Young Men's Christian Association of the Greater Houston Area

Consolidated Financial Statements
and Single Audit Reports
for the year ended August 31, 2014

Young Men's Christian Association of the Greater Houston Area

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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, 2014 and 2013 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, 2014 and 2013 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.

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

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, 2014 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 16, 2014 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 16, 2014

Young Men's Christian Association of the Greater Houston Area

Consolidated Statements of Financial Position as of August 31, 2014 and 2013

	2014	2013
ASSETS		
Cash	$ 5,719,316	$ 2,855,883
Accounts receivable	1,129,529	1,104,866
United Way allocation receivable	883,157	883,880
Prepaid expenses and other assets	946,002	883,934
Operating pledges receivable, net *(Note 2)*	516,957	665,887
Property held for resale	1,036,375	6,881,518
Bond issuance costs	4,157,989	3,272,044
Investments *(Notes 3 and 4)*	61,174,830	56,160,053
Bond proceeds held in trust *(Note 8)*	5,670,222	5,670,222
Pledges receivable restricted for building construction, net *(Note 2)*	3,475,941	5,109,077
Derivative agreements *(Notes 4 and 7)*		175,347
Property and equipment, net *(Note 5)*	235,734,736	239,676,652
TOTAL ASSETS	$ 320,445,054	$ 323,339,363
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 2,327,913	$ 2,530,182
Construction payable		495,931
Accrued expenses	2,699,674	2,310,095
Bond interest and fees payable	470,077	163,508
Funds held for others	19,544	36,280
Deferred revenue	2,844,450	3,413,119
Split-interest agreement liabilities *(Note 6)*	140,492	463,259
Derivative agreements *(Notes 4 and 7)*	197,611	
Bonds payable *(Note 8)*	152,309,870	154,568,372
Total liabilities	161,009,631	163,980,746
Net assets *(Note 10)*:		
Unrestricted	153,388,220	154,003,278
Temporarily restricted *(Note 9)*	4,676,096	3,957,152
Permanently restricted	1,371,107	1,398,187
Total net assets	159,435,423	159,358,617
TOTAL LIABILITIES AND NET ASSETS	$ 320,445,054	$ 323,339,363

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, 2014

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Membership dues and fees	$ 58,800,630			$ 58,800,630
Program fees and residency income	37,245,688			37,245,688
Government grants and contracts *(Note 12)*	6,768,840			6,768,840
Contributions	5,815,953	$ 2,224,972		8,040,925
United Way allocation	2,843,648			2,843,648
Other grants and contracts	1,887,531			1,887,531
Special events	1,603,001			1,603,001
Direct donor benefit costs	(621,944)			(621,944)
Investment return, net *(Note 3)*	3,205,677	232,571		3,438,248
Loss on sale of property	(2,686,355)			(2,686,355)
Other income	266,970			266,970
Total operating revenue	115,129,639	2,457,543		117,587,182
Net assets released from restrictions:				
Expenditure for program purposes	910,774	(910,774)		
Capital expenditures	827,825	(827,825)		
Donor redesignation	27,080		$ (27,080)	
Total	116,895,318	718,944	(27,080)	117,587,182
OPERATING EXPENSES:				
Program services	102,618,624			102,618,624
Management and general	12,791,631			12,791,631
Fundraising	1,727,163			1,727,163
Total operating expenses	117,137,418			117,137,418
Changes in net assets from operating activities	(242,100)	718,944	(27,080)	449,764
Change in value of derivative agreements *(Note 7)*	(372,958)			(372,958)
CHANGES IN NET ASSETS	(615,058)	718,944	(27,080)	76,806
Net assets, beginning of year	154,003,278	3,957,152	1,398,187	159,358,617
Net assets, end of year	$ 153,388,220	$ 4,676,096	$ 1,371,107	$ 159,435,423

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 12)*	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 3)*	(600,370)	169,008		(431,362)
Loss on sale of property	(1,577,306)			(1,577,306)
Other income	571,484			571,484
Total operating 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)		
Donor redesignation	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 operating 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 13)*	(1,000,000)			(1,000,000)
Change in value of derivative agreements *(Note 7)*	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 Functional Expenses for the year ended August 31, 2014

