded as unrestricted net assets on the Statements of Activities at year end. Unconditional promises to give are recognized as revenue in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**Membership Dues**

The Association recognizes membership dues over the term of the membership by deferring the portion which relates to the period of membership of the subsequent year. Joining fees are recognized when received.

**Class Fees**

The Association recognizes class fees in the period in which the class is given. Class fees that are received for classes given in a subsequent period are deferred.

**Advertising**

Advertising costs are expensed in the period incurred. For the years ended December 31, 2017 and 2016, the Association incurred advertising costs of \$98,782 and \$90,124, respectively.

# **The Young Men’s Christian Association (YMCA) of Frederick County, Maryland, Inc.**

## **Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

### **1. Nature of Organization and Summary of Significant Accounting Policies (continued)**

#### **Functional Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Building and administration costs are allocated to programs based on square footage.

#### **Use of Estimates in Preparing Financial Statements**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

#### **Income Taxes**

The Association is generally exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Association qualifies for a charitable contributions deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Association had no unrelated business income tax for the years ended December 31, 2017 and 2016.

#### **Uncertain Tax Positions**

The Association applies the accounting guidance for “uncertainty in income taxes.” This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association’s tax returns to determine whether any tax positions would “more-likely-than-not” be sustained by the applicable tax authority. Tax positions deemed not to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year.

The Association believes that its income tax filing positions and deductions will be sustained upon examination and, accordingly, has not recorded any reserves, or related accruals for interest and penalties, at December 31, 2017 for uncertain income tax positions. The Association continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

Currently, the 2014, 2015 and 2016 tax years are open and subject to examinations by the Internal Revenue Service and the Comptroller of Maryland.

**The Young Men's Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**1. Nature of Organization and Summary of Significant Accounting Policies (continued)**

**Uncertain Tax Positions** (continued)

The Association has adopted a policy under which, if required to be recognized in the future, it will classify interest related to the underpayment of income taxes as a component of interest expense, and it will classify any related penalties in operating expenses in the Statements of Functional Expenses.

**2. Accounts Receivable**

Accounts receivable at December 31 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Childcare	\$ 59,043	\$ 31,019
Head Start	146,576	151,865
Grants	30,014	89,500
Other	<u>200,821</u>	<u>48,977</u>
Total	<u>\$ 436,454</u>	<u>\$ 321,361</u>

**3. Other Current Assets**

Other current assets consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Prepaid insurance	\$ 58,617	\$ 46,526
Prepaid taxes and payroll advances	12,018	11,951
Prepaid other	26,944	33,373
Prepaid other - Headstart	<u>20,000</u>	<u>-</u>
Total	<u>\$ 117,579</u>	<u>\$ 91,850</u>

**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**4. Property and Equipment**

Property and equipment at December 31 consists of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 6,272,826	\$ 9,132,826
Buildings and improvements	11,689,077	11,364,413
Furniture and equipment	<u>2,843,243</u>	<u>2,824,817</u>
Total	20,805,146	23,322,056
Less accumulated depreciation	<u>(8,789,399)</u>	<u>(8,165,524)</u>
Net property and equipment	<u>\$ 12,015,747</u>	<u>\$ 15,156,532</u>

Depreciation expense was \$647,021 and \$625,401 for the years ended December 31, 2017 and 2016, respectively.

During the year ended December 31, 2017, it was determined that there was a permanent impairment of the value of the South County property held by the YMCA of Frederick County for future development in Urbana. The land was donated to the YMCA in 2007 and at that time the value was determined by an independent appraisal using the sales comparison method. The appraiser estimated and certified the land’s Fair Market Value (FMV) was given a range of \$8.3-\$8.9M. The land was recorded at a value of \$8.6M.

The land has been held by the Association since 2007, pending the development of a YMCA Facility now expected to be built by 2020. A new appraisal was completed in March 2018, again using the sales comparison method which yielded a FMV of \$5,740,000. The impairment was likely caused by the 2008 market downturn which caused a significant reduction of market value of real properties and equity across the nation. As a result, the fair value of the property was written down by \$2,860,000 during 2017 to represent the current fair value and a realized loss. This impairment of value is referred to throughout the financial statements as a “change in value of property.”

**5. Endowment Funds**

Generally accepted accounting principles provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The endowment funds of the Association are included in the investments and net assets.

