CHANNEL ISLANDS
YOUNG MEN'S CHRISTIAN
ASSOCIATION
(YMCA)

FINANCIAL STATEMENTS
JUNE 30, 2019

CHANNEL ISLANDS YMCA

June 30, 2019

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McGowan Guntermann
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Channel Islands Young Men's Christian Association
Santa Barbara, California

Report on the Financial Statements

We have audited the accompanying financial statements of Channel Islands Young Men's Christian Association (YMCA), (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the Channel Islands YMCA as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November XX, 2019 on our consideration of the Organization'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 Organization's internal control over financial reporting and compliance.

McGowan Guntermann

Santa Barbara, California
December 12, 2019

CHANNEL ISLANDS YMCA

STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total 2019
Current Assets			
Cash and cash equivalents	$ 1,479,391	$ 297,465	$ 1,776,856
Grants and contracts receivable	125,585	-	125,585
Accounts receivable	51,860	-	51,860
Promises to give, net	-	217,587	217,587
Prepaid and other assets	300,921	-	300,921
Total Current Assets	1,957,757	515,052	2,472,809
Endowment Assets			
Cash	509,938	-	509,938
Bequests receivable	-	2,202,175	2,202,175
Investments	2,797,541	4,009,773	6,807,314
Total Endowment Assets	3,307,479	6,211,948	9,519,427
Property and equipment (net)	23,084,416	-	23,084,416
Total Assets	**$ 28,349,652**	**$ 6,727,000**	**$ 35,076,652**

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total 2019
Current Liabilities			
Accounts payable	$ 400,955	$ -	$ 400,955
Accrued expenses	934,362	-	934,362
Unearned revenue	807,568	-	807,568
Current portion of notes payable	98,950	-	98,950
Total Current Liabilities	2,241,835	-	2,241,835
Notes payable, net of current portion	2,971,676	-	2,971,676
Total Liabilities	5,213,511	-	5,213,511
Net Assets			
Without Donor Restrictions	23,136,141	-	23,136,141
With Donor Restrictions	-	6,727,000	6,727,000
Total Net Assets	23,136,141	6,727,000	29,863,141
Total Liabilities and Net Assets	**$ 28,349,652**	**$ 6,727,000**	**$ 35,076,652**

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

CHANNEL ISLANDS YMCA

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total 2019
Public Support and Revenue			
Public Support			
Contributions - annual campaign	$ 994,439	$ -	$ 994,439
Contributions - other	67,676	604,090	671,766
Bequests and legacies	923,446	2,202,175	3,125,621
Special events, net of direct costs of $77,883	131,028	-	131,028
Total Public Support	2,116,589	2,806,265	4,922,854
Revenue			
Membership dues	10,321,394	-	10,321,394
Joining fees	149,999	-	149,999
Program fees	1,759,195	-	1,759,195
Day Camp	1,149,755	-	1,149,755
Sleep Away Camp	257,870	-	257,870
Childcare	2,653,257	-	2,653,257
Government funds:			
Childcare	464,150	-	464,150
Other programs	291,704	-	291,704
Merchandise sales and rentals	128,593	-	128,593
Investment income	51,357	89,617	140,974
Realized loss on investments	(14,997)	-	(14,997)
Unrealized gain on investments	318,619	-	318,619
Miscellaneous revenue	65,269	-	65,269
Released from Restrictions	629,108	(629,108)	-
Total Revenue	18,225,273	(539,491)	17,685,782
Total Public Support and Revenue	20,341,862	2,266,774	22,608,636
Expenses			
Program Services			
Youth Development	6,938,284	-	6,938,284
Healthy Living	8,726,072	-	8,726,072
Social Responsibility	924,777	-	924,777
Total Program Services	16,589,133	-	16,589,133
Supporting Services			
Management and general	2,204,875	-	2,204,875
Fundraising	684,336	-	684,336
Total Supporting Services	2,889,211	-	2,889,211
Total Expenses	19,478,344	-	19,478,344
Increase in Net Assets	**863,518**	**2,266,774**	**3,130,292**
Net Assets at Beginning of Year	22,272,623	4,460,226	26,732,849
Net Assets at End of Year	**$ 23,136,141**	**$ 6,727,000**	**$ 29,863,141**

