Young Men's Christian Association of the Greater Houston Area

Consolidated Financial Statements
and Independent Auditors' Report
for the year ended December 31, 2018

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 statement of financial position as of December 31, 2018 the related consolidated statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit 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 December 31, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, the Association adopted the amendments of three Accounting Standards Update as of and for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

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 December 31, 2018 and consolidating statement of activities for the year ended December 31, 2018 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 April 2, 2019 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

April 2, 2019

Young Men's Christian Association of the Greater Houston Area

Consolidated Statement of Financial Position as of December 31, 2018

ASSETS	
Cash	$ 1,936,494
Accounts receivable from contracts with customers	599,902
Interest receivable	248,241
Contributions receivable, net *(Note 4)*	9,887,383
Prepaid expenses and other assets	1,532,018
Land and buildings held for sale	1,526,660
Investments *(Notes 5, 6, and 11)*	62,628,940
Bond proceeds held in trust *(Note 11)*	5,670,000
Right to use facilities *(Note 7)*	3,437,281
Derivative agreements *(Notes 6 and 10)*	62,986
Property and equipment, net *(Note 8)*	238,772,851
TOTAL ASSETS	$ 326,302,756
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	$ 3,522,155
Grant reversion payable	1,212,502
Construction payable	5,151,409
Accrued expenses	2,439,294
Capital lease payable *(Note 9)*	3,339,735
Contract liabilities	1,426,216
Bonds payable, net *(Note 11)*	131,720,564
Total liabilities	148,811,875
Commitments *(Notes 8 and 17)*	
Net assets:	
Without donor restrictions *(Note 12)*	158,977,355
With donor restrictions *(Note 13)*	18,513,526
Total net assets	177,490,881
TOTAL LIABILITIES AND NET ASSETS	$ 326,302,756

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 December 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contracts with customers:			
Membership fees	$ 54,915,659		$ 54,915,659
Program fees	33,997,731		33,997,731
Other contract services	2,210,010		2,210,010
Contributions:			
Contributions	2,986,325	$ 12,069,757	15,056,082
Government contributions *(Note 15)*		13,340,513	13,340,513
In-kind contributions	88,989	7,666,397	7,755,386
United Way contribution	2,806,277		2,806,277
Special events	1,135,866		1,135,866
Direct donor benefit costs	(445,846)		(445,846)
Net investment return	15,619	(124,099)	(108,480)
Net gain on sale of property and equipment	3,639,602		3,639,602
Other income	409,201		409,201
Total operating revenue	101,759,433	32,952,568	134,712,001
Net assets released from restrictions:			
Capital expenditures	29,915	(29,915)	
Expenditure for program purposes	19,938,605	(19,938,605)	
Expiration of time restrictions	1,852,615	(1,852,615)	
Total	123,580,568	11,131,433	134,712,001
OPERATING EXPENSES:			
Program services:			
Healthy Living	52,381,120		52,381,120
Youth Development	37,227,784		37,227,784
Social Responsibility	18,358,981		18,358,981
Total program services	107,967,885		107,967,885
Management and general	13,668,490		13,668,490
Fundraising	2,200,043		2,200,043
Total operating expenses	123,836,418		123,836,418
Changes in net assets from operating activities	(255,850)	11,131,433	10,875,583
Change in value of derivative agreements *(Note 10)*	405,215		405,215
Net results of involuntary conversion *(Note 18)*	6,931,150		6,931,150
CHANGES IN NET ASSETS	7,080,515	11,131,433	18,211,948
Net assets, beginning of year	151,896,840	7,382,093	159,278,933
Net assets, end of year	$ 158,977,355	$ 18,513,526	$ 177,490,881