# The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc.

## Notes to Financial Statements

For the years ended December 31, 2017 and 2016

### 5. Endowment Funds (continued)

The following disclosures are required under the UPMIFA regulations:

#### Return objectives and risk parameters

The Board of Directors of the Association has established an investment policy to clearly articulate the views on investment objectives and risk tolerance for the endowment funds. The investment objectives are for long term growth over a period of 30 years or more, with a balanced risk tolerance. The following types of investments are prohibited: short sales, margin transactions, private placements, interest rate futures, letter stocks, and hedging transactions.

The portfolio performance will be measured against the following benchmarks:

<u>Sector</u>	<u>Benchmark</u>
Total Equity	S&P 500
Large Cap Equity	S&P 500
Mid Cap Equity	Russell Mid Cap
Small Cap Equity	Russell 2000
International Equity	MSCI EAFE
Total Fixed Income	Barclays Aggregate

#### Strategies employed for achieving objectives

The Association maintains the following asset classifications in order to achieve the objectives listed above:

<u>Category</u>	<u>% Range of Allocation</u>	
	<u>Minimum</u>	<u>Maximum</u>
Equity	55%	75%
Fixed Income	25%	45%
Cash Equivalents	0%	10%
Specialized Investments	0%	0%

#### Spending policy

The Board of Directors of the Association determines how much investment income will be spent annually.

**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**5. Endowment Funds (continued)**

The following schedules are the endowment net asset composition by type of fund as of December 31:

**2017**

<u>Endowment Funds</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 1,193,274	\$ 1,080,045	\$ 2,273,319
Unrestricted investments	<u>1,757,074</u>	<u>-</u>	<u>-</u>	<u>1,757,074</u>
Total funds	<u>\$ 1,757,074</u>	<u>\$ 1,193,274</u>	<u>\$ 1,080,045</u>	<u>\$ 4,030,393</u>

**2016**

<u>Endowment Funds</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 1,037,440	\$ 1,080,045	\$ 2,117,485
Unrestricted investments	<u>1,378,655</u>	<u>-</u>	<u>-</u>	<u>1,378,655</u>
Total funds	<u>\$ 1,378,655</u>	<u>\$ 1,037,440</u>	<u>\$ 1,080,045</u>	<u>\$ 3,496,140</u>

Funds which are currently classified by the Association as unrestricted may be transferred to the temporarily restricted classification by the Association, based on a review of the gift instruments for endowment funds.



**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**5. Endowment Funds (continued)**

A summary of activity in the endowment funds is as follows:

	Endowment Funds Activity			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at December 31, 2015	\$ 1,322,799	\$ 877,506	\$ 1,080,045	\$ 3,280,350
Interest and dividends	35,389	54,572	-	89,961
Disbursements and fees	(45,462)	(62,529)	-	(107,991)
Net realized/unrealized gain	<u>65,929</u>	<u>167,891</u>	<u>-</u>	<u>233,820</u>
Balance at December 31, 2016	1,378,655	1,037,440	1,080,045	3,496,140
Interest and dividends	41,263	60,847	-	102,110
Contributions	348,923	25,425	-	374,348
Disbursements and fees	(239,124)	(93,532)	-	(332,656)
Net realized/unrealized gain	<u>227,357</u>	<u>163,094</u>	<u>-</u>	<u>390,451</u>
Balance at December 31, 2017	<u>\$ 1,757,074</u>	<u>\$ 1,193,274</u>	<u>\$ 1,080,045</u>	<u>\$ 4,030,393</u>

**6. Investments**

Investments in marketable securities are reported at their fair value based on quoted prices in active markets. Cost basis data is not available for the investment in Community Foundation, but the market value of this fund is disclosed in the following table. Fair values at December 31 are summarized as follows:

	(Level 1) <u>2017</u>	(Level 1) <u>2016</u>
Cash and cash equivalents - restricted	\$ 172,964	\$ 79,251
Corporate stocks	1,563,282	1,389,758
Bonds (in mutual funds)	1,219,822	1,144,123
Exchange traded funds	<u>899,639</u>	<u>730,354</u>
	3,855,707	3,343,486
Investment in Community Foundation	<u>174,686</u>	<u>152,654</u>
Total	<u>\$ 4,030,393</u>	<u>\$ 3,496,140</u>

