Young Men's Christian Association of the Greater Houston Area

Consolidated Financial Statements
and Single Audit Reports
for the year ended August 31, 2013

Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements 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), which comprise the consolidated statements of financial position as of August 31, 2013 and 2012 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 consolidated financial position of the Association as of August 31, 2013 and 2012 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. Supplementary information included in the schedule of expenditures of federal awards for the year ended August 31, 2013 as required by Office of Management and Budget Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Blazek & Vetterling

December 10, 2013

Young Men's Christian Association of the Greater Houston Area

Consolidated Statements of Financial Position as of August 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents *(Notes 2 and 5)*	$ 2,855,883	$ 18,596,495
Accounts receivable	1,104,866	823,294
United Way allocation receivable	883,880	881,434
Prepaid expenses and other assets	883,934	935,194
Operating pledges receivable, net *(Note 3)*	665,887	
Property held for resale	6,881,518	3,062,128
Bond issuance costs	3,272,044	2,093,495
Investments *(Notes 4 and 5)*	56,160,053	78,444,033
Bond proceeds held in trust *(Notes 5 and 9)*	5,670,222	10,007,674
Pledges receivable restricted for building construction, net *(Note 3)*	5,109,077	7,743,676
Derivative agreements *(Notes 5 and 8)*	175,347	
Property and equipment, net *(Note 6)*	239,676,652	246,010,985
TOTAL ASSETS	$ 323,339,363	$ 368,598,408
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 2,530,182	$ 2,797,187
Construction payable	495,931	954,764
Accrued expenses	2,310,095	2,304,793
Bond interest and fees payable	163,508	738,549
Funds held for others	36,280	113,029
Deferred revenue	3,413,119	3,599,338
Split-interest agreement liabilities *(Note 7)*	463,259	308,708
Bonds payable *(Note 9)*	154,568,372	196,365,000
Total liabilities	163,980,746	207,181,368
Net assets *(Note 11)*:		
Unrestricted	154,003,278	148,724,422
Temporarily restricted *(Note 10)*	3,957,152	11,316,686
Permanently restricted	1,398,187	1,375,932
Total net assets	159,358,617	161,417,040
TOTAL LIABILITIES AND NET ASSETS	$ 323,339,363	$ 368,598,408

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, 2013

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Membership dues and fees	$ 56,458,588			$ 56,458,588
Program fees and residency income	34,709,093			34,709,093
Government grants and contracts *(Note 13)*	6,759,604			6,759,604
Contributions	5,532,157	$ 3,774,374	$ 22,255	9,328,786
United Way allocation	2,854,399			2,854,399
Other grants and contracts	1,759,356			1,759,356
Special events	1,286,279			1,286,279
Direct donor benefit costs	(601,300)			(601,300)
Investment return, net *(Note 4)*	(600,370)	169,008		(431,362)
Loss on sale of property	(1,577,306)			(1,577,306)
Other income	571,484			571,484
Total revenue	107,151,984	3,943,382	22,255	111,117,621
Net assets released from restrictions:				
Expenditure for program purposes	877,243	(877,243)		
Capital expenditures	10,425,673	(10,425,673)		
Total	118,454,900	(7,359,534)	22,255	111,117,621
OPERATING EXPENSES:				
Program services	97,659,804			97,659,804
Management and general	13,302,331			13,302,331
Fundraising	1,389,256			1,389,256
Total expenses	112,351,391			112,351,391
Changes in net assets from operating activities	6,103,509	(7,359,534)	22,255	(1,233,770)
Return of donor contribution *(Note 14)*	(1,000,000)			(1,000,000)
Change in value of derivative agreements *(Note 8)*	175,347			175,347
CHANGES IN NET ASSETS	5,278,856	(7,359,534)	22,255	(2,058,423)
Net assets, beginning of year	148,724,422	11,316,686	1,375,932	161,417,040
Net assets, end of year	$ 154,003,278	$ 3,957,152	$ 1,398,187	$ 159,358,617

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
OPERATING 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
OPERATING 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 Functional Expenses for the year ended August 31, 2013

