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

Consolidated Financial Statements
and Independent Auditors’ Report
for the years ended August 31, 2017 and 2016

## 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 (the 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, 2017 and 2016 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, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the consolidating statement of financial position as of August 31, 2017 and consolidating statement of activities for the year ended August 31, 2017 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with 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 financial statements as a whole.

**Report Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's 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

February 6, 2018

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

Consolidated Statements of Financial Position as of August 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| ASSETS | | |
| Cash | $ 1,646,203 | $ 3,863,825 |
| Accounts receivable | 2,181,196 | 1,758,938 |
| United Way allocation receivable | 771,799 | 821,437 |
| Bequest receivable | | 1,063,414 |
| Operating pledges receivable, net *(Note 2)* | 1,768,932 | 656,545 |
| Prepaid expenses and other assets | 1,196,264 | 709,271 |
| Land and buildings held for sale | | 5,875,821 |
| Investments *(Notes 3 and 4)* | 62,790,898 | 65,099,021 |
| Bond proceeds held in trust *(Note 8)* | 5,670,000 | 5,670,000 |
| Cash restricted for building construction | 783,500 | 257,800 |
| Pledges receivable restricted for building construction, net *(Note 2)* | 4,167,772 | 2,839,524 |
| Property and equipment, net *(Note 5)* | 223,682,688 | 224,638,627 |
| TOTAL ASSETS | $ 304,659,252 | $ 313,254,223 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | $ 4,354,894 | $ 2,838,198 |
| Construction payable | 991,958 | 1,335,141 |
| Accrued expenses | 3,596,434 | 3,556,345 |
| Funds held for others | 12,616 | 25,786 |
| Deferred revenue | 3,053,401 | 3,264,638 |
| Split-interest agreement liabilities *(Note 6)* | 120,579 | 123,180 |
| Derivative agreements *(Notes 4 and 7)* | 1,104,395 | 2,446,310 |
| Bonds payable, net *(Note 8)* | 136,483,285 | 140,902,825 |
| Total liabilities | 149,717,562 | 154,492,423 |
| Commitments *(Notes 6 and 13)* | | |
| Net assets *(Note 10)*: | | |
| Unrestricted | 145,647,876 | 152,387,055 |
| Temporarily restricted *(Note 9)* | 7,822,707 | 5,003,638 |
| Permanently restricted | 1,471,107 | 1,371,107 |
| Total net assets | 154,941,690 | 158,761,800 |
| TOTAL LIABILITIES AND NET ASSETS | $ 304,659,252 | $ 313,254,223 |

*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, 2017

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| OPERATING REVENUE: | | | | |
| Membership dues and fees | $ 60,082,824 | | | $ 60,082,824 |
| Program fees | 35,608,271 | | | 35,608,271 |
| Government grants and contracts *(Note 11)* | 18,181,645 | | | 18,181,645 |
| Contributions | 6,443,029 | $ 7,941,267 | $ 100,000 | 14,484,296 |
| United Way allocation | 2,700,589 | | | 2,700,589 |
| Other grants and contracts | 1,959,935 | | | 1,959,935 |
| Special events | 1,421,908 | | | 1,421,908 |
| Direct donor benefit costs | (498,398) | | | (498,398) |
| Investment return, net *(Note 3)* | 162,546 | 60,108 | | 222,654 |
| Net gain on sale of land and buildings | 1,305,942 | | | 1,305,942 |
| Other income | 479,411 | | | 479,411 |
| Total operating revenue | 127,847,702 | 8,001,375 | 100,000 | 135,949,077 |
| Net assets released from restrictions: | | | | |
| Capital expenditures | 2,402,503 | (2,402,503) | | |
| Expenditure for program purposes | 2,699,559 | (2,699,559) | | |
| Expiration of time restrictions | 80,244 | (80,244) | | |
| Total | 133,030,008 | 2,819,069 | 100,000 | 135,949,077 |
| OPERATING EXPENSES: | | | | |
| Program services: | | | | |
| Healthy Living | 58,990,451 | | | 58,990,451 |
| Youth Development | 34,063,647 | | | 34,063,647 |
| Social Responsibility | 23,147,416 | | | 23,147,416 |
| Total program services | 116,201,514 | | | 116,201,514 |
| Management and general | 13,612,291 | | | 13,612,291 |
| Fundraising | 1,983,794 | | | 1,983,794 |
| Total operating expenses | 131,797,599 | | | 131,797,599 |
| Changes in net assets from operating activities | 1,232,409 | 2,819,069 | 100,000 | 4,151,478 |
| Change in value of derivative agreements *(Note 7)* | 1,341,915 | | | 1,341,915 |
| Loss on involuntary conversion *(Note 14)* | (9,313,503) | | | (9,313,503) |
| CHANGES IN NET ASSETS | (6,739,179) | 2,819,069 | 100,000 | (3,820,110) |
| Net assets, beginning of year | 152,387,055 | 5,003,638 | 1,371,107 | 158,761,800 |
| Net assets, end of year | $ 145,647,876 | $ 7,822,707 | $ 1,471,107 | $ 154,941,690 |