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries, related taxes, and benefits	$ 56,617,764	$ 6,240,491	$ 1,271,546	$ 64,129,801
Occupancy	14,176,473	557,444	31,801	14,765,718
Depreciation	8,917,453	840,900	19,556	9,777,909
Supplies	6,203,555	202,904	33,625	6,440,084
Interest expense and other bond costs	4,552,091	439,237		4,991,328
Professional fees and contract services	2,565,231	848,272	114,300	3,527,803
Communications	1,399,791	1,094,999	96,318	2,591,108
Specific assistance to individuals	2,358,864			2,358,864
Travel and transportation	1,601,286	252,370	56,235	1,909,891
Equipment rental and maintenance	1,479,587	50,973		1,530,560
Printing, publication, and promotion	233,457	1,243,085	2,569	1,479,111
Allocations to service providers	1,138,860			1,138,860
Camping activity costs	904,777			904,777
Professional development and staff training	306,006	241,749	3,970	551,725
Membership dues	81,420	378,538	17,552	477,510
Conferences, conventions, and meetings	22,931	193,263	75,919	292,113
Postage and shipping	59,078	72,417	2,087	133,582
Other		134,989	1,685	136,674
Total expenses	$ 102,618,624	$ 12,791,631	$ 1,727,163	$ 117,137,418

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
Interest expense and other bond costs	3,426,433	322,400		3,748,833
Professional fees and contract services	3,004,307	1,850,955	82,788	4,938,050
Communications	814,534	870,857	12,271	1,697,662
Specific assistance to individuals	2,267,790			2,267,790
Travel and transportation	1,578,557	190,382	29,792	1,798,731
Equipment rental and maintenance	1,196,775	69,393		1,266,168
Printing, publication, and promotion	824,328	1,261,947	2,170	2,088,445
Allocations to service providers	1,464,877			1,464,877
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 Statements of Cash Flows for the years ended August 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 76,806	$ (2,058,423)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for building construction	(1,328,358)	(3,096,156)
Net realized and unrealized (gain) loss on investments	(1,879,292)	2,507,942
Loss on sale of property and equipment	2,686,355	1,577,306
Depreciation	9,777,909	9,530,457
Amortization of bond issuance costs	100,000	81,039
Change in value of derivative agreements	372,958	(175,347)
Changes in operating assets and liabilities:		
Accounts receivable	(24,663)	(281,572)
United Way allocation receivable	723	(2,446)
Prepaid expenses and other assets	(62,068)	51,260
Operating pledges receivable	148,930	(665,887)
Accounts payable and accrued expenses	187,310	(261,703)
Bond interest and fees payable	306,569	(575,041)
Funds held for others	(16,736)	(76,749)
Deferred revenue	(568,669)	(186,219)
Split-interest agreement liabilities	(322,767)	154,551
Net cash provided by operating activities	9,455,007	6,523,012
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(19,165,723)	(27,541,124)
Proceeds from sale of investments	13,488,101	49,333,419
Net change in money market mutual funds held as investments	2,542,137	(2,016,257)
Purchases of property and equipment	(8,944,667)	(16,934,158)
Proceeds from sale of property and equipment	5,771,531	9,432,505
Net cash provided (used) by investing activities	(6,308,621)	12,274,385
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in bond proceeds held in trust		4,337,452
Payments on bonds	(2,258,502)	(41,796,628)
Capitalized bond issuance costs	(985,945)	(1,259,588)
Proceeds from contributions restricted for building construction	2,961,494	4,180,755
Net cash used by financing activities	(282,953)	(34,538,009)
NET CHANGE IN CASH	2,863,433	(15,740,612)
Cash, beginning of year	2,855,883	18,596,495
Cash, end of year	$ 5,719,316	$ 2,855,883

Supplemental disclosure of cash flow information:

Interest paid	$3,874,964	$1,733,293

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) 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, 19 apartment outreach sites, and 210 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, 2011.

Cash concentration – Bank deposits exceed the federally insured limit per depositor per institution.

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 marketable debt and equity 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 consolidated statements 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 recognized 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 $1,006,000 in 2014 and $1,020,000 in 2013.

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 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2014	2013
Pledges receivable	$ 4,409,913	$ 6,133,368
Allowance for doubtful accounts	(225,670)	(193,706)
Discount to net present value at 5%	(191,345)	(164,698)
Pledges receivable, net	$ 3,992,898	$ 5,774,964

Pledges receivable at August 31, 2014 are expected to be collected as follows:

2015	$ 2,565,928
2016	786,931
2017	506,253
2018	321,935
2019	228,866
Total pledges receivable	$ 4,409,913

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, 2014, the unamortized balance is $619,403.

