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

Audited Financial Statements

December 31, 2013 and 2012

Contents

McLean, Koehler, Sparks & Hammond
Certified Public Accountants/Business Consultants

Independent Auditor's Report

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

We have audited the accompanying 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, 2013 and 2012, 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.

70 Thomas Johnson Drive, Suite 100
Frederick, Maryland 21702-4317, USA
301.662.2400 Fax: 301.695.7913
www.mksh.com • E-mail: info@mksh.com

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, 2013 and 2012, 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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 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 16, 2014 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

May 16, 2014
Frederick, Maryland

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

Statements of Financial Position

December 31,	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 255,285	$ 414,721
Accounts receivable	253,910	323,869
Investments	1,014,156	810,967
Promises to give, net - current	13,960	12,860
Other current assets	105,988	126,262
Other receivables - current	300,000	-
Total current assets	1,943,299	1,688,679
Property and Equipment, net of accumulated depreciation	15,705,889	15,445,438
Other Assets:		
Promises to give, net - non current	45,260	56,200
Other receivables - non current	60,778	60,986
Investments - restricted for scholarship and endowment	1,376,556	1,056,712
Unitrusts receivable	677,888	586,401
Charitable remainder trust	450,132	340,748
Beneficial interest in private foundation	417,683	359,828
Beneficial interest in perpetual trusts	26,806	23,508
Debt acquisition costs, net of accumulated amortization	48,887	55,203
Total other assets	3,103,990	2,539,586
Total Assets	$ 20,753,178	$ 19,673,703

	2013	2012
Liabilities and Net Assets		
Current Liabilities:		
Line of credit	$ 200,000	$ -
Current maturities of long-term debt	160,234	178,523
Current maturities of capital lease obligation	1,675	9,428
Accounts payable	213,775	231,455
Accrued expenses	446,449	404,542
Deferred revenue	373,397	515,633
Total current liabilities	1,395,530	1,339,581
Long-Term Liabilities:		
Long-term debt	3,144,486	3,304,711
Capital lease obligation	-	1,675
Total long-term liabilities	3,144,486	3,306,386
Total liabilities	4,540,016	4,645,967
Net Assets:		
Unrestricted:		
Board designated	1,014,156	810,967
Other	11,949,941	11,817,772
Total unrestricted	12,964,097	12,628,739
Temporarily restricted	2,422,105	2,075,335
Permanently restricted	826,960	323,662
Total net assets	16,213,162	15,027,736
Total Liabilities and Net Assets	$ 20,753,178	$ 19,673,703