*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, 2016

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| OPERATING REVENUE: | | | | |
| Membership dues and fees | $ 60,881,938 | | | $ 60,881,938 |
| Program fees | 36,685,691 | | | 36,685,691 |
| Government grants and contracts *(Note 11)* | 11,872,503 | | | 11,872,503 |
| Contributions | 4,768,579 | $ 5,022,546 | | 9,791,125 |
| United Way allocation | 2,808,574 | | | 2,808,574 |
| Other grants and contracts | 1,967,100 | | | 1,967,100 |
| Special events | 1,551,348 | | | 1,551,348 |
| Direct donor benefit costs | (571,371) | | | (571,371) |
| Investment return, net *(Note 3)* | 3,833,096 | 74,156 | | 3,907,252 |
| Net loss on sale of land and buildings | (693,127) | | | (693,127) |
| Loss on valuation of land and buildings held for sale | (4,142,353) | | | (4,142,353) |
| Other income | 489,026 | | | 489,026 |
| Total operating revenue | 119,451,004 | 5,096,702 | | 124,547,706 |
| Net assets released from restrictions: | | | | |
| Capital expenditures | 2,949,204 | (2,949,204) | | |
| Expenditure for program purposes | 1,592,026 | (1,592,026) | | |
| Total | 123,992,234 | 555,472 | | 124,547,706 |
| OPERATING EXPENSES: | | | | |
| Program services: | | | | |
| Healthy Living | 60,349,221 | | | 60,349,221 |
| Youth Development | 31,900,310 | | | 31,900,310 |
| Social Responsibility | 17,229,644 | | | 17,229,644 |
| Total program services | 109,479,175 | | | 109,479,175 |
| Management and general | 13,344,581 | | | 13,344,581 |
| Fundraising | 2,343,419 | | | 2,343,419 |
| Total operating expenses | 125,167,175 | | | 125,167,175 |
| Changes in net assets from operating activities | (1,174,941) | 555,472 | | (619,469) |
| Change in value of derivative agreements *(Note 7)* | (2,051,725) | | | (2,051,725) |
| CHANGES IN NET ASSETS | (3,226,666) | 555,472 | | (2,671,194) |
| Net assets, beginning of year | 155,613,721 | 4,448,166 | $ 1,371,107 | 161,432,994 |
| Net assets, end of year | $ 152,387,055 | $ 5,003,638 | $ 1,371,107 | $ 158,761,800 |

*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, 2017

| EXPENSES | HEALTHY LIVING | YOUTH DEVELOPMENT | SOCIAL RESPONSIBILITY | TOTAL PROGRAM SERVICES | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL |
|---|---|---|---|---|---|---|---|
| Salaries, related taxes, and benefits | $ 27,278,951 | $ 23,822,674 | $ 7,390,981 | $ 58,492,606 | $ 7,238,909 | $ 1,415,810 | $ 67,147,325 |
| Occupancy | 13,265,716 | 1,948,409 | 581,375 | 15,795,500 | 819,685 | 33,165 | 16,648,350 |
| Depreciation | 8,691,139 | 958,485 | 43,382 | 9,693,006 | 475,239 | 20,377 | 10,188,622 |
| Allocations to service providers | | | 7,507,727 | 7,507,727 | | | 7,507,727 |
| Supplies | 2,156,450 | 3,398,527 | 457,484 | 6,012,461 | 298,011 | 25,557 | 6,336,029 |
| Interest expense and other bond costs | 3,116,666 | 1,198,718 | 479,487 | 4,794,871 | 462,663 | | 5,257,534 |
| Specific assistance to individuals | | | 5,191,511 | 5,191,511 | | | 5,191,511 |
| Professional fees and contract services | 1,502,404 | 1,066,972 | 550,098 | 3,119,474 | 1,124,341 | 292,739 | 4,536,554 |
| Communications | 1,163,794 | 253,138 | 80,837 | 1,497,769 | 1,295,731 | 107,820 | 2,901,320 |
| Travel and transportation | 278,834 | 773,958 | 413,950 | 1,466,742 | 415,487 | 56,278 | 1,938,507 |
| Printing, publication, and promotion | 205,816 | 45,850 | 12,451 | 264,117 | 983,029 | 8,931 | 1,256,077 |
| Camping activity costs | | 443,747 | 289,311 | 733,058 | | | 733,058 |
| Membership dues | 650,989 | 1,375 | 2,921 | 655,285 | 38,942 | 12,962 | 707,189 |
| Equipment rental and maintenance | 445,427 | 32,485 | 108,924 | 586,836 | 32,655 | | 619,491 |
| Professional development and staff training | 85,602 | 101,190 | 18,848 | 205,640 | 191,145 | 2,194 | 398,979 |
| Conferences, conventions, and meetings | 44,249 | 4,000 | | 48,249 | 160,086 | 2,254 | 210,589 |
| Postage and shipping | 83,363 | 1,690 | 11,229 | 96,282 | 1,422 | 5,362 | 103,066 |
| Other | 21,051 | 12,429 | 6,900 | 40,380 | 74,946 | 345 | 115,671 |
| Total expenses | $ 58,990,451 | $ 34,063,647 | $ 23,147,416 | $ 116,201,514 | $ 13,612,291 | $ 1,983,794 | 131,797,599 |
| Direct donor benefit costs | | | | | | | 498,398 |
| Total | | | | | | | $ 132,295,997 |