Conditional pledge – At August 31, 2014, the Association has a $750,000 conditional pledge receivable. The commitment is conditioned upon the Association raising $5,400,000 by July 2015 for Camp Cullen YMCA and Langham Creek YMCA capital projects and will be recognized as contribution revenue when the condition is substantially met.

NOTE 3 – INVESTMENTS

Investments consist of the following:

	2014	2013
Bond mutual funds	$ 30,807,712	$ 26,332,116
U. S. Treasury securities	13,393,023	11,426,392
Government agency securities	7,396,801	7,092,009
Equity securities	5,955,413	5,408,439
Money market mutual funds	2,798,448	5,340,585
Corporate bonds	812,432	549,511
Real estate	11,001	11,001
Total investments	$ 61,174,830	$ 56,160,053

Investments at August 31, 2014 and 2013 include the underlying assets of split-interest agreements totaling approximately $2,332,000 and $2,037,000, 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 6).

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 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:

	2014	2013
Interest and dividends	$ 2,073,159	$ 2,560,049
Realized and unrealized gain (loss)	1,879,292	(2,507,942)
Royalty income	7,163	11,387
Investment management fees	(247,123)	(283,025)
Investment return on total investments	3,712,491	(219,531)
Less: Interest and dividends allocated to funds held in trust	(20,666)	(22,064)
Net realized and unrealized gain allocated to funds held in trust	(253,577)	(189,767)
Investment return, net	$ 3,438,248	$ (431,362)

NOTE 4 – 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, 2014 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Bond mutual funds:				
Multi-sector	$ 19,234,133			$ 19,234,133
Short-term	11,573,579			11,573,579
U. S. Treasury securities		$ 13,393,023		13,393,023
Government agency securities		7,396,801		7,396,801
Equity securities:				
Large-cap	2,467,963			2,467,963
International	2,039,516			2,039,516
Mid-cap	805,732			805,732
Small-cap	642,202			642,202
Money market mutual funds	2,798,448			2,798,448
Corporate bonds		812,432		812,432
Total assets measured at fair value	$ 39,561,573	$ 21,602,256	$ 0	$ 61,163,829

Liabilities measured at fair value at August 31, 2014 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Derivative agreements		$ (197,611)		$ (197,611)
Total liabilities measured at fair value	$ 0	$ (197,611)	$ 0	$ (197,611)

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
Derivative agreements		175,347		175,347
Total assets measured at fair value	$ 37,081,140	$ 19,243,259	$ 0	$ 56,324,399

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

- *Mutual 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 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2014	2013
Land	$ 24,756,750	$ 26,353,125
Buildings and improvements	264,913,027	260,542,792
Furniture and equipment	40,365,323	37,766,224
Vehicles	3,039,987	2,805,528
Construction in progress	1,597,711	2,883,759
Total property and equipment, at cost	334,672,798	330,351,428
Accumulated depreciation	(98,938,062)	(90,674,776)
Property and equipment, net	$ 235,734,736	$ 239,676,652

NOTE 6 – 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 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 7 – 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 $20,065,000 and $20,885,000 at August 31, 2014 and 2013, respectively. 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%. As of August 31, 2014, the derivative agreement had an aggregate negative fair value of $(137,106). As of August 31, 2013, the derivative agreement had an aggregate positive fair value of $107,515. Under the terms of the second agreement, which terminates on February 15, 2018, the Association receives 67% of the 3-Month USD-LIBOR-BBA floating rate plus 185 basis points and pays 2.732%. As of August 31, 2014, the derivative agreement had an aggregate negative fair value of $(60,505). As of August 31, 2013, the derivative agreement had an aggregate positive fair value of $67,832.

NOTE 8 – 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, 2014 and 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 5% for Series A, 0.06% for Series B, 2.05% for Series C and 2.28% for Series D at August 31, 2014.

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, 2014, no amounts were outstanding on the letter of credit.