**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**6. Investments (continued)**

The cost and market values of all investments, except those within the Community Foundation, are as follows at December 31:

	<u>2017</u>			
	<u>Cost</u>	Unrealized <u>Gain</u>	Unrealized <u>Loss</u>	<u>Market</u>
Scholarship Fund	\$ 1,652,348	\$ 336,967	\$ (16,150)	\$ 1,973,165
Endowment Fund	1,744,757	150,546	(12,761)	1,882,542
Total	<u>\$ 3,397,105</u>	<u>\$ 487,513</u>	<u>\$ (28,911)</u>	<u>\$ 3,855,707</u>

	<u>2016</u>			
	<u>Cost</u>	Unrealized <u>Gain</u>	Unrealized <u>Loss</u>	<u>Market</u>
Scholarship Fund	\$ 1,621,703	\$ 229,432	\$ (33,804)	\$ 1,817,331
Endowment Fund	1,497,827	48,631	(20,303)	1,526,155
Total	<u>\$ 3,119,530</u>	<u>\$ 278,063</u>	<u>\$ (54,107)</u>	<u>\$ 3,343,486</u>

Investment fees, which are netted within investment returns, were \$37,651 and \$33,630 for the years ended December 31, 2017 and 2016, respectively.

Investments are classified in the accompanying Statements of Financial Position at December 31 as follows:

	<u>2017</u>	<u>2016</u>
Restricted:		
Investments restricted for scholarships	\$ 1,973,165	\$ 1,817,331
Investments restricted for endowments	300,154	300,154
	<u>2,273,319</u>	<u>2,117,485</u>
Unrestricted - Board designated	<u>1,757,074</u>	<u>1,378,655</u>
Total	<u>\$ 4,030,393</u>	<u>\$ 3,496,140</u>

An investment could be considered impaired if its fair value is less than its cost basis. Investments are reported at their fair market value, thus any impairment losses have already been recognized through “unrealized losses” in the Statement of Activities. Management feels that all of the investment portfolios losses are temporary. Management does not feel that any significant losses other than those already recorded will be recognized on these investments.

**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**6. Investments (continued)**

Investments included in the portfolio that have been in a continuous loss position at December 31, 2017 are as follows:

	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Bonds						
(in mutual funds)	\$ 20,915	\$ (48)	\$ 30,236	\$ (555)	\$ 51,151	\$ (603)
Corporate stocks	132,600	(7,216)	470,551	(21,043)	603,151	(28,259)
Exchange traded funds	9,041	(49)	-	-	9,041	(49)
Total	<u>\$ 162,556</u>	<u>\$ (7,313)</u>	<u>\$ 500,787</u>	<u>\$ (21,598)</u>	<u>\$ 663,343</u>	<u>\$ (28,911)</u>

**7. Unitrusts Receivable**

On December 17, 1979, Mr. and Mrs. Maynard G. Summers made a gift of their 100% interest in Summers, Inc. to the Association in the form of a Unitrust Agreement (Summers Unitrust). The Unitrust Agreement required an annual payment of a fixed percentage of the appraised value of the trust property (Level 1 investments) to Mrs. Summers as long as she lives.

During 2015, Mrs. Summers passed away at which time the Association took ownership and control of the Unitrust assets. Assets of the Summers Unitrust were liquidated and were used in operations of the Association to make repairs, due to water damage incurred during the year (see note 16). Fundraising efforts were still underway through 2017 to offset these additional costs.

The Association has an 8% interest in the Ernest W. Ausherman Charitable Remainder Unitrust Agreement (Ausherman Unitrust). The Unitrust Agreement required an annual payment of a fixed percentage of the income to Mrs. Ausherman during her lifetime. When her estate is settled, the Association will own the 8% interest in the Unitrust assets which include land that is valued based on an independent appraisal (Level 3).

The fair value of the Unitrust assets was estimated based on the fair value of the assets less the present value of the payments expected to be made. The present value of the payments was based on the expected lives of the beneficiaries using a discount rate based on the IRS Section 7520 rate of 2.6% and 1.8% for 2017 and 2016, respectively.