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries, related taxes, and benefits	$ 53,443,701	$ 6,588,732	$ 1,115,400	$ 61,147,833
Occupancy	13,341,476	355,080	71,186	13,767,742
Depreciation	8,691,777	819,619	19,061	9,530,457
Supplies	6,178,076	167,893	45,521	6,391,490
Professional fees and contract services	3,004,307	1,850,955	82,788	4,938,050
Interest expense and other bond costs	3,426,433	322,400		3,748,833
Specific assistance to individuals	2,267,790			2,267,790
Printing, publication, and promotion	824,328	1,261,947	2,170	2,088,445
Travel and transportation	1,578,557	190,382	29,792	1,798,731
Communications	814,534	870,857	12,271	1,697,662
Allocations to service providers	1,464,877			1,464,877
Equipment rental and maintenance	1,196,775	69,393		1,266,168
Camping activity costs	734,235			734,235
Professional development and staff training	407,703	49,935	1,791	459,429
Membership dues	81,575	338,255	5,834	425,664
Conferences, conventions, and meetings	109,772	149,756	1,306	260,834
Postage and shipping	58,435	70,795	1,940	131,170
Other	35,453	196,332	196	231,981
Total expenses	$ 97,659,804	$ 13,302,331	$ 1,389,256	$ 112,351,391

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
Specific assistance to individuals	953,325			953,325
Printing, publication, and promotion	340,918	1,591,591	3,109	1,935,618
Travel and transportation	1,432,952	113,230	31,545	1,577,727
Communications	980,261	912,480	11,963	1,904,704
Allocations to service providers	1,473,422			1,473,422
Equipment rental and maintenance	1,147,463	191,578	126	1,339,167
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 Statements of Cash Flows for the years ended August 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (2,058,423)	$ 25,638,952
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for building construction	(3,096,156)	(5,945,502)
Contributed property		(450,000)
Net realized and unrealized (gain) loss on investments	2,507,942	(2,216,293)
(Gain) loss on sale of property and equipment	1,577,306	(17,558,377)
Depreciation	9,530,457	9,515,777
Amortization of bond issuance costs	81,039	78,000
Change in value of derivative agreements	(175,347)	
Changes in operating assets and liabilities:		
Accounts receivable	(281,572)	187,881
United Way allocation receivable	(2,446)	3,169
Prepaid expenses and other assets	51,260	214,790
Operating pledges receivable	(665,887)	
Accounts payable and accrued expenses	(261,703)	(1,240,493)
Bond interest and fees payable	(575,041)	49,497
Funds held for others	(76,749)	(19,294)
Deferred revenue	(186,219)	635,287
Split-interest agreement liabilities	154,551	54,964
Net cash provided by operating activities	6,523,012	8,948,358
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(27,541,124)	(26,674,827)
Proceeds from sale of investments	49,333,419	24,762,244
Net change in money market mutual funds held as investments	(2,016,257)	(993,497)
Purchases of property and equipment	(16,934,158)	(7,860,006)
Proceeds from sale of property and equipment	9,432,505	7,460,093
Net cash provided (used) by investing activities	12,274,385	(3,305,993)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in bond proceeds held in trust	4,337,452	(1,300)
Payments on bonds	(41,796,628)	(3,635,000)
Capitalized bond issuance costs	(1,259,588)	
Proceeds from contributions restricted for building construction	4,180,755	5,722,266
Deposit returned		(1,000,000)
Net cash provided (used) by financing activities	(34,538,009)	1,085,966
NET CHANGE IN CASH AND CASH EQUIVALENTS	(15,740,612)	6,728,331
Cash and cash equivalents, beginning of year	18,596,495	11,868,164
Cash and cash equivalents, end of year	$ 2,855,883	$ 18,596,495

Supplemental disclosure of cash flow information:

	2013	2012
Interest paid	$1,690,864	$380,006
Deposit applied to sale of property		$23,689,524

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 38 centers, 1 resident camp, 22 apartment outreach sites, and 190 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 file 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 August 31, 2010.

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.