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,	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Public Support:								
Head Start federal grant	$ 2,427,711	$ -	$ -	$ 2,427,711	$ 883,941	$ -	$ -	$ 883,941
State contracts	340,384	-	-	340,384	356,591	-	-	356,591
Contributions	178,653	-	500,000	678,653	170,857	31,800	-	202,657
Head Start in-kind contributions	514,379	-	-	514,379	223,947	-	-	223,947
Head Start capital contribution	-	-	-	-	303,450	-	-	303,450
Fundraising organizations	49,114	-	-	49,114	60,964	-	-	60,964
Revenue:								
Membership	2,747,402	-	-	2,747,402	2,785,246	-	-	2,785,246
Class fees	6,031,689	-	-	6,031,689	5,844,474	-	-	5,844,474
Special events	184,563	-	-	184,563	111,162	-	-	111,162
Sales	26,314	-	-	26,314	11,285	-	-	11,285
Miscellaneous (expense) income	(759)	-	-	(759)	48,358	-	-	48,358
Interest and dividends	26,684	34,033	-	60,717	37,409	30,696	-	68,105
Net realized/unrealized gain (loss) on investments	156,843	214,181	-	371,024	88,473	60,156	-	148,629
Change in value of charitable remainder trust	-	109,384	-	109,384	-	25,594	-	25,594
Change in value of unitrusts	-	91,487	-	91,487	-	44,550	-	44,550
Unrealized appreciation (depreciation) of beneficial interest in perpetual trusts	-	-	3,298	3,298	-	-	1,485	1,485
Unrealized appreciation (depreciation) of beneficial interest in private foundation	-	(47,709)	-	(47,709)	-	27,931	-	27,931
Net assets released from restriction	54,606	(54,606)	-	-	17,171	(17,171)	-	-
Total support and revenue	12,737,583	346,770	503,298	13,587,651	10,943,328	203,556	1,485	11,148,369
Expenses:								
Programs:								
Membership service	2,450,440	-	-	2,450,440	2,368,300	-	-	2,368,300
Family service	4,616,902	-	-	4,616,902	4,281,315	-	-	4,281,315
Adult programs	558,924	-	-	558,924	528,573	-	-	528,573
Youth and community programs	1,122,598	-	-	1,122,598	1,203,841	-	-	1,203,841
Head Start	2,880,222	-	-	2,880,222	1,223,737	-	-	1,223,737
Fundraising	152,313	-	-	152,313	126,750	-	-	126,750
Building and administrative	620,826	-	-	620,826	576,062	-	-	576,062
Total expenses	12,402,225	-	-	12,402,225	10,308,578	-	-	10,308,578
Change in net assets	335,358	346,770	503,298	1,185,426	634,750	203,556	1,485	839,791
Net assets, beginning of year	12,628,739	2,075,335	323,662	15,027,736	11,993,989	1,871,779	322,177	14,187,945
Net assets, end of year	$ 12,964,097	$ 2,422,105	$ 826,960	$ 16,213,162	$ 12,628,739	$ 2,075,335	$ 323,662	$ 15,027,736

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 2012)

For the years ended December 31, 2013

	Programs					Other			
	Membership Services	Family Services	Adult Programs	Youth and Community Programs	Head Start	Fundraising	Building and Administration	**Total 2013**	**Total 2012**
Personnel:									
Salaries and wages	$ 720,427	$ 2,445,366	$ 323,400	$ 599,150	$ 1,408,218	$ 27,734	$ 906,870	$ 6,431,165	$ 5,439,526
Employee benefits	67,080	341,151	14,303	15,613	147,984	6,134	82,348	674,613	517,738
Payroll taxes	54,419	200,917	24,314	46,034	210,965	1,956	112,197	650,802	503,630
Total personnel	841,926	2,987,434	362,017	660,797	1,767,167	35,824	1,101,415	7,756,580	6,460,894
Operating:									
Interest	-	-	-	-	-	-	169,139	169,139	200,287
Plant and equipment	23,754	265,945	24,964	80,429	479,805	-	1,021,824	1,896,721	1,542,118
Depreciation and amortization	-	-	-	-	96,434	-	534,739	631,173	480,846
Professional fees	6,700	27,255	16,375	36,930	135,411	-	325,920	548,591	394,629
Supplies	40,585	180,114	15,857	72,871	205,790	2,066	34,427	551,710	416,631
Transportation	577	6,971	-	4,057	109,756	1,083	80,046	202,490	110,805
Communication	11,334	22,554	-	1,335	28,565	3,120	29,239	96,147	76,453
Dues	35,376	49,037	-	10,543	2,574	2,142	13,640	113,312	114,721
Training and meetings	9,805	55,705	3,671	16,137	41,591	12,998	3,006	142,913	96,399
Special events	-	-	-	35,442	-	32,080	4,305	71,827	56,228
Provision for bad debt expense	-	46,883	-	-	-	-	-	46,883	53,727
Write off of debt acquisition costs	-	-	-	-	-	-	-	-	153,196
Miscellaneous	14,383	68,504	40	136	13,129	-	78,547	174,739	151,644
Total operating	142,514	722,968	60,907	257,880	1,113,055	53,489	2,294,832	4,645,645	3,847,684
Subtotal of expenses	984,440	3,710,402	422,924	918,677	2,880,222	89,313	3,396,247	12,402,225	10,308,578
Allocation of building and administrative	1,466,000	906,500	136,000	203,921	-	63,000	(2,775,421)	-	-
Total Expenses	$ 2,450,440	$ 4,616,902	$ 558,924	$ 1,122,598	$ 2,880,222	$ 152,313	$ 620,826	$ 12,402,225	$ 10,308,578

