Young Men's Christian Association of the Greater Houston Area

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2015 and 2014

Young Men's Christian Association of the Greater Houston Area

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Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Young Men's Christian Association of the Greater Houston Area (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, 2015 and 2014 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, 2015 and 2014 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.

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Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. Supplementary information included in the consolidating statement of financial position as of August 31, 2015 and consolidating statement of activities for the year ended August 31, 2015 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 February 18, 2016 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

February 18, 2016

Young Men's Christian Association of the Greater Houston Area

Consolidated Statements of Financial Position as of August 31, 2015 and 2014

	2015	2014
ASSETS		
Cash	$ 7,786,599	$ 5,719,316
Accounts receivable	1,556,223	1,129,529
United Way allocation receivable	884,434	883,157
Prepaid expenses and other assets	747,524	946,002
Operating pledges receivable, net *(Note 2)*	703,320	516,957
Property held for resale		1,036,375
Investments *(Notes 3 and 4)*	61,301,261	61,174,830
Bond proceeds held in trust *(Note 8)*	5,670,222	5,670,222
Pledges receivable restricted for building construction, net *(Note 2)*	3,189,231	3,475,941
Property and equipment, net *(Note 5)*	233,886,511	235,734,736
TOTAL ASSETS	$ 315,725,325	$ 316,287,065
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 2,364,887	$ 2,327,913
Accrued expenses	2,917,687	2,699,674
Bond interest and fees payable	442,205	470,077
Funds held for others	21,679	19,544
Deferred revenue	2,958,046	2,844,450
Split-interest agreement liabilities *(Note 6)*	124,744	140,492
Derivative agreements *(Notes 4 and 7)*	394,585	197,611
Bonds payable, net *(Note 8)*	145,068,498	148,151,881
Total liabilities	154,292,331	156,851,642
Net assets *(Note 10)*:		
Unrestricted	155,613,721	153,388,220
Temporarily restricted *(Note 9)*	4,448,166	4,676,096
Permanently restricted	1,371,107	1,371,107
Total net assets	161,432,994	159,435,423
TOTAL LIABILITIES AND NET ASSETS	$ 315,725,325	$ 316,287,065

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, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:				
Membership dues and fees	$ 61,489,123			$ 61,489,123
Program fees and residency income	38,075,667			38,075,667
Government grants and contracts *(Note 12)*	8,516,406			8,516,406
Contributions	5,748,173	$ 5,000,615		10,748,788
United Way allocation	2,910,085			2,910,085
Other grants and contracts	2,072,812			2,072,812
Special events	1,654,720			1,654,720
Direct donor benefit costs	(620,492)			(620,492)
Investment return, net *(Note 3)*	236,997	3,473		240,470
Gain on sale of property	446,403			446,403
Other income	92,396			92,396
Total operating revenue	120,622,290	5,004,088		125,626,378
Net assets released from restrictions:				
Expenditure for program purposes	1,409,762	(1,409,762)		
Capital expenditures	3,890,763	(3,890,763)		
Donor redesignation	(68,507)	68,507		
Total	125,854,308	(227,930)		125,626,378
OPERATING EXPENSES:				
Program services	106,484,833			106,484,833
Management and general	14,648,519			14,648,519
Fundraising	2,298,481			2,298,481
Total operating expenses	123,431,833			123,431,833
Changes in net assets from operating activities	2,422,475	(227,930)		2,194,545
Change in value of derivative agreements *(Note 7)*	(196,974)			(196,974)
CHANGES IN NET ASSETS	2,225,501	(227,930)		1,997,571
Net assets, beginning of year	153,388,220	4,676,096	$ 1,371,107	159,435,423
Net assets, end of year	$ 155,613,721	$ 4,448,166	$ 1,371,107	$ 161,432,994

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	103,284,326			103,284,326
Management and general	12,125,929			12,125,929
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 Functional Expenses for the year ended August 31, 2015