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

CHANNEL ISLANDS YMCA

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	Program Services				Supporting Services		
	Youth Development	Healthy Living	Social Responsibility	Total Program Services	Management and General	Fundraising	Total 2019
Expenses							
Salaries	$ 3,554,505	$ 4,152,994	$ 579,519	$ 8,287,018	$ 1,074,182	$ 348,788	$ 9,709,988
Employee benefits	421,842	490,839	70,799	983,480	124,174	42,001	1,149,655
Payroll taxes and workers comp insurance	453,629	407,619	110,600	971,848	243,384	56,126	1,271,358
Total Salaries and Related Expenses	4,429,976	5,051,452	760,918	10,242,346	1,441,740	446,915	12,131,001
Professional fees and contracted services	56,442	23,438	2,116	81,996	194,695	12,403	289,094
Supplies	262,163	106,219	21,862	390,244	11,056	38,153	439,453
Communications	26,699	26,934	11,743	65,376	21,994	2,828	90,198
Postage	8,962	11,359	145	20,466	5,896	2,744	29,106
Occupancy	682,671	1,532,422	33,584	2,248,677	70,638	7,528	2,326,843
Equipment	193,434	415,521	6,703	615,658	62,875	49,818	728,351
Program costs	315,406	12,863	4,833	333,102	-	-	333,102
Advertising	128,902	90,991	7,206	227,099	-	39,354	266,453
Travel and transportation	213,310	21,505	11,616	246,431	25,316	4,820	276,567
Conferences	33,770	43,672	5,250	82,692	45,152	15,987	143,831
Financing costs	159,235	165,214	850	325,299	161,029	29,067	515,395
Other insurance	60,646	90,434	2,948	154,028	5,861	81	159,970
Miscellaneous	30,132	22,206	2,161	54,499	2,100	922	57,521
Awards	1,185	1,187	-	2,372	10,438	8,030	20,840
Other employee expenses	55,392	32,856	2,504	90,752	40,297	3,675	134,724
National support	65,194	157,152	64	222,410	1,715	13,789	237,914
Total Expenses before Depreciation Expense	6,723,519	7,805,425	874,503	15,403,447	2,100,802	676,114	18,180,363
Depreciation expense	214,765	920,647	50,274	1,185,686	104,073	8,222	1,297,981
Total Expenses - June 30, 2019	**$ 6,938,284**	**$ 8,726,072**	**$ 924,777**	**$ 16,589,133**	**$ 2,204,875**	**$ 684,336**	**$ 19,478,344**

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

CHANNEL ISLANDS YMCA

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

	2019
Cash Flows from Operating Activities	
Increase in net assets	$ 3,130,292
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation expense	1,297,981
Contributions for endowment	(1,411,000)
Unrealized gain	(318,619)
Realized loss	14,997
Changes in:	
Grants and contracts receivable	10,520
Accounts receivable	210,294
Promises to give	(24,024)
Bequests receivable	(2,202,175)
Prepaid expenses and other assets	(29,398)
Accounts payable	18,805
Accrued expenses	(18,663)
Unearned revenue	(58,620)
Net cash provided by operating activities	620,390
Cash Flows from Investing Activities	
Acquisition of property and equipment	(795,208)
Purchase of investments	(2,217,649)
Proceeds from sale of investments	804,709
Net cash used by investing activities	(2,208,148)
Cash Flows from Financing Activities	
Principal payments on borrowings	(94,318)
Contributions for endowment	1,411,000
Net cash provided by financing activities	1,316,682
Net Decrease in Cash	**(271,076)**
Cash and Cash Equivalents at Beginning of the Year	2,557,870
Cash and Cash Equivalents at End of the Year	**$ 2,286,794**
Supplementary Information:	
Cash paid for interest	$ 150,132

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

CHANNEL ISLANDS YMCA

NOTES TO FINANCIAL STATEMENTS

Note 1 – ORGANIZATION

Channel Islands Young Men's Christian Association (the "YMCA") is a charitable organization which provides programs based upon Christian principles to men, women, and children of all ages, races, religious beliefs and economic status, in order to develop and enrich the spirit, mind, and body.

