

**YOUNG MEN'S CHRISTIAN ASSOCIATION
OF BUCKS COUNTY**

Financial Report

December 31, 2018 and 2017

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY

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Independent Auditor's Report

To the Board of Directors
Young Men's Christian Association of Bucks County
Doylestown, Pennsylvania

We have audited the accompanying financial statements of Young Men's Christian Association of Bucks County, which comprise the statements of financial position as December 31, 2018 and 2017, 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit 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 Young Men's Christian Association of Bucks County at December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, in 2018, the entity adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

DunlapSLK, PC

Chalfont, Pa.
June 27, 2019

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Statements of Financial Position
December 31, 2018 and 2017

| | 2018 | 2017 |
|--------------------------------|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 1,992,329 | \$ 1,738,499 |
| Promises to Give, Net | 1,430,043 | 332,037 |
| Grants and Other Receivables | 342,650 | 117,959 |
| Investments - Board Designated | 1,805,294 | 1,230,653 |
| Prepaid Expenses and Deposits | 123,850 | 93,176 |
| Total Current Assets | 5,694,166 | 3,512,324 |
| Property and Equipment, Net | 16,874,186 | 13,841,091 |
| Other Assets | | |
| Promises to Give, Net | 3,396,489 | 623,787 |
| Investments - Endowment | 255,824 | 292,686 |
| Total Other Assets | 3,652,313 | 916,473 |
| Total Assets | \$ 26,220,665 | \$ 18,269,888 |

See Notes to Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Statements of Financial Position
December 31, 2018 and 2017

| | 2018 | 2017 |
|--|----------------------|----------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current Maturities of Long-Term Notes | \$ 490,502 | \$ 381,507 |
| Current Obligations Under Capital Leases | 179,249 | 92,960 |
| Accounts Payable and Accrued Expenses | 390,782 | 230,629 |
| Accrued Compensation | 474,072 | 249,869 |
| Deferred Revenue | 148,453 | 227,498 |
| Total Current Liabilities | 1,683,058 | 1,182,463 |
| Long-Term Liabilities | | |
| Notes Payable | 7,447,328 | 6,745,070 |
| Obligations Under Capital Leases | 197,533 | 98,157 |
| Fair Value of Derivative Instruments | 151,257 | 297,780 |
| Total Long-Term Liabilities | 7,796,118 | 7,141,007 |
| Total Liabilities | 9,479,176 | 8,323,470 |
| Net Assets | | |
| Without Donor Restrictions | | |
| Undesignated | 9,926,357 | 7,910,225 |
| Board Designated for Buildings and Grounds | 1,928,159 | 716,008 |
| Board Designated for Endowment | 554,487 | 524,780 |
| Total Without Donor Restrictions | 12,409,003 | 9,151,013 |
| With Donor Restrictions | | |
| Perpetual in Nature | 145,824 | 292,686 |
| Purpose Restrictions | 4,186,662 | 502,719 |
| Total With Donor Restrictions | 4,332,486 | 795,405 |
| Total Net Assets | 16,741,489 | 9,946,418 |
| Total Liabilities and Net Assets | \$ 26,220,665 | \$ 18,269,888 |

See Notes to Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Statement of Activities
Year Ended December 31, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|----------------------------------|----------------------------|---------------|
| Operating Revenues, Gains and Other Support | | | |
| Contributions | \$ 491,928 | \$ 3,429,561 | \$ 3,921,489 |
| Membership Fees | 5,816,082 | - | 5,816,082 |
| Program Fees | 6,091,029 | - | 6,091,029 |
| Management Services | 58,331 | - | 58,331 |
| Endowment and Investment Income, Net | 43,956 | - | 43,956 |
| Realized/Unrealized Losses on Investments | (99,196) | (25,888) | (125,084) |
| Special Events, Net of Direct Costs of \$28,262 | - | 12,585 | 12,585 |
| Other | 9,532 | - | 9,532 |
| Net Assets Released from Restrictions Pursuant to Endowment Spending Rate | | | |
| Distribution Formula | 49,294 | (49,294) | - |
| Satisfaction of Purpose Restrictions | 2,287,859 | (2,287,859) | - |
| Total Operating Revenues, Gains and Other Support | 14,748,815 | 1,079,105 | 15,827,920 |
| Expenses | | | |
| Program Services | 12,330,978 | - | 12,330,978 |
| General and Administrative | 1,062,570 | - | 1,062,570 |
| Fundraising | 643,106 | - | 643,106 |
| Total Expenses | 14,036,654 | - | 14,036,654 |
| Change in Net Assets before Nonoperating Revenues, Gains and Other Support | 712,161 | 1,079,105 | 1,791,266 |
| Nonoperating Revenues, Gains and Other Support | | | |
| Endowment and Investment Income, Net | - | 11,409 | 11,409 |
| Change in Fair Value of Derivative Instruments | 146,523 | - | 146,523 |
| Total Nonoperating Revenues, Gains and Other Support | 146,523 | 11,409 | 157,932 |
| Net Assets Acquired Through Merger | 2,399,306 | 2,446,567 | 4,845,873 |
| Change in Net Assets | 3,257,990 | 3,537,081 | 6,795,071 |
| Net Assets | | | |
| Beginning of Year | 9,151,013 | 795,405 | 9,946,418 |
| End of Year | \$ 12,409,003 | \$ 4,332,486 | \$ 16,741,489 |

See Notes to Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Statement of Activities
Year Ended December 31, 2017