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries, related taxes, and benefits	$ 56,879,142	$ 7,931,813	$ 1,572,866	$ 66,383,821
Occupancy	15,407,586	453,284	44,648	15,905,518
Depreciation	9,844,805	179,982	20,090	10,044,877
Supplies	6,158,488	245,144	28,806	6,432,438
Interest expense and other bond costs	4,588,860	442,785		5,031,645
Professional fees and contract services	2,837,879	1,356,048	360,648	4,554,575
Specific assistance to individuals	4,250,567			4,250,567
Communications	1,464,583	1,378,282	111,141	2,954,006
Travel and transportation	1,784,449	253,323	53,824	2,091,596
Printing, publication, and promotion	251,388	1,145,522	77,516	1,474,426
Equipment rental and maintenance	1,024,056	62,379		1,086,435
Camping activity costs	823,931			823,931
Allocations to service providers	678,895			678,895
Membership dues	118,790	476,903	12,984	608,677
Professional development and staff training	303,528	140,982	5,136	449,646
Conferences, conventions, and meetings	6,742	370,453	6,330	383,525
Postage and shipping	52,447	76,995	4,410	133,852
Other	8,697	134,624	82	143,403
Total expenses	$ 106,484,833	$ 14,648,519	$ 2,298,481	123,431,833
Direct donor benefit costs				620,492
Investment management fees				297,572
Total				$ 124,349,897

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	9,583,155	175,198	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
Specific assistance to individuals	2,358,864			2,358,864
Communications	1,399,791	1,094,999	96,318	2,591,108
Travel and transportation	1,601,286	252,370	56,235	1,909,891
Printing, publication, and promotion	233,457	1,243,085	2,569	1,479,111
Equipment rental and maintenance	1,479,587	50,973		1,530,560
Camping activity costs	904,777			904,777
Allocations to service providers	1,138,860			1,138,860
Membership dues	81,420	378,538	17,552	477,510
Professional development and staff training	306,006	241,749	3,970	551,725
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	$ 103,284,326	$ 12,125,929	$ 1,727,163	117,137,418
Direct donor benefit costs				621,944
Investment management fees				247,123
Total				$ 118,006,485

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, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 1,997,571	$ 76,806
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for building construction	(3,662,415)	(1,328,358)
Net realized and unrealized (gain) loss on investments	1,791,457	(1,879,292)
(Gain) loss on sale of property and equipment	(446,403)	2,686,355
Depreciation	10,044,877	9,777,909
Amortization of bond issuance costs	241,064	100,000
Amortization of bond premium	(359,447)	(359,447)
Change in value of derivative agreements	196,974	372,958
Changes in operating assets and liabilities:		
Accounts receivable	(426,694)	(24,663)
United Way allocation receivable	(1,277)	723
Prepaid expenses and other assets	198,478	(62,068)
Operating pledges receivable	(186,363)	148,930
Accounts payable and accrued expenses	254,987	187,310
Bond interest and fees payable	(27,872)	306,569
Funds held for others	2,135	(16,736)
Deferred revenue	113,596	(568,669)
Split-interest agreement liabilities	(15,748)	(322,767)
Net cash provided by operating activities	9,714,920	9,095,560
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(47,896,858)	(19,165,723)
Proceeds from sale of investments	46,163,284	13,488,101
Net change in money market mutual funds held as investments	(184,314)	2,542,137
Purchases of property and equipment	(8,061,781)	(8,944,667)
Proceeds from sale of property and equipment	1,347,907	5,771,531
Net cash used by investing activities	(8,631,762)	(6,308,621)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on bonds	(2,965,000)	(1,899,055)
Capitalized bond issuance costs		(985,945)
Proceeds from contributions restricted for building construction	3,949,125	2,961,494
Net cash provided by financing activities	984,125	76,494
NET CHANGE IN CASH	2,067,283	2,863,433
Cash, beginning of year	5,719,316	2,855,883
Cash, end of year	$ 7,786,599	$ 5,719,316

Supplemental disclosure of cash flow information:

Interest paid	$4,134,200	$3,874,964

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, 2012.

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.

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.

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.