Derivative agreements – The YMCA utilizes interest rate swap agreements to hedge interest rate exposures on debt. Interest rate swap agreements are recognized as assets or liabilities at fair value in the consolidated statements of financial position and changes in the fair value of the interest rate swap agreements are recognized as change in value of derivative agreements in the consolidated statements of activities. Amounts receivable or payable under the interest rate swap agreements are recognized as an adjustment to interest expense on the related debt.

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 $1,020,000 in 2013 and $660,000 in 2012.

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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	2013	2012
Demand deposits	$ 2,300,608	$ 17,940,603
Money market mutual funds	410,925	510,792
Cash on hand	144,350	145,100
Total cash and cash equivalents	$ 2,855,883	$ 18,596,495

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

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2013	2012
Pledges receivable	$ 6,133,368	$ 8,330,705
Allowance for doubtful accounts	(193,706)	(245,570)
Discount to net present value at 5%	(164,698)	(341,459)
Pledges receivable, net	$ 5,774,964	$ 7,743,676

Pledges receivable at August 31, 2013 are expected to be collected as follows:

2014	$ 4,037,609
2015	1,138,340
2016	592,528
2017	225,858
2018	139,033
Total pledges receivable	$ 6,133,368

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, 2013, the unamortized balance is $624,617.

NOTE 4 – INVESTMENTS

Investments consist of the following:

	2013	2012
Bond mutual funds	$ 26,332,116	$ 40,878,618
U. S. Treasury securities	11,426,392	10,471,658
Government agency securities	7,092,009	18,638,649
Equity securities	5,408,439	4,522,124
Money market mutual funds	5,340,585	3,324,328
Corporate bonds	549,511	583,992
Real estate	11,001	11,001
Exchange-traded funds		13,663
Total investments	$ 56,160,053	$ 78,444,033

Investments at August 31, 2013 and 2012 include the underlying assets of split-interest agreements totaling approximately $2,037,000 and $1,836,000, 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:

	2013	2012
Interest and dividends	$ 2,560,049	$ 2,953,262
Realized gain	1,499,320	1,861,973
Unrealized gain (loss)	(4,007,262)	354,320
Royalty income	11,387	12,518
Investment management fees	(283,025)	(266,513)
Investment return on total investments	(219,531)	4,915,560
Less: Interest and dividends allocated to funds held in trust	(22,064)	(24,480)
Net realized and unrealized gain allocated to funds held in trust	(189,767)	(91,030)
Investment return, net	$ (431,362)	$ 4,800,050

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, 2013 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Bond mutual funds:				
Multi-sector	$ 15,307,006			$ 15,307,006
Short-term	11,025,110			11,025,110
U. S. Treasury securities		$ 11,426,392		11,426,392
Government agency securities		7,092,009		7,092,009
Equity securities:				
Large-cap	2,182,954			2,182,954
International	1,748,242			1,748,242
Mid-cap	1,024,731			1,024,731
Small-cap	452,512			452,512
Money market mutual funds	5,340,585			5,340,585
Corporate bonds		549,511		549,511
Total investments measured at fair value	37,081,140	19,067,912		56,149,052
Money market mutual funds reported as cash and cash equivalents	410,925			410,925
Derivative agreements		175,347		175,347
Total assets measured at fair value	$ 37,492,065	$ 19,243,259	$ 0	$ 56,735,324

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

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Bond mutual funds:				
Multi-sector	$ 25,057,280			$ 25,057,280
Short-term	15,821,338			15,821,338
U. S. Treasury securities		$ 10,471,658		10,471,658
Government agency securities		18,638,649		18,638,649
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

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.
- *U. S. Treasury securities, government agency 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.
- *Derivative agreements* are valued by using independent quotation bureau valuation models which include cash flow analysis, credit spread and benchmark rate curves.

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:

	2013	2012
Land	$ 26,353,125	$ 39,966,822
Buildings and improvements	260,542,792	243,021,946
Furniture and equipment	37,766,224	36,651,400
Vehicles	2,805,528	2,550,207
Construction in progress	2,883,759	6,944,868
Total property and equipment, at cost	330,351,428	329,135,243
Accumulated depreciation	(90,674,776)	(83,124,258)
Property and equipment, net	$ 239,676,652	$ 246,010,985

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.

