# Young Men's Christian Association of the Greater Houston Area

Consolidated Financial Statements
and Single Audit Reports
for the year ended August 31, 2012

Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report

To the Board of Directors of
Young Men's Christian Association of the Greater Houston Area:

We have audited the accompanying consolidated statements of financial position of Young Men's Christian Association of the Greater Houston Area (YMCA) and its affiliate, YMCA of the Greater Houston Area Endowment Foundation (collectively the Association) as of August 31, 2012 and 2011 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Association. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of August 31, 2012 and 2011 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012, on our consideration of the Association's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended August 31, 2012 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Blazek & Vetterling

December 10, 2012

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## Young Men's Christian Association of the Greater Houston Area

Consolidated Statements of Financial Position as of August 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents *(Notes 2 and 5)* | $ 18,596,495 | $ 11,868,164 |
| Accounts receivable | 823,294 | 1,011,175 |
| United Way allocation receivable | 881,434 | 884,603 |
| Prepaid expenses and other assets | 935,194 | 1,149,984 |
| Property held for resale | 3,062,128 | 9,465,874 |
| Bond issuance costs | 2,093,495 | 2,171,495 |
| Investments *(Notes 4 and 5)* | 78,444,033 | 73,321,660 |
| Bond proceeds held in trust *(Notes 5 and 9)* | 10,007,674 | 10,006,374 |
| Pledges receivable restricted for building construction, net *(Note 3)* | 7,743,676 | 7,520,440 |
| Property and equipment, net *(Note 6)* | 246,010,985 | 253,464,850 |
| TOTAL ASSETS | $ 368,598,408 | $ 370,864,619 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | $ 2,797,187 | $ 2,580,298 |
| Construction payable | 954,764 | 1,015,364 |
| Accrued expenses | 2,304,793 | 3,762,175 |
| Bond interest and fees payable | 738,549 | 689,052 |
| Funds held for others | 113,029 | 132,323 |
| Deferred revenue | 3,599,338 | 2,964,051 |
| Split-interest agreement liabilities *(Note 7)* | 308,708 | 253,744 |
| Deposits *(Note 8)* | | 23,689,524 |
| Bonds payable *(Note 9)* | 196,365,000 | 200,000,000 |
| Total liabilities | 207,181,368 | 235,086,531 |
| Net assets *(Note 11)*: | | |
| Unrestricted | 148,724,422 | 128,946,335 |
| Temporarily restricted *(Note 10)* | 11,316,686 | 5,350,807 |
| Permanently restricted | 1,375,932 | 1,480,946 |
| Total net assets | 161,417,040 | 135,778,088 |
| TOTAL LIABILITIES AND NET ASSETS | $ 368,598,408 | $ 370,864,619 |

*See accompanying notes to consolidated financial statements.*

## Young Men's Christian Association of the Greater Houston Area

Consolidated Statement of Activities for the year ended August 31, 2012

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| REVENUE: | | | | |
| Membership dues and fees | $ 54,242,033 | | | $ 54,242,033 |
| Program fees and residency income | 32,762,505 | | | 32,762,505 |
| Government grants and contracts *(Note 13)* | 6,020,203 | | | 6,020,203 |
| Contributions | 4,550,437 | $ 6,574,340 | $ 14,825 | 11,139,602 |
| United Way allocation | 2,812,745 | | | 2,812,745 |
| Other grants and contracts | 2,092,922 | | | 2,092,922 |
| Special events | 849,945 | | | 849,945 |
| Direct donor benefit costs | (361,847) | | | (361,847) |
| Investment return, net *(Note 4)* | 4,749,843 | 50,207 | | 4,800,050 |
| Gain on sale of property | 17,558,377 | | | 17,558,377 |
| Other income | 559,154 | | | 559,154 |
| Total revenue | 125,836,317 | 6,624,547 | 14,825 | 132,475,689 |
| Net assets released from restrictions: | | | | |
| Expenditure for program purposes | 658,668 | (658,668) | | |
| Donor redesignation | 119,839 | | (119,839) | |
| Total | 126,614,824 | 5,965,879 | (105,014) | 132,475,689 |
| EXPENSES: | | | | |
| Program services | 91,802,672 | | | 91,802,672 |
| Management and general | 13,684,043 | | | 13,684,043 |
| Fundraising | 1,350,022 | | | 1,350,022 |
| Total expenses | 106,836,737 | | | 106,836,737 |
| CHANGES IN NET ASSETS | 19,778,087 | 5,965,879 | (105,014) | 25,638,952 |
| Net assets, beginning of year | 128,946,335 | 5,350,807 | 1,480,946 | 135,778,088 |
| Net assets, end of year | $ 148,724,422 | $ 11,316,686 | $ 1,375,932 | $ 161,417,040 |