*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, 2016

| EXPENSES | HEALTHY LIVING | YOUTH DEVELOPMENT | SOCIAL RESPONSIBILITY | TOTAL PROGRAM SERVICES | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL |
|---|---|---|---|---|---|---|---|
| Salaries, related taxes, and benefits | $ 28,560,941 | $ 22,573,766 | $ 6,577,442 | $ 57,712,149 | $ 6,621,079 | $ 1,707,741 | $ 66,040,969 |
| Occupancy | 12,668,312 | 1,903,669 | 396,009 | 14,967,990 | 1,146,124 | 33,165 | 16,147,279 |
| Depreciation | 8,901,689 | 882,842 | 36,699 | 9,821,230 | 473,804 | 20,631 | 10,315,665 |
| Allocations to service providers | | | 776,752 | 776,752 | | | 776,752 |
| Supplies | 2,322,810 | 2,899,177 | 667,769 | 5,889,756 | 245,849 | 25,254 | 6,160,859 |
| Interest expense and other bond costs | 3,044,503 | 1,170,749 | 468,300 | 4,683,552 | 451,312 | | 5,134,864 |
| Specific assistance to individuals | | | 7,029,302 | 7,029,302 | | | 7,029,302 |
| Professional fees and contract services | 1,748,828 | 551,527 | 126,465 | 2,426,820 | 1,249,242 | 274,234 | 3,950,296 |
| Communications | 1,240,652 | 232,455 | 87,124 | 1,560,231 | 1,143,277 | 127,035 | 2,830,543 |
| Travel and transportation | 319,619 | 912,263 | 463,999 | 1,695,881 | 334,732 | 65,672 | 2,096,285 |
| Printing, publication, and promotion | 186,350 | 30,455 | 8,968 | 225,773 | 1,045,396 | 64,358 | 1,335,527 |
| Camping activity costs | 1,293 | 569,470 | 394,109 | 964,872 | | | 964,872 |
| Membership dues | 569,940 | 388 | 2,343 | 572,671 | 61,468 | 19,300 | 653,439 |
| Equipment rental and maintenance | 508,390 | 48,529 | 105,532 | 662,451 | 25,422 | | 687,873 |
| Professional development and staff training | 86,852 | 96,866 | 39,553 | 223,271 | 242,680 | 2,658 | 468,609 |
| Conferences, conventions, and meetings | 63,012 | 9,762 | 9,327 | 82,101 | 179,551 | 2,117 | 263,769 |
| Postage and shipping | 95,695 | 4,342 | 14,770 | 114,807 | 2,443 | 1,224 | 118,474 |
| Other | 30,335 | 14,050 | 25,181 | 69,566 | 122,202 | 30 | 191,798 |
| Total expenses | $ 60,349,221 | $ 31,900,310 | $ 17,229,644 | $ 109,479,175 | $ 13,344,581 | $ 2,343,419 | 125,167,175 |
| Direct donor benefit costs | | | | | | | 571,371 |
| Total | | | | | | | $ 125,738,546 |