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|----------------------------------|----------------------------|--------------|
| Operating Revenues, Gains and Other Support | | | |
| Contributions | \$ - | \$ 2,009,927 | \$ 2,009,927 |
| Membership Fees | 5,375,351 | - | 5,375,351 |
| Program Fees | 4,015,374 | - | 4,015,374 |
| Management Services | 136,875 | - | 136,875 |
| Endowment and Investment Income, Net | 24,733 | - | 24,733 |
| Realized/Unrealized Gains on Investments | 46,319 | 35,094 | 81,413 |
| Special Events, Net of Direct Costs of \$15,355 | - | 43,996 | 43,996 |
| Other | 12,207 | - | 12,207 |
| Net Assets Released from Restrictions Pursuant to Endowment Spending Rate | | | |
| Distribution Formula | 45,724 | (45,724) | - |
| Satisfaction of Purpose Restrictions | 1,569,194 | (1,569,194) | - |
| Total Operating Revenues, Gains and Other Support | 11,225,777 | 474,099 | 11,699,876 |
| Expenses | | | |
| Program Services | 8,841,314 | - | 8,841,314 |
| General and Administrative | 966,851 | - | 966,851 |
| Fundraising | 526,476 | - | 526,476 |
| Total Expenses | 10,334,641 | - | 10,334,641 |
| Change in Net Assets before Nonoperating Revenues, Gains and Other Support | 891,136 | 474,099 | 1,365,235 |
| Nonoperating Revenues, Gains and Other Support | | | |
| Endowment and Investment Income, Net | - | 8,756 | 8,756 |
| Change in Fair Value of Derivative Instruments | 188,913 | - | 188,913 |
| Total Nonoperating Revenues, Gains and Other Support | 188,913 | 8,756 | 197,669 |
| Net Assets Acquired Through Merger | - | - | - |
| Change in Net Assets | 1,080,049 | 482,855 | 1,562,904 |
| Net Assets | | | |
| Beginning of Year | 8,070,964 | 312,550 | 8,383,514 |
| End of Year | \$ 9,151,013 | \$ 795,405 | \$ 9,946,418 |

See Notes to Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Statement of Functional Expenses
Year Ended December 31, 2018

| | <u>Program Services</u> | <u>General and Administrative</u> | <u>Fundraising</u> | <u>Total</u> |
|-------------------------------------|-----------------------------|---------------------------------------|--------------------|----------------------|
| Salaries | \$ 5,378,301 | \$ 435,228 | \$ 404,011 | \$ 6,217,540 |
| Payroll Taxes | 415,226 | 46,569 | 22,738 | 484,533 |
| Hospitalization | 196,857 | 27,854 | 39,705 | 264,416 |
| Retirement | 261,434 | 46,569 | 44,695 | 352,698 |
| Worker's Compensation | 73,125 | 8,269 | 5,419 | 86,813 |
| Total Salaries and Related Expenses | <u>6,324,943</u> | <u>564,489</u> | <u>516,568</u> | <u>7,406,000</u> |
| Scholarship and Program Waivers | 1,733,300 | - | - | 1,733,300 |
| Repairs and Maintenance | 645,757 | 13,945 | 2,759 | 662,461 |
| Interest Expense | 387,212 | - | - | 387,212 |
| Contract Services | 256,282 | 126,777 | 19,488 | 402,547 |
| Rentals | 325,323 | 20,813 | - | 346,136 |
| Program Supplies | 319,667 | - | - | 319,667 |
| Utilities | 269,931 | 47,634 | - | 317,565 |
| Advertising and Promotion | 155,920 | - | 32,366 | 188,286 |
| Bank Service Fees | 248,983 | 573 | 749 | 250,305 |
| General Supplies | 108,957 | 44,249 | 5,938 | 159,144 |
| Dues - YMCA | 155,891 | - | - | 155,891 |
| Travel and Meals | 111,677 | 9,403 | 5,767 | 126,847 |
| Insurance | 109,632 | 5,401 | - | 115,033 |
| Miscellaneous | 54,051 | 36,953 | 10,695 | 101,699 |
| Adventure Guide Trips | 48,484 | - | - | 48,484 |
| Postage | 55,421 | 8,464 | 3,248 | 67,133 |
| Professional Fees | 29,479 | 24,157 | 38,669 | 92,305 |
| Licenses and Fees | 44,488 | 2,003 | - | 46,491 |
| Telephone | 3,500 | 31,422 | - | 34,922 |
| Professional Education | 15,499 | 8,607 | 3,194 | 27,300 |
| Dues and Subscriptions | 7,503 | 5,664 | 3,665 | 16,832 |
| Total Expenses before Depreciation | <u>11,411,900</u> | <u>950,554</u> | <u>643,106</u> | <u>13,005,560</u> |
| Depreciation | <u>919,078</u> | <u>112,016</u> | <u>-</u> | <u>1,031,094</u> |
| Total Expenses | <u>\$ 12,330,978</u> | <u>\$ 1,062,570</u> | <u>\$ 643,106</u> | <u>\$ 14,036,654</u> |

See Notes to Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Statement of Functional Expenses
Year Ended December 31, 2017

| | <u>Program Services</u> | <u>General and Administrative</u> | <u>Fundraising</u> | <u>Total</u> |
|-------------------------------------|-----------------------------|---------------------------------------|--------------------|----------------------|
| Salaries | \$ 3,669,051 | \$ 329,241 | \$ 339,401 | \$ 4,337,693 |
| Payroll Taxes | 278,687 | 57,699 | 19,294 | 355,680 |
| Hospitalization | 99,389 | 26,587 | 36,196 | 162,172 |
| Retirement | 197,433 | 32,594 | 34,661 | 264,688 |
| Worker's Compensation | 50,213 | 6,664 | 4,337 | 61,214 |
| Total Salaries and Related Expenses | <u>4,294,773</u> | <u>452,785</u> | <u>433,889</u> | <u>5,181,447</u> |
| Scholarship and Program Waivers | 1,184,040 | - | - | 1,184,040 |
| Repairs and Maintenance | 584,398 | 17,038 | 8,618 | 610,054 |
| Interest Expense | 338,241 | - | - | 338,241 |
| Contract Services | 139,511 | 120,651 | 46,523 | 306,685 |
| Rentals | 242,932 | 17,694 | - | 260,626 |
| Program Supplies | 233,275 | - | - | 233,275 |
| Utilities | 194,393 | 32,954 | - | 227,347 |
| Advertising and Promotion | 173,223 | - | 14,198 | 187,421 |
| Bank Service Fees | 187,745 | - | - | 187,745 |
| General Supplies | 82,156 | 67,646 | 330 | 150,132 |
| Dues - YMCA | 125,298 | - | - | 125,298 |
| Travel and Meals | 72,710 | 10,795 | 2,331 | 85,836 |
| Insurance | 65,355 | 14,563 | - | 79,918 |
| Miscellaneous | 16,094 | 43,942 | 17,234 | 77,270 |
| Adventure Guide Trips | 59,341 | - | - | 59,341 |
| Postage | 37,132 | 8,443 | 1,498 | 47,073 |
| Professional Fees | - | 40,336 | - | 40,336 |
| Licenses and Fees | 29,798 | 1,385 | - | 31,183 |
| Telephone | 1,487 | 25,916 | - | 27,403 |
| Professional Education | 13,114 | 941 | 135 | 14,190 |
| Dues and Subscriptions | - | 5,038 | 1,720 | 6,758 |
| Total Expenses before Depreciation | <u>8,075,016</u> | <u>860,127</u> | <u>526,476</u> | <u>9,461,619</u> |
| Depreciation | <u>766,298</u> | <u>106,724</u> | <u>-</u> | <u>873,022</u> |
| Total Expenses | <u>\$ 8,841,314</u> | <u>\$ 966,851</u> | <u>\$ 526,476</u> | <u>\$ 10,334,641</u> |