*See accompanying notes to consolidated financial statements.*

## Young Men's Christian Association of the Greater Houston Area

Consolidated Statement of Activities for the year ended August 31, 2011

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| REVENUE: | | | | |
| Membership dues and fees | $ 50,941,557 | | | $ 50,941,557 |
| Program fees and residency income | 31,204,092 | | | 31,204,092 |
| Government grants and contracts *(Note 13)* | 6,163,928 | | | 6,163,928 |
| Contributions | 5,427,035 | $ 6,777,596 | | 12,204,631 |
| United Way allocation | 2,725,891 | | | 2,725,891 |
| Other grants and contracts | 1,805,752 | | | 1,805,752 |
| Special events | 660,098 | | | 660,098 |
| Direct donor benefit costs | (294,203) | | | (294,203) |
| Investment return, net *(Note 4)* | 2,666,485 | 87,281 | | 2,753,766 |
| Gain on sale of property | 24,199 | | | 24,199 |
| Other income | 647,710 | | | 647,710 |
| Total revenue | 101,972,544 | 6,864,877 | | 108,837,421 |
| Net assets released from restrictions: | | | | |
| Expenditure for program purposes | 639,768 | (639,768) | | |
| Capital expenditures | 20,702,079 | (20,702,079) | | |
| Total | 123,314,391 | (14,476,970) | | 108,837,421 |
| EXPENSES AND LOSSES: | | | | |
| Program services | 93,120,771 | | | 93,120,771 |
| Management and general | 12,834,150 | | | 12,834,150 |
| Fundraising | 1,136,672 | | | 1,136,672 |
| Total expenses | 107,091,593 | | | 107,091,593 |
| Return of donor contribution *(Note 14)* | 1,525,000 | | | 1,525,000 |
| Total expenses and losses | 108,616,593 | | | 108,616,593 |
| CHANGES IN NET ASSETS | 14,697,798 | (14,476,970) | | 220,828 |
| Net assets, beginning of year | 114,248,537 | 19,827,777 | $ 1,480,946 | 135,557,260 |
| Net assets, end of year | $ 128,946,335 | $ 5,350,807 | $ 1,480,946 | $ 135,778,088 |

*See accompanying notes to consolidated financial statements.*

## Young Men's Christian Association of the Greater Houston Area

Consolidated Statement of Functional Expenses for the year ended August 31, 2012

| | PROGRAM SERVICES | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL |
|---|---|---|---|---|
| Salaries, related taxes, and benefits | $ 51,467,018 | $ 6,266,405 | $ 1,169,389 | $ 58,902,812 |
| Occupancy | 13,099,171 | 303,703 | 36,000 | 13,438,874 |
| Depreciation | 8,678,389 | 810,484 | 26,904 | 9,515,777 |
| Supplies | 5,584,827 | 222,015 | 16,064 | 5,822,906 |
| Professional fees and contract services | 1,777,714 | 2,085,673 | 7,436 | 3,870,823 |
| Interest expense and other bond costs | 3,393,704 | 319,320 | | 3,713,024 |
| Printing, publication, and promotion | 340,918 | 1,591,591 | 3,109 | 1,935,618 |
| Communications | 980,261 | 912,480 | 11,963 | 1,904,704 |
| Travel and transportation | 1,432,952 | 113,230 | 31,545 | 1,577,727 |
| Allocations to service providers | 1,473,422 | | | 1,473,422 |
| Equipment rental and maintenance | 1,147,463 | 191,578 | 126 | 1,339,167 |
| Specific assistance to individuals | 953,325 | | | 953,325 |
| Camping activity costs | 833,226 | | | 833,226 |
| Professional development and staff training | 352,109 | 18,570 | 4,240 | 374,919 |
| Membership dues | 67,345 | 306,163 | 6,223 | 379,731 |
| Conferences, conventions, and meetings | 108,532 | 181,491 | 34,438 | 324,461 |
| Postage and shipping | 60,986 | 77,117 | 1,266 | 139,369 |
| Other | 51,310 | 284,223 | 1,319 | 336,852 |
| Total expenses | $ 91,802,672 | $ 13,684,043 | $ 1,350,022 | $ 106,836,737 |

*See accompanying notes to consolidated financial statements.*

## Young Men's Christian Association of the Greater Houston Area

Consolidated Statement of Functional Expenses for the year ended August 31, 2011

| | PROGRAM SERVICES | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL |
|---|---|---|---|---|
| Salaries, related taxes, and benefits | $ 51,692,464 | $ 5,714,919 | $ 926,956 | $ 58,334,339 |
| Occupancy | 12,803,268 | 176,344 | 25,560 | 13,005,172 |
| Depreciation | 8,551,037 | 815,576 | 7,756 | 9,374,369 |
| Supplies | 5,679,841 | 285,651 | 17,257 | 5,982,749 |
| Professional fees and contract services | 2,108,970 | 2,121,063 | 44,811 | 4,274,844 |
| Interest expense and other bond costs | 4,251,363 | 457,399 | 5,066 | 4,713,828 |
| Printing, publication, and promotion | 499,198 | 1,405,870 | 763 | 1,905,831 |
| Communications | 1,049,207 | 984,321 | 9,338 | 2,042,866 |
| Travel and transportation | 1,413,010 | 126,045 | 35,146 | 1,574,201 |
| Allocations to service providers | 1,412,800 | | | 1,412,800 |
| Equipment rental and maintenance | 1,109,027 | 83,519 | | 1,192,546 |
| Specific assistance to individuals | 1,140,906 | | | 1,140,906 |
| Camping activity costs | 801,292 | | | 801,292 |
| Professional development and staff training | 406,869 | 34,795 | 3,120 | 444,784 |
| Membership dues | 79,070 | 287,066 | 9,708 | 375,844 |
| Conferences, conventions, and meetings | 8,811 | 288,728 | 44,274 | 341,813 |
| Postage and shipping | 76,526 | 52,813 | 6,864 | 136,203 |
| Other | 37,112 | 41 | 53 | 37,206 |
| Total expenses | $ 93,120,771 | $ 12,834,150 | $ 1,136,672 | $ 107,091,593 |

