



FOR YOUTH DEVELOPMENT
FOR HEALTHY LIVING
FOR SOCIAL RESPONSIBILITY

Finance Committee Meeting
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Pieology: 2642 Michelle Drive, Suite 100, Tustin, CA
August 16, 2019

FINANCE COMMITTEE MEETING AGENDA
August 16 @ 12:00pm
Peology: 2642 Michelle Drive, Suite 100, Tustin, CA

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| <p>1. Intersection Points</p> <ul style="list-style-type: none">• Executive Compensation/Finance• Audit/Finance | <p>Joyce Kirchhofer
David Lamb
Jess Meyers</p> |
| <p>2. Review/Approve Meeting Minutes</p> <ul style="list-style-type: none">• July 16, 2019 | <p>Sean Peasley</p> |
| <p>3. Financials</p> <ul style="list-style-type: none">• YMCA | <p>Joyce Kirchhofer</p> |

Next Meeting: September 20, 2019



FINANCE COMMITTEE

GUIDELINES ON INTERSECTION POINTS WITH EXECUTIVE COMPENSATION COMMITTEE

The Finance Committee has a responsibility to monitor material financial impacts to the YMCA of Orange County ("The Association"). In this role, it reviews material accounts and operations within the financial statements, including controls and adherence to policies. Given that the Executive Compensation Committee also monitors and approves Executive salaries, these two committees should work together and this document is intended to provide guidelines around such interaction and the role of the Finance Committee as it relates to intersection points with the Executive Compensation Committee.

The Compensation Committee must be aware and take into account IRS Intermediate sanctions when determining anything related to compensation. Intermediate sanctions is a term used in regulations enacted by the United States Internal Revenue Service that is applied to non-profit organizations who engage in transactions that inure to the benefit of a disqualified person within the organization.

- Section 4958 of the Internal Revenue Code imposes an excise tax on excess benefit transactions between a disqualified person and an applicable tax-exempt organization. The disqualified person who benefits from an excess benefit transaction is liable for the excise tax. An organization manager may also be liable for an excise tax on the excess benefit transaction.
- A DISQUALIFIED PERSON is any person who was in a position to exercise substantial influence over the affairs of the applicable tax-exempt organization at any time during the lookback period. It is not necessary that the person actually exercise substantial influence, only that the person be in a position to do so. Family members are also disqualified persons.
- <https://www.irs.gov/charities-non-profits/charitable-organizations/intermediate-sanctions>
- <https://www.irs.gov/charities-non-profits/charitable-organizations/intermediate-sanctions-compensation>

The Compensation Committee must also monitor compensation in case IRS Section 4960 kicks in. Section 4960 imposes an excise tax on an "applicable tax-exempt organization" (ATEO) at the Section 11 rate for amounts paid to a "covered employee" for remuneration that exceeds \$1 million or is considered an excess parachute payment. The excise tax is calculated on the excess remuneration and excess parachute payments paid in the calendar year ending with or within the tax

year of the exempt organization or related organization subject to the tax. In certain circumstances, this excise tax could apply to a “related organization” to an ATEO. At the time of this document, only interim guidance has been provided by the IRS, the link is below:

<https://www.irs.gov/pub/irs-drop/n-19-09.pdf>

1. Executive Annual Compensation

- The Executive Compensation Committee Chair will notify the Finance Committee if total compensation will be increased by 20% or more.
- Once the Executive Committee determines the compensation for the C-Suite employees, if there is any possibility of it rising to the level of Intermediate Sanctions, before it is finalized, the Compensation Committee Chair will notify the Finance Committee.

2. Severance Agreements

- In the case that a C-Suite employee is being given a severance payment, prior to the payment, the Executive Compensation Committee Chair will notify the Finance Committee if there is any possibility of it rising to the level of Intermediate Sanctions.