Principal amounts due under each bond are as follows:

	2014	2013
Series A	$ 71,519,870	$ 70,893,372
Series B	40,660,000	41,905,000
Series C	20,065,000	20,885,000
Series D	20,065,000	20,885,000
Total bonds payable	$ 152,309,870	$ 154,568,372

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

2015	$ 2,965,000
2016	4,135,000
2017	4,280,000
2018	4,420,000
2019	4,570,000
Thereafter	131,939,870
Total bonds payable	$ 152,309,870

Interest expense and letter of credit fees recognized and paid on bonds payable were approximately $4,991,000 in 2014 and $3,749,000 in 2013.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2014	2013
Capital projects	$ 3,674,459	$ 3,173,926
Pooled income fund beneficiary interest	486,690	406,765
Accumulated earnings on general endowment available for operations	514,947	376,461
Total temporarily restricted net assets	$ 4,676,096	$ 3,957,152

NOTE 10 – 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, 2014 is as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds		$ 1,001,637	$ 1,371,107	$ 2,372,744
Board-designated general endowment funds	$ 7,038,859			7,038,859
Endowment net assets	$ 7,038,859	$ 1,001,637	$ 1,371,107	$ 9,411,603

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

Changes in endowment net assets are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, September 1, 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
Investment return:				
Interest and dividends	108,125	30,540		138,665
Net realized and unrealized gain	755,869	213,498		969,367
Investment management fees	(40,597)	(11,467)		(52,064)
Total investment return	823,397	232,571		1,055,968
Donor redesignation	27,080		(27,080)	
Contributions and other additions	1,050,093			1,050,093
Expenses	(14,454)			(14,454)
Appropriation for distribution	(53,637)	(14,160)		(67,797)
Endowment net assets, August 31, 2014	$ 7,038,859	$ 1,001,637	$ 1,371,107	$ 9,411,603

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 11 – 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, 2014 and 2013. Additionally, management believes that because the interest rate on bonds payable is determined daily, the carrying value of bonds payable of $152,309,870 and $154,568,372 approximates fair value at August 31, 2014 and 2013, respectively.

NOTE 12 – 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:

	2014	2013
Federal grants and contracts:		
U. S. Department of Health and Human Services	$ 4,257,106	$ 4,380,842
U. S. Department of State	1,239,250	1,135,809
U. S. Department of Justice	328,655	371,962
U. S. Department of Homeland Security	103,806	51,007
U. S. Department of Housing and Urban Development	11,832	15,829
Total federal grants and contracts	5,940,649	5,955,449
Colleges	382,847	378,100
School districts	232,669	152,689
County	170,125	157,296
City of Houston	10,000	35,082
State of Texas		73,666
Other	32,550	7,322
Total government grants and contracts	$ 6,768,840	$ 6,759,604

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 13 – 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 the property was sold; consequently, the donors requested the return of the amount contributed. This amount was reported as a return of donor contribution in 2013.

NOTE 14 – 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 $3,255,000 and $3,257,000 to this plan during the years ended August 31, 2014 and 2013, respectively.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Association is party to a lawsuit in connection with injuries suffered by an infant while enrolled in one of the Association's programs. The case is being handled by the Association's insurance company and is in the early stages. Management is unable to determine the probability of an unfavorable outcome; as a result, no amount has been accrued in the accompanying financial statements related to this matter. Management does not believe that the final resolution of this matter will have a material impact on the Association's financial position.

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, 2014 and 2013 were approximately $909,000 and $807,000, respectively.

As of August 31, 2014, the future minimum annual lease payments under these noncancellable operating leases are as follows:

2015	$ 802,104
2016	695,386
2017	335,020
2018	342,836
2019	335,007
Thereafter	489,246
Total	$ 2,999,599

NOTE 17 – SUBSEQUENT EVENTS

In November 2014, the Association sold 1.71 acres of land located at Perry YMCA and 28,000 square feet of land located at the Center for Leadership Development for $428,816 and $175,000, respectively.

Management has evaluated subsequent events through December 16, 2014, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other 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