*See accompanying notes to consolidated financial statements.*

## Young Men's Christian Association of the Greater Houston Area

Consolidated Statements of Cash Flows for the years ended August 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | $ 25,638,952 | $ 220,828 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Contributions restricted for building construction | (5,945,502) | (5,732,476) |
| Contributed property | (450,000) | |
| Net realized and unrealized (gain) loss on investments | (2,216,293) | 442,097 |
| Gain on sale of property and equipment | (17,558,377) | (24,199) |
| Depreciation | 9,515,777 | 9,374,369 |
| Amortization of bond issuance costs | 78,000 | 77,727 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 187,881 | 2,264,962 |
| United Way allocation receivable | 3,169 | (7,851) |
| Prepaid expenses and other assets | 214,790 | (94,596) |
| Accounts payable and accrued expenses | (1,240,493) | (615,278) |
| Bond interest and fees payable | 49,497 | 107,529 |
| Funds held for others | (19,294) | (80,378) |
| Deferred revenue | 635,287 | (260,270) |
| Split-interest agreement liabilities | 54,964 | 137,084 |
| Net cash provided by operating activities | 8,948,358 | 5,809,548 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (26,674,827) | (47,448,511) |
| Proceeds from sale of investments | 24,762,244 | 44,989,413 |
| Net change in money market mutual funds held as investments | (993,497) | (702,482) |
| Purchases of property and equipment | (7,860,006) | (19,061,852) |
| Proceeds from sale of property and equipment | 7,460,093 | 49,534 |
| Payments received on note receivable | | 240,900 |
| Net cash used by investing activities | (3,305,993) | (21,932,998) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Change in bond proceeds held in trust | (1,300) | (4,541) |
| Payments on bonds | (3,635,000) | |
| Capitalized bond issuance costs | | (224,751) |
| Proceeds from contributions restricted for building construction | 5,722,266 | 4,562,757 |
| Deposit (returned) received | (1,000,000) | 2,179,649 |
| Net cash provided by financing activities | 1,085,966 | 6,513,114 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 6,728,331 | (9,610,336) |
| Cash and cash equivalents, beginning of year | 11,868,164 | 21,478,500 |
| Cash and cash equivalents, end of year | $ 18,596,495 | $ 11,868,164 |

| | | |
|---|---|---|
| *Supplemental disclosure of cash flow information:* | | |
| Deposit applied to sale of property | $23,689,524 | |
| Interest paid | $698,105 | $1,688,075 |

*See accompanying notes to consolidated financial statements.*

## NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Young Men's Christian Association of the Greater Houston Area (the YMCA) is located in Houston, Texas and was founded in 1886 to put Judeo-Christian principles into practice through programs that build healthy spirit, mind, and body for all. The YMCA seeks to promote its mission and core values by focusing on Youth Development, Healthy Living and Social Responsibility in programs conducted at 35 centers, 1 resident camp, 27 apartment outreach sites, and 212 childcare sites. The YMCA is committed to improving the quality of life through programs and services which provide opportunities for people to reach their highest potential, develop a positive attitude of self and others, appreciate good health and fitness, acquire a value system, and maintain spiritual awareness that manifests itself in our daily lives.

YMCA of the Greater Houston Area Endowment Foundation (the Foundation) was incorporated in 1997 to furnish assistance and support to the charitable and educational undertakings of the YMCA.

Basis of consolidation – These financial statements include the consolidated assets, liabilities, net assets and activities of the YMCA and the Foundation (collectively the Association). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – The YMCA and the Foundation are exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code. The YMCA is classified as a public charity under §509(a)(2). The Foundation is classified as a public charity under §509(a)(3) as a Type I supporting organization. The YMCA and the Foundation files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. The Association believes it is no longer subject to examinations of returns for tax years ending before 2009.

Cash equivalents include highly liquid financial instruments with original maturities of three months or less.

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

Bond issuance costs are recorded at cost and are amortized using the straight-line method over the term of the bonds.

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Real estate contributed to the Association is recorded at the appraised value provided by the donor at the date of contribution and, if necessary, written down to estimated realizable value upon known impairment of carrying value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets.

Property and equipment are recorded at cost if purchased or at fair value at the date of gift if donated. Depreciation is calculated using the straight-line method over estimated useful lives of 3 to 50 years. The YMCA capitalizes additions and improvements that have a tangible future economic life and a cost of more than $5,000.

Net asset classification – Contributions, investment return, and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.

- *Temporarily restricted net assets* include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. Investment return may be expended to support the activities of the Association.

Membership dues and fees are recognized over the period of membership. Amounts received in advance are recorded as deferred revenue.

Program fees, residency income and government grants and contracts are recognized when the related services are provided. Amounts received but unearned are included in the statement of financial position as deferred revenue.

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long such assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated goods and services are recorded at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recorded as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Advertising costs are expensed as incurred. The Association recognized advertising costs totaling approximately $660,000 in 2012 and $680,000 in 2011.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are comprised of the following:

| | 2012 | 2011 |
|---|---|---|
| Demand deposits | $ 17,940,603 | $ 8,591,116 |
| Money market mutual funds | 510,792 | 3,135,648 |
| Cash on hand | 145,100 | 141,400 |
| Total cash and cash equivalents | $ 18,596,495 | $ 11,868,164 |

Bank deposits exceed the federally insured limit per depositor per institution.