*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, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | $ (3,820,110) | $ (2,671,194) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Contributions restricted for building construction and endowment | (4,751,601) | (2,277,474) |
| Net realized and unrealized (gain) loss on investments | 1,322,039 | (1,671,743) |
| Net (gain) loss on sale of property and equipment | (1,305,942) | 693,127 |
| Loss on involuntary conversion | 9,313,503 | |
| Loss on valuation of land and buildings held for sale | | 4,142,353 |
| Depreciation | 10,188,622 | 10,315,665 |
| Amortization of bond issuance costs | 199,907 | 185,104 |
| Amortization of bond premium | (359,447) | (359,447) |
| Change in value of derivative agreements | (1,341,915) | 2,051,725 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (422,258) | (202,715) |
| United Way allocation receivable | 49,638 | 62,997 |
| Bequest receivable | 1,063,414 | (1,063,414) |
| Operating pledges receivable | (1,112,387) | 46,775 |
| Prepaid expenses and other assets | (486,993) | 38,253 |
| Accounts payable and accrued expenses | 1,556,785 | 1,111,969 |
| Bond interest and fees payable | | (442,205) |
| Funds held for others | (13,170) | 4,107 |
| Deferred revenue | (211,237) | 306,592 |
| Split-interest agreement liabilities | (2,601) | (1,564) |
| Net cash provided by operating activities | 9,866,247 | 10,268,911 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (122,324,649) | (18,230,675) |
| Proceeds from sale of investments | 123,473,916 | 15,304,957 |
| Net change in money market mutual funds held as investments | (163,183) | 799,701 |
| Net change in bond proceeds held in trust | | 222 |
| Purchases of property and equipment | (18,972,734) | (12,173,343) |
| Proceeds from sale of land and buildings | 7,265,128 | 1,729,402 |
| Net cash used by investing activities | (10,721,522) | (12,569,736) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on bonds | (4,260,000) | (4,280,000) |
| Proceeds from issuance of bonds | | 940,000 |
| Bond issuance costs | | (651,330) |
| Proceeds from contributions restricted for building construction and endowment | 3,423,353 | 2,627,181 |
| Net cash used by financing activities | (836,647) | (1,364,149) |
| NET CHANGE IN CASH | (1,691,922) | (3,664,974) |
| Cash, beginning of year | 4,121,625 | 7,786,599 |
| Cash, end of year | $ 2,429,703 | $ 4,121,625 |
| Cash | $ 1,646,203 | $ 3,863,825 |
| Cash restricted for building construction | 783,500 | 257,800 |
| Total | $ 2,429,703 | $ 4,121,625 |
| *Supplemental disclosure of cash flow information:* | | |
| Interest paid | $5,023,584 | $4,921,433 |
| Noncash financing transactions: | | |
| Issuance of Series 2016 Bonds | | $77,825,000 |
| Refund of Series 2013B, C, and D Bonds | | $(77,825,000) |

*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 a 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 34 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.

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 reported 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.

Allowance for pledges receivable – An allowance for pledges receivable is provided when it is believed balances may not be collected in full. It is the Association's policy to write off receivables against the allowance when management determines the receivable will not be collected. The amount of loss on pledges recognized each period and the resulting adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and individual account-by-account analysis of pledges receivable balances. It is possible that management's estimate regarding collectability will change in the near term resulting in a change in the carrying value of pledges receivable.

Land and buildings held for sale are reported at the lower of cost or market.

Investments in marketable debt and equity securities are reported at fair value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets.

Property and equipment are reported 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.

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.

Bond issuance costs represent costs incurred related to the issuance of debt and are amortized over the term of the debt. At August 31, 2017 and 2016, accumulated amortization of bond issuance costs is $1,128,024 and $928,117, respectively. Unamortized bond issuance costs are reported as a direct reduction of the related debt.

Bond premium is the excess of net proceeds, after expense, received upon issuance of debt over the amount repayable at its maturity. At August 31, 2017 and 2016, accumulated amortization of bond premium is $1,437,788 and $1,078,341, respectively. Unamortized premium costs are reported as a direct reduction of the related debt.

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 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 recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified 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 classified 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 recognized 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 $882,000 in 2017 and $1,008,000 in 2016.

Changes in net assets from operating activities – The Association includes in its definition of operations all revenue and expenses that are an integral part of its program and supporting activities. Change in fair value of derivative agreement and loss on involuntary conversion are excluded from the changes in net assets from operating activities.

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.

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. The Association is required to adopt this ASU effective September 1, 2018 using an appropriate retrospective method. Management does not believe this ASU will have a significant impact on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2019. Management does not believe this ASU will have a significant impact on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are the first phase of changes aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

**NOTE 2 – PLEDGES RECEIVABLE**

Pledges receivable consist of the following:

| | 2017 | 2016 |
|---|---|---|
| Pledges receivable | $ 6,525,649 | $ 3,894,897 |
| Allowance for doubtful accounts | (374,052) | (239,833) |
| Discount to net present value | (214,893) | (158,995) |
| Pledges receivable, net | $ 5,936,704 | $ 3,496,069 |

Pledges receivable at August 31, 2017 are expected to be collected as follows:

| | |
|---|---|
| 2018 | $ 2,965,875 |
| 2019 | 1,085,409 |
| 2020 | 1,001,409 |
| 2021 | 779,242 |
| 2022 | 693,714 |
| Total pledges receivable | $ 6,525,649 |

In January 2006, the Association entered into a 46-year lease agreement for $1 per year with the City of Alvin 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, 2017, the unamortized balance is $603,761.