3. Employment Contracts

- Prior to execution of employment contracts for any C-Suite employees, the Executive Compensation Committee Chair will notify the Finance Committee if there is any possibility of it rising to the level of Intermediate Sanctions.



FINANCE COMMITTEE

GUIDELINES ON INTERSECTION POINTS WITH **AUDIT COMMITTEE**

The Finance Committee has a responsibility to monitor material financial impacts to the YMCA of Orange County ("The Association"). In this role, it reviews material accounts and operations within the financial statements, including controls and adherence to policies. Given that the audit committee also reviews financial controls, these two committees should work together and this document is intended to provide guidelines around such interaction and the role of the Finance Committee as it relates to intersection points with the Audit Committee.

1. **Controls tested by external auditors.** Certain controls will be tested by the Association's external auditors (including, but not limited to, long term contracts or leases, loans, lines of credit, capital purchases, investments, computer security, etc.).
 - At the time in which the auditors provide their findings to Audit Committee, Executive Leadership will inform the Finance Committee of such findings and proposed remediation plan.
 - At the time when the remediation actions are completed, Executive Leadership will inform the Audit and Finance Committees.
 - The Audit Committee will hold the Association accountable to ensure the remediation actions are completed in a timely manner.
2. **Financial controls tested by Association's Quality Assurance.** Certain financial controls are tested by the Association's Quality Assurance department.
 - The Association's Quality Assurance function will report out to the Audit Committee annually regarding findings on financial controls.
 - Any significant findings would be reported to the Finance Committee, with the proposed remediation actions to mitigate future risks.
3. **Other financial controls.** The Finance Committee will be responsible for working with management to confirm there are proper controls relating to the following areas. Such areas will be included in the chart of work for the year:
 - Insurance requirements and reviews
 - i. Liability, property/casualty and worker's compensation insurance
 - ii. Adequacy of insurance coverages
 - iii. Operation and cost/benefit of any self-insurance program
 - Tax risk (excise tax, property tax, UBIT, payroll tax, etc.)



FOR YOUTH DEVELOPMENT
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Finance Committee MINUTES

July 16, 2019

FINANCE COMMITTEE

Minutes July 16, 2019

Attendees: Sean Peasley, Ryan Fessler, Juliette Meunier, Minh Hoang, Alicia Chacon-bidwell, Dolores Daly, Jeff McBride, Joyce Kirchhofer, Brian Constable (via Phone)

Guest: John Rochford, Chair for PDF Committee (via Phone 3:45pm-4:28pm)

Absent: Crystal Immerman

Sean called meeting to order at 3:42pm

Review/Approve Meeting Minutes - Sean Peasley

- May 22, 2019
 - Sean asked if everyone has had the opportunity to review the minutes and asked if there were any questions
 - Small typo on page 2, 1st bullet....high performance at *all of our* YMCA....
 - This has been corrected and uploaded to the BOD portal
 - Juliette Meunier motioned to approve the minutes
 - Ryan Fessler seconded the motion to approve
 - All in favor; no nays or abstentions

Huntington Beach Update – Joyce Kirchhofer

- Joyce stated current lease expires March 2020. It doesn't have all the amenities the other gyms have, branch losing about \$480k annually but it's our second largest number of members. We reached out to the landlord. They want to keep us and offered an 18 month extension, starting after the current lease expires. Between taking back some space and a large rent rate reduction (\$1.60 to \$0.95 for a year then \$1.25 for 6 months to cover the 18 month extension), rent will be reduced 40%. This will allow us to try new things to make a go of it. It is not only a financial decision but a mission, impact and community image one as well. Need to let landlord know by 9/2020 if we will extend 2 years after that.

Cares/PDF intersection points

- Joyce opened comments to intersection points. Dolores mentioned that Y-OC wants to create sense of urgency with the funds available for Cares/PDF. We want the requests to start outpacing dollars, Jeff says. Dolores says the word regarding PDF is getting out and anticipates more requests coming afoot.
- Joyce reported on financials for Cares/PDF as to budget, usage and remaining funds. Revisions will be made on Cares/PDF funding tracking. Sarah reports out

balances remaining and what has been spent based on a scorecard to Cares/PDF committee.