**NOTE 3 – PLEDGES RECEIVABLE**

Pledges receivable consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Total pledges receivable | $ 8,330,705 | $ 8,065,918 |
| Allowance for doubtful accounts | (245,570) | (205,413) |
| Discount to net present value at 5% | (341,459) | (340,065) |
| Pledges receivable, net | $ 7,743,676 | $ 7,520,440 |

Pledges receivable at August 31, 2012 are expected to be collected as follows:

| | |
|---|---|
| 2013 | $ 4,634,846 |
| 2014 | 1,461,768 |
| 2015 | 1,226,811 |
| 2016 | 724,250 |
| 2017 | 283,030 |
| Total pledges receivable | $ 8,330,705 |

The Association entered into a forty-six year lease agreement for $1 per year with the City of Alvin in January 2006 for the use of the land on which a YMCA facility is located. The estimated fair value of this agreement of approximately $660,000 is recorded as a pledge receivable and is being amortized over the life of the lease. At August 31, 2012, the unamortized balance is $629,831.

**NOTE 4 – INVESTMENTS**

Investments consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Bond mutual funds | $ 40,878,618 | $ 38,041,910 |
| Asset-backed securities | 18,638,649 | 16,030,071 |
| U.S. Treasury securities | 10,471,658 | 12,290,644 |
| Equity securities | 4,522,124 | 3,811,744 |
| Money market mutual funds | 3,324,328 | 2,330,831 |
| Corporate bonds | 583,992 | 587,842 |
| Exchange-traded funds | 13,663 | 28,416 |
| Real estate | 11,001 | 200,202 |
| Total investments | $ 78,444,033 | $ 73,321,660 |

Investments at August 31, 2012 and 2011 include the underlying assets of split-interest agreements totaling approximately $1,836,000 and $1,950,000, respectively, for which the Foundation acts as trustee. Realized and unrealized gains and losses, interest and dividends from these investments, and payments to the beneficiaries are reflected as adjustments to the split-interest agreement liabilities reported in the consolidated statements of financial position (see Note 7).

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

Investment return includes earnings on cash and cash equivalents and bond proceeds held in trust and excludes the return on underlying assets of split-interest agreements held in trust. Investment return consists of the following:

| | 2012 | 2011 |
|---|---|---|
| Interest and dividends | $ 2,953,262 | $ 3,688,615 |
| Net realized and unrealized gain (loss) | 2,216,293 | (442,097) |
| Royalty income | 12,518 | 13,058 |
| Investment management fees | (266,513) | (291,460) |
| Investment return on total investments | 4,915,560 | 2,968,116 |
| Less interest and dividends allocated to funds held in trust | (24,480) | (18,310) |
| Net realized and unrealized gain allocated to funds held in trust | (91,030) | (196,040) |
| Investment return, net | $ 4,800,050 | $ 2,753,766 |

**NOTE 5 – FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at August 31, 2012 are as follows:

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Bond mutual funds: | | | | |
| Short and intermediate term | $ 40,878,618 | | | $ 40,878,618 |
| Asset-backed securities | | $ 18,638,649 | | 18,638,649 |
| U.S. Treasury securities | | 10,471,658 | | 10,471,658 |
| Equity securities: | | | | |
| Large-cap | 2,024,748 | | | 2,024,748 |
| International | 1,562,092 | | | 1,562,092 |
| Mid-cap | 677,444 | | | 677,444 |
| Small-cap | 257,840 | | | 257,840 |
| Money market mutual funds | 3,324,328 | | | 3,324,328 |
| Corporate bonds | | 583,992 | | 583,992 |
| Exchange-traded funds | 13,663 | | | 13,663 |
| Total investments measured at fair value | 48,738,733 | 29,694,299 | | 78,433,032 |
| Money market mutual funds reported as cash and cash equivalents | 510,792 | | | 510,792 |
| Bond proceeds held in trust (Treasury bills) | | 10,007,674 | | 10,007,674 |
| Total assets measured at fair value | $ 49,249,525 | $ 39,701,973 | $ 0 | $ 88,951,498 |

Assets measured at fair value at August 31, 2011 are as follows:

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Bond mutual funds: | | | | |
| Short and intermediate term | $ 38,041,910 | | | $ 38,041,910 |
| Asset-backed securities | | $ 16,030,071 | | 16,030,071 |
| U.S. Treasury securities | | 12,290,644 | | 12,290,644 |
| Equity securities: | | | | |
| Large-cap | 1,799,410 | | | 1,799,410 |
| International | 1,285,418 | | | 1,285,418 |
| Mid-cap | 419,993 | | | 419,993 |
| Small-cap | 306,923 | | | 306,923 |
| Money market mutual funds | 2,330,831 | | | 2,330,831 |
| Corporate bonds | | 587,842 | | 587,842 |
| Exchange-traded funds | 28,416 | | | 28,416 |
| Total investments measured at fair value | 44,212,901 | 28,908,557 | | 73,121,458 |
| Money market mutual funds reported as cash and cash equivalents | 3,135,648 | | | 3,135,648 |
| Bond proceeds held in trust (Treasury bills) | | 10,006,374 | | 10,006,374 |
| Total assets measured at fair value | $ 47,348,549 | $ 38,914,931 | $ 0 | $ 86,263,480 |

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* and *exchange-traded funds* are valued at the reported net asset value.
- *Asset-backed securities, U.S. Treasury securities*, and *corporate bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.
- *Equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

## NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| | 2012 | 2011 |
|---|---|---|
| Land | $ 39,966,822 | $ 41,718,201 |
| Buildings and improvements | 243,021,946 | 245,191,722 |
| Furniture and equipment | 36,651,400 | 35,703,504 |
| Vehicles | 2,550,207 | 2,556,975 |
| Construction in process | 6,944,868 | 4,425,467 |
| Total property and equipment, at cost | 329,135,243 | 329,595,869 |
| Accumulated depreciation | (83,124,258) | (76,131,019) |
| Property and equipment, net | $ 246,010,985 | $ 253,464,850 |

## NOTE 7 – SPLIT-INTEREST AGREEMENTS

The Association's investments include deferred giving vehicles subject to split-interest agreements. Two different types of agreements currently are maintained: Charitable Remainder Unitrusts and a Pooled Income Fund. Three Charitable Gift Annuities previously maintained lapsed and were recognized as income in 2012 upon the deaths of the beneficiaries.