See Notes to Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|--------------|--------------|
| Cash Flows from Operating Activities | | |
| Change in Net Assets | \$ 6,795,071 | \$ 1,562,904 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities | | |
| Net Realized and Unrealized Gains on Investments | 125,084 | (81,413) |
| Depreciation and Amortization | 1,033,566 | 873,022 |
| Net Assets Acquired Through Merger | (4,845,873) | - |
| Cash Acquired Through Merger | 813,006 | - |
| Contributions of Stock | (133,696) | (274,604) |
| Change in Fair Value of Derivative Instruments | (146,523) | (188,913) |
| Change in Assets and Liabilities, Net of Effects of the Merger: | | |
| (Increase) Decrease in: | | |
| Promises to Give | (1,505,563) | (890,162) |
| Grants and Other Receivables | 46,295 | (64,080) |
| Prepaid Expenses and Deposits | 11,472 | 2,609 |
| Increase (Decrease) in: | | |
| Accounts Payable and Accrued Expenses | (48,306) | 9,511 |
| Accrued Compensation | (238,756) | 36,694 |
| Deferred Revenue | (250,962) | (100,982) |
| Contributions Restricted for Endowment | (26,911) | (20,500) |
| Net Cash Provided by Operating Activities | 1,627,904 | 864,086 |
| Cash Flows from Investing Activities | | |
| Proceeds from Investments, Net | 87,009 | 221,288 |
| Purchases of Property and Equipment | (925,097) | (489,425) |
| Net Cash Used in Investing Activities | (838,088) | (268,137) |
| Cash Flows from Financing Activities | | |
| Principal Payments on Long-Term Notes | (414,620) | (354,987) |
| Principal Payments on Capital Leases | (148,277) | (88,039) |
| Contributions Restricted for Endowment | 26,911 | 20,500 |
| Net Cash Used in Financing Activities | (535,986) | (422,526) |
| Net Increase in Cash (Forwarded) | \$ 253,830 | \$ 173,423 |

See Notes to Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Net Increase in Cash (Forwarded) | \$ 253,830 | \$ 173,423 |
| Cash | | |
| Beginning of Year | <u>1,738,499</u> | <u>1,565,076</u> |
| End of Year | <u>\$ 1,992,329</u> | <u>\$ 1,738,499</u> |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash Payments for Interest | <u>\$ 372,783</u> | <u>\$ 332,681</u> |
| Supplemental Schedule of Noncash Investing and Financing Activities | | |
| Equipment Acquired Through Capital Lease | <u>\$ -</u> | <u>\$ 279,156</u> |

See Notes to Financial Statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
December 31, 2018 and 2017

1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

Young Men's Christian Association of Bucks County (the Y), located in Doylestown, Pennsylvania is a not-for-profit community service organization incorporated in July 1973. The Y is part of a worldwide movement that includes men, women, and children of all ages, abilities, income, races and religions. The Y was founded and is led by volunteers from the community who serve as policy makers, mentors, leaders and fundraisers.

The Y is dedicated to strengthening our community by focusing on Youth Development, Healthy Living and Social Responsibility. Youth Development cultivates values, skills and relationships that lead to positive behaviors, better health and educational achievement. Programs include swim lessons, youth sports classes and leagues, stay and play childcare, preschool, summer camp, performing and visual arts, special needs programming, and skate park and teen activities. Healthy Living improves our community's health and well-being by bringing families closer together, encouraging good health, and fostering connections through fitness, sports and shared activities. Programs include swim lessons, aqua aerobics and arthritis programs, personal training, group exercise classes, martial arts, running, walking and biking programs, nutrition, and adult sports leagues. Social Responsibility is the Y's way of giving back by providing support to our community. By developing skills and emotional well-being, welcoming and connecting diverse populations and advocating for healthier communities, the Y fosters the care and respect that all people need and deserve.

In October 2017, the Board of Directors agreed to merge with the Lower Bucks Family Young Men's Christian Association (LBFY), contingent upon the appropriate approvals, which were received in early 2018. The agreement laid out the basic structure and governance of the merged organizations.

Effective August 1, 2018, the merger with LBFY was finalized, and the name of the organization was changed from the Central Bucks Family Young Men's Christian Association to the Young Men's Christian Association of Bucks County. As of this date the LBFY ceased to exist and all assets and liabilities of the LBFY were transferred to the Young Men's Christian Association of Bucks County organization.

Basis of Accounting and Use of Estimates

The financial statements of the Y have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned, and expenses are recognized when incurred.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
December 31, 2018 and 2017

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

Basis of Presentation

Accounting standards prescribe display standards for general-purpose financial statements for all not-for-profit organizations. The Y's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Y to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Y's management and the Board of Directors.

Net Assets With Donor Restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Y or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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

Measure of Operations

The statements of activity report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Y's ongoing program services, and the interest and dividends earned on cash balances. Nonoperating activities are limited to resources that generate return for investments and other activities considered to be of a more unusual or nonrecurring in nature.

Contributions

Investments, property, and other non-cash contributions are recorded at fair value on the date of gift or bequest. Contributions are considered to be available for unrestricted use unless they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified to net assets without donor restrictions, and reported in the statement of activities as net assets released from purpose or time restrictions.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

YOUNG MEN’S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
December 31, 2018 and 2017

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

Contributed Services

Many individuals volunteer their time and perform a variety of tasks that assist the Y in carrying out its programs. Because no objective basis is available to measure the value of these services, the value of these services was not recorded during the years ended December 31, 2018 and 2017.

Cash

The Y maintains its cash accounts in three commercial banks. The amounts on deposit may exceed the federally insured limit. The Y has not experienced any losses in such accounts. The Y believes it is not exposed to any significant credit risk on cash.

Investments

Investments in securities with readily determinable fair value are reported at fair value on the statement of financial position. Unrealized gains and losses are recorded in the statement of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Fair Value Measurements

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 consists of observable inputs other than quoted prices included in Level 1; and Level 3 consists of unobservable inputs that have the lowest priority.