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 Unitrusts 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 government agency 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 – DERIVATIVE AGREEMENTS

The Association entered into interest rate swap agreements with banks that effectively converted its variable-rate Series C and Series D bonds to fixed rates. Both swap agreements have a notional amount of $20,885,000. Under the terms of the first agreement, which terminates February 15, 2020, the Association receives 65% of the 3-Month USD-LIBOR-BBA floating rate plus 190 basis points and pays 3.1320%. The fair value of the derivative agreement was $107,515 at August 31, 2013. Under the terms of the second agreement, which terminates on February 18, 2018, the Association receives 67% of the 3-Month USD-LIBOR-BBA floating rate plus 185 basis points and pays 2.732%. The fair value of the derivative agreement was $67,832 at August 31, 2013.

NOTE 9 – BONDS PAYABLE

On February 28, 2013, on behalf of the Association, the Harris County Cultural Education Facilities Finance Corporation issued four bonds in the aggregate principal amount of $151,625,000 (Series 2013 Bonds), the proceeds of which were used to refund outstanding Harris County Health Facilities Development Corporation revenue bonds (Series 2008 Bonds), fund the cost of issuance of the Series 2013 Bonds, and fund a debt service reserve fund securing only the Series 2013A Bonds. All unspent proceeds of the Series 2013 Bonds are held in trust by the bond trustee, Bank of New York, which holds investments in cash at August 31, 2013. The interest rate on the Series 2013 Bonds is determined daily by a remarketing agent. The Series 2013 Bonds are redeemable upon demand by the bondholders. The interest rate on the bonds was 1.09% at August 31, 2013 and 1.8% at August 31, 2012.

In connection with the Series 2013 Bonds, JPMorgan Chase Bank has issued an irrevocable letter of credit for an amount not to exceed an aggregate of $43,090,192 for payment of, under certain circumstances, the principal and interest due under the Series 2013B Bonds. The Association is required to pay the bank an annual fee that is calculated and due on a quarterly basis. The letter of credit expires on February 29, 2016. At August 31, 2013, no amounts were outstanding on the letter of credit.

Principal amounts due under each bond are as follows:

	2013	2012
Series A	$ 70,893,372	$ 73,635,000
Series B	41,905,000	49,090,000
Series C	20,885,000	24,540,000
Series D	20,885,000	24,555,000
Series E		24,545,000
Total bonds payable	$ 154,568,372	$ 196,365,000

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

2014	$ 2,885,000
2015	2,965,000
2016	4,135,000
2017	4,280,000
2018	4,420,000
Thereafter	135,883,372
Total bonds payable	$ 154,568,372

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2013	2012
Capital projects	$ 3,173,926	$ 10,503,443
Pooled income fund beneficiary interest	406,765	534,068
Accumulated earnings on general endowment available for operations	376,461	278,175
Other		1,000
Total temporarily restricted net assets	$ 3,957,152	$ 11,316,686

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, 2013 is as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds	$ (195)	$ 783,226	$ 1,398,187	$ 2,181,218
Board-designated general endowment funds	5,206,575			5,206,575
Endowment net assets	$ 5,206,380	$ 783,226	$ 1,398,187	$ 7,387,793

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

Changes in endowment net assets are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, September 1, 2011	$ 4,071,008	$ 774,331	$ 1,480,946	$ 6,326,285
Investment return:				
Interest and dividends	87,536	20,445		107,981
Net realized and unrealized gain	157,869	36,874		194,743
Investment management fees	(30,451)	(7,112)		(37,563)
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
Investment return:				
Interest and dividends	101,122	28,200		129,322
Net realized and unrealized gain	541,226	150,935		692,161
Investment management fees	(36,312)	(10,127)		(46,439)
Total investment return	606,036	169,008		775,044
Donor redesignation	183,751	(183,751)		
Contributions and other additions	109,493		22,255	131,748
Expenses	(3,068)			(3,068)
Appropriation for distribution	(63,862)	(15,274)		(79,136)
Endowment net assets, August 31, 2013	$ 5,206,380	$ 783,226	$ 1,398,187	$ 7,387,793