Charitable Gift Annuities are unrestricted irrevocable gifts under which the Association agrees to pay a life annuity to the donor or a designated beneficiary. The contributed funds and the attendant liabilities immediately become part of the general assets and liabilities of the Association. Charitable Remainder Unitrust gifts are time-restricted contributions not available to the organization until after the death of the donor, who, while living, receives a specified payout based on a fixed percentage of the market value of the invested funds. The Pooled Income Fund represents donations that are combined with other contributions and the total pool of funds is invested in equity securities, corporate bonds, and U.S. Treasury and asset-backed securities. Contributors receive a pro-rata share of the actual ordinary income of the fund until their death, at which point the donor's share of the pool becomes available to the Association.

## NOTE 8 – DEPOSITS

In April 2008, the Association entered into an agreement to sell property to a third party. A deposit of $22,689,524 was being held by the Association at August 31, 2011 as part of this agreement. The property was sold for approximately $24.6 million in 2012.

At August 31, 2011, the Association also held a deposit of $1,000,000 from a third party related to a special warranty deed dated March 2007 from the sale of Association land and buildings to the third party. In 2012, the third party completed its obligation under the deed and was refunded the amount.

## NOTE 9 – BONDS PAYABLE

On June 1, 2008, on behalf of the Association, the Harris County Health Facilities Development Corporation issued five bonds in the aggregate principal amount of $200,000,000 (Series 2008 Bonds), the proceeds of which were to be used to refund outstanding Harris County Health Facilities Development Corporation revenue bonds (Series 1999 Bonds and Series 2002 Bonds), to fund various construction projects to be undertaken by the Association, to fund the cost to terminate an interest rate hedge agreement entered into by the Association in anticipation of the issuance of the Series 2008 Bonds, to finance a debt service reserve fund for the Series 2008 Bonds, and to finance costs of the issuance of the Series 2008 Bonds. All unspent proceeds of the Series 2008 Bonds are held in trust by the bond trustee, Bank of New York, in the Series 2008 Bond Construction Fund, which holds investments in U.S. Treasury securities at August 31, 2012. The interest rate on the Series 2008 Bonds is determined daily by a remarketing agent. The Series 2008 Bonds are redeemable upon demand by the bondholders. The interest rate on the bonds was 1.8% at August 31, 2012 and 2.3% at August 31, 2011.

In connection with the Series 2008 Bonds, three banks have issued five irrevocable letters of credit for amounts not to exceed an aggregate of $200,465,488 for payment of, under certain circumstances, the principal and interest due under the Series 2008 Bonds. The Association is required to pay the banks an annual fee that is calculated and due on a quarterly basis. The letters of credit expire on June 24, 2013 and June 24, 2014. At August 31, 2012, no amounts were outstanding on the letters of credit.

Principal amounts due under each bond are as follows:

| | 2012 | 2011 |
|---|---|---|
| Series A | $ 73,635,000 | $ 75,000,000 |
| Series B | 49,090,000 | 50,000,000 |
| Series C | 24,540,000 | 25,000,000 |
| Series D | 24,555,000 | 25,000,000 |
| Series E | 24,545,000 | 25,000,000 |
| Total bonds payable | $ 196,365,000 | $ 200,000,000 |

Bonds payable are due in the fiscal years ending August 31 as follows:

| | |
|---|---|
| 2013 | $ 3,845,000 |
| 2014 | 4,035,000 |
| 2015 | 4,240,000 |
| 2016 | 4,435,000 |
| 2017 | 4,680,000 |
| Thereafter | 175,130,000 |
| Total bonds payable | $ 196,365,000 |

The Association has a $125,000 letter of credit that expires in October 2013 and a $50,000 letter of credit that expires in September 2013. Both of these letters of credit are with a financial institution and are related to insurance contracts. No draws were outstanding on these letters of credit at August 31, 2012.

## NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

| | 2012 | 2011 |
|---|---|---|
| Capital projects | $ 10,503,443 | $ 4,079,590 |
| Pooled income fund beneficiary interest | 534,068 | 542,426 |
| Accumulated earnings on general endowment available for operations | 278,175 | 231,905 |
| Childcare and after-school programs | | 230,100 |
| Health programs | | 211,786 |
| Other | 1,000 | 55,000 |
| Total temporarily restricted net assets | $ 11,316,686 | $ 5,350,807 |

## NOTE 11 – ENDOWMENTS

The Foundation was established to assist the YMCA in meeting its operating needs. The Board of Directors of the Foundation has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) 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 Foundation classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Foundation considers the following factors in making a determination to appropriate accumulated donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the YMCA and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the YMCA
- The investment policies of the Foundation

Endowment net asset composition as of August 31, 2012 is as follows:

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (1,452) | $ 813,243 | $ 1,375,932 | $ 2,187,723 |
| Board-designated general endowment funds | 4,375,482 | | | 4,375,482 |
| Endowment net assets | $ 4,374,030 | $ 813,243 | $ 1,375,932 | $ 6,563,205 |