**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**7. Unitrusts Receivable (continued)**

A summary of the Unitrusts as of December 31 is as follows:

	<u>2017</u>	<u>2016</u>
Ausherman Unitrust	\$ 167,205	\$ 164,676

**8. Charitable Remainder Trust**

During the year ended December 31, 1994, Mr. Alden Fisher made a gift of \$750,000 in the form of a Charitable Remainder Annuity Trust (Level 1 investments). The Trust requires an annual payment to the beneficiaries named in the Trust for their lifetime at the lesser of 10% or the maximum allowed by the Internal Revenue Service.

Under the terms of the Trust, future distributions will be received by the Association only after obligations to the beneficiaries are satisfied. The fair value of the contribution was estimated based on the fair value of the assets contributed by the donor less the present value of the payments expected to be made to the beneficiaries. The present value of the payments was based on the expected life span of the beneficiaries using a discount rate of 2.6% and 1.8% for 2017 and 2016, respectively. The value of the Charitable Remainder Trust as of December 31, 2017 and 2016 was \$649,515 and \$514,620, respectively.

**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**9. Promises to Give**

During 2017 and 2016, the Association received promises to give whose expected collection range over a one to ten-year period. These promises to give are categorized as either current or specific to the South County branch campaign on the financial statements and are combined in this disclosure. The Association had promises to give in the amount of \$702,286 and \$877,622 as of December 31, 2017 and 2016, respectively. The effective interest rate of the discount was 4.25% and 3.50% for the years ended December 31, 2017 and 2016, respectively.

Promises to give at December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Promises to give	\$ 702,286	\$ 877,622
Less discount to net present value	<u>(63,356)</u>	<u>(78,702)</u>
Net promises to give	<u>\$ 638,930</u>	<u>\$ 798,920</u>
Current net promises to give	\$ 253,860	\$ 212,480
Long-term net promises to give	<u>385,070</u>	<u>586,440</u>
Net promises to give	<u>\$ 638,930</u>	<u>\$ 798,920</u>
Receivable in less than one year	\$ 264,650	\$ 219,916
Receivable in one to five years	393,804	607,316
Receivable in more than five years	<u>43,832</u>	<u>50,390</u>
Total promises to give	<u>\$ 702,286</u>	<u>\$ 877,622</u>

**10. Line and Letter of Credit**

The Association has a revolving line of credit available for \$675,000. Interest accrues monthly at the prime rate as published in the Wall Street Journal minus 0.25%, currently at 4.25% at December 31, 2017. The line of credit is secured by all accounts, chattel paper, inventory, equipment, fixtures, and general intangibles. The outstanding balance on the line of credit was \$-0- at December 31, 2017 and 2016.

The Association had a letter of credit with a bank in the amount of \$170,363 issued at September 21, 2016. The letter of credit is for the benefit of the Maryland Department of Economic and Employment Development and is required as a condition of the Association’s self-insuring for State unemployment. On September 21, 2017, the letter of credit was amended and the

**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**10. Line and Letter of Credit (continued)**

Association obtained a new letter of credit in the amount of \$175,237. The new letter of credit has a maturity date of September 30, 2018.

**11. Long-Term Debt**

Long-term debt at December 31 is as follows:

	<u>2017</u>	<u>2016</u>
Mortgage note, payable in 41 monthly installments of \$11,668 starting March 2017; including interest at 1.75% above one-month LIBOR, currently 2.56%; note required eighteen months of interest only payments through February 2017; requires balloon payment of \$2,520,849 at August 2020; secured by real property.	\$ 2,683,323	\$ 2,733,824
Mortgage note, payable in 41 monthly installments of \$1,500 starting March 2017; including interest at 1.75% above one-month LIBOR, currently 2.56%; note required eighteen months of interest only payments through February 2017; requires balloon payment of \$324,115 at August 2020; secured by real property.	345,000	351,493
Less unamortized debt issuance costs	<u>(18,798)</u>	<u>(25,842)</u>
Total	3,009,525	3,059,475
Less current portion	<u>158,012</u>	<u>74,683</u>
Net long-term debt	<u>\$ 2,851,513</u>	<u>\$ 2,984,792</u>

Maturities on long-term debt, excluding unamortized debt issuance costs, at December 31, 2017 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2018	\$ 158,012
2019	158,012
2020	<u>2,712,299</u>
Total	<u>\$ 3,028,323</u>

**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**11. Long-Term Debt (continued)**

Interest expense under the above obligations was \$89,894 and \$78,485 for the years ended December 31, 2017 and 2016, respectively.