Property and Equipment

The Y capitalizes all expenditures in accordance with its internal capitalization policies at cost. Major replacements and betterments are capitalized while maintenance and repairs are expensed as incurred. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives of depreciable assets are:

| Classifications | Years |
|--------------------------------|-------|
| Building and Improvements | 5-40 |
| Office Furniture and Equipment | 3-10 |
| Facility Equipment | 3-15 |
| Vehicles | 3-7 |

YOUNG MEN’S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
December 31, 2018 and 2017

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

Income Tax Status

The Y has qualified as a tax-exempt organization under existing provisions of the Internal Revenue Code Section 501(c)(3). Accordingly, its income related to its tax exempt purpose is not subject to federal or state income taxes. The Y did not have any unrelated business income for the years ended December 31, 2018 and 2017 that would be subject to federal or state income taxes. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

The Y accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2018 and 2017.

The Y’s federal Forms 990 – *Return of Organization Exempt from Income Tax* for the years ended December 31, 2015, and subsequent years remain subject to examination by the Internal Revenue Service.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and in the schedules of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Y has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. A recap of the net asset reclassifications recorded by the adoption of ASU 2016-14 as of December 31, 2017 is as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total Net Assets |
|-------------------------|----------------------------------|----------------------------|---------------------|
| As Previously Presented | | | |
| Unrestricted | \$ 9,151,013 | \$ - | \$ 9,151,013 |
| Temporarily Restricted | - | 502,719 | 502,719 |
| Permanently Restricted | - | 292,686 | 292,686 |
| | <u>\$ 9,151,013</u> | <u>\$ 795,405</u> | <u>\$ 9,946,418</u> |

YOUNG MEN’S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
December 31, 2018 and 2017

2. Availability and Liquidity

The following represents the Y’s financial assets at December 31, 2018:

| | |
|---|---------------------|
| Financial Assets at Period End | |
| Cash | \$ 1,992,329 |
| Promises to Give | 4,826,532 |
| Grants and Other Receivables | 342,650 |
| Investments | 2,061,118 |
| Prepaid Expenses and Deposits | <u>123,850</u> |
| Total Financial Assets | <u>9,346,479</u> |
| | |
| Less Amounts Not Available to be Used Within One Year | |
| Net Assets with Donor Restrictions | 4,332,486 |
| Less Net Assets with Purpose Restrictions to be Met in Less Than One Year | (238,497) |
| Board Designated Assets | <u>2,482,646</u> |
| | <u>6,576,635</u> |
| | |
| Financial Assets Available to Meet General Expenditures Over the Next Year | <u>\$ 2,769,844</u> |

Endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowment is restricted for specific purposes, with the exception of the amounts available for general use. Donor restricted endowments are not available for general use. Board designated endowments are subject to a spending rate of 7% as described in Note 14. Although there is no intention to spend from these funds (other than the amounts appropriated for general expenditure as part of the Board’s annual budget approval and appropriation), these amounts could be made available if necessary.

As part of its liquidity plan, the Y invests excess cash in short-term investments, including money market accounts and certificates of deposit. The Y’s goal is generally to maintain sufficient financial assets to meet current operating expenses. The Y also has a \$1,000,000 line of credit available to meet cash flow needs.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
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3. Promises to Give

At December 31, 2018 and 2017, promises to give consist of the following:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|-------------------|
| Due in Less Than One Year | \$1,430,043 | \$ 332,037 |
| Due in Two to Five Years | 2,796,134 | 656,429 |
| Due in Six to Nine Years | <u>1,120,000</u> | <u>-</u> |
| | 5,346,177 | 988,466 |
| Less Allowance for Uncollectible Pledges | (110,000) | - |
| Less Discount to Net Present Value | <u>(409,645)</u> | <u>(32,642)</u> |
| | 4,826,532 | 955,824 |
| Less Current Portion | <u>(1,430,043)</u> | <u>(332,037)</u> |
| Long-Term Portion | <u>\$ 3,396,489</u> | <u>\$ 623,787</u> |

4. Investments

A summary of investments at fair value at December 31 is as follows:

| | <u>2018</u> | <u>2017</u> |
|----------------------------|---------------------|---------------------|
| Money Market Funds | \$ - | \$ 9,304 |
| Mutual Funds - Stock Funds | 826,524 | 530,420 |
| Mutual Funds - Bond Funds | 503,586 | 267,607 |
| Certificates of Deposit | <u>731,008</u> | <u>716,008</u> |
| | <u>\$ 2,061,118</u> | <u>\$ 1,523,339</u> |

All investments fall in Level 1 of the fair value measurement hierarchy.

Total investments by net asset category at December 31 are as follows:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Without Donor Restrictions | | |
| Board Designated Endowment | \$ 516,931 | \$ 514,645 |
| Board Designated Buildings and Grounds | <u>1,288,363</u> | <u>716,008</u> |
| Total Unrestricted | 1,805,294 | 1,230,653 |
| With Donor Restrictions | <u>255,824</u> | <u>292,686</u> |
| | <u>\$ 2,061,118</u> | <u>\$ 1,523,339</u> |

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
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4. Investments (Continued)

The following schedule shows the components of the investment income (loss) in the statement of activities:

| | 2018 | 2017 |
|--|-------------|------------|
| Investment Income (Loss) | | |
| Dividends and Interest | \$ 43,956 | \$ 24,733 |
| Net Realized and Unrealized Gains (Losses) | (99,196) | 46,319 |
| | (55,240) | 71,052 |
| Investment Income (Loss) – Endowment ** | | |
| Dividends and Interest | 11,409 | 8,756 |
| Net Realized and Unrealized Gains (Losses) | (25,888) | 35,094 |
| | (14,479) | 43,850 |
| | \$ (69,719) | \$ 114,902 |

** See Note 14 for spending policies.

5. Property and Equipment

At December 31, 2018 and 2017, the detail of property and equipment is as follows:

| | 2018 | 2017 |
|--------------------------------|---------------|---------------|
| Land | \$ 3,340,306 | \$ 1,495,306 |
| Buildings and Improvements | 19,100,805 | 17,494,781 |
| Office Furniture and Equipment | 354,295 | 78,420 |
| Facility Equipment | 2,548,661 | 1,171,385 |
| Vehicles | 493,964 | 123,554 |
| Construction in Progress | 385,888 | 57,304 |
| | 26,223,919 | 20,420,750 |
| Accumulated Depreciation | (9,349,733) | (6,579,659) |
| Property and Equipment, Net | \$ 16,874,186 | \$ 13,841,091 |

Construction in progress includes the costs incurred in conjunction with a planned expansion of the Y facilities in Doylestown and in Fairless Hills.