Consolidating Statement of Financial Position as of August 31, 2014

	YMCA	FOUNDATION	ELIMINATIONS	CONSOLIDATED
ASSETS				
Cash	$ 5,488,922	$ 230,394		$ 5,719,316
Accounts receivable	1,129,529			1,129,529
United Way allocation receivable	883,157			883,157
Prepaid expenses and other assets	946,002			946,002
Due from YMCA		500,000	$ (500,000)	
Operating pledges receivable, net	516,957			516,957
Property held for resale	1,036,375			1,036,375
Bond issuance costs	4,157,989			4,157,989
Investments	52,351,406	8,823,424		61,174,830
Bond proceeds held in trust	5,670,222			5,670,222
Pledges receivable restricted for building construction, net	3,475,941			3,475,941
Property and equipment, net	235,734,736			235,734,736
TOTAL ASSETS	$ 311,391,236	$ 9,553,818	$ (500,000)	$ 320,445,054
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	$ 2,326,190	$ 1,723		$ 2,327,913
Accrued expenses	2,699,674			2,699,674
Bond interest and fees payable	470,077			470,077
Funds held for others	19,544			19,544
Deferred revenue	2,844,450			2,844,450
Due to Foundation	500,000		$ (500,000)	
Split-interest agreement liabilities		140,492		140,492
Derivative agreements	197,611			197,611
Bonds payable	152,309,870			152,309,870
Total liabilities	161,367,416	142,215	(500,000)	161,009,631
Net assets:				
Unrestricted	146,349,361	7,038,859		153,388,220
Temporarily restricted	3,674,459	1,001,637		4,676,096
Permanently restricted		1,371,107		1,371,107
Total net assets	150,023,820	9,411,603		159,435,423
TOTAL LIABILITIES AND NET ASSETS	$ 311,391,236	$ 9,553,818	$ (500,000)	$ 320,445,054

Young Men's Christian Association of the Greater Houston Area

Consolidating Statement of Activities for the year ended August 31, 2014

	YMCA	FOUNDATION	ELIMINATIONS	CONSOLIDATED
OPERATING REVENUE:				
Membership dues and fees	$ 58,800,630			$ 58,800,630
Program fees and residency income	37,245,688			37,245,688
Government grants and contracts	6,768,840			6,768,840
Contributions	6,990,832	$ 1,050,093		8,040,925
United Way allocation	2,843,648			2,843,648
Other grants and contracts	1,887,531			1,887,531
Special events	1,603,001			1,603,001
Direct donor benefit costs	(621,944)			(621,944)
Investment return, net	2,450,077	1,055,968	$ (67,797)	3,438,248
Loss on sale of property	(2,686,355)			(2,686,355)
Other income	266,970			266,970
Total operating revenue	115,548,918	2,106,061	(67,797)	117,587,182
OPERATING EXPENSES:				
Program services	102,618,624	67,797	(67,797)	102,618,624
Management and general	12,777,177	14,454		12,791,631
Fundraising	1,727,163			1,727,163
Total operating expenses	117,122,964	82,251	(67,797)	117,137,418
Change in net assets from operating activities	(1,574,046)	2,023,810	0	449,764
Change in value of derivative agreements	(372,958)			(372,958)
CHANGES IN NET ASSETS	(1,947,004)	2,023,810	0	76,806
Net assets, beginning of year	151,970,824	7,387,793		159,358,617
Net assets, end of year	$ 150,023,820	$ 9,411,603	$ 0	$ 159,435,423

Young Men's Christian Association of the Greater Houston Area

Schedule of Expenditures of Federal Awards for the year ended August 31, 2014

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	03/14 – 02/15	14.218	None	$48,500	$ 11,832	$ 11,832
Total U. S. Department of Housing and Urban Development					11,832	11,832
U. S. DEPARTMENT OF JUSTICE						
Direct Funding:						
Services for Trafficking Victims						
Collaborative Agreement						
#2	10/10 – 12/13	16.320	2010-VT-BX-K013	$500,000	73,924	73,924
#3	01/13 – 12/15	16.320	2010-VT-BX-K022	$500,000	174,731	174,731
					248,655	248,655
Passed through the State of Texas, Office of the Governor:						
Crime Victim Assistance						
#4	09/13 – 08/14	16.575	2449902	$80,000	80,000	80,000
Total U. S. Department of Justice					328,655	328,655
U. S. DEPARTMENT OF STATE						
Passed through U. S. Committee for Refugees and Immigrants:						
U. S. Refugee Admissions Program						
Resettlement – Reception and Placement						
#5	10/12 – 09/13	19.510	SPRMCO13CA1023	N/A	133,125	133,125
#6	10/13 – 09/14	19.510	SPRMCO14CA1008	N/A	1,095,325	1,095,325
					1,228,450	1,228,450
Passed through U. S. Committee for Refugees and Immigrants:						
Overseas Refugee Assistance Program for Strategic Global Priorities						
#7	09/13 – 09/14	19.522	SPRMC013CA1140	N/A	10,800	10,800
Total U. S. Department of State					1,239,250	1,239,250