The Association is subject to a financial covenant in connection with its outstanding mortgages. As of December 31, 2016, the Association was in compliance with this financial covenant. As of December 31, 2017, the Association was not in compliance with this covenant, but the bank provided a waiver for the non-compliance. The waiver related to the year ended December 31, 2017 was effective May 15, 2018.

**12. Temporarily Restricted Net Assets**

Temporarily restricted net assets include donor restricted funds which are available for program activities or general support for future years.

Temporarily restricted net assets are comprised of the following at December 31:

	<u>2017</u>	<u>2016</u>
Time Restricted:		
Ausherman Unitrust	\$ 167,205	\$ 164,676
Charitable Remainder Trust receivable (Fisher)	649,515	514,620
Private foundation - Benjamin Shuff Trust	450,180	403,143
	<u>1,266,900</u>	<u>1,082,439</u>
Purpose Restricted:		
Scholarships to youth and families for summer camp activities, memberships or program activities	1,193,274	1,037,440
South County project	1,080,459	461,215
Other miscellaneous	18,884	25,000
	<u>\$ 3,559,517</u>	<u>\$ 2,606,094</u>

**13. Permanently Restricted Net Assets**

The Association has been named partial beneficiary in five perpetual trusts. The first trust was established by the John and Katherine Cheatham Foundation, the second by Raymond Zimmerman, the third by Alden E. Fisher, the fourth by Philip and Janis Miller Wertheimer, and the fifth by Wayne C. and Margaret S. Neely. The terms of the first four Trusts allow for the income earned by the Trusts to be used at the Association’s discretion. The income on the Neely Trust is to be used for scholarships.

**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**13. Permanently Restricted Net Assets (continued)**

The fair value of the assets available to the Association of the John and Katherine Cheatham Foundation, Raymond Zimmerman, and Wayne C. and Margaret S. Neely Trusts are reported on the Association’s Statements of Financial Position as permanently restricted net assets. The Fisher and Wertheimer Trusts are held by the Community Foundation of Frederick County, Maryland, Inc. (Community Foundation). For these trusts, the donor granted variance power to the Community Foundation, and thus the Association does not record their interest in these Trusts, but rather records the income distribution when it receives notification from the Community Foundation.

	<u>2017</u>	<u>2016</u>
Perpetual Trusts:		
John and Katherine Cheatham Foundation		
Remainder Trust	\$ 18,776	\$ 17,276
Raymond Zimmerman Remainder Trust	9,479	8,525
	<u>28,255</u>	<u>25,801</u>
Endowments:		
Neely Endowment	779,891	779,891
Crozier Endowment	236,354	236,354
Rosenstock Endowment	63,800	63,800
	<u>1,080,045</u>	<u>1,080,045</u>
Total	<u>\$ 1,108,300</u>	<u>\$ 1,105,846</u>

**14. Retirement Plan**

The Association has a defined contribution retirement plan available to eligible employees. Eligible employees are those who have attained 21 years of age, work a minimum of 1,000 hours per year and have a minimum of two years of service. Effective December 1, 2009, the contribution rate was changed to 8% of annual salary up to the maximum allowed by the Internal Revenue Service. Pension expense for the years ended December 31, 2017 and 2016 was \$369,357 and \$354,134, respectively.

**15. Operating Leases and Deferred Rent**

The Association leases equipment, eight buildings, one campground, and one parking lot under non-cancelable operating leases. The equipment leases require monthly payments ranging from \$57 - \$2,586 with maturity dates from October 2018 through February 2021. The building and campground leases require monthly payments ranging from \$467 - \$7,571 with maturity dates from June 2017 through May 2026.



**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**15. Operating Leases and Deferred Rent (continued)**

The parking lot lease required monthly payments of \$250 and matured in April 2016, at which point in time, the lease was extended on a month-to-month basis through February 28, 2017. The lease was not extended beyond that date.

Seven of the leases require escalating rent payments each year. These leases are expensed using the straight-line basis over the life of the lease. “Deferred rent” represents the cumulative expense recognized on a straight-line basis in excess of the cumulative payments made.