Endowment net asset composition as of August 31, 2011 is as follows:

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (2,824) | $ 774,331 | $ 1,480,946 | $ 2,252,453 |
| Board-designated general endowment funds | 4,073,832 | | | 4,073,832 |
| Endowment net assets | $ 4,071,008 | $ 774,331 | $ 1,480,946 | $ 6,326,285 |

Changes in endowment net assets are as follows:

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| Endowment net assets, September 1, 2010 | $ 2,994,960 | $ 696,584 | $ 1,480,946 | $ 5,172,490 |
| Investment return: | | | | |
| Interest and dividends | 43,407 | 8,522 | | 51,929 |
| Net realized and unrealized gain | 401,171 | 78,759 | | 479,930 |
| Total investment return | 444,578 | 87,281 | | 531,859 |
| Contributions and other additions | 679,715 | | | 679,715 |
| Expenses | (12,469) | | | (12,469) |
| Appropriation for distribution | (35,776) | (9,534) | | (45,310) |
| Endowment net assets, August 31, 2011 | 4,071,008 | 774,331 | 1,480,946 | 6,326,285 |
| Investment return: | | | | |
| Interest and dividends | 57,085 | 13,333 | | 70,418 |
| Net realized and unrealized gain | 157,869 | 36,874 | | 194,743 |
| Total investment return | 214,954 | 50,207 | | 265,161 |
| Donor redesignation | 119,839 | | (119,839) | |
| Contributions and other additions | 12,205 | 1,000 | 14,825 | 28,030 |
| Appropriation for distribution | (43,976) | (12,295) | | (56,271) |
| Endowment net assets, August 31, 2012 | $ 4,374,030 | $ 813,243 | $ 1,375,932 | $ 6,563,205 |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TUPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature resulted from unfavorable market fluctuations and continued appropriations for certain programs that were deemed prudent by the Board of Directors and are reported in unrestricted net assets.

Investment Policies and Strategy

The purpose of the Foundation is to provide an endowment fund that will support the YMCA for generations to come. The Foundation's strategic asset allocation is based on this long-term perspective.

The Foundation has adopted investment policies for endowment assets that attempt to maximize return within reasonable and prudent levels of risk determined from one or more asset allocation studies conducted from time to time as well as to maintain the purchasing power of the current assets and all future contributions. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the assets of the Foundation are invested in a manner that will seek to maintain an appropriate, diversified asset allocation based on a total return policy that is compatible with a flexible spending policy, while still having the potential to produce positive real returns.

Spending Policy

The Foundation has a policy of appropriating net investment earnings (interest and dividends earned less administrative expense paid) on the general fund toward operations and program delivery. However, in the event that the YMCA is unable to fulfill their current mission, the Board of Directors may authorize distributions to meet the YMCA's objectives. These policies are consistent with the Foundation's objective to maintain the purchasing power of the investments held in perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return.

## NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of the Association's significant financial instruments including cash and cash equivalents, pledges receivable, investments, annuity payable and other short-term assets and liabilities approximates fair value as of August 31, 2012 and 2011. Additionally, management believes that because the interest rate on bonds payable is determined daily, the carrying value of bonds payable of $196,365,000 and $200,000,000 approximates fair value at August 31, 2012 and 2011, respectively.

## NOTE 13 – GOVERNMENT GRANTS AND CONTRACTS

The Association is the recipient of government grants and contracts from various federal, state, and local agencies. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Government contract revenue includes the following:

| | 2012 | 2011 |
|---|---|---|
| Federal grants and contracts: | | |
| U.S. Department of Health and Human Services | $ 3,780,528 | $ 3,705,428 |
| U.S. Department of State | 835,747 | 1,034,228 |
| U.S. Department of Justice | 318,000 | 330,012 |
| U.S. Department of Housing and Urban Development | 170,056 | 194,521 |
| Total federal grants and contracts | 5,104,331 | 5,264,189 |
| Colleges | 258,600 | 358,727 |
| School districts | 240,615 | 106,051 |
| State of Texas | 168,554 | 207,321 |
| City of Houston | 125,462 | 101,711 |
| Other | 122,641 | 125,929 |
| Total government grants and contracts | $ 6,020,203 | $ 6,163,928 |

The Association's government grants require fulfillment of certain conditions as set forth in grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by the Association with the terms of the contracts. Management believes such disallowances, if any, would not be material to the Association's financial position or changes in net assets.

## NOTE 14 – RETURN OF DONOR CONTRIBUTION

In 2005 and 2006, the YMCA received a total of $1,525,000 from a donor to be used towards the purchase of land and the subsequent construction of a YMCA facility. Plans to construct this facility are still pending and during 2011 the donor requested the return of this amount. At such time as a firm plan is in place as to the disposition of this project, the donor has indicated that it would entertain a new request for funding from the YMCA.

**NOTE 15 – EMPLOYEE BENEFIT PLAN**

The Association participates in a defined contribution retirement plan administered by the Young Men's Christian Association Retirement Fund. Employees may elect to participate following two years of service. The Association contributes 12% of the eligible employee's compensation into the plan. The Association contributed approximately $3,217,000 and $3,011,000 to this plan during the years ended August 31, 2012 and 2011, respectively.

**NOTE 16 – LEASES**

The Association leases certain office space and office equipment used in its operations. Operating lease payments for the years ended August 31, 2012 and 2011 were approximately $741,000 and $373,000, respectively.