Depreciation expense totaled \$1,031,094 and \$873,022 for the years ended December 31, 2018 and 2017, respectively.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
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6. Line of Credit

At December 31, 2018, the Y has a committed line of credit with Univest Bank and Trust Co. which permits borrowing up to \$1,000,000. The line is secured by an interest in the Y's deposit accounts, and is renewable annually. Interest is charged on the outstanding balance at the lender's prime rate less .5 % with a floor of 4%, and is payable monthly. At December 31, 2018 and 2017, there was no balance outstanding on the line of credit.

Additionally, at December 31, 2018, the Y had a committed line of credit with The First National Bank and Trust of Newtown which permits borrowing up to \$220,000. The line was secured by the Fairless Hills property, and was due in March 2019. The line of credit was not renewed. Interest was charged on the outstanding balance at the lender's prime rate plus 1.0%, and was payable monthly. At December 31, 2018, there was no balance outstanding on the line of credit.

7. Notes Payable

A. 2008 Note Payable

In December 2008, the Y issued a note payable to Univest Bank and Trust Co. through the Nockamixon-Bucks Industrial and Commercial Development Authority in the amount of \$1,406,060, which was used to refinance the 2000 Note Payable. Payments are due monthly in the amount of \$13,203, including interest as described in Note 16. The interest rate was set at 6.18% through an interest rate swap with Wells Fargo Bank (see Note 10). Effective January 2018, the bank invoked a clause in the loan document that allowed them to charge additional interest in the event in a decrease in the corporate tax rate. Univest increased the rate to 85% of LIBOR plus 84.63 basis points. However, the swap rate calculation remains unchanged. The note matures in December 2021 and is secured by the Y's property and equipment and an interest in the Y's cash, investments and other personal property. At December 31, 2018 and 2017, the outstanding balance was \$432,351 and \$559,190, respectively.

B. 2008 Expansion and Refinance Note Payable

In December 2008, the Y issued a note payable to Univest Bank and Trust Co. through the Nockamixon-Bucks Industrial and Commercial Development Authority in the amount of \$6,243,940. The proceeds were used to refinance the 2003 and 2004 Notes Payable, and to finance the expansion of the Y's facilities. Beginning February 2011, monthly payments of \$33,370 including interest are due. The interest rate was set at 4.06% through an interest rate swap with Wells Fargo Bank effective January 2011 (see Note 10). Effective January 2018, the bank invoked a clause in the loan document that allowed them to charge additional interest in the event in a decrease in the corporate tax rate. Univest increased the rate to 85% of LIBOR plus 84.63 basis points. However, the swap rate calculation remains unchanged. The note matures in January 2036 and is secured by the Y's property and equipment and an interest in the Y's cash, investments and other personal property. At December 31, 2018 and 2017, the outstanding balance was \$4,906,679 and \$5,099,709, respectively.

YOUNG MEN’S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
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7. Notes Payable (Continued)

C. 2009 Expansion Note Payable

In March 2009, the Y issued a note payable to Univest Bank and Trust Co. through the Sellersville Industrial Development Authority in the amount of \$1,900,000, which was used to finance the expansion of the Y’s facilities. Beginning in February 2011, monthly payments of \$10,229 including interest are due. The interest rate was set at 4.13% through an interest rate swap with Wells Fargo Bank effective January 2011 (see Note 10). Effective January 2018, the bank invoked a clause in the loan document that allowed them to charge additional interest in the event in a decrease in the corporate tax rate. Univest increased the rate to 85% of LIBOR plus 84.63 basis points. However, the swap rate calculation remains unchanged. The note matures in January 2036 and is secured by the Y's property and equipment and an interest in the Y’s cash, investments and other personal property. At December 31, 2018 and 2017, the outstanding balance was \$1,496,082 and \$1,554,515, respectively.

D. 2014 Note Payable

In April 2014, the LBFY issued a note payable to The First National Bank and Trust of Newtown in the amount of \$2,159,000, which was used to refinance three term notes. Payments are due monthly in the amount of \$11,400, including interest at 4.0% per annum, through April 2019. In May 2019, the interest rate will be reset to the lender’s prime rate, plus 1.0%. The interest rate will adjust thereafter every sixty months for the remainder of the term. The note issued matures in April 2039; however, with the LBFY’s additional principal payments to date the note is expected to be paid off in November 2029. On August 1, 2018, this note was transferred to the Y in the merger, with the same terms.

The note is secured by the Y's real estate. The notes includes a debt covenant that requires the Y to maintain a debt coverage ratio of not less than 1.0. At December 31, 2018, the Y’s debt coverage ratio exceeded the 1.0 ratio, and was compliant with the debt covenant. In 2017, the LBFY made an additional principal payment of \$655,000. At December 31, 2018, the outstanding balance was \$1,203,514.

Aggregate maturities of notes payable are as follows:

| Year Ending December 31, | Amount |
|-----------------------------|--------------|
| 2019 | \$ 490,502 |
| 2020 | 512,536 |
| 2021 | 539,841 |
| 2022 | 403,269 |
| 2023 | 420,721 |
| 2024 and Thereafter | 5,671,757 |
| | \$ 8,038,626 |

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
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7. Notes Payable (Continued)

At December 31, 2018 and 2017, the components of long-term notes payable consisted of the following:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Total Outstanding Balance on Notes Payable | \$ 8,038,626 | \$ 7,213,414 |
| Less Debt Financing Costs | <u>(100,796)</u> | <u>(86,837)</u> |
| | 7,937,830 | 7,126,577 |
| Less Current Maturities | <u>(490,502)</u> | <u>(381,507)</u> |
| Long-Term | <u>\$ 7,447,328</u> | <u>\$ 6,745,070</u> |

Debt financing costs are being amortized over the term of the related debt.