Future minimum lease payments under these leases are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2018	\$ 349,090
2019	314,249
2020	144,097
2021	79,911
2022	63,723
Thereafter	<u>161,402</u>
Total	<u>\$ 1,112,472</u>

In addition, the Association leases space on an hourly basis for the after school care programs and for the Head Start program. In addition, the Association leases school buses for field trips and other transportation purposes. The facilities and equipment lease expense for the years ended December 31, 2017 and 2016 was \$765,167 and \$734,806, respectively.

**16. South County Development Project**

During 2015, the Association began a \$22 million capital campaign to build the South County Family YMCA. The mission of the YMCA of Frederick County is to meet the needs of everyone in Frederick County. Toward that end, the South County Family YMCA will serve youth, families, and seniors in the fastest growing part of the County.

**The Young Men’s Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**16. South County Development Project (continued)**

The subsequent chart provides information regarding sources and uses of funds for this Project.

	<u>2017</u>	<u>2016</u>
Sources of funds:		
Donated land, original value	\$ 8,600,000	\$ 8,600,000
Change in value of property	(2,860,000)	-
Promises to give, net - current - South County	232,760	190,060
Promises to give, net - non current - South County	284,140	482,340
Cash received, prior years	389,016	120,118
Cash received, current year	<u>1,253,516</u>	<u>268,898</u>
Total source of funds, end of year	7,899,432	9,661,416
Use of funds, beginning of year	<u>\$ 325,071</u>	<u>\$ 192,072</u>
Expenses	8,285	127,917
Capitalized costs	<u>69,583</u>	<u>5,082</u>
Use of funds, end of year	<u>77,868</u>	<u>132,999</u>
Total funds expended to date	<u><u>\$ 402,939</u></u>	<u><u>\$ 325,071</u></u>

A Memorandum of Understanding between the Association and Frederick County Maryland (“County”) was entered into on February 28, 2017. The County has identified and determined there is a need for a competitive level swimming pool facility to provide year-round swimming to benefit the students and citizens of Frederick County. The County does not desire at this time to construct or operate an additional pool and recognizes that the Association has experience in developing a swimming pool facility. Therefore, the County has requested that the Association plan, develop, and construct County requested enhancements to the aquatics center; including the competitive level swimming pool. In the consideration thereof, the County will contribute a portion of the estimated capital funding in the amount of \$3,600,000. The County contribution is anticipated to be allocated and paid in six annual installments beginning the fiscal year ending 2020. Upon completion of the enhanced aquatics center, the County and the Association will enter into a 20 year lease agreement with two additional five year options with the agreement of the parties to a non-exclusive use of the enhanced aquatics facility by the County. The Association has not recorded any activity related to this swimming pool facility within its financial statements at December 31, 2017.

Following a competitive bid process, the Association has subsequently awarded pre-construction agreements for architectural, engineering, and construction services of approximately \$300,000.

# The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc.

## Notes to Financial Statements

For the years ended December 31, 2017 and 2016

### 17. New Accounting Standards

#### Accounting Standards Issued But Not Yet Adopted

ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. In August 2016, the FASB issued a new accounting standard that requires the number of net asset classes to be reduced from three to two. The new standard also requires the presentation of expenses in both natural and functional classifications and eliminates the requirement to prepare a reconciliation in the statement of cash flows when applying the direct method, as well as additional disclosures. The Association will adopt the new presentation guidance effective January 1, 2018. The Association is assessing the potential impact to the financial statements and disclosures.

ASU 2014-09, *Revenue – Revenue from Contracts with Customers*. In May 2014, the FASB issued a new accounting standard that requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Association expects to be entitled in exchange for those goods or services. The FASB has also issued several updates to ASU 2014-09. The new standard supersedes U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires additional disclosures. The Association will adopt the new revenue guidance effective January 1, 2019, by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of Net Assets. The Association is assessing the potential impact to the financial statements and disclosures.

ASU 2016-02, *Leases*. In February 2016, the FASB issued a new accounting standard which provides guidance on the recognition, measurement, presentation, and disclosure of leases. The new standard supersedes present U.S. GAAP guidance on leases and requires substantially all leases to be reported on the balance sheet as right-of-use assets and lease liabilities, as well as additional disclosures. The new standard is effective as of January 1, 2020, and early adoption is permitted. The Association is assessing the potential impact to the financial statements and disclosures.

### 18. Subsequent Events

Subsequent events were evaluated through May 30, 2018, the date the financial statements were available to be issued.