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, 2012

	Programs					Other		
	Membership Services	Family Services	Adult Programs	Youth and Community Programs	Head Start	Fundraising	Building and Administration	Total 2012
Personnel:								
Salaries and wages	$ 704,483	$ 2,275,161	$ 282,122	$ 676,870	$ 656,033	$ 26,355	$ 818,502	$ 5,439,526
Employee benefits	46,990	304,831	21,231	18,442	22,353	2,103	101,788	517,738
Payroll taxes	53,453	165,025	20,673	51,717	90,086	1,863	120,813	503,630
Total personnel	804,926	2,745,017	324,026	747,029	768,472	30,321	1,041,103	6,460,894
Operating:								
Interest	-	-	-	-	-	-	200,287	200,287
Plant and equipment	43,080	235,583	44,234	62,869	257,732	-	898,620	1,542,118
Depreciation and amortization	-	-	-	-	-	-	480,846	480,846
Professional fees	9,022	18,599	16,311	39,428	49,921	6,992	254,356	394,629
Supplies	45,785	167,168	13,836	74,977	73,310	610	40,945	416,631
Transportation	545	20,987	210	26,623	41,860	93	20,487	110,805
Communication	9,114	24,053	-	4,402	10,404	222	28,258	76,453
Dues	33,093	48,859	-	5,588	4,785	840	21,556	114,721
Training and meetings	9,838	24,758	2,956	5,963	12,040	2,305	38,539	96,399
Special events	-	275	-	22,033	-	32,646	1,274	56,228
Provision for bad debt expense	-	36,566	-	450	-	16,611	100	53,727
Write off of debt acquisition costs	-	-	-	-	-	-	153,196	153,196
Miscellaneous	14,897	66,060	-	-	5,213	110	65,364	151,644
Total operating	165,374	642,908	77,547	242,333	455,265	60,429	2,203,828	3,847,684
Subtotal of expenses	970,300	3,387,925	401,573	989,362	1,223,737	90,750	3,244,931	10,308,578
Allocation of building and administrative	1,398,000	893,390	127,000	214,479	-	36,000	(2,668,869)	-
Total Expenses	$ 2,368,300	$ 4,281,315	$ 528,573	$ 1,203,841	$ 1,223,737	$ 126,750	$ 576,062	$ 10,308,578

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,	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 1,185,426	$ 839,791
Adjustments to reconcile change in net assets to net cash provided by operating actitivies:		
Depreciation	624,856	468,278
Amortization	6,317	12,568
Contributed Head Start equipment	-	(303,450)
Provision for bad debt expense	46,883	53,727
Loss (gain) on disposal of equipment	17,267	(2,397)
Write off of debt acquisition costs	-	153,196
Realized/unrealized gain on investments	(371,024)	(148,629)
Change in value of charitable remainder trust	(109,384)	(25,594)
Change in value of unitrust	(91,487)	(44,550)
Change in value of beneficial interest in perpetual trust	(3,298)	(1,485)
Unrealized depreciation (appreciation) of beneficial interest in private foundation	47,709	(27,931)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	23,076	(294,450)
Promises to give	9,840	9,220
Other current assets	20,273	(7,438)
Other receivables	(299,792)	370
(Decrease) increase in:		
Accounts payable	(17,680)	66,553
Accrued expenses	41,907	67,498
Deferred revenue	(142,236)	206,614
Net cash provided by operating actitivies	988,653	1,021,891
Cash flows from investing activities:		
Purchase of property and equipment	(913,424)	(719,730)
Proceeds from sale of property and equipment	10,850	10,241
Purchase of investments	(843,391)	(2,526,829)
Proceeds from sale of investments	585,818	2,498,906
Net cash used in investing activities	(1,160,147)	(737,412)