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 of the Foundation 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, derivative agreements, investments, annuity payable and other short-term assets and liabilities approximates fair value as of August 31, 2013 and 2012. Additionally, management believes that because the interest rate on bonds payable is determined daily, the carrying value of bonds payable of $154,568,372 and $196,365,000 approximates fair value at August 31, 2013 and 2012, 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:

	2013	2012
Federal grants and contracts:		
U. S. Department of Health and Human Services	$ 4,380,842	$ 3,780,528
U. S. Department of State	1,135,809	835,747
U. S. Department of Justice	371,962	318,000
U. S. Department of Homeland Security	51,007	
U. S. Department of Housing and Urban Development	15,829	170,056
Total federal grants and contracts	5,955,449	5,104,331
Colleges	378,100	258,600
School districts	152,689	240,615
State of Texas	73,666	168,554
City of Houston	35,082	125,462
Other	164,618	122,641
Total government grants and contracts	$ 6,759,604	$ 6,020,203

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 prior years, the YMCA received a total of $1,000,000 from two donors to be used towards the purchase of land and the subsequent construction of a YMCA facility. Plans to construct this facility were cancelled and during 2013 the property was sold and the donors requested the return of this amount.

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 $3,257,000 and $3,217,000 to this plan during the years ended August 31, 2013 and 2012, 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, 2013 and 2012 were approximately $807,000 and $741,000, respectively.

As of August 31, 2013, the future minimum annual lease payments under these noncancellable operating leases are as follows:

2014	$ 747,109
2015	692,115
2016	662,373
2017	312,881
2018	320,538
Thereafter	815,018
Total	$ 3,550,034

NOTE 17 – COMMITMENTS

At August 31, 2013, the Association has outstanding contractual commitments of approximately $635,000 in connection with several building projects.

NOTE 18 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 10, 2013, 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, 2013

Grantor Pass-through Grantor 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	08/12 – 12/12	14.218	None	$19,583	$ 15,829	$ 15,829
Total U. S. Department of Housing and Urban Development					15,829	15,829
U. S. DEPARTMENT OF JUSTICE						
Direct Funding:						
Services for Trafficking Victims						
#2	11/11 – 10/12	16.320	2003-VT-BX-K007	$200,000	30,717	30,717
Services for Trafficking Victims Collaborative Agreement						
#3	10/10 – 09/12	16.320	2010-VT-BX-K013	$500,000	261,245	261,245
					291,962	291,962
Passed through the State of Texas, Office of the Governor:						
Direct Assistance to Victims of Crime						
#4	09/12 – 08/13	16.575	2449902	$80,000	80,000	80,000
Total U. S. Department of Justice					371,962	371,962
U. S. DEPARTMENT OF STATE						
Passed through U. S. Committee for Refugees and Immigrants:						
U. S. Refugee Admissions Program						
Resettlement – Reception and Placement						
#5	10/11 – 09/12	19.510	SPRMCO12CA003	N/A	121,434	121,434
#6	10/12 – 09/13	19.510	SPRMCO13CA1023	N/A	1,014,375	1,014,375
Total U. S. Department of State					1,135,809	1,135,809
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed through Texas Health and Human Services Commission:						
Refugee and Entrant Assistance – State Administered Employment Services						
#7	10/11 – 09/12	93.566	529-08-0181-00010D	$1,942,684	172,685	172,685
#8	10/12 – 09/13	93.566	529-08-0181-00010E	$1,772,562	1,533,812	1,533,812

(continued)

Young Men's Christian Association of the Greater Houston Area

Schedule of Expenditures of Federal Awards for the year ended August 31, 2013 *(continued)*