"Santa Barbara Young Men's Christian Association" was established in September 1899. Since its establishment it has started or absorbed operations of several YMCAs in neighboring cities and counties. In January 1981 it adopted the current name. The YMCA maintains its principal place of business at 105 E. Carrillo Street in Santa Barbara, California.

As a voluntary health and welfare organization qualifying under Internal Revenue Code Section 501(c)(3), the YMCA is generally exempt from federal and state income taxes. The YMCA is not considered a private foundation for income tax purposes.

The YMCA is governed by an elected board of directors and officers responsible for the development of policies. Management and staff conduct YMCA activities in accordance with board-established policy.

The YMCA is committed to strengthening communities in Santa Barbara and Ventura counties through programs focused on:

<u>Youth Development</u> - Nurturing the potential of every child and teen

These programs include youth sports, before and after school care, preschool, summer day camps, leadership development, civic engagement, swimming, recreation and off-premise overnight or week-long camping activities.

<u>Healthy Living</u> - Improving our communities' health and well-being

These programs promote family time, health, well-being, fitness, sports, recreation, spiritual development and group interests for adults and families.

<u>Social Responsibility</u> - Giving back and providing support to our neighbors

These programs include a youth shelter and teen center for at-risk youth.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Presentation</u>

The accompanying financial statements of the YMCA have been prepared on the accrual basis of accounting. The YMCA is comprised of facility branches located in Santa Barbara, Montecito, Ventura, Camarillo, Lompoc and Santa Ynez. These branches also operate childcare programs and day camps at school sites. In addition to the facility branches, the Youth and Family Services branch operates programs in Santa Barbara and Isla Vista. This branch primarily serves youth and young adults at a youth shelter, a teen center and as part of a supportive transitional housing program. All significant balances and transactions among the branches have been eliminated. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

During 2018, the YMCA adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for board designated amounts, compositions of net assets with donor restrictions and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the balance sheet (statement of financial position) date, and expenses by both their natural and functional classification, including methods used to allocate costs among program and support functions and underwater endowments.

Due to the adoption of ASU 2016-14 as of June 30, 2019, net assets have been reclassified as of June 30, 2018, as follows:

	ASU 2016-14 Classifications		
Net Asset Classification 6/30/18	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Unrestricted	$ 22,272,623	$ -	$ 22,272,623
Temporarily Restricted	-	2,332,337	2,332,337
Permanently Restricted	-	2,127,889	2,127,889
Net Assets as previously presented	22,272,623	4,460,226	26,732,849
Net assets as reported after adoption of ASU 2016-14	$ 22,272,623	$ 4,460,226	$ 26,732,849

Description of Net Assets

The YMCA reports information regarding its financial position and activities in two classes of net assets - with donor restrictions and without donor restrictions - based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed time or use restrictions. Net assets without donor restrictions include board designated funds.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of Net Assets (continued)

With Donor Restrictions

Net assets with donor restrictions represent net assets that are subject to donor-imposed time or use restrictions. Net assets with donor restrictions generally include contributions and bequests receivable and planned gifts. Earnings on net assets with donor restrictions are reported as an increase in net assets with donor restrictions. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as "Net assets released from restrictions". Net assets with donor restrictions include perpetual income trusts for which the related income is reported as contributions without donor restrictions when received on the Statement of Activities. The change in value of the underlying assets is recorded as an unrealized gain or loss in net assets with donor restrictions on the Statement of Activities. Net assets with donor restrictions also consist of those donor-restricted endowments held by the YMCA as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Cash and Cash Equivalents

For purposes of the statement of cash flows, the YMCA considers all highly-liquid investments with an initial maturity of twelve months or less to be cash equivalents.