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,	2013	2012
Cash flows from financing activities:		
Debt acquisition costs	$ -	$ (51,047)
Proceeds from line of credit	575,000	680,000
Principal payments on line of credit	(375,000)	(913,722)
Proceeds from long-term debt	-	2,925,000
Principal payments of long-term debt	(178,514)	(3,550,879)
Principal payments under capital lease obligation	(9,428)	(9,155)
Net cash provided by (used in) financing activities	12,058	(919,803)
Net decrease in cash and cash equivalents	(159,436)	(635,324)
Cash and cash equivalents, beginning of year	414,721	1,050,045
Cash and cash equivalents, end of year	$ 255,285	$ 414,721
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 169,139	$ 250,859
Noncash investing activity:		
Transfer of Head Start furniture and equipment	$ -	$ 303,450

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, 2013 and 2012

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 the cost principles contained in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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.

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.

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

Basis of Presentation (continued)

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.

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 grant activity of the Association under programs of the federal government for the year ended December 31, 2013. The information in this Schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. 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.

Financial Risk

The Association maintains its cash and temporary cash investments in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and temporary cash investments. The FDIC limits were changed as of December 31, 2010 through December 31, 2012 for all noninterest bearing accounts. All noninterest bearing accounts were fully insured regardless of the balance. As of January 1, 2013, the FDIC limits changed back to $250,000 for all noninterest and interest bearing accounts. The Association's cash is held in both interest and noninterest bearing accounts. The amount of cash in investment accounts not covered by the FDIC is $218,048 and $54,286 at December 31, 2013 and 2012, respectively.

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.

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

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 collectability of receivables. All accounts receivable at December 31, 2013 and 2012 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 $46,883 and $53,727 for the years ended December 31, 2013 and 2012, respectively.

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 3.25%, a rate which is selected based on the Association's minimum borrowing rate for the years ended December 31, 2013 and 2012.

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.

Other Current Assets

Other current assets consists of inventory, prepaid expenses, and payroll advances.

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

Other Receivables

In 2007, the Association was named a partial beneficiary of the L. Edward Blumenauer Estate. In 2013, the Association was notified that they were named a partial beneficiary of the Margaret S. Neely Estate. Other receivables consists of additional funds anticipated to be received from these estates.

Inventory

Inventory, included in "other current assets" on the Statements of Financial Position, consists of merchandise available for sale and is valued at cost. As of December 31, 2013 and 2012, inventory was $500 and $811, respectively.

Property and Equipment

Property and equipment is stated at cost. Contributed property and equipment is recorded at fair value at the date of contribution. The Association capitalizes all property and equipment purchased with a cost of $1,000 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.

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. The Association has no impaired assets.

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

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

Remainder Interests – Charitable Remainder Trust and Unitrusts Receivable (continued)

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 2.0% and 1.2% for 2013 and 2012, respectively. 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. The Trust is required to distribute 5% of its net assets annually.

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.

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

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.

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.

Debt Acquisition Costs

Debt acquisition costs are being amortized over the term of the debt using the interest method. Amortization expense was $6,317 and $12,568 for the years ended December 31, 2013 and 2012, respectively. Net debt acquisition costs included in the Statements of Financial Position were $48,887 and $55,203 at December 31, 2013 and 2012, respectively. At June 1, 2012, the Association called the bond resulting in a write-off of debt acquisition costs of $153,196. The remaining balance at December 31, 2013 and 2012 is related to the new debt entered into during 2012.