As of August 31, 2012, the future minimum annual lease payments under these noncancellable operating leases are as follows:

| | |
|---|---|
| 2013 | $ 807,446 |
| 2014 | 747,109 |
| 2015 | 692,115 |
| 2016 | 662,373 |
| 2017 | 312,881 |
| Thereafter | 1,135,555 |
| Total | $ 4,357,479 |

**NOTE 17 – RELATED PARTY TRANSACTIONS**

During the years ended August 31, 2012 and 2011, the Association contracted with two construction companies owned by board members. Approximately $5.7 million was paid to one construction company in connection with several building projects in 2011. Approximately $25,000 and $10.5 million was paid to the other construction company in 2012 and 2011, respectively.

**NOTE 18 – COMMITMENTS**

At August 31, 2012, the Association has outstanding contractual commitments of approximately $2,100,000 in connection with several building projects.

**NOTE 19 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 10, 2012, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

## Young Men's Christian Association of the Greater Houston Area

Schedule of Expenditures of Federal Awards for the year ended August 31, 2012

| Grantor<br>Pass-through Grantor<br>Program Title & Period | | CFDA Number | Pass-through Grantor Number | Award Amount | Revenue | Allowable Expenses |
|---|---|---|---|---|---|---|
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | | | | |
| Passed through City of Houston: | | | | | | |
| Community Development Block Grants | | | | | | |
| Child Care Program | | | | | | |
| #1 | 08/11 – 07/12 | 14.218 | None | $48,956 | $ 44,798 | $ 44,798 |
| #2 | 08/12 – 12/12 | 14.218 | None | $19,583 | 5,000 | 5,000 |
| Emergency Shelter Grant | | | | | | |
| #3 | 08/11 – 07/12 | 14.218 | None | $110,000 | 103,390 | 103,390 |
| Passed through City of Houston: | | | | | | |
| Emergency Shelter Grant | | | | | | |
| #4 | 08/11 – 07/12 | 14.218 | None | $18,500 | 16,868 | 16,868 |
| Total U.S. Department of Housing and Urban Development | | | | | 170,056 | 170,056 |
| U.S. DEPARTMENT OF JUSTICE | | | | | | |
| Direct Funding: | | | | | | |
| Services for Trafficking Victims | | | | | | |
| #5 | 09/10 – 10/11 | 16.320 | 2003-VT-BX-K007 | $200,000 | 24,565 | 24,565 |
| #6 | 11/11 – 10/12 | 16.320 | 2003-VT-BX-K007 | $200,000 | 109,134 | 109,134 |
| Services for Trafficking Victims Collaborative Agreement | | | | | | |
| #7 | 10/10 – 09/12 | 16.320 | 2010-VT-BX-K013 | $500,000 | 121,817 | 121,817 |
| Passed through the State of Texas, Office of the Governor: | | | | | | |
| Direct Assistance to Victims of Crime | | | | | | |
| #8 | 07/11 – 06/12 | 16.575 | VA-11-V30-24499-01 | $80,000 | 62,484 | 62,484 |
| Total U.S. Department of Justice | | | | | 318,000 | 318,000 |
| U.S. DEPARTMENT OF STATE | | | | | | |
| Passed through U.S. Committee for Refugees and Immigrants: | | | | | | |
| U.S. Refugee Admissions Program | | | | | | |
| Resettlement – Reception and Placement | | | | | | |
| #9 | 01/11 – 09/11 | 19.510 | SPRMCO11CA010 | N/A | 62,197 | 62,197 |
| #10 | 10/11 – 09/12 | 19.510 | SPRMCO12CA003 | N/A | 773,550 | 773,550 |
| Total U.S. Department of State | | | | | 835,747 | 835,747 |

*(continued)*

# Young Men's Christian Association of the Greater Houston Area

Schedule of Expenditures of Federal Awards for the year ended August 31, 2012 *(continued)*

| Grantor<br>Pass-through Grantor<br>Program Title & Period | | CFDA Number | Pass-through Grantor Number | Award Amount | Revenue | Allowable Expenses |
|---|---|---|---|---|---|---|
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | |
| Passed through Texas Health and Human Services Commission: | | | | | | |
| Refugee and Entrant Assistance – State Administered Employment Services | | | | | | |
| #11 | 10/10 – 09/11 | 93.566 | 529-08-0181-00010C | $1,788,979 | 128,921 | 128,921 |
| #12 | 10/11 – 09/12 | 93.566 | 529-08-0181-00010D | $1,942,684 | 1,697,024 | 1,697,024 |
| Refugee Cash Assistance | | | | | | |
| #13 | 10/10 – 09/11 | 93.566 | 529-10-0026-00013R1 | $322,874 | 73,630 | 73,630 |
| #14 | 10/11 – 09/12 | 93.566 | 529-10-0026-00013R2 | $306,730 | 743,246 | 743,246 |
| Passed through U.S. Committee for Refugees and Immigrants: | | | | | | |
| Refugee and Entrant Assistance – Voluntary Agency Matching Grant | | | | | | |
| #15 | 02/11 – 01/12 | 93.567 | 90 RV 0054/03 | N/A | 98,000 | 98,000 |
| #16 | 02/12 – 09/12 | 93.567 | 90 RV 0059/01 | N/A | 701,920 | 701,920 |
| Passed through the Office of Refugee Resettlement: | | | | | | |
| Refugee and Entrant Assistance – Discretionary Grants Refugee Women's Project | | | | | | |
| #17 | 09/11 – 02/13 | 93.576 | 90 RU 0207/01 | $150,000 | 72,562 | 72,562 |
| Passed through The Bilingual Educational Institute: | | | | | | |
| Refugee and Entrant Assistance – Targeted Assistance Pre-GED | | | | | | |
| #18 | 10/10 – 09/11 | 93.584 | 529-08-0181-00012B | $138,037 | 2,466 | 2,466 |
| #19 | 10/11 – 09/12 | 93.584 | 529-08-0181-00012C | $149,898 | 24,802 | 24,802 |
| Cultural Orientation | | | | | | |
| #20 | 10/10 – 09/11 | 93.584 | 529-08-0181-00012B | $138,037 | 11,216 | 11,216 |
| #21 | 10/11 – 09/12 | 93.584 | 529-08-0181-00012C | $149,898 | 101,944 | 101,944 |
| Passed through The Alliance for Multicultural Community Services: | | | | | | |
| Refugee and Entrant Assistance – Targeted Assistance Case Management Services | | | | | | |
| #22 | 10/10 – 09/11 | 93.584 | 529-08-0181-00017B | $92,038 | 10,772 | 10,772 |
| #23 | 10/11 – 09/12 | 93.584 | 529-08-0181-00017C | $107,648 | 86,532 | 86,532 |
| Passed through U.S. Committee for Refugees and Immigrants: | | | | | | |
| National Human Trafficking Victims Assistance Program | | | | | | |
| #24 | 01/12 – 09/12 | 93.598 | None | N/A | 27,493 | 27,493 |
| Total U.S. Department of Health and Human Services | | | | | 3,780,528 | 3,780,528 |
| TOTAL FEDERAL AWARDS | | | | | $ 5,104,331 | $ 5,104,331 |