The YMCA maintains several cash accounts to separately hold cash which may not be available for operating purposes as required by certain granting agencies and donors.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and Equipment

The Board adopted a capitalization policy of $5,000 or more for the cost of land, buildings and equipment with a similar policy for the fair market value of donated assets, provided the asset had an expected life in excess of one year. Depreciation is provided over the estimated useful lives of the respective assets ranging from three to fifty years on the straight-line method. Leasehold improvements are being amortized over the shorter of the lease term or useful life.

Investments

Investments are recorded at fair market value. Changes in unrealized gains or losses are recorded as a change in the appropriate class of net assets.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unearned Revenue

Revenues from membership dues are recognized over the terms of the memberships. Revenues from childcare fees are recognized over periods of childcare service provided. Revenues from program fees are recognized over the terms of the program. Amounts collected but unearned are reflected in the statement of financial position as unearned revenue.

Contributions

Contributions received are recorded as without donor restriction or with donor restriction, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, that is, when stipulated time restrictions end, or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Contributed Services

The YMCA pays for most services requiring specific expertise. However, a substantial number of volunteers have donated significant amounts of time to assist with the YMCA's program services and its fundraising campaigns (See Note 12).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

Significant estimates used in preparing these financial statements include:

- Depreciable lives and estimated residual value of fixed assets
- Allocation of certain expenses by function
- Allowance for uncollectible contracts, grants and promises to give, and accounts receivable
- Fair value of donated land and buildings
- Promises to give discounted to net present value
- Fair value of financial instruments

It is at least reasonably possible that the significant estimates used will change within the next year.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising Costs

The YMCA charges the cost of advertising to expense when incurred.

Functional Expenses

Expenses for program services shown in the statement of functional expenses primarily consist of program expenses of branches. Management and general expenses are expenses of the Association Office, and fundraising expenses are incurred by all branches and the Association Office.

Subsequent Events

The YMCA has evaluated subsequent events through December 12, 2019, the date on which the financial statements were available to be issued.

Note 3 – GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable are mainly from the governmental agencies and private foundations. The YMCA has provided an uncollectible allowance of an amount of $16,258 at June 30, 2019. The remaining balance is expected to be fully collectible within one year from the year end.

Note 4 – ACCOUNTS RECEIVABLE

The YMCA has provided an allowance for uncollectible accounts receivable in the amount of $25,424 at June 30, 2019, with the remaining balance of accounts receivable expected to be fully collectible within one year from the year end.

Note 5 – PROMISES TO GIVE AND BEQUESTS RECEIVABLE

While the YMCA conducts annual campaigns, many promises to give are the result of a capital campaign. Unconditional promises to give at June 30, 2019, are as follows:

	2019
Receivable in less than one year	$ 240,211
Less allowance for uncollectible promises	(22,624)
Total	$ 217,587

Bequests receivable consists of three bequests totaling $2,202,175 at June 30, 2019. The YMCA is expected to receive the balance in full within one year from year end.

Note 6 – CONDITIONAL PROMISES TO GIVE

The YMCA does not record conditional promises to give. The YMCA has been named as a charitable beneficiary in the wills of various donors. However, the donors have retained the right to change charitable beneficiaries; therefore, these intentions have not been recorded as an asset of the YMCA.