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

Gifts-In-Kind

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

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 $482,954 and $261,864 (including $37,917 in state contract grants conveyed by the predecessor grantee) for the years ended December 31, 2013 and 2012, respectively. In addition, the Association received donations of $303,450 for capitalized equipment related to the Head Start program for the year ended December 31, 2012.

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.

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

Advertising

Advertising costs are expensed in the period incurred. For the years ended December 31, 2013 and 2012, the Association incurred advertising costs of $117,894 and $93,027, respectively.

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.

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, 2013 and 2012.

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, 2013 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 2010, 2011 and 2012 tax years are open and subject to examinations by the Internal Revenue Service and the Comptroller of Maryland.

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:

	2013	2012
Childcare	$ 47,552	$ 170,663
Head Start	183,205	115,109
Grants	292	911
Other	22,861	37,186
Total	$ 253,910	$ 323,869

3. Property and Equipment

Property and equipment at December 31 consists of the following:

	2013	2012
Land	$ 9,132,826	$ 9,132,826
Buildings and improvements	10,984,837	10,500,931
Furniture and equipment	2,466,811	2,315,333
Total	22,584,474	21,949,090
Less accumulated depreciation	(6,878,585)	(6,503,652)
Net property and equipment	$ 15,705,889	$ 15,445,438

Depreciation expense was $624,856 and $468,278 for the years ended December 31, 2013 and 2012, respectively.

4. 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 organization are included in the investments and net assets.

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:

Sector	Benchmark
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:

Category	% Range of Allocation	
	Minimum	Maximum
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.

4. Endowment Funds (continued)

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

2013

Endowment Funds	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 876,402	$ 500,154	$ 1,376,556
Unrestricted investments	1,014,156	-	-	1,014,156
Total funds	$ 1,014,156	$ 876,402	$ 500,154	$ 2,390,712

2012

Endowment Funds	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 756,558	$ 300,154	$ 1,056,712
Unrestricted investments	810,967	-	-	810,967
Total funds	$ 810,967	$ 756,558	$ 300,154	$ 1,867,679

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.

5. 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) 2013	(Level 1) 2012
Cash and cash equivalents	$ 200,000	$ -
Bonds (in mutual funds)	629,874	608,164
Corporate stocks (in mutual funds)	1,415,090	1,131,130
	2,244,964	1,739,294
Investment in Community Foundation	145,748	128,385
Total	$ 2,390,712	$ 1,867,679

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

2013	Cost	Unrealized Appreciation	Market
Scholarship Fund	$ 760,378	$ 116,024	$ 876,402
Endowment Fund	1,026,084	142,478	1,168,562
Neely Endowment	200,000	-	200,000
Total	$ 1,986,462	$ 258,502	$ 2,244,964

2012	Cost	Unrealized Appreciation	Market
Scholarship Fund	$ 726,378	$ 30,180	$ 756,558
Endowment Fund	952,901	29,835	982,736
Total	$ 1,679,279	$ 60,015	$ 1,739,294

Investment fees, which are netted within investment returns, were $10,889 and $8,635 for the years ended December 31, 2013 and 2012, respectively.

5. Investments (continued)

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

	2013	2012
Restricted:		
Investments restricted for scholarships	$ 1,076,402	$ 756,558
Investments restricted for endowments	300,154	300,154
	1,376,556	1,056,712
Unrestricted - Board designated	1,014,156	810,967
Total	$ 2,390,712	$ 1,867,679

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.

Investments included in the portfolio that have been in a continuous loss position at December 31, 2013 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)	$ 54,073	$ (927)	$ 425,525	$ (16,421)	$ 479,598	$ (17,348)
Corporate stocks (in mutual funds)	-	-	65,903	(3,613)	65,903	(3,613)
Total	$ 54,073	$ (927)	$ 491,428	$ (20,034)	$ 545,501	$ (20,961)

6. 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 requires 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. When she passes away, the Association will own and control the Unitrust assets.