- Juliette brought up risk and controls to make sure funds go to support the mission of YMCA, and that the funds approved for programs do not damage the brand.
- Sean noted that we are fulfilling our annual intersection points in this committee meeting.
 - Follow up items: Make scorecard available on portal. Joyce will have the intersection points document updated to reflect the process of determining the annual amount and will post a scorecard/report on the BOD portal.
 - John mentioned bylaws should govern the other documents. For all intersection points documents, an item will be added stating that if it is in conflict with our bylaws then our bylaws will govern.
 - CARES and Audit intersection points discussion will need to be added to an upcoming FC meeting.

YMCA OC Financial Highlights - Joyce Kirchhofer

- Dolores is working with child care operations on revenue and wages. Revenue is off 1.7%. Joyce mentioned closely monitoring ratios down to every 15 minutes, June was \$38k better than budget. Focus is on fall enrollment for child care; that impacts us through the school year.
- Joyce brought up sale of Coulter Pines and how we were able to use some of the funds to send homeless kids to camp this summer.
- Juliette brought up concerns with struggling branches and recurring deficits.
 - Leadership reiterated that all owned facilities and Huntington Beach will be reviewed by GRO. At that time it will be a much bigger and more comprehensive conversation. GRO report should be ready in 3-4 months.
- Laguna Niguel construction should see a huge uptick after March 2020 when construction ends.
- Cares/PDF – Joyce discussed the presentation change to see what was budgeted to be allocated out and what has been used.
- Leadership discussed that when GRO concludes in a few months, a lot of big decisions will be on the table.
- Ryan asked about cash needed on hand since we have \$5M. Brought up cash flow needs for the organization, Joyce will be working on a method that speaks to needs and availability to move to investments.

Meeting Adjourned – at 5:08pm

YMCA of Orange County
Financial Highlights – Year to Date
July 2019

Assets	\$ 38.1M
Liabilities	\$ 9.7M
Net Assets	\$ 28.4M

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating Revenue	\$ 26,029,608	\$ 26,405,103	\$ (375,495)
Operating Expenses	<u>23,093,653</u>	<u>23,677,425</u>	<u>583,772</u>
Operating Net	2,935,955	2,727,678	208,277
Scholarships Awarded	(620,255)	(603,569)	(16,686)
Investment Income - Net of Fees	1,176,577	120,118	1,056,459
Depreciation	(829,208)	(845,849)	16,641
Investment in Subsidiary-Tipper	(111,329)	(108,049)	(3,280)
Interest Expense	(36,567)	(45,674)	9,107
Gain/(Loss) Sale of Assets	(13,423)	-	(13,423)
CARES/PDF - Pool, Allocated Out	(72,070)	(113,835)	41,765
CARES/PDF - Used, Allocated To	<u>72,070</u>	<u>20,335</u>	<u>51,735</u>
Net Outcome	<u><u>\$ 2,501,750</u></u>	<u><u>\$ 1,151,155</u></u>	<u><u>\$ 1,350,595</u></u>

Balance Sheet Summary - Statement of Financial Position report

Assets increased \$2.2M (+6.1%) over prior year, primarily from the \$1.6M cash asset transfer from the Orange YMCA and \$1.2M change in investment value over prior year. \$1.46M remains as restricted cash for use in the Orange service area and appears in the liability section of the Balance Sheet.

Profit & Loss Summary

Year to date has produced an Operating Net of \$2.9M (11.3% vs 10.3% budgeted) and a Net Outcome Surplus of \$2.5M (9.6% vs. 4.4% budgeted). \$1.1M of the \$1.4M favorable variance is due to the investments, primarily the unbudgeted investment valuation. Another \$250k was budgeted but may be spent later. After these items we are about \$53k ahead of the target. Except for the investment income, all other variances are less than 0.5% of Revenue.