8. Obligations Under Capital Lease

The Y has entered into a capital lease for fitness equipment. Additionally, the Y acquired three leases in the merger with LBFY. The leases require monthly payments expiring at various times through April 2022. At December 31, 2018, the cost and accumulated depreciation of the equipment leased was \$374,455 and \$100,136, respectively. At December 31, 2018, future minimum lease payments are due as follows:

| <u>Year Ending</u> <u>December 31,</u> | <u>Amount</u> |
|---|-------------------|
| 2019 | \$ 198,372 |
| 2020 | 97,293 |
| 2021 | 74,998 |
| 2022 | <u>40,767</u> |
| | 411,430 |
| Amount Representing Interest | <u>(34,648)</u> |
| | 376,782 |
| Less Current Obligation | <u>(179,249)</u> |
| Long-Term Obligation | <u>\$ 197,533</u> |

9. Interest Expense

Interest expense for the years ended December 31, 2018 and 2017, was \$387,212 and \$338,241, respectively.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
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10. Derivative Instruments and Hedging Activity

2008 Note Payable

Concurrent with the loan agreement entered into between Univest and the Y as described in Note 6, Item A, both parties entered into a collateral interest rate swap agreement. The purpose of this agreement is to hedge the risk of change in the interest rates and to assist the Y in stabilizing its cash flow requirements needed to service the original \$1,800,000 permanent loan obligation (also defined as the "notional amount"). The interest rate swap agreement ends on the date concurrent with the final payment of the loan, as extended. With the refinancing of this note, the interest rate swap remains in effect with Wells Fargo Bank for the \$1,406,060 note payable described in Note 6A with the same terms.

Under the interest rate swap agreement, the Y is required to make fixed monthly payments of \$13,203 which include interest at the rate of 6.18% over the 20-year term of the loan. The floating rate option of the agreement is based upon 67.7% of the U.S. Dollar-London Interbank Offered Rate (LIBOR).

2008 Expansion and Refinance Note Payable

On January 28, 2009, the Y entered into an interest rate swap agreement with Wells Fargo Bank. The purpose of this agreement is to hedge the risk of change in the interest rates on the loan described in Note 6, Item B, and to assist the Y in stabilizing its cash flow requirements needed to service the original \$6,243,940 loan obligation (also defined as the "notional amount"). The interest rate swap agreement is effective on January 1, 2011 and terminates on January 1, 2021.

Under the interest rate swap agreement, the Y is required to make fixed monthly payments of \$33,370, which include interest at the rate of 4.06% over the 10-year term of the swap agreement. The floating rate option of the agreement is based upon 68% of the U.S. Dollar-London Interbank Offered Rate (LIBOR) plus 140 basis points.

2009 Expansion Note Payable

On March 31, 2009, the Y entered into an interest rate swap agreement with Wells Fargo Bank. The purpose of this agreement is to hedge the risk of change in the interest rates on the loan described in Note 6, Item C, and to assist the Y in stabilizing its cash flow requirements needed to service the original \$1,900,000 loan obligation (also defined as the "notional amount"). The interest rate swap agreement is effective on January 1, 2011 and terminates on January 1, 2021.

Under the interest rate swap agreement, the Y is required to make fixed monthly payments of \$10,229, which include interest at the rate of 4.13% over the 10-year term of the swap agreement. The floating rate option of the agreement is based upon 68% of the U.S. Dollar-London Interbank Offered Rate (LIBOR) plus 140 basis points.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
December 31, 2018 and 2017

10. Derivative Instruments and Hedging Activity (Continued)

2009 Expansion Note Payable (Continued)

In accordance with accounting standards, the Y accounts for the interest rate swaps as a fair value hedge, which is accounted for in the Statement of Activities as gains and losses, as the Y is a non-profit entity. The market value of the interest rate swaps in favor of the bank, and the changes therein are as follows:

| | 2008 Note | 2008 Expansion & Refinance | 2009 Expansion & Refinance | Total |
|---|--------------------|----------------------------------|----------------------------------|---------------------|
| Market Value of Swap at December 31, 2016 | \$ (77,891) | \$ (310,039) | \$ (98,763) | \$ (486,693) |
| Change in Value 2017 | <u>30,732</u> | <u>120,383</u> | <u>37,798</u> | <u>188,913</u> |
| Market Value of Swap at December 31, 2017 | (47,159) | (189,656) | (60,965) | (297,780) |
| Change in Value 2018 | <u>22,323</u> | <u>94,372</u> | <u>29,828</u> | <u>146,523</u> |
| Market Value of Swap at December 31, 2018 | <u>\$ (24,836)</u> | <u>\$ (95,284)</u> | <u>\$ (31,137)</u> | <u>\$ (151,257)</u> |

11. Facilities Lease, Accrued Rent, and Rent Expense

In September 2016, the Y signed a lease agreement for its Warminster branch. The lease contains provisions for a rent-free period and future rent increases. The lease term began January 1, 2017 and expires on December 31, 2021. The lease is renewable for an additional 60 months, with nine months of notice required. The first nine months of the lease were rent-free. The total amount of the rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid will be credited to the liability accrued rent. At December 31, 2018 and 2017, accrued rent was \$77,076 and \$75,922, respectively.

At December 31, 2018, the future minimum lease payments are as follows:

| Year Ending December 31, | Amount |
|-----------------------------|-------------------|
| 2019 | \$ 153,780 |
| 2020 | 153,780 |
| 2021 | <u>164,964</u> |
| | <u>\$ 472,524</u> |

YOUNG MEN’S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
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11. Facilities Lease, Accrued Rent, and Rent Expense (Continued)

Additionally, in January 2013, the LBFY entered into a ten-year lease with Holy Trinity Church for the Morrisville location. The terms of the lease require monthly payments through December 31, 2022, with annual CPI increases. Rent expense for this facility was \$12,080 for the five months ended December 31, 2018. Additionally, in August 2016, the LBFY entered into a five-year lease with Chandler Hall Health Services for child care facilities. The lease was effective as of January 1, 2017 and the terms call for monthly payments through December 2021. Rent expense for this facility was \$42,622 for the five months ended December 31, 2018. These leases were assumed by the Y as of the date of the merger, August 1, 2018. At December 31, 2018, future minimum lease payments are as follows:

| Year Ending July 31, | Amount |
|-------------------------|------------|
| 2019 | \$ 66,384 |
| 2020 | 67,506 |
| 2021 | 68,655 |
| 2022 | 28,992 |
| | \$ 231,537 |

12. Deferred Revenue

Deferred revenue at December 31, 2018 and 2017, consisted of the following:

| | 2018 | 2017 |
|-----------------------------------|------------|------------|
| Deferred Membership Fees | \$ 2,257 | \$ 2,262 |
| Deferred Program Fees | 134,263 | 100,365 |
| Deferred Grants and Contributions | 3,000 | 107,000 |
| Other | 8,933 | 17,871 |
| | \$ 148,453 | \$ 227,498 |

Membership and program fees are deferred and recognized over the periods to which the fees relate. Deferred grants and contributions are recognized as the conditions for spending them are met.