6. Unitrusts Receivable (continued)

The Association has an 8% interest in the Ernest W. Ausherman Charitable Remainder Unitrust Agreement (Ausherman Unitrust). The Unitrust Agreement requires an annual payment of a fixed percentage of the income to Mrs. Ausherman as long as she lives. When she passes away, 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 2.0% and 1.2% for 2013 and 2012, respectively.

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

	2013	2012
Summers Unitrust	$ 541,022	$ 452,186
Ausherman Unitrust	136,866	134,215
Total	$ 677,888	$ 586,401

7. 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 2.0% and 1.2% for 2013 and 2012, respectively. The value of the Charitable Remainder Trust as of December 31, 2013 and 2012 was $450,132 and $340,748, respectively.

8. Promises to Give

During 2013, the Association received promises to give whose expected collection range over a one to ten-year period. The Association had promises to give in the amount of $66,532 and $78,580 as of December 31, 2013 and 2012, respectively. The effective interest rate of the discount was 3.25% for the years ended December 31, 2013 and 2012.

8. Promises to Give (continued)

Promises to give at December 31 are as follows:

	2013	2012
Promises to give	$ 66,532	$ 78,580
Less discount to net present value	(7,312)	(9,520)
Net promises to give	$ 59,220	$ 69,060
Current net promises to give	$ 13,960	$ 12,860
Long-term net promises to give	45,260	56,200
Net promises to give	$ 59,220	$ 69,060
Receivable in less than one year	$ 14,412	$ 13,280
Receivable in one to five years	35,800	48,980
Receivable in more than five years	16,320	16,320
Total promises to give	$ 66,532	$ 78,580

9. Line and Letter of Credit

The Association has a bank line of credit for $500,000. The line of credit is secured by all inventory, chattel paper, accounts, equipment, and general intangibles. Interest is at the Wall Street Journal's prime rate, but no less than 3.25%. The Association converted the terms of the line of credit so that repayment of both principal and interest was not required until June 30, 2014.

The Association has a letter of credit with a bank in the amount of $176,502. The letter of credit is for the benefit of the Maryland Department of Economic and Employment Development and was required as a condition of the Association's self-insuring for State unemployment. The letter of credit has a maturity date of September 30, 2014.

10. Capital Lease

The capital lease consists of an equipment lease, for the purpose of acquiring telephone equipment, that originated in February 2009 was paid entirely in March 2014. The lease has been capitalized at its incremental borrowing rate of 8.8%.

10. Capital Lease (continued)

The cost of the leased equipment of $38,308 is being depreciated over its estimated useful life. Monthly payments on this lease are $846.

Future minimum rental payments required under the capital lease are $1,698 for the year ending December 31, 2014. The amount of interest included is $22.

11. Long-Term Debt

Long-term debt at December 31 is as follows:

	2013	2012
Mortgage note, payable in monthly installments of $16,879, including interest at 4.80%; requires balloon payment of $2,160,859 at May 2022; secured by a first lien on the Association's real property.	$ 2,826,563	$ 2,889,881
Mortgage note, payable in monthly installments of $8,413, including interest at 4.25%; matures February 2019; secured by real property.	466,849	545,834
Non-revolving guidance line of credit; interest rate at 4.5%; matures November 2014.	11,308	23,105
Non-revolving guidance line of credit; interest rate at 4.75%; matured October 2013.	-	24,414
Total	3,304,720	3,483,234
Less current portion	160,234	178,523
Net long-term debt	$ 3,144,486	$ 3,304,711

11. Long-Term Debt (continued)

Maturities on long-term debt at December 31, 2013 are as follows:

Years Ending December 31,	Amount
2014	$ 160,234
2015	155,858
2016	162,709
2017	170,689
2018	178,639
Thereafter	2,476,591
Total	$ 3,304,720

Interest expense under the above obligations was $169,139 and $200,287 for the years ended December 31, 2013 and 2012, respectively.