Effective February 1, 2018, the Association increased their YMCA Retirement Fund contribution percentage from 8% to 9%. The Association does not anticipate this increase to have a material financial impact. The YMCA Retirement Fund requires that all YMCA member associations participate in this plan at a range of 8% to 12%.

Subsequent to year end, the Association entered into several construction contracts for the South County Project. See Note 16.

**The Young Men's Christian Association (YMCA) of  
Frederick County, Maryland, Inc.**

**Notes to Financial Statements**

For the years ended December 31, 2017 and 2016

**18. Subsequent Events (continued)**

In March 2018, the Association desired to reduce its potential concentration of credit risk and invested in several certificates of deposit in various banks. Management believes that this change will allow the Association to maintain deposits with financial institutions below amounts insured by the Federal Deposit Insurance Corporation (FDIC).

The Association experienced significant flood damage in May 2018, which is expected to be covered by insurance.

There are no additional subsequent events to be disclosed.

## **Supplemental Information**

**The Young Men's Christian Association (YMCA)  
of Frederick County, Maryland, Inc.**

**Schedule of Expenditures of Federal Awards**

For the year ended December 31, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
<b>Major Program:</b>		
U.S. Dept of Health and Human Services/ Head Start		
Grant year ending June 30, 2017	93.600	\$ 1,149,636
Grant year ending April 30, 2018	93.600	<u>1,029,670</u>
		2,179,306
<b>Non-Major Programs:</b>		
U.S. Dept. of Education/ 21st Century Community Learning Center	84.287	14,609
U.S. Dept. of Agriculture/ Child and Adult Care Food Program	10.558	<u>161,639</u>
		<u>\$ 2,355,554</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

# The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc.

## Notes to Schedule of Expenditures of Federal Awards

For the year ended December 31, 2017

### A. Basis of Presentation

This schedule of expenditures of federal awards includes the federal funding activity of The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc. under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Association, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Association.

### B. Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) The Association has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

### C. Relationship to Financial Statements

A reconciliation of the amounts included in the financial statements to the amounts in the Schedule of Expenditures of Federal Awards is as follows:

Statement of functional expense - Head Start	\$ 3,159,278
Statement of functional expense - Other programs	28,381
In-kind contributions	<u>(641,011)</u>
Total	2,546,648
Depreciation	(110,807)
Expenditures from non-federal sources	<u>(80,287)</u>
Expenditures from Federal funds	<u><u>\$ 2,355,554</u></u>

The notes to the financial statements are an integral part of these statements.

**Independent Auditor's 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**

Board of Directors  
The Young Men's Christian Association (YMCA)  
of Frederick County, Maryland, Inc.  
Frederick, Maryland

We have audited, in accordance with the 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 financial statements of The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc., which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 30, 2018.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc.'s 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc.'s 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 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 charge with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002, that we consider to be significant deficiencies.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its 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 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*.

### ***The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc.'s Response to Findings***

The Association's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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.

*McLean, Koehler, Sparks & Hammond*

Frederick, Maryland  
May 30, 2018

**Independent Auditor's Report on  
Compliance for Each Major Federal Program and Report on Internal Control  
Over Compliance Required by the Uniform Guidance**

Board of Directors  
The Young Men's Christian Association (YMCA)  
of Frederick County, Maryland, Inc.  
Frederick, Maryland

**Report on Compliance for Each Major Federal Program**

We have audited The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the YMCA's major federal program for the year ended December 31, 2017. The Association's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Association's 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 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 the Association's 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 the Association's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

### **Report on Internal Control Over Compliance**

Management of the Association 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 the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 the Association's 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-002, that we consider to be a significant deficiency.