YOUNG MEN’S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
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13. Net Assets With Donor Restrictions

Net assets with donor restrictions held at December 31, 2018 and 2017, are restricted for the following purposes:

| | 2018 | 2017 |
|---|--------------|------------|
| Subject to Expenditure for Specific Purpose | | |
| Capital Expansion and Campaign | \$ 3,838,165 | \$ 383,084 |
| Veteran’s Wellness | 236,497 | 118,635 |
| Other | 2,000 | 1,000 |
| | 4,076,662 | 502,719 |
| Endowments | | |
| Subject to Endowment Spending Policy | | |
| Various Y Programs | 255,824 | 292,686 |
| | \$ 4,332,486 | \$ 795,405 |

YOUNG MEN’S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
December 31, 2018 and 2017

13. Net Assets With Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

| | 2018 | 2017 |
|--|------------------|------------------|
| Satisfaction of Purposes Restrictions: | | |
| Capital Expansion and Campaign | \$ 872,795 | \$ 221,671 |
| Financial Assistance | 611,196 | 893,916 |
| Veteran’s Wellness | 162,869 | 95,038 |
| Preschool | 109,633 | 7,359 |
| Youth Programs/Sports/Soccer for Success | 97,741 | 12,505 |
| Special Needs Program | 80,445 | 111,845 |
| 7 th Grade Initiative | 72,637 | 19,374 |
| Diabetes | 70,034 | 9,560 |
| Cancer Initiative | 62,919 | 85,520 |
| Camp | 38,628 | 24,082 |
| Empower U | 30,714 | 15,736 |
| Food Insecurities | 29,135 | - |
| Other | 22,555 | 16,283 |
| Water Safety | 13,723 | 16,300 |
| Google Grant/Advertising | 9,607 | 23,113 |
| Living Active | 3,228 | 540 |
| STEM Programs | - | 10,000 |
| Darkness to Light | - | 6,352 |
| Total Net Assets Released from Temporary Restrictions | 2,287,859 | 1,569,194 |
| Restricted-purpose Spending Rate Distributions | 49,294 | 45,724 |
| Total Net Assets Released from Restrictions | \$ 2,337,153 | \$ 1,614,918 |

At December 31, 2018 and 2017, perpetually restricted net assets of \$255,824 and \$292,686, respectively, consist solely of endowment funds, the income from which is expendable for various programs.

YOUNG MEN’S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
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14. Endowment

The Y’s endowment consists of a fund established by donors to provide funding for the Y’s various programs. The endowment includes perpetual, donor-restricted endowment funds. The endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Directors. As required by accounting standards, assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Pennsylvania law requires the historical dollar amount of a donor-restricted endowment fund to be preserved. The Y’s donors have requested that the original amount of the endowment remain intact, and that the income and any appreciated value be used for the purposes stated above. As a result of this, the Y classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets and is spent on YMCA programs as designated by the Board of Directors.

As of December 31, 2018 and 2017, the Y had the following endowment net asset composition by type of fund.

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---|--|-------------------|
| <u>December 31, 2018</u> | | | |
| Board-Designated Endowment Funds | \$ 554,487 | \$ - | \$ 554,487 |
| Donor-Restricted Endowment Funds | | | |
| Original Donor-Restricted Gift Amount and Amounts Required to Be Maintained in Perpetuity by Donor | - | 255,824 | 255,824 |
| | <u>\$ 554,487</u> | <u>\$ 255,824</u> | <u>\$ 810,311</u> |
| <u>December 31, 2017</u> | | | |
| Board-Designated Endowment Funds | \$ 524,780 | \$ - | \$ 524,780 |
| Donor-Restricted Endowment Funds | | | |
| Original Donor-Restricted Gift Amount and Amounts Required to Be Maintained in Perpetuity by Donor | - | 292,686 | 292,686 |
| | <u>\$ 524,780</u> | <u>\$ 292,686</u> | <u>\$ 817,466</u> |

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
December 31, 2018 and 2017

14. Endowment (Continued)

Investment Return Objectives, Risk Parameters and Strategies

The Y follows investment policies, approved by the Board of Directors, to preserve and protect its assets by earning a total return for the fund appropriate for the fund's time horizon, distribution techniques, and risk tolerance. Furthermore, the investments must provide a predictable stream of funding to programs supported by its endowment fund while also maintaining the purchasing power of those endowment assets over the long-term. Endowment assets are invested in Vanguard accounts including money market funds and various stock and bond mutual funds.

Spending Policies

The Y has elected the Commonwealth of Pennsylvania's Act 141 with regard to endowment policy. Under this Act, restricted endowments will be governed following the "total return policy" for the determination of income. Total return includes the interest, dividends, and net capital appreciation, both realized and unrealized. Annual spending is on a percentage of the fair market value of the investments in the restricted endowment. The Board of Directors elected in 2013 to use a 5 year average market value and a 7% spending percentage.

During the years ended December 31, 2018 and 2017, the Y had the following endowment-related activities:

| | 2018 | | 2017 | |
|-----------------------|----------------------|-------------------|----------------------|-------------------|
| | Board- Designated | Perpetual | Board- Designated | Perpetual |
| Endowment Net Assets: | | | | |
| Beginning of Year | \$ 524,780 | \$ 292,686 | \$ 411,320 | \$ 274,060 |
| Contributions | 2,339 | 26,911 | 818 | 20,500 |
| Investment Income | (21,926) | (14,479) | 66,918 | 43,850 |
| Amounts Appropriated | 49,294 | (49,294) | 45,724 | (45,724) |
| End of Year | <u>\$ 554,487</u> | <u>\$ 255,824</u> | <u>\$ 524,780</u> | <u>\$ 292,686</u> |

Endowment balances consist of the following assets:

| | 2018 | | 2017 | |
|--------------------|----------------------|-------------------|----------------------|-------------------|
| | Board- Designated | Perpetual | Board- Designated | Perpetual |
| Investments | \$ 544,172 | \$ 255,824 | \$ 514,645 | \$ 292,686 |
| Cash | 6,615 | - | 5,235 | - |
| Pledges Receivable | 3,700 | - | 4,900 | - |
| | <u>\$ 554,487</u> | <u>\$ 255,824</u> | <u>\$ 524,780</u> | <u>\$ 292,686</u> |

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
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15. Retirement Benefits

The Y participates in the YMCA Retirement Fund Retirement Plan which is a defined contribution, money purchase, church plan that is intended to satisfy the qualification requirements of Section 401(a) of the Internal Revenue Code of 1986, as amended, and the YMCA Retirement Fund Tax-Deferred Savings Plan, which is a retirement income account plan as defined in Section 403(b)(9) of the code. Both plans are sponsored by the Young Men's Christian Association Retirement Fund (the Fund). The fund is a not-for-profit, tax-exempt pension fund incorporated in the State of New York and is organized and operated for the purpose of providing retirement and other benefits for employees of YMCA's throughout the United States. The plans are operated as church pension plans. Participation is available to all duly organized and reorganized YMCA's and their eligible employees.