Note 7 – INVESTMENTS

Investments at June 30, 2019, are recorded at market value based upon quoted market prices (fair value) and are summarized as follows:

	Cost	Market Value	Unrealized Gain (Loss)
Certificates of deposit	$ 1,096,023	$ 1,102,827	$ 6,804
Mutual funds	2,491,251	2,769,927	278,676
Domestic equities	1,607,852	2,934,560	1,326,708
Total Investments	$ 5,195,126	$ 6,807,314	$ 1,612,188

The following summarizes the net change in unrealized gain (loss) on investments:

	Cost	Market Value	Unrealized Gain (Loss)
Balance at end of the year	$ 5,195,126	$ 6,807,314	$ 1,612,188
Balance at beginning of the year	3,797,183	5,090,752	1,293,569
Net change in unrealized gain			$ 318,619

The endowment fund investments include investments with and without donor restrictions. Investments of the endowment fund without restrictions consist of amounts that have been designated by the YMCA's board of directors. The earnings from the investments provide an income stream for both classifications of Net Assets, with and without donor restrictions. The YMCA incurred no investment fees for the year ended June 30, 2019. Investment return is summarized as follows for the year ended June 30, 2019:

	2019
Interest and dividends	$ 140,974
Change in unrealized gain	318,619
Realized loss	(14,997)
Total investment gain	$ 444,596

Note 8 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of June 30, 2019:

	2019
Land	$ 7,027,608
Land improvements	4,155,713
Buildings and improvements	28,477,353
Equipment and fixtures	2,945,542
Vehicles	110,651
Construction in progress	923,574
	43,640,441
Less accumulated depreciation	(20,556,025)
Total	$ 23,084,416

Note 9 – RELATED PARTY TRANSACTIONS

- During 2019, two bank accounts were held by a bank whose president is a board member of the YMCA.

- During 2019, the YMCA was charged legal expenses of $1,716 by a local law firm for various matters. A partner of the local law firm is also members of the YMCA's board of directors.

Note 10 – CONTINGENCIES

The YMCA received a number of grants from various governmental agencies. These grants are subject to audit by the corresponding oversight agency as to allowable costs paid with governmental funds and as to the share of costs contributed by the YMCA. For 2019, the YMCA could be liable for as much as the full amount of federal governmental funds expended up to approximately $94,882 if, under audit, the oversight agency were to determine that all costs charged to the project were disallowed. Management believes it is unlikely that the various agencies would disallow a significant portion of the costs.

Note 11 – RETIREMENT PLAN

The YMCA has a 401(a) defined contribution retirement plan provided through the YMCA Retirement Fund. To be eligible, an employee must be age twenty-one or older and work 1,000 hours in each of two years. Once eligible, the employee is immediately vested and remains in the plan. Employees who transfer from another YMCA, where they participated in the Retirement Fund, will continue to participate without interruption. The YMCA contributed 8% of eligible employee wages to the Retirement Fund each month for 2019. Retirement contribution expense was $416,488 for the year ended June 30, 2019.

The YMCA also offers a 403(b) retirement savings plan to all employees, regardless of age or hours worked, which allows employees to invest on a pre-tax basis through payroll deductions.

Note 12 – CONTRIBUTED SERVICES

A substantial number of volunteers have donated significant amounts of their time performing services to the YMCA during fiscal years ended June 30, 2019. For the year ended, the YMCA estimates that approximately 20,000 hours were contributed by policy, advisory, fundraising and program volunteers. Valued at the most recent Independent Sector volunteer rate for California, the YMCA received benefits estimated at $599,180, for 2019. These estimated benefits are not recorded in the financial statements.

Note 13 – LONG-TERM DEBT

During 2014 the YMCA obtained two loans from a bank for the purchase of the Carrillo Street building which is now used as the Association's Headquarters. Both loans have an interest rate of 4.81%, are secured by real property, and are payable over a 25-year period with a maturity date of October 1, 2038. The balance at June 30, 2019, for the first loan, which is secured by the Carrillo Street building, was $1,772,851, while the balance of the second loan, which is secured by the Camarillo facility, was $1,297,775. Aggregate maturities of long-term debt over the next five years and thereafter are as follows:

	Amount
2020	$ 98,950
2021	103,815
2022	108,922
2023	114,277
2024	119,896
Thereafter	2,524,766
	$ 3,070,626

During 2014 the YMCA obtained a $1,250,000 revolving line of credit with a bank. The line of credit is secured by a 1st trust deed on the Santa Barbara branch real property and a UCC-1 filing on all business assets. The loan terms require monthly interest payments at a variable annual rate of the Wall Street Journal Prime rate plus .5%. There were no outstanding borrowings on this line of credit at year end, June 30, 2019.