Challenges in Operations:. 1) Laguna Niguel construction is nearing the end, but a road closure for 5 weeks will impact access to the Y. Leadership has been working closely with the city to minimize impact YTD LN has \$50k negative variance to budget.

Successes in Operations: As mentioned above that while Profit & Loss variances are less than 0.5% of revenue, the following branches exceeded YTD budget and their prior Year Operating Net outcome and some contributing factors: 1) Huntington Beach, ran three new summer camps and increased revenue from a third party research study 2) Newport Mesa increased 3rd party revenue for seniors and from a third party research study 3) New Horizons, increased private pay fees; 4) Mission Viejo ahead of campaign budget and adult membership increased; 5) Pomona Valley, contracted pool revenue and membership revenue increased.

A new structure in our childcare division is being implemented to better manage the day-to-day operations, while aggressively pursuing growth opportunities. Additional details will be shared at the meeting.

YMCA of Orange County
Statement of Financial Position-Consolidated
7/31/2019

	<u>7/31/2019</u>	<u>12/31/2018</u>
	ASSETS	
<i>Current Assets</i>		
Cash and cash equivalents	4,657,068	3,346,003
Investments	11,646,420	10,483,166
Accounts Receivable - Net Allowance	1,029,558	787,924
Annual Pledges Receivable - Net Allowance	44,477	26,642
Deposits and Prepaid Rent	102,114	37,930
Prepaid Insurance	78,645	9,865
Other Prepaid Expenses	280,011	429,459
Total Current Assets	17,838,293	15,120,989
<i>Other Assets</i>		
Property, Plant and Equipment, Net	20,309,965	20,831,332
Total Other Assets	20,309,965	20,831,332
Total Assets	38,148,258	35,952,321

LIABILITIES AND NET ASSETS

<i>Current Liabilities</i>		
Accounts Payable	306,334	1,602,210
Liability Under Trust Agmt	4,356	5,255
Accrued Payroll and Employee Benefits	2,249,855	2,139,582
Program Fees Received In Advance - Other	2,709,951	1,228,300
Total Current Liabilities	5,270,496	4,975,347
<i>Long-term Liabilities</i>		
Self-Insurance Liability and Other Reserves	28,513	175,000
Notes Payable	4,399,928	4,526,431
Total Long-Term Liabilities	4,428,441	4,701,431
Total Liabilities	9,698,937	9,676,778
<i>Net Assets</i>		
Current Operations - YMCA excl. Tipper, LLC	2,613,079	2,953,850
Current Operations - Tipper, LLC	(111,329)	(167,294)
Current Operations (Restricted,Capital & Endowment)	(327,972)	(622,027)
Unrestricted/Temporarily/Permanently Restricted	26,275,543	24,111,014
Total Net Assets	28,449,321	26,275,543
Total Liabilities And Net Assets	38,148,258	35,952,321

YMCA of Orange County
Statement of Activities By Branch Operating Net
For the Seven Months Ending
7/31/2019