The Association is subject to a financial covenant in connection with its outstanding mortgage. As of December 31, 2013, the Association was in compliance with this financial covenant.

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:

	2013	2012
Time Restricted:		
Summers Unitrust	$ 541,022	$ 452,186
Ausherman Unitrust	136,866	134,215
Charitable Remainder Trust receivable (Fisher)	450,132	340,748
Private foundation - Benjamin Shuff Trust	417,683	359,828
	1,545,703	1,286,977
Purpose Restricted:		
Scholarships to youth and families for summer camp activities, memberships or program activities	876,402	788,358
	$ 2,422,105	$ 2,075,335

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 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.

	2013	2012
Perpetual Trusts:		
John and Katherine Cheatham Foundation Remainder Trust	$ 18,743	$ 16,564
Raymond Zimmerman Remainder Trust	8,063	6,944
	26,806	23,508
Endowments:		
Neely Endowment	500,000	-
Crozier Endowment	236,354	236,354
Rosenstock Endowment	63,800	63,800
	800,154	300,154
Total	$ 826,960	$ 323,662

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, 2013 and 2012, was $285,509 and $258,419, respectively.

14. Retirement Plan (continued)

The Association has established a 457(b) Plan, which is a deferred compensation plan that allows select employees to shelter a limited amount of compensation. The Board of Directors established this Plan for the benefit of the President/CEO and his/her direct reports. The Plan is funded solely by the participants, and there is no employer contribution. Administrative expense is paid by the participants.

15. Operating Leases

The Association leases equipment and a building under non-cancelable operating leases. Future minimum lease payments under these leases are as follows:

Years Ending December 31,	Amount
2014	$ 130,081
2015	112,489
2016	30,085
2017	28,745
2018	19,720
Thereafter	228
Total	$ 321,348

In addition, the Association leases space on an hourly basis for the after school care programs and a monthly basis 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, 2013 and 2012 was $391,059 and $340,428, respectively.

16. Subsequent Events Evaluation

Subsequent events were evaluated through May 16, 2014, the date the financial statements were available to be issued. There are no 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, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
Major Program:		
U.S. Dept of Health and Human Services/		
Head Start		
Grant year ending April 30, 2013	93.600	$ 1,256,875
Grant year ending April 30, 2014	93.600	1,170,836
		2,427,711
Non-Major Programs:		
U.S. Dept. of Education/		
21st Century Community Learning Center	84.287	12,385
U.S. Dept. of Agriculture/		
Team Nutrition Child Care Wellness Grant	10.574	9,568
U.S. Dept. of Agriculture/		
Child and Adult Care Food Program	10.558	123,036
		$ 2,572,700

Note:

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. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

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

McLean, Koehler, Sparks & Hammond
Certified Public Accountants/Business Consultants

<u>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*</u>

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 consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 16, 2014.

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.

MKS&H
70 Thomas Johnson Drive, Suite 100
Frederick, Maryland 21702-4317, USA
301.662.2400 Fax: 301.695.7913

www.mksh.com • E-mail: info@mksh.com

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc.'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.*

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

May 16, 2014
Frederick, Maryland

McLean, Koehler, Sparks & Hammond
Certified Public Accountants/Business Consultants

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on the YMCA's major federal program for the year ended December 31, 2013. 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 requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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.

MKS&H
70 Thomas Johnson Drive, Suite 100
Frederick, Maryland 21702-4317, USA
301.662.2400 Fax: 301.695.7913
www.mksh.com • E-mail: info@mksh.com

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, 2013.

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 OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

McLean, Koehler, Sparks & Hammond

May 16, 2014
Frederick, Maryland

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

Schedule of Findings and Questioned Costs

For the year ended December 31, 2013

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unqualified opinion on the financial statements of The Young Men's Christian Association (YMCA) of Frederick County, Maryland, Inc. (the "Association").