(continued)

Young Men's Christian Association of the Greater Houston Area

Schedule of Expenditures of Federal Awards for the year ended August 31, 2014 *(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						
Passed through Texas Health and Human Services Commission:						
Refugee and Entrant Assistance – State Administered Programs						
Employment Services						
#8	10/12 – 01/14	93.566	529-08-0181-00010F	$2,435,136	863,765	863,765
#9	02/14 – 09/14	93.566	N/A	$320,300	260,900	260,900
Refugee Employment Enrollment						
#10	02/14 – 09/14	93.566	529-14-0096-0003	$210,540	150,731	150,731
Refugee Cash Assistance						
#11	10/12 – 09/13	93.566	529-13-0021-00013	N/A	140,988	140,988
#12	10/13 – 09/14	93.566	529-13-0021-00013A	N/A	1,500,760	1,500,760
					2,917,144	2,917,144
Passed through U. S. Committee for Refugees and Immigrants:						
Refugee and Entrant Assistance – Voluntary Agency Programs						
#13	10/12 – 09/13	93.567	90RV005902	N/A	31,680	31,680
#14	10/13 – 09/14	93.567	90RV005903	N/A	694,980	694,980
					726,660	726,660
Passed through U. S. Committee for Refugees and Immigrants:						
Refugee and Entrant Assistance – Discretionary Grants						
Preferred Communities Program						
#15	10/13 – 09/14	93.576	90RP0099/1	$100,000	82,810	82,810
Passed through Texas Health and Human Services Commission:						
Refugee and Entrant Assistance – Discretionary Grants						
Refugee Targeted Assistance Discretionary Program						
#16	02/14 – 09/14	93.576	529-14-0095-000001	$150,000	34,448	34,448
					117,258	117,258
Passed through The Alliance for Multicultural Community Services:						
Refugee and Entrant Assistance – Targeted Assistance						
Case Management Services						
#17	10/12 – 09/13	93.584	529-08-0181-00017D	$98,222	3,299	3,299
#18	10/13 – 01/14	93.584	529-08-0181-00017E	$134,944	41,369	41,369
#19	02/14 – 09/14	93.584	529-14-0009-0012	$187,518	148,447	148,447
Passed through The Bilingual Educational Institute:						
Refugee and Entrant Assistance – Targeted Assistance						
Cultural Orientation						
#20	10/12 – 09/13	93.584	529-08-0181-00012D	$136,771	16,197	16,197
#21	10/13 – 01/14	93.584	529-08-0181-00012E	$51,124	51,124	51,124

(continued)

Young Men's Christian Association of the Greater Houston Area

Schedule of Expenditures of Federal Awards for the year ended August 31, 2014 *(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)						
Passed through Texas Health and Human Services Commission:						
Refugee and Entrant Assistance – Targeted Assistance Pre-GED						
#22	02/14 – 09/14	93.584	529-14-0009-0000	$23,334	21,132	21,132
					281,568	281,568
Passed through U. S. Committee for Refugees and Immigrants:						
National Human Trafficking Victims Assistance Program						
#23	10/12 – 09/13	93.598	90ZV0101/01	N/A	3,353	3,353
#24	10/13 – 09/14	93.598	90ZV0101/01	N/A	43,079	43,079
					46,432	46,432
Passed through U. S. Committee for Refugees and Immigrants:						
Unaccompanied Alien Children Program						
#25	10/13 – 09/16	93.676	90ZU0081-01	$288,150	168,044	168,044
Total U. S. Department of Health and Human Services					4,257,106	4,257,106
U. S. DEPARTMENT OF HOMELAND SECURITY						
Direct Funding:						
Citizenship Education and Training						
#26	10/12 – 09/14	97.010	2012-CS-010-000031	$160,000	103,806	103,806
Total U. S. Department of Homeland Security					103,806	103,806
TOTAL FEDERAL AWARDS					$ 5,940,649	$ 5,940,649

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 Programs Employment Services	93.566	$899,459

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, 2014 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 16, 2014.

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 16, 2014

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

Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

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, 2014. 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, 2014.

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.

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

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 16, 2014

Young Men's Christian Association of the Greater Houston Area

Schedule of Findings and Questioned Costs for the year ended August 31, 2014

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
93.566	Refugee and Entrant Assistance – State Administered Programs
93.676	Unaccompanied Alien Children Program
97.010	Citizenship Education and Training

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.