*Conditional pledges receivable* – At August 31, 2017, the Association has a $2,000,000 conditional pledge receivable composed of $500,000 in cash and land with an estimated fair value of $1.5 million. The commitment is conditioned upon the Association developing a plan for a new Holcomb Family YMCA. This gift will be recognized as contribution revenue when the conditions are substantially met.

At August 31, 2017, the Association has a $335,000 conditional pledge receivable to fund construction of a Miracle League project consisting of a playground, playing fields and other facilities. The commitment is conditioned upon the completion of construction of the project. This gift will be recognized as contribution revenue when the conditions are substantially met.

**NOTE 3 – INVESTMENTS**

Investments consist of the following:

| | 2017 | 2016 |
|---|---|---|
| U. S. Treasury securities | $ 18,763,265 | $ 10,072,893 |
| Corporate bonds | 18,397,170 | 6,299,942 |
| Government agency securities | 16,177,921 | 13,135,500 |
| Common stock | 6,049,998 | 6,075,452 |
| Money market mutual funds | 2,346,244 | 2,183,061 |
| Exchange-traded funds | 649,072 | |
| Real estate investment trusts | 396,227 | |
| Real estate | 11,001 | 11,001 |
| Fixed-income bond mutual funds | | 27,321,172 |
| Total investments | $ 62,790,898 | $ 65,099,021 |

Investments at August 31, 2017 and 2016 include the underlying assets of split-interest agreements totaling approximately $2,476,000 and $2,377,000, 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:

| | 2017 | 2016 |
|---|---|---|
| Interest and dividends | $ 1,813,158 | $ 2,687,738 |
| Realized and unrealized gain (loss) | (1,322,039) | 1,671,743 |
| Royalty income | 2,941 | 2,934 |
| Investment management fees | (155,808) | (324,820) |
| Investment return on total investments | 338,252 | 4,037,595 |
| Less: Interest and dividends allocated to split-interest agreements | (24,714) | (21,609) |
| Net realized and unrealized gain allocated to split-interest agreements | (90,884) | (108,734) |
| Investment return, net | $ 222,654 | $ 3,907,252 |

**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, 2017 are as follows:

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Investments: | | | | |
| U. S. Treasury securities | $ 18,763,265 | | | $ 18,763,265 |
| Corporate bonds | | $ 18,397,170 | | 18,397,170 |
| Government agency securities | | 16,177,921 | | 16,177,921 |
| Common stock: | | | | |
| Domestic | 5,803,534 | | | 5,803,534 |
| International | 246,464 | | | 246,464 |
| Money market mutual funds | 2,346,244 | | | 2,346,244 |
| Exchange-traded funds | 649,072 | | | 649,072 |
| Real estate investment trusts | 396,227 | | | 396,227 |
| Total assets measured at fair value | $ 28,204,806 | $ 34,575,091 | $ 0 | $ 62,779,897 |

Liabilities measured at fair value at August 31, 2017 are as follows:

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Derivative agreements | $ 0 | $ 1,104,395 | $ 0 | $ 1,104,395 |

Assets measured at fair value at August 31, 2016 are as follows:

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Investments: | | | | |
| U. S. Treasury securities | $ 10,072,893 | | | $ 10,072,893 |
| Corporate bonds | | $ 6,299,942 | | 6,299,942 |
| Government agency securities | | 13,135,500 | | 13,135,500 |
| Common stock: | | | | |
| Domestic | 3,989,217 | | | 3,989,217 |
| International | 2,086,235 | | | 2,086,235 |
| Money market mutual funds | 2,183,061 | | | 2,183,061 |
| Fixed-income bond mutual funds | 27,321,172 | | | 27,321,172 |
| Total assets measured at fair value | $ 45,652,578 | $ 19,435,442 | $ 0 | $ 65,088,020 |

Liabilities measured at fair value at August 31, 2016 are as follows:

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Derivative agreements | $ 0 | $ 2,446,310 | $ 0 | $ 2,446,310 |

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

- *U. S. Treasury securities* are valued using prices obtained from active market maker and inter-dealer brokers on a daily basis.
- *Corporate bonds* and *government agency securities* 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.