*See accompanying notes to schedule of expenditures of federal awards.*

## Young Men's Christian Association of the Greater Houston Area

Notes to Schedule of Expenditures of Federal Awards for the year ended August 31, 2012

### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. Allowable expenses include only amounts paid with federal funds. These programs are supplemented with funding from non-governmental sources. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Allowable expenses are determined according to the standards of OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, and are expensed in the Association's statement of activities in conformity with generally accepted accounting principles.

### NOTE 2 – SUBRECIPIENTS

Of the federal expenditures presented in the schedule of expenditures of federal awards, the Association provided awards to subrecipients in the following contract:

| PROGRAM TITLE | AMOUNT PROVIDED TO SUBRECIPIENTS |
|---|---|
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | |
| Passed through Texas Health and Human Services Commission: | |
| Employment Services | $1,376,707 |

## 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 of
Young Men's Christian Association of the Greater Houston Area:

We have audited the consolidated financial statements of Young Men's Christian Association of the Greater Houston Area (the YMCA) and its affiliate, YMCA of the Greater Houston Area Endowment Foundation (collectively the Association) as of and for the year ended August 31, 2012, and have issued our report thereon dated December 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting – Management of the YMCA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters – As part of obtaining reasonable assurance about whether the Association's financial statements are free of 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*.

This report is intended solely for the information and use of management, the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blazek & Vetterling

December 10, 2012

2900 Weslayan, Suite 200 Houston, Texas 77027-5132 (713) 439-5757 Fax (713) 439-5758

**Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

**Independent Auditor's Report**

To the Board of Directors of
Young Men's Christian Association of the Greater Houston Area:

Compliance – We have audited the compliance of Young Men's Christian Association of the Greater Houston Area (the YMCA) with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement*, that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012. The YMCA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the YMCA's management. Our responsibility is to express an opinion on the YMCA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the YMCA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the YMCA's compliance with those requirements.

In our opinion, the YMCA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012.

Internal Control Over Compliance – Management of the YMCA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the YMCA's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the YMCA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blazek & Vetterling

December 10, 2012

## Young Men's Christian Association of the Greater Houston Area

Schedule of Findings and Questioned Costs for the year ended August 31, 2012

### Section I – Summary of Auditor's Results

*Financial Statements*

Type of auditor's report issued: ☒ unqualified ☐ qualified ☐ adverse ☐ disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Noncompliance material to the financial statements noted? ☐ yes ☒ no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: ☒ unqualified ☐ qualified ☐ adverse ☐ disclaimer

Any audit findings disclosed that are required to be reported in accordance with §.510(a) of Circular A-133? ☐ yes ☒ no

Identification of major programs:

| CFDA Number(s) | Name of Program or Cluster |
|---|---|
| 16.320 | Services for Trafficking Victims |
| 93.566 | Refugee and Entrant Assistance – State Administered |

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as a low-risk auditee? ☒ yes ☐ no

### Section II – Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards.*

### Section III – Federal Award Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with §.510(a) of Circular A-133.

## Summary Schedule of Prior Audit Findings

The following were the audit findings for the year ended August 31, 2011, required to be reported in accordance with OMB A-133 §.300(f).

**Finding #11-1**

*Applicable federal program:* Matching Grant, CFDA #93.567

*Criteria:* Special tests and provisions

*Condition and context:* Of 40 client files tested under the Matching Grant program, 11 included cash allowances paid to participants that were not paid within 10 working days from initial enrollment into the program, as required by the contract.

*Questioned costs:* Unknown

*Recommendation:* We recommend that management implement procedures to ensure that cash allowances paid to eligible participants be made within the required time period.

*Management response and corrective action plan:* The Executive Director, International Branch will work with the caseworker to implement procedures that ensure that the cash allowances are paid to participants within 10 days as required by the contract.

*Responsible officer:* Executive Director, International Branch

*Estimated completion date:* January 2012

*Management's 2012 follow-up response:* The Executive Director, International Branch has implemented the procedures to ensure that the required documentation is included in the client files.

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