In accordance with our agreement, contributions for the YMCA Retirement Fund Retirement Plan are a percentage of the participating employees' salary. The Y contributes 12% of eligible employees' compensation to the plans on a monthly basis. For the years ended December 31, 2018 and 2017, the Y contributed \$352,698 and \$264,688, respectively. Participating YMCA's have no further obligation beyond their percentage contribution.

Contributions to the YMCA Retirement Fund Tax-Deferred Savings Plan are withheld from employees' salaries and remitted to the YMCA Retirement Fund. There is no matching employer contribution in this plan.

16. Contingencies

Unemployment Compensation

The Y has elected to utilize the reimbursable method of coverage for state unemployment compensation tax in Pennsylvania. Accordingly, the Y is obligated to pay minimum required balances to an account administered by the Joint Agencies Trust. The Y agrees to reimburse this fund for unemployed workers' claims which exceed the minimum requirements. The Y funds reimbursement claims out of current year's operations and does not specifically reserve funds for potential future claims which may exceed the payments made to the account maintained by the Joint Agencies Trust.

Note Obligation Interest Rate

Univest Bank and Trust Co. has structured the financing arrangement of the notes as disclosed in Note 6, Items A, B and C, as a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Internal Revenue Code permitting tax-free treatment of the interest payments to Univest. In conjunction with this treatment, and only in the event of a change in the tax-free status, the Y has agreed to terms and conditions that would permit the lender to retroactively increase the interest rate on the loan to an interest which maintains the after-tax yield to the bank on such payments of principal and interest to the tax-exempt yield earned by the bank prior to the foregoing change.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
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December 31, 2018 and 2017

17. Related Party Transactions

During the years ended December 31, 2018 and 2017, the Y entered into Board approved transactions with a related party. The Y purchased fitness equipment for \$92,304 and \$207,310 during the years ended December 31, 2018 and 2017, respectively, from a company whose sales representative is the brother of the Y's Chief Executive Officer. These purchases were subject to the Y's bidding policies, which require a minimum of three bids.

Additionally, on December 1, 2013 the Y and the Lower Bucks Family YMCA (LBY) entered into a management agreement. Under this agreement, the CEO and CFO of the Y also served in similar roles for LBY. The Agreement provided for an annual fee of \$100,000, payable monthly. The agreement ended on the closing date of the merger agreement. The Y received management services revenue of \$58,331 and \$100,000 for the seven months ended July 31, 2018 and the year ended December 31, 2017, respectively.

18. Merger with the Lower Bucks Family Young Men's Christian Association

Effective August 1, 2018, the merger with LBFY was finalized, and the name of the organization was changed to the Young Men's Christian Association of Bucks County. As of this date the LBFY ceased to exist. All assets and liabilities of the LBFY were transferred to the YMCA of Bucks County organization on this date as follows:

| | |
|---|---------------------|
| Cash | \$ 813,006 |
| Promises to Give | 2,365,145 |
| Grants and Other Receivables | 270,986 |
| Investments | 616,176 |
| Prepaid Expenses and Other | 42,146 |
| Property and Equipment, Net | 1,359,512 |
| Long-Term Notes | (1,218,310) |
| Obligations Under Capital Lease | (333,942) |
| Accounts Payable and Accrued Expenses | (671,418) |
| Deferred Revenue | <u>(171,917)</u> |
| Net Assets of LBFY at July 31, 2018 | 3,071,384 |
| Increase in Net Assets to Record Property at Fair Value | <u>1,774,489</u> |
| Net Assets Acquired Through Merger | <u>\$ 4,845,873</u> |

19. Merger Agreement

In October 2018, the Board of Directors agreed to merge with the Upper Bucks YMCA (UBY), pending the approvals of the Pennsylvania Attorney General and the Bucks County Orphans' Court. In December 2018, the Pennsylvania Attorney General approved the application to merge and it was subsequently submitted to the Bucks County Orphan's Court, and approved. The merger was finalized and effective on January 1, 2019.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF BUCKS COUNTY
Notes to Financial Statements
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20. Recent Accounting Pronouncements Issued, Not Yet Effective

Revenue Recognition

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, which creates a new Topic ASC 606, *Revenue from Contracts with Customers*. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled for those goods or services. The updated standard will replace most existing revenue recognition guidance in US GAAP when it becomes effective. Additionally, the guidance requires improved disclosures to help users of financial statements to better understand the nature, amount, timing and uncertainty of revenue that is recognized. For non-public entities, the update is effective for annual reporting periods beginning after December 15, 2018. The Y plans to adopt and apply the guidance for its year ending December 31, 2019. Management has not yet determined the effect this Statement will have on the Y's financial statements.

Leases

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases*, which creates a new Topic ASC 842, *Leases*. Under the new guidance, a lessee will be required to recognize on the balance sheet a liability to make lease payments and a right-to-use asset representing its right to use the underlying asset for the lease term for both finance and operating leases. For leases with a term of 12 months or less, an entity can elect to not recognize lease assets and lease liabilities and expense the lease over a straight-line basis for the term of the lease. The updated standard will replace current lease guidance in US GAAP when it becomes effective. Also, the guidance requires new disclosures that depict the amount, timing, and uncertainty of cash flows pertaining to an entity's leases. For non-public entities, the update is effective for annual reporting periods beginning after December 15, 2019. The Y plans to adopt and apply the guidance for its year ending December 31, 2020. Management has not yet determined the effect this Statement will have on the Y's financial statements.

21. Subsequent Events

Management has evaluated subsequent events through June 27, 2019, the date which the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.