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.

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 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 recognized 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 $1,089,000 in 2015 and $1,006,000 in 2014.

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

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

Recent accounting pronouncements – In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers.* The ASU supersedes the revenue recognition requirements for most exchange transactions not specifically covered by other guidance. It does not apply to 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 revenue is recognized. The ASU is effective for fiscal periods that begin after December 15, 2017 and must be applied retrospectively. The YMCA plans to adopt this guidance for its fiscal year ended August 31, 2019. Management has not yet determined the impact that adoption of this ASU will have on the financial statements.

In April 2015, the Association adopted Financial Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. Adoption of the ASU had no impact on the 2014 financial statements.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2015	2014
Pledges receivable	$ 4,247,701	$ 4,409,913
Allowance for doubtful accounts	(172,803)	(225,670)
Discount to net present value at 5%	(182,347)	(191,345)
Pledges receivable, net	$ 3,892,551	$ 3,992,898

Pledges receivable at August 31, 2015 are expected to be collected as follows:

2016	$ 1,573,150
2017	619,572
2018	619,572
2019	504,753
2020	504,753
Thereafter	425,901
Total pledges receivable	$ 4,247,701

In January 2006, the Association entered into a forty-six 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, 2015, the unamortized balance is $614,189.

NOTE 3 – INVESTMENTS

Investments consist of the following:

	2015	2014
Fixed-income bond mutual funds	$ 25,589,601	$ 30,807,712
Government agency securities	11,535,009	7,396,801
U. S. Treasury securities	9,577,103	13,393,023
Equity securities	5,815,098	5,955,413
Corporate bonds	5,790,687	812,432
Money market mutual funds	2,982,762	2,798,448
Real estate	11,001	11,001
Total investments	$ 61,301,261	$ 61,174,830

Investments at August 31, 2015 and 2014 include the underlying assets of split-interest agreements totaling approximately $2,269,000 and $2,332,000, 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:

	2015	2014
Interest and dividends	$ 2,331,246	$ 2,073,159
Realized and unrealized gain (loss)	(1,791,457)	1,879,292
Royalty income	5,474	7,163
Investment management fees	(297,572)	(247,123)
Investment return on total investments	247,691	3,712,491
Less: Interest and dividends allocated to split-interest agreements	(22,625)	(20,666)
Net realized and unrealized (gain) loss allocated to split-interest agreements	15,404	(253,577)
Investment return, net	$ 240,470	$ 3,438,248

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, 2015 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Fixed-income bond mutual funds	$ 25,589,601			$ 25,589,601
Government agency securities		$ 11,535,009		11,535,009
U. S. Treasury securities		9,577,103		9,577,103
Equity securities:				
Large-cap	2,481,572			2,481,572
International	2,065,891			2,065,891
Mid-cap	669,995			669,995
Small-cap	597,640			597,640
Corporate bonds		5,790,687		5,790,687
Money market mutual funds	2,982,762			2,982,762
Total assets measured at fair value	$ 34,387,461	$ 26,902,799	$ 0	$ 61,290,260

Liabilities measured at fair value at August 31, 2015 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Derivative agreements		$ (394,585)		$ (394,585)
Total liabilities measured at fair value	$ 0	$ (394,585)	$ 0	$ (394,585)

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

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Fixed-income bond mutual funds	$ 30,807,712			$ 30,807,712
Government agency securities		$ 7,396,801		7,396,801
U. S. Treasury securities		13,393,023		13,393,023
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
Corporate bonds		812,432		812,432
Money market mutual funds	2,798,448			2,798,448
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)

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

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

	2015	2014
Land	$ 26,328,875	$ 24,756,750
Buildings and improvements	269,833,370	264,913,027
Furniture and equipment	42,465,476	40,365,323
Vehicles	2,716,269	3,039,987
Construction in progress	408,070	1,597,711
Total property and equipment, at cost	341,752,060	334,672,798
Accumulated depreciation	(107,865,549)	(98,938,062)
Property and equipment, net	$ 233,886,511	$ 235,734,736

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 $19,220,000 and $20,065,000 at August 31, 2015 and 2014, respectively. Under the terms of the first agreement, which terminates on 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, 2015, the derivative agreement had an aggregate negative fair value of $(265,780). As of August 31, 2014, the derivative agreement had an aggregate negative fair value of $(137,106). 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, 2015, the derivative agreement had an aggregate negative fair value of $(128,805). As of August 31, 2014, the derivative agreement had an aggregate negative fair value of $(60,505).