	Current Year YTD				Prior Year YTD Comparison		
	Actual	Budget	Variance	% Variance	Prior YTD	Curr YTD vs Prior YTD	% Variance
Operating Revenue By Branch							
Fullerton Family	1,595,767	1,647,823	(52,056)	-3.2%	1,524,625	71,142	4.7%
Santa Ana Family	520,168	495,426	24,742	5.0%	522,773	(2,605)	-0.5%
Orange Family	46,762	43,254	3,508	8.1%	0	46,762	#DIV/0!
Huntington Beach Family	909,713	908,925	788	0.1%	965,503	(55,790)	-5.8%
Yorba Linda/Placentia Family	183,220	204,282	(21,062)	-10.3%	257,167	(73,947)	-28.8%
Newport Mesa Family	1,624,370	1,777,666	(153,296)	-8.6%	1,491,417	132,953	8.9%
YCS New Horizons	668,554	642,875	25,679	4.0%	653,417	15,137	2.3%
Laguna Niguel Family	1,685,557	1,795,591	(110,034)	-6.1%	1,784,722	(99,165)	-5.6%
Mission Viejo Family	1,831,453	1,746,614	84,839	4.9%	1,802,080	29,373	1.6%
Rancho Mission Viejo	36,087	44,230	(8,143)	-18.4%	9,800	26,287	268.2%
Childcare	15,712,126	15,915,312	(203,186)	-1.3%	14,207,412	1,504,714	10.6%
Camp E.L.K.	372,276	438,494	(66,218)	-15.1%	523,173	(150,897)	-28.8%
San Gabriel Valley	46,940	78,061	(31,121)	-39.9%	177	46,763	26419.8%
Murrieta Family	214	0	214	#DIV/0!	414,534	(414,320)	-99.9%
Pomona Valley	338,959	237,984	100,975	42.4%	323,790	15,169	4.7%
Maple Hill Family	176,490	191,571	(15,081)	-7.9%	152,332	24,158	15.9%
Corporate Initiatives	75,482	98,250	(22,768)	-23.2%	67,550	7,932	11.7%
Association Office	64,271	35,600	28,671	80.5%	4,029,350	(3,965,079)	-98.4%
Board Fundraising	141,199	103,145	38,054	36.9%	862,548	(721,349)	-83.6%
Total Operating Revenue	26,029,608	26,405,103	(375,495)	-1.4%	29,592,370	(3,562,762)	-12.0%
Operating Net by Branch							
Fullerton Family	499,831	538,445	(38,614)	-7.2%	456,368	43,463	9.5%
Santa Ana Family	89,061	85,311	3,750	4.4%	106,034	(16,973)	-16.0%
Orange Family	16,222	6,766	9,456	139.8%	0	16,222	#DIV/0!
Huntington Beach Family	(63,209)	(88,426)	25,217	28.5%	(146,766)	83,557	56.9%
Yorba Linda/Placentia Family	58,721	55,247	3,474	6.3%	60,376	(1,655)	-2.7%
Newport Mesa Family	345,739	312,546	33,193	10.6%	332,886	12,853	3.9%
YCS New Horizons	291,281	250,709	40,572	16.2%	271,225	20,056	7.4%
Laguna Niguel Family	474,736	527,406	(52,670)	-10.0%	561,815	(87,079)	-15.5%
Mission Viejo Family	446,221	360,772	85,449	23.7%	366,240	79,981	21.8%
Rancho Mission Viejo	2,432	(1,392)	3,824	274.7%	2,293	139	6.1%
Childcare	4,687,470	4,830,751	(143,281)	-3.0%	4,272,741	414,729	9.7%
Camp E.L.K.	(53,589)	24,097	(77,686)	-322.4%	87,986	(141,575)	-160.9%
San Gabriel Valley	14,012	12,177	1,835	15.1%	(54,935)	68,947	125.5%
Murrieta Family	(33,057)	0	(33,057)	#DIV/0!	(221,679)	188,622	85.1%
Pomona Valley	15,959	(27,363)	43,322	158.3%	4,164	11,795	283.3%
Maple Hill Family	(40,918)	(18,710)	(22,208)	-118.7%	(31,914)	(9,004)	-28.2%
Corporate Initiatives	(83,355)	(103,876)	20,521	19.8%	18,636	(101,991)	-547.3%
Association Office	(3,845,507)	(4,099,728)	254,221	6.2%	(604,353)	(3,241,154)	-536.3%
Board Fundraising	113,905	62,946	50,959	81.0%	858,863	(744,958)	-86.7%
Total Operating Net	2,935,955	2,727,678	208,277	7.6%	6,339,980	(3,404,025)	-53.7%