- *Common stock, exchange-traded funds* and *real estate investment trusts* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the reported net asset value.
- *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:

| | 2017 | 2016 |
|---|---|---|
| Land | $ 25,171,242 | $ 25,091,822 |
| Buildings and improvements | 250,253,307 | 252,456,156 |
| Furniture and equipment | 25,528,675 | 26,615,987 |
| Vehicles | 2,238,605 | 2,172,870 |
| Construction in progress | 5,475,857 | 4,909,452 |
| Total property and equipment, at cost | 308,667,686 | 311,246,287 |
| Accumulated depreciation | (84,984,998) | (86,607,660) |
| Property and equipment, net | $ 223,682,688 | $ 224,638,627 |

## 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 bonds to fixed rates. The terms of the interest rate swap agreements are as follows:

| | NOTIONAL AMOUNT | | FAIR VALUE | |
|---|---|---|---|---|
| TERMS | 2017 | 2016 | 2017 | 2016 |
| The Association receives 65.00% of the 3-month USD-LIBOR-BBA floating rate plus 190 basis points and pays 3.132%. Terminates February 15, 2020. | $ 17,495,000 | $ 18,355,000 | $ (113,847) | $ (336,623) |
| The Association receives 65.01% of the 3-month USD-LIBOR-BBA floating rate plus 135 basis points and pays 2.99%. Terminates March 1, 2026. | 35,530,000 | 37,225,000 | (990,548) | (2,109,687) |
| Total | $ 53,025,000 | $ 55,580,000 | $ (1,104,395) | $ (2,446,310) |

**NOTE 8 – BONDS PAYABLE**

In February 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.

In February 2016, on behalf of the Association, the Harris County Cultural Education Facilities Finance Corporation issued bonds in the aggregate principal amount of $78,765,000 (Series 2016 A and B Bonds), the proceeds of which were used to refund outstanding Harris County Cultural Education Facilities Finance Corporation variable rate revenue refunding bonds (Series 2013B, C and D Bonds) and fund a portion of the cost of issuance of the Series 2016 Bonds.

The interest rate on the Series 2013A Bond is a fixed rate of 5% at August 31, 2017. The interest rate of the Series 2016A Bonds is a fixed rate of 2.7% during the initial period, which extended through February 4, 2016. After February 4, 2016, the interest rate is determined by a remarketing agent. The interest rate was 2.7% at August 31, 2017 and 2016. The interest rate of the Series 2016B Bonds is 65.01% of 3-month LIBOR plus 1.35% during the initial period, which extends through March 1, 2026. The interest rate was 2.13% at August 31, 2017 and 1.79% at August 31, 2016. The initial rates on the Series 2016 Bonds will be adjusted for any downgrade in rating of the current long-term senior debt rating below Baa3. The bonds contain various covenants related to fiscal operations and financial performance, including limitations on additional borrowings. The Series 2013 and 2016 Bonds are redeemable upon demand by the bondholders.

Additionally, the Association is required to maintain a cash balance at the Bank of New York of $5,670,000, which is reported as bond proceeds held in trust on the statement of financial position at August 31, 2017 and 2016.

Principal amounts due under each bond are as follows:

| | SERIES 2013A | SERIES 2016A | SERIES 2016B | 2017 | 2016 |
|---|---|---|---|---|---|
| Series 2013A | $ 63,305,000 | | | $ 63,305,000 | $ 64,530,000 |
| Series 2016A | | $ 37,025,000 | | 37,025,000 | 38,365,000 |
| Series 2016B | | | $ 35,530,000 | 35,530,000 | 37,225,000 |
| Total bonds payable | 63,305,000 | 37,025,000 | 35,530,000 | 135,860,000 | 140,120,000 |
| Bond premium – Series 2013 | 4,806,529 | | | 4,806,529 | 5,165,976 |
| Bond issuance costs: | | | | | |
| Series 2013 | (3,576,323) | | | (3,576,323) | (3,746,624) |
| Series 2016 | | (309,713) | (297,208) | (606,921) | (636,527) |
| Bonds payable, net | $ 64,535,206 | $ 36,715,287 | $ 35,232,792 | $ 136,483,285 | $ 140,902,825 |

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

| | |
|---|---|
| 2018 | $ 4,550,000 |
| 2019 | 4,710,000 |
| 2020 | 4,865,000 |
| 2021 | 5,035,000 |
| 2022 | 5,205,000 |
| Thereafter | 111,495,000 |
| Total bonds payable | $ 135,860,000 |

Interest expense recognized and paid on bonds payable were approximately $5,258,000 in 2017 and $5,135,000 in 2016.

**NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

| | 2017 | 2016 |
|---|---|---|
| Capital projects | $ 5,009,752 | $ 2,760,654 |
| Time restricted for future periods | 942,572 | 80,244 |
| Tellepsen YMCA | 632,183 | 1,063,414 |
| Pooled income fund beneficiary interest | 618,425 | 587,077 |
| Accumulated earnings on general endowment available for operations | 548,019 | 512,249 |
| Disaster relief assistance | 71,756 | |
| Total temporarily restricted net assets | $ 7,822,707 | $ 5,003,638 |

**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:

- 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, 2017 is as follows:

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| Donor-restricted endowment funds | | $ 1,798,627 | $ 1,471,107 | $ 3,269,734 |
| Board-designated general endowment funds | $ 7,386,946 | | | 7,386,946 |
| Endowment net assets | $ 7,386,946 | $ 1,798,627 | $ 1,471,107 | $ 10,656,680 |

Endowment net asset composition as of August 31, 2016 is as follows:

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| Donor-restricted endowment funds | | $ 2,162,740 | $ 1,371,107 | $ 3,533,847 |
| Board-designated general endowment funds | $ 7,185,318 | | | 7,185,318 |
| Endowment net assets | $ 7,185,318 | $ 2,162,740 | $ 1,371,107 | $ 10,719,165 |

Changes in endowment net assets are as follows:

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|---|---|---|---|
| Endowment net assets, September 1, 2015 | $ 6,713,635 | $ 1,015,782 | $ 1,371,107 | $ 9,100,524 |
| Investment return: | | | | |
| Interest and dividends | 139,125 | 21,912 | | 161,037 |
| Net realized and unrealized gain | 379,245 | 59,731 | | 438,976 |
| Investment management fees | (47,536) | (7,487) | | (55,023) |
| Net investment return | 470,834 | 74,156 | | 544,990 |
| Contributions and other additions | 131,019 | 1,095,294 | | 1,226,313 |
| Expenses | (4,400) | | | (4,400) |
| Appropriation for distribution | (125,770) | (22,492) | | (148,262) |
| Endowment net assets, August 31, 2016 | 7,185,318 | 2,162,740 | 1,371,107 | 10,719,165 |
| Investment return: | | | | |
| Interest and dividends | 145,164 | 21,974 | | 167,138 |
| Net realized and unrealized gain | 292,314 | 44,249 | | 336,563 |
| Investment management fees | (40,399) | (6,115) | | (46,514) |
| Net investment return | 397,079 | 60,108 | | 457,187 |
| Contributions and other additions | 93,396 | 300,116 | 100,000 | 493,512 |
| Expenses | (153,421) | | | (153,421) |
| Appropriation for distribution | (135,426) | (24,337) | | (159,763) |
| Transfer to affiliate | | (700,000) | | (700,000) |
| Endowment net assets, August 31, 2017 | $ 7,386,946 | $ 1,798,627 | $ 1,471,107 | $ 10,656,680 |

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 result from unfavorable market fluctuations and continued appropriations for certain programs that are deemed prudent by the Board of Directors of the Foundation and are reported in unrestricted net assets. There were no such deficiencies at August 31, 2017 and 2016.

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 of the Foundation, 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 return on the general fund toward operations and program delivery. The Foundation distributes 50% of the sum of net realized gains (losses), interest and dividends, less management fees as of the August 31st fiscal year for the upcoming fiscal year on all restricted and general funds with assets valued at or above $10,000 as of the previous year-end date. If the sum of net realized gains (losses) and interest and dividends is less than zero, no distribution will be made. 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 – 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:

| | 2017 | 2016 |
|---|---|---|
| Federal grants and contracts: | | |
| U. S. Department of Health and Human Services | $ 15,777,522 | $ 9,492,272 |
| U. S. Department of State | 1,577,868 | 1,527,988 |
| U. S. Department of Justice | 307,946 | 257,612 |
| U. S. Department of Homeland Security | 161,894 | 128,132 |
| Total federal grants and contracts | 17,825,230 | 11,406,004 |
| Colleges | 131,826 | 285,982 |
| School districts | 83,514 | 48,661 |
| County | 141,075 | 131,856 |
| Total government grants and contracts | $ 18,181,645 | $ 11,872,503 |

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 12 – 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 $3,338,000 and $3,337,000 to this plan during the years ended August 31, 2017 and 2016, respectively.

## NOTE 13 – LEASES

The Association leases certain office space and office equipment used in its operations. Operating lease payments for the years ended August 31, 2017 and 2016 were approximately $331,000 and $879,000, respectively.

As of August 31, 2017, the future minimum annual lease payments under these noncancellable operating leases are as follows:

| | |
|---|---|
| 2018 | $ 320,538 |
| 2019 | 326,007 |
| 2020 | 326,007 |
| 2021 | 163,004 |
| Total | $ 1,135,556 |

**NOTE 14 – INVOLUNTARY CONVERSION**

Over twenty facilities experienced some degree of damage as a result of Hurricane Harvey. Although much of the damage was minor enough for the centers to only be closed for a few days, four centers experienced significant flooding and damage. Of those four, two will not reopen, although operations will continue in both of those communities in various capacities. The remaining two centers are currently under construction with anticipated openings this summer.