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, 2015 and 2014. 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, 2015.

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, 2015, no amounts were outstanding on the letter of credit.

Principal amounts due under each bond are as follows:

	2015	2014
Series A	$ 65,635,000	$ 65,635,000
Series B	39,385,000	40,660,000
Series C	19,220,000	20,065,000
Series D	19,220,000	20,065,000
Total bonds payable	143,460,000	146,425,000
Bond premium	5,525,423	5,884,870
Bond issuance costs	(3,916,925)	(4,157,989)
Bonds payable, net	$ 145,068,498	$ 148,151,881

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

2016	$ 4,135,000
2017	4,280,000
2018	4,420,000
2019	4,570,000
2020	4,720,000
Thereafter	121,335,000
Total bonds payable	$ 143,460,000

Interest expense and letter of credit fees recognized and paid on bonds payable were approximately $5,031,000 in 2015 and $4,991,000 in 2014.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Capital projects	$ 3,432,384	$ 3,674,459
Pooled income fund beneficiary interest	555,197	486,690
Accumulated earnings on general endowment available for operations	460,585	514,947
Total temporarily restricted net assets	$ 4,448,166	$ 4,676,096

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, 2015 is as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds		$ 1,015,782	$ 1,371,107	$ 2,386,889
Board-designated general endowment funds	$ 6,713,635			6,713,635
Endowment net assets	$ 6,713,635	$ 1,015,782	$ 1,371,107	$ 9,100,524

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

Changes in endowment net assets are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, September 1, 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)
Net 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
Investment return:				
Interest and dividends	136,836	19,725		156,561
Net realized and unrealized loss	(62,063)	(8,946)		(71,009)
Investment management fees	(50,685)	(7,306)		(57,991)
Net investment return	24,088	3,473		27,561
Donor redesignation	(68,507)	68,507		
Contributions and other additions	38,307			38,307
Expenses	(3,645)			(3,645)
Appropriation for distribution	(315,467)	(57,835)		(373,302)
Endowment net assets, August 31, 2015	$ 6,713,635	$ 1,015,782	$ 1,371,107	$ 9,100,524

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 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 return 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, 2015 and 2014. Additionally, management believes that because the interest rate on bonds payable is determined daily, the carrying value of bonds payable of $148,985,423 and $152,309,870 approximates fair value at August 31, 2015 and 2014, 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:

	2015	2014
Federal grants and contracts:		
U. S. Department of Health and Human Services	$ 6,139,140	$ 4,257,106
U. S. Department of State	1,319,613	1,239,250
U. S. Department of Justice	282,826	328,655
U. S. Department of Homeland Security	102,384	103,806
U. S. Department of Housing and Urban Development	16,182	11,832
Total federal grants and contracts	7,860,145	5,940,649
Colleges	376,909	382,847
School districts	135,006	232,669
County	101,967	170,125
Other	42,379	42,550
Total government grants and contracts	$ 8,516,406	$ 6,768,840

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 – 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 $3,387,000 and $3,255,000 to this plan during the years ended August 31, 2015 and 2014, respectively.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Association is party to a lawsuit in connection with allegations of inappropriate behavior between a former employee and a minor 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 consolidated 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 consolidated financial position.

NOTE 15 – LEASES

The Association leases certain office space and office equipment used in its operations. Operating lease payments for the years ended August 31, 2015 and 2014 were approximately $923,000 and $909,000, respectively.