YMCA of Orange County

Statement of Activities By Branch Operating Net
For the Seven Months Ending
7/31/2019

	Current Year YTD				Prior Year YTD Comparison		
	Actual	Budget	Variance	% Variance	Prior YTD	Curr YTD vs Prior YTD	% Variance
Scholarships Awarded	(620,255)	(603,569)	(16,686)	-2.8%	(703,998)	83,743	11.9%
Cares/PDF Funding - Pool, Allocated Out	(72,070)	(113,835)	41,765	36.7%	(50,307)	(21,763)	-43.3%
Cares/PDF Funding - Used, Allocated To	72,070	20,335	51,735	254.4%	50,307	21,763	43.3%
Gain/(Loss) Sale of Assets	(13,423)	0	(13,423)	#DIV/0!	(107,767)	94,344	87.5%
Interest Expense	(36,567)	(45,674)	9,107	19.9%	(47,882)	11,315	23.6%
Depreciation Expense	(829,208)	(845,849)	16,641	2.0%	(931,529)	102,321	11.0%
Investment In Subsidiary - Tipper	(111,329)	(108,049)	(3,280)	-3.0%	(120,990)	9,661	8.0%
Investment Income/(Loss) - Net of Fees	80,453	120,118	(39,665)	-33.0%	63,043	17,410	27.6%
Investment Valuation	1,096,124	0	1,096,124	#DIV/0!	83,506	1,012,618	1212.6%
Association Services	0	0	0	#DIV/0!	5,600	(5,600)	-100.0%
Total Net Outcome	2,501,750	1,151,155	1,350,595	117.3%	4,579,963	(2,078,213)	-45.4%

Orange YMCA asset transfer - Restricted Balance

(Unused portion not reflected in the amounts above) 1,464,997

Note: The following investment activity is not budgeted but is in the actual numbers above.

	<u>Current YTD</u>	<u>Prior Year YTD</u>
Investment Valuation - Gain / (Loss)	1,096,124	83,506
Short Term Gain (Loss)	(45,063)	(47,847)
Long Term Gain (Loss)	(64,561)	(24,669)
Total	986,500	10,990

FINANCE COMMITTEE - CHART OF WORK (2019)

Each meeting will cover an overview of financial statements

January	Year-end review of detailed financials
February	HR and Legal Committee Joint Meeting to review and update guidelines on intersection points
March	Review and discuss a multiyear budget developed by management; ensure budget aligns with strategic plan.
April	Newport Mesa and Huntington Beach Updates Tipper, LLC financials
May	Thorough review of financial statements to include detail review of the top 10-15 largest expenses
June	June 2019 meeting was canceled due to scheduling conflicts.
July	Minimizing expenses/vendor management – Understand processes to minimize expenses & vendor management PDF joint meeting to review and update guidelines on intersection points
August	Executive compensation and Audit joint meeting to review update guidelines on intersection points
September	Minimize financial risk through a review of insurance coverage with a presentation by Insurance Broker to review coverages and to discuss renewal options and risks. Revenue analysis and overview of trends and opportunities
October	Investment & CARES committee joint meeting to review and update guidelines on intersection points. Thorough review of financial statements to include detail review of the top 10-15 largest expenses
November	Review and approve annual operating budget developed by management; Ensure budget aligns with organizational goals and has strategies to achieve Review and approve Tipper budget
December	Review discuss and approve the 2020 chart of work and metrics to report to the BOD based on the strategic plan.
As Needed Meetings	Approve large expenditures that require Finance Committee approval including long-term leases/contracts, loans, capital expenditures Connection to other committees: Connection with Site Review Committee re: approve recommendations as to new sites or discontinuance of sites Joint meeting with one or more other committees to review any large risks/liabilities identified by Legal/HR/IT/Audit Review significant control deficiencies/audit findings identified by Audit Committee Review and approve significant funding through PDF or CARES committees