2. There were no material weaknesses identified during the audit of the financial statements. There were no significant deficiencies reported 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 or significant deficiencies reported 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 unqualified opinion.

6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The federal award programs tested were the following:

U.S. Department of Health and Human Services:	
Head Start: Major program	93.600
U.S. Department of Education:	
21st Century Community Learning Center: Non-Major program	84.287
U.S. Department of Agriculture:	
Team Nutrition Child Care Wellness Grant: Non-Major program	10.574
Child and Adult Care Food Program: Non-Major program	10.558

8. The threshold for distinguishing Type A and Type B programs was $300,000 and the Association was not determined to be a low risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS & QUESTIONED COSTS

None

**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, 2013

A. PRIOR YEAR FINANCIAL STATEMENT FINDINGS

Finding #2012-5

Condition: There were several audit adjustments that had a significant effect on the Company's financial reporting and were considered a significant deficiency in internal control. The net effect of the journal entries that were made by management during the audit resulted in a net decrease to the change in net assets of $18,550. The adjustments were related primarily to deferred revenue.

Recommendation: The Auditor recommended that the Association implement review procedures to address any future audit adjustments.

Current Status: The recommendation was adopted and no similar findings were noted in the 2013 audit.

B. PRIOR YEAR MAJOR PROGRAM FINDINGS

Finding #2012-1

Head Start Program – CFDA No. 93.600; Award No. 03CH3367/01; Grant period: Year ended April 30, 2013; Department of Health & Human Services

Condition: Federal administrative requirements require the preparation and submission of SF-425 financial reports. The program did not comply with the submission of these reports.

Recommendation: The Auditor recommended that the Association implement procedures to ensure timely submission of all required reporting. Management concurred with the recommendation and indicated that the procedure would be implemented.

Current Status: The recommendation was adopted and no similar findings were noted in the 2013 audit.

Finding #2012-2

Head Start Program – CFDA No. 93.600; Award No. 03CH3367/01; Grant period: Year ended April 30, 2013; Department of Health and Human Services

Condition: Program governance requires that the program has policies and procedures in place to ensure that members of the governing body and the Policy Council are free from financial or other conflicts of interest with the program. There were no specific policies or procedures in place to address conflicts of interest.

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, 2013

Finding #2012-2 (continued)

Recommendation: The Auditor recommended that the Association should implement procedures to obtain signed conflict of interest statements for the members of the governing body and the Policy Council.

Current Status: The recommendation was adopted and conflict of interest statements were obtained.

Finding # 2012-3

Head Start Program – CFDA No. 93.600; Award No. 03CH3367/01; Grant period: Year ended April 30, 2013, Department of Health and Human Services

Condition: The program requires written procedure manuals, including implementation of services and the progress in meeting them. Since this was the Association's first year of involvement with the Head Start program, they were still working under prior controlling management's procedures while writing and implementing their own policies and procedure.

Recommendation: The Association should ensure completion of required procedure manuals. Management agreed with the recommendation.

Current Status: The Association completed the required written procedure manuals including implementation of services and progress in meeting them.

Finding # 2012-4

Head Start Program – CFDA No. 93.600; Award No. 03CH3367/01; Grant period: Year ended April 30, 2013; Department of Health & Human Services

Condition: The Association is required to keep track of in-kind expenses to ensure 20% matching of grant value. It was noted during the calculation of donated rental space, an amount was inadvertently excluded. The amount of donated expense reported to the HHS was underreported in a monthly report, but the Association contributed their 20% match to the program, so including this amount only increased their matching amount. In-kind revenues and expenses were recorded on a gross basis on the financial statement, but the net effect on the change in net assets was zero even if this amount were not recorded.

Recommendation: The Auditor recommended that the Association implement procedures to require review of the in-kind calculations. Management agreed with the recommendation.

Current Status: Management implemented a procedure to review their in-kind calculations.