A loss on involuntary conversion of $9,313,503 was recognized in fiscal year 2017 as a result of the impairment of the buildings and equipment. As of August 31, 2017, no potential insurance proceeds for repair and replacement of the facilities have been recognized.

**NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 6, 2018, 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

Consolidating Statement of Financial Position as of August 31, 2017

| | YMCA | FOUNDATION | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash | $ 1,487,878 | $ 158,325 | | $ 1,646,203 |
| Accounts receivable | 2,181,196 | | | 2,181,196 |
| United Way allocation receivable | 771,799 | | | 771,799 |
| Operating pledges receivable, net | 1,768,932 | | | 1,768,932 |
| Prepaid expenses and other assets | 1,196,264 | | | 1,196,264 |
| Investments | 52,171,964 | 10,618,934 | | 62,790,898 |
| Bond proceeds held in trust | 5,670,000 | | | 5,670,000 |
| Cash restricted for building construction | 783,500 | | | 783,500 |
| Pledges receivable restricted for building construction, net | 4,167,772 | | | 4,167,772 |
| Property and equipment, net | 223,682,688 | | | 223,682,688 |
| TOTAL ASSETS | $ 293,881,993 | $ 10,777,259 | $ 0 | $ 304,659,252 |
| LIABILITIES AND NET ASSETS | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 4,354,894 | | | $ 4,354,894 |
| Construction payable | 991,958 | | | 991,958 |
| Accrued expenses | 3,596,434 | | | 3,596,434 |
| Funds held for others | 12,616 | | | 12,616 |
| Deferred revenue | 3,053,401 | | | 3,053,401 |
| Split-interest agreement liabilities | | $ 120,579 | | 120,579 |
| Derivative agreements | 1,104,395 | | | 1,104,395 |
| Bonds payable, net | 136,483,285 | | | 136,483,285 |
| Total liabilities | 149,596,983 | 120,579 | | 149,717,562 |
| Net assets: | | | | |
| Unrestricted | 138,260,930 | 7,386,946 | | 145,647,876 |
| Temporarily restricted | 6,024,080 | 1,798,627 | | 7,822,707 |
| Permanently restricted | | 1,471,107 | | 1,471,107 |
| Total net assets | 144,285,010 | 10,656,680 | | 154,941,690 |
| TOTAL LIABILITIES AND NET ASSETS | $ 293,881,993 | $ 10,777,259 | $ 0 | $ 304,659,252 |

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

Consolidating Statement of Activities for the year ended August 31, 2017

| | YMCA | FOUNDATION | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|
| OPERATING REVENUE: | | | | |
| Membership dues and fees | $ 60,082,824 | | | $ 60,082,824 |
| Program fees | 35,608,271 | | | 35,608,271 |
| Government grants and contracts | 18,181,645 | | | 18,181,645 |
| Contributions | 13,990,784 | $ 493,512 | | 14,484,296 |
| United Way allocation | 2,700,589 | | | 2,700,589 |
| Other grants and contracts | 1,959,935 | | | 1,959,935 |
| Special events | 1,421,908 | | | 1,421,908 |
| Direct donor benefit costs | (498,398) | | | (498,398) |
| Investment return, net | (74,770) | 457,187 | $ (159,763) | 222,654 |
| Net gain on sale of property and equipment | 1,305,942 | | | 1,305,942 |
| Other income | 631,332 | | (151,921) | 479,411 |
| Total operating revenue | 135,310,062 | 950,699 | (311,684) | 135,949,077 |
| OPERATING EXPENSES: | | | | |
| Program services: | | | | |
| Healthy Living | 58,990,451 | 159,763 | (159,763) | 58,990,451 |
| Youth Development | 34,063,647 | | | 34,063,647 |
| Social Responsibility | 23,147,416 | | | 23,147,416 |
| Total program services | 116,201,514 | 159,763 | (159,763) | 116,201,514 |
| Management and general | 13,610,791 | 12,943 | (11,443) | 13,612,291 |
| Fundraising | 1,983,794 | 140,478 | (140,478) | 1,983,794 |
| Total operating expenses | 131,796,099 | 313,184 | (311,684) | 131,797,599 |
| Changes in net assets from operating activities | 3,513,963 | 637,515 | 0 | 4,151,478 |
| Change in value of derivative agreements | 1,341,915 | | | 1,341,915 |
| Loss on involuntary conversion | (9,313,503) | | | (9,313,503) |
| Transfer (to) from affiliates | 700,000 | (700,000) | | |
| CHANGES IN NET ASSETS | (3,757,625) | (62,485) | 0 | (3,820,110) |
| Net assets, beginning of year | 148,042,635 | 10,719,165 | | 158,761,800 |
| Net assets, end of year | $ 144,285,010 | $ 10,656,680 | $ 0 | $ 154,941,690 |