Grantor Pass-through Grantor Program Title & Period		CFDA Number	Pass-through Grantor Number	Award Amount	Revenue	Allowable Expenses
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES *(continued)*						
Refugee Cash Assistance						
#9	10/11 – 09/12	93.566	529-10-0026-00013R2	N/A	114,468	114,468
#10	10/12 – 09/13	93.566	529-13-0021-00013	N/A	1,509,012	1,509,012
					3,329,977	3,329,977
Passed through U. S. Committee for Refugees and Immigrants:						
Refugee and Entrant Assistance – Voluntary Agency Matching Grant						
#11	02/12 – 09/12	93.567	90RV005901	N/A	31,680	31,680
#12	10/12 – 09/13	93.567	90RV005902	N/A	647,460	647,460
					679,140	679,140
Passed through the Office of Refugee Resettlement:						
Refugee and Entrant Assistance – Discretionary Grants						
Refugee Women's Project						
#13	09/11 – 05/13	93.576	90RU0207/01	$150,000	77,438	77,438
Passed through The Bilingual Educational Institute:						
Refugee and Entrant Assistance – Targeted Assistance Pre-GED						
#14	10/11 – 09/12	93.584	529-08-0181-00012C	$149,898	2,078	2,078
Cultural Orientation						
#15	10/11 – 09/12	93.584	529-08-0181-00012C	$149,898	21,062	21,062
#16	10/12 – 09/13	93.584	529-08-0181-00012D	$136,771	120,574	120,574
Passed through The Alliance for Multicultural Community Services:						
Refugee and Entrant Assistance – Targeted Assistance						
Case Management Services						
#17	10/11 – 09/12	93.584	529-08-0181-00017C	$107,648	11,728	11,728
#18	10/12 – 09/13	93.584	529-08-0181-00017D	$98,222	89,602	89,602
					245,044	245,044
Passed through U. S. Committee for Refugees and Immigrants:						
National Human Trafficking Victims Assistance Program						
#19	10/11 – 09/12	93.598	None	N/A	4,784	4,784
#20	10/12 – 09/13	93.598	90ZV0101/01	N/A	44,459	44,459
					49,243	49,243
Total U. S. Department of Health and Human Services					4,380,842	4,380,842

(continued)

Young Men's Christian Association of the Greater Houston Area

Schedule of Expenditures of Federal Awards for the year ended August 31, 2013 *(continued)*

Grantor Pass-through Grantor Program Title & Period	CFDA Number	Pass-through Grantor Number	Award Amount	Revenue	Allowable Expenses
U. S. DEPARTMENT OF HOMELAND SECURITY					
Direct Funding:					
Citizenship Grant					
#21 10/12 – 09/14	97.010	2012-CS-010-000031	$160,000	51,007	51,007
Total U. S. Department of Homeland Security				51,007	51,007
TOTAL FEDERAL AWARDS				$ 5,955,449	$ 5,955,449

See accompanying notes to schedule of expenditures of federal awards.

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	CFDA NUMBER	AMOUNT PROVIDED TO SUBRECIPIENTS
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Texas Health and Human Services Commission:		
Refugee and Entrant Assistance – State Administered Employment Services	93.566	$1,280,650

Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' 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, 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 Young Men's Christian Association of the Greater Houston Area (the YMCA) which comprise the consolidated statements of financial position as of August 31, 2013 and the related consolidated statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 10, 2013.

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 opinion 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.

Blazek & Vetterling

December 10, 2013

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Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited Young Men's Christian Association of the Greater Houston Area's (the YMCA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the YMCA's major federal programs for the year ended August 31, 2013. The YMCA's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

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

Opinion on Each Major Federal Program

In our opinion, the YMCA complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the YMCA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the YMCA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the YMCA's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Blazek & Vetterling

December 10, 2013

Young Men's Christian Association of the Greater Houston Area

Schedule of Findings and Questioned Costs for the year ended August 31, 2013

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	☒ unmodified	☐ 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 auditors' report issued on compliance for major programs:	☒ unmodified	☐ 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
19.510	U. S. Refugee Admissions Program – Resettlement – Reception and Placement
93.567	Refugee and Entrant Assistance – Voluntary Agency Matching Grant

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.