As of August 31, 2015, the future minimum annual lease payments under these noncancellable operating leases are as follows:

2016	$ 687,297
2017	312,881
2018	320,538
2019	326,007
2020	326,007
Thereafter	163,004
Total	$ 2,135,734

NOTE 16 – SUBSEQUENT EVENTS

In October 2015, the Association signed a construction contract for work to be performed at Camp Cullen. The total contract amount is $4,170,000.

In February 2016, the Association refinanced its Series 2013 Bonds. The Series 2013B Bonds, totaling approximately $39 million, were refinanced at a rate of 2.70% on a 7 year fixed term. The Series 2013C and Series 2013D Bonds, also totaling approximately $39 million, were refinanced at a rate of 2.99% on a 10 year fixed term.

Management has evaluated subsequent events through February 18, 2016, 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, 2015

	YMCA	FOUNDATION	ELIMINATIONS	CONSOLIDATED
ASSETS				
Cash	$ 7,613,289	$ 173,310		$ 7,786,599
Accounts receivable	1,556,223			1,556,223
United Way allocation receivable	884,434			884,434
Prepaid expenses and other assets	747,524			747,524
Due from YMCA		500,150	$ (500,150)	
Operating pledges receivable, net	703,320			703,320
Investments	52,749,453	8,551,808		61,301,261
Bond proceeds held in trust	5,670,222			5,670,222
Pledges receivable restricted for building construction, net	3,189,231			3,189,231
Property and equipment, net	233,886,511			233,886,511
TOTAL ASSETS	$ 307,000,207	$ 9,225,268	$ (500,150)	$ 315,725,325
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	$ 2,364,887			$ 2,364,887
Accrued expenses	2,917,687			2,917,687
Bond interest and fees payable	442,205			442,205
Funds held for others	21,679			21,679
Deferred revenue	2,958,046			2,958,046
Due to Foundation	500,150		$ (500,150)	
Split-interest agreement liabilities		$ 124,744		124,744
Derivative agreements	394,585			394,585
Bonds payable, net	145,068,498			145,068,498
Total liabilities	154,667,737	124,744	(500,150)	154,292,331
Net assets:				
Unrestricted	148,900,086	6,713,635		155,613,721
Temporarily restricted	3,432,384	1,015,782		4,448,166
Permanently restricted		1,371,107		1,371,107
Total net assets	152,332,470	9,100,524		161,432,994
TOTAL LIABILITIES AND NET ASSETS	$ 307,000,207	$ 9,225,268	$ (500,150)	$ 315,725,325

Young Men's Christian Association of the Greater Houston Area

Consolidating Statement of Activities for the year ended August 31, 2015

	YMCA	FOUNDATION	ELIMINATIONS	CONSOLIDATED
OPERATING REVENUE:				
Membership dues and fees	$ 61,489,123			$ 61,489,123
Program fees and residency income	38,075,667			38,075,667
Government grants and contracts	8,516,406			8,516,406
Contributions	10,736,370	$ 38,307	$ (25,889)	10,748,788
United Way allocation	2,910,085			2,910,085
Other grants and contracts	2,072,812			2,072,812
Special events	1,654,720			1,654,720
Direct donor benefit costs	(620,492)			(620,492)
Investment return, net	560,322	27,561	(347,413)	240,470
Gain on sale of property	446,403			446,403
Other income	92,396			92,396
Total operating revenue	125,933,812	65,868	(373,302)	125,626,378
OPERATING EXPENSES:				
Program services	106,484,833	373,302	(373,302)	106,484,833
Management and general	14,644,874	3,645		14,648,519
Fundraising	2,298,481			2,298,481
Total operating expenses	123,428,188	376,947	(373,302)	123,431,833
Change in net assets from operating activities	2,505,624	(311,079)	0	2,194,545
Change in value of derivative agreements	(196,974)			(196,974)
CHANGES IN NET ASSETS	2,308,650	(311,079)	0	1,997,571
Net assets, beginning of year	150,023,820	9,411,603		159,435,423
Net assets, end of year	$ 152,332,470	$ 9,100,524	$ 0	$ 161,432,994