Total interest expense for loans payable for the year ended June 30, 2019 was $150,132. The YMCA was in compliance with all applicable debt covenants as of June 30, 2019.

Note 14 – RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions:

Net assets with donor restrictions are available for the following purpose or period:

	2019
Facility improvements	$ 102,830
Subsequent years' activities	2,551,111
Bequest receivable	2,202,175
Unappropriated endowment earnings	1,870,884
Total	$ 6,727,000

Note 15 – FAIR VALUE MEASUREMENT

Fair values of assets have been measured in accordance with accounting principles generally accepted in the United States of America (GAAP), which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1:	Quoted prices in active markets for identical assets or liabilities
Level 2:	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3:	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

US Treasury bonds	Valued at the closing price reported in the active market in which the bond is traded.
Other bonds	Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings.
Equities	Certain common stocks are valued at the closing price reported in the active market in which the individual securities are traded.
Certificates of Deposits	Valued at their cash value plus any accrued interest at the end of the reporting period.

Note 15 – FAIR VALUE MEASUREMENT (continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the YMCA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Gains and losses (realized and unrealized) are reported on the statement of activities and changes in net assets.

The following table sets forth by level within the fair value hierarchy the YMCA's assets at fair values as of June 30, 2019:

Description	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of deposit	$ 1,102,827	$ -	$ -	$ 1,102,827
Mutual funds	2,769,927	-	-	2,769,927
Domestic equities	2,934,560	-	-	2,934,560
Total assets measured at fair value	$ 6,807,314	$ -	$ -	$ 6,807,314

There were no transfers between Levels 1, 2 and 3 of the fair value hierarchy during the year ended June 30, 2019.

Fair Value of Financial Instruments – The fair value of the grants and pledges receivable, other receivables, prepaid expenses and other assets, accounts payable and accrued liabilities, and unearned revenue approximate carrying value because of the short-term nature of these items.

Note 16 – OPERATING LEASES

The YMCA has entered into several long-term lease agreements for land and facilities, with leases expiring between June 2020 and May 2031, and total annual rents currently of $67,116. Additionally, the YMCA also leases certain of its childcare facilities under month-to-month leases. Rent expense for all leases was $223,855 for the year ended June 30, 2019.

The following is a schedule of future minimum rental payments on non-cancelable leases with remaining terms in excess of one year:

Years ending June 30:	
2020	$ 70,296
2021	45,276
2022	45,276
2023	45,276
2024	45,276
Thereafter	281,317
Total	$ 532,717

Note 17 – ENDOWMENT FUNDS

The YMCA's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including those designated by board of directors, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of directors of the YMCA has interpreted the California adopted Universal Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the YMCA classified as net assets with donor restrictions (a) the original value of gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment, and (c) accumulations to the restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated by the YMCA in a manner consistent with the standard for prudence prescribed by UPMIFA. In accordance with UPMIFA, the YMCA considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the YMCA and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the YMCA
7. The investment policies of the YMCA

Return Objectives and Risk Parameters

The YMCA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the YMCA must hold in perpetuity for donor-specified periods as well as board-designated funds. The endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The investment policy calls for a diverse portfolio utilizing various asset classes with a goal of reducing volatility and risk. The YMCA expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

Note 17 – ENDOWMENT FUNDS (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The YMCA has a policy of appropriating for expenditure each year an amount not to exceed 5% of the average past twelve quarterly asset market value balances as of December 31. In establishing this policy, the YMCA considered the long-term expected return on its endowment. Accordingly, over the long-term, the YMCA expects the current spending policy to allow its endowment to grow at an average of 2% annually. This is consistent with the YMCA's objective to maintain the purchasing power of the endowment assets held in perpetuity for a specified term as well as to provide additional real growth through new gifts and investment return. During 2019, $14,143 of appropriations for expenditures were made.