The Association's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

*McLean, Koehler, Sparks & Hammond*

Frederick, Maryland  
May 30, 2018

**The Young Men’s Christian Association (YMCA)  
of Frederick County, Maryland, Inc.**

**Schedule of Findings and Questioned Costs**

For the year ended December 31, 2017

**A. SUMMARY OF AUDIT RESULTS**

1. The independent auditor’s report expresses an unmodified opinion on whether the financial statements of The Young Men’s Christian Association (YMCA) of Frederick County, Maryland, Inc. (the “Association”) were prepared in accordance with GAAP.
2. No material weaknesses were identified during the audit of the financial statements. Significant deficiencies, not considered to be material weaknesses, were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Association were identified during the audit.
4. No material weaknesses were identified during the audit of the major federal award program. Significant deficiencies, not considered to be material weaknesses, were identified during the audit of the major federal award program.
5. The auditor’s report on compliance for the major federal award program for the Association expresses an unmodified opinion.
6. Any audit findings required to be reported in accordance with 2 CFR section 200.516(a) – Yes.
7. The following federal award program was tested:  
U.S. Department of Health and Human Services:  
    Head Start: Major program 93.600
8. The threshold for distinguishing Type A and Type B programs was \$750,000, and the Association was determined to be a low risk auditee.

**The Young Men's Christian Association (YMCA)  
of Frederick County, Maryland, Inc.**

**Schedule of Findings and Questioned Costs**

For the year ended December 31, 2017

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**Significant Deficiency**

**2017-001 Internal Control over Financial Statements**

**Condition:** During our audit, we noted certain matters that collectively constituted a significant deficiency in internal control over financial reporting. Items noted were as follows:

Several significant adjustments were made to the general ledger subsequent to year-end in conjunction with the audit. Timely review and reconciliation of certain accounts, were not performed in preparation for the audit, however, these were completed subsequently by management.

In addition, there were several material adjustments made during the audit that were not discovered by the Association's internal control system.

**Criteria:** Internal controls should be in place that provide reasonable assurance that financial statements are not materially misstated.

**Cause:** Due to time constraints caused by major payroll/human resource system conversion in December 2017 and continuing into the first quarter of 2018, internal control procedures that allow for review and reconciliation were not followed.

**Effect:** Due to the failure to review and reconcile accounts, financial statements could be materially misstated.

**Recommendation:** Procedures should be implemented to appropriately reconcile accounts and allocations on a timely basis to improve the accuracy of reporting and reduce the number of adjusting entries.

**View of Responsible Officials and Planned Corrective Actions:**

All key Statement of Financial Position accounts are currently reconciled on a monthly basis where possible. Many of the reconciliations and resulting journal entries that resulted in the above finding are what the Association classifies as annual reconciliations. Management will ensure all annual reconciliations of the general ledger accounts are completed in advance of the audit field work to reduce the number of journal entries and improve the audit efficiency. Management will also implement a secondary review on major account balances in order to avoid future material adjustments.

**The Young Men’s Christian Association (YMCA)  
of Frederick County, Maryland, Inc.**

**Schedule of Findings and Questioned Costs**

For the year ended December 31, 2017

**C. FINDINGS & QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM  
AUDIT**

**Significant Deficiency**

**2017-002 Internal Control over Major Federal Award Program**

**Condition:** During our audit, we noted an instance that constituted a significant deficiency in internal control over financial reporting for the federal awards program.

Several significant adjustments to record and allocate federal costs were made to the general ledger subsequent to year-end in conjunction with the audit. Timely review and reconciliation of certain accounts, were not performed in preparation for the audit, however, these were completed subsequently by management. The allocation and adjustments made were substantially correct.

**Criteria:** Internal controls should be in place that provide reasonable assurance that federal awards are reconciled timely and not materially misstated.

**Cause:** Due to time constraints caused by workload, internal control procedures that allow for review and reconciliation were not followed.

**Effect:** Due to the failure to review and reconcile accounts timely, federal award programs could be materially misstated.

**Recommendation:** Procedures should be implemented to appropriately reconcile accounts and allocations on a timely basis to improve the accuracy of reporting and reduce the number of adjusting entries.

**View of Responsible Officials and Planned Corrective Actions:**

All key Statement of Financial Position accounts are currently reconciled on a monthly basis where possible. Many of the reconciliations and resulting journal entries that resulted in the above finding are what the Association classifies as annual reconciliations. Management will ensure all annual reconciliations of the general ledger accounts are completed in advance of the audit field work to reduce the number of journal entries and improve the audit efficiency.

**The Young Men's Christian Association (YMCA)  
of Frederick County, Maryland, Inc.**

**Summary Schedule of Prior Year Findings and Questioned Costs**

For the year ended December 31, 2017

**A. PRIOR YEAR FINANCIAL STATEMENT FINDINGS**

**None**

**B. PRIOR YEAR MAJOR PROGRAM FINDINGS**

**None**