Endowment Funds with Deficiencies

From time to time, the fair value of the assets associated with individual donor-restricted funds may fall below the level that current law requires the YMCA to retain for a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as a reduction in net assets with donor restrictions. Such deficiencies may result from unfavorable market fluctuations. As of June 30, 2019, the endowment fund had no deficiencies.

Endowment net assets with donor restrictions totaled $4,009,773, consisting of total original gift endowment contributions of $2,138,889 and accumulated earnings of $1,870,884 as of June 30, 2019. Endowment net assets without donor restrictions, classified as board-designated endowment funds were $3,307,479 as of June 30, 2019.

Note 18 – CONCENTRATIONS OF RISK

The YMCA maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000 for each insured financial institution. At June 30, 2019, the YMCA had uninsured cash balances of $1,204,851.

One source of the YMCA's revenue is from membership income for its physical education programs. Revenue generated from this source is approximately 46% of its operating revenue.

Revenues from contracts and grants receivable consists of Federal, State of California and local government grants and contracts. These revenues and grants are earned by the YMCA based on its services to clients in Santa Barbara and Ventura Counties.

Note 19 – INCOME TAXES

The YMCA is exempt from taxes on income under Internal Revenue Code section 501(c)(3) and California Revenue and Taxation Code 23701(d); therefore, no amounts for income taxes are reflected in the accompanying financial statements. Management is not aware of any transactions that would affect the YMCA's tax-exempt status.

The YMCA evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2019, the YMCA had no uncertain tax positions requiring accrual.

The YMCA files exempt organization tax returns in California and U.S. federal jurisdictions. The YMCA is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2015 and 2014, respectively.

Note 20 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available to meet cash needs for general expenditure for the following year are comprised of current assets and investments, adjusted for amounts unavailable due to illiquidity, endowments and other funds spending policy appropriations beyond one year, and current liabilities payable to vendors, financial institutions, and nonprofit organizations.

Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2019:

Current assets	
Cash and cash equivalents available within one year	$ 1,776,856
Accounts, pledges and grants receivable, current portion	395,032
Other current assets	300,921
Total Current Assets	2,472,809
Endowment cash and investments	9,519,427
Less investments unavailable for general expenditures within one year:	
Endowments and other funds subject to spending policy appropriations beyond one year:	(3,869,124)
Cash and investments available for general expenditures within one year	5,650,303
Current liabilities	(2,241,835)
Financial assets available to meet cash needs for general expenditures within one year as of June 30, 2019	$ 5,881,277

Note 21 – RENTAL INCOME

In April 2017, the YMCA entered into an agreement with a Commercial Real Estate Company to lease a portion of the Association's headquarters, including 6 parking spaces. The lease period commenced April 1, 2017 and expired on March 31, 2018. Base rent of $10,755 was charged per month. At the end of the lease, the tenant had an option to extend the term of the lease for two additional twelve month periods with fixed rental adjustments. In August 2017, this tenant elected to extend the lease agreement for an additional 12 months, extending the lease to March 31, 2019. Beginning April 1, 2018, the base rent charged increased to $11,078 per month.

As of October 1, 2019, the YMCA entered into a new lease. The lease period commenced October 1, 2019, and expires November 30, 2022, with two months of free rent and one three-year option. Base payments are $9,000 per month and has built-in escalators at December 2020 and 2021, for rent to be $9,270 and $9,548, respectively.

The future minimum rental receipts due from the lessee are as follows:

Years ending June 30:	
2020	$ 78,802
2021	105,070
2022	105,070
2023	43,779
Total	$ 332,721

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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

To the Board of Directors
Channel Islands Young Men's Christian Association

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 Channel Islands Young Men's Christian Association (YMCA), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, functional expense and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the YMCA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the YMCA's internal control. Accordingly, we do not express an opinion on the effectiveness of the YMCA'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 charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the YMCA'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.

McGowan Guntermann

Santa Barbara, California
December 12, 2019