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 December 31, 2018

EXPENSES	HEALTHY LIVING	YOUTH DEVELOPMENT	SOCIAL RESPONSIBILITY	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries, related taxes, and benefits	$ 22,939,354	$ 23,219,875	$ 7,118,469	$ 53,277,698	$ 6,794,661	$ 1,338,236	$ 61,410,595
Occupancy	11,791,566	2,410,645	601,300	14,803,511	1,019,363	32,540	15,855,414
Depreciation	8,234,233	980,401	33,950	9,248,584	499,903	19,536	9,768,023
Supplies	1,901,099	6,763,797	520,063	9,184,959	71,671	37,787	9,294,417
Allocations to service providers			6,918,414	6,918,414			6,918,414
Interest expense and other bond costs	3,252,071	1,250,796	500,319	5,003,186	545,862		5,549,048
Professional fees and contract services	1,488,967	1,186,303	336,150	3,011,420	1,652,808	380,842	5,045,070
Communications	1,079,981	94,486	17,185	1,191,652	990,542	231,807	2,414,001
Travel and transportation	212,209	832,876	389,368	1,434,453	303,915	56,071	1,794,439
Specific assistance to individuals			1,630,729	1,630,729			1,630,729
Printing, publication, and promotion	188,782	51,757	38,909	279,448	971,398	842	1,251,688
Equipment rental and maintenance	475,861	48,401	19,661	543,923	294,565		838,488
Membership dues	622,480	462	5,517	628,459	74,158	24,868	727,485
Camping activity costs		325,736	220,005	545,741			545,741
Professional development and staff training	47,606	57,171	8,942	113,719	326,397	1,226	441,342
Conferences, conventions, and meetings	58,429	2,428		60,857	37,408	72,990	171,255
Contribution to City of Houston	76,297			76,297			76,297
Other	12,185	2,650		14,835	85,839	3,298	103,972
Total expenses	$ 52,381,120	$ 37,227,784	$ 18,358,981	$ 107,967,885	$ 13,668,490	$ 2,200,043	123,836,418
Expenses on involuntary conversion							1,070,138
Direct donor benefit costs							445,846
Total							$ 125,352,402

See accompanying notes to consolidated financial statements.

Young Men's Christian Association of the Greater Houston Area

Consolidated Statement of Cash Flows for the year ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	$ 18,211,948
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Contributions restricted for building construction	(10,745,409)
Net realized and unrealized loss on investments	1,825,646
Net gain on sale of property and equipment	(3,639,602)
Contribution of property to City of Houston	76,297
Depreciation	9,768,023
Amortization of bond issuance costs and bond premium	(159,541)
Amortization of right to use facilities	182,299
Change in value of derivative agreements	(405,215)
Net result of involuntary conversion	(6,931,050)
Changes in operating assets and liabilities:	
Accounts receivable from contracts with customers	(111,718)
Interest receivable	16,692
Contributions receivable	(442,898)
Prepaid expenses and other assets	(831,777)
Accounts payable and accrued expenses	97,117
Contract liabilities	(141,760)
Split-interest agreement liabilities	(124,781)
Net cash provided by operating activities	6,644,271
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(11,265,073)
Proceeds from sale of investments	18,071,422
Net change in money market mutual funds held as investments	(8,198,475)
Purchases of property and equipment	(20,773,567)
Proceeds from sale of property and equipment	4,784,896
Insurance proceeds for building construction and equipment, net	6,931,050
Net cash used by investing activities	(10,449,747)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on bonds	(4,550,000)
Proceeds from contributions restricted for building construction	6,397,479
Payments on capital lease	(43,826)
Net cash provided by financing activities	1,803,653
NET CHANGE IN CASH	(2,001,823)
Cash, beginning of year	3,938,317
Cash, end of year	$ 1,936,494

Supplemental disclosure of cash flow information:

Interest paid	$5,178,719
Capital lease obligation for equipment	$3,383,561
In-kind construction	$3,299,855

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 Healthy Living, Youth Development and Social Responsibility in programs conducted at 26 centers, 1 resident camp, 20 apartment outreach sites, and 200 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.

Accounts receivable from contracts with customers represents amounts due from exchange transactions when services are rendered. The Association reviews outstanding balances and determines collectability of its receivables based on past experience with its customers. The Association believes that all accounts receivable at December 31, 2018 will be fully collected. Accordingly, no allowance for doubtful accounts is required. The Association does not have any financing components associated with its receivables.

Contributions 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 contributions receivable – An allowance for contributions 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 contributions 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 contributions 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 contributions receivable.

Land and buildings held for sale is reported at the lower of cost or fair market value less cost to sell.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

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 statement 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 statement of activities.

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.

Contract liabilities include payments from contracts with customers in excess of revenue recognized. Contract liabilities at December 31, 2018 and 2017 were $1,426,216 and $1,567,976, respectively. Contract liabilities reflect current year deferred revenue and are expected to be recognized as revenue in the subsequent year.

Bond issuance costs represent costs incurred related to the issuance of debt and are amortized over the term of the debt. Unamortized bond issuance costs are reported along with the related debt.

Bond premium is the excess of net proceeds, after expenses, received upon issuance of debt over the amount repayable at its maturity. Unamortized premium costs are reported along with the related debt.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the term of the time restriction. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Revenue from contracts with customers is derived primarily from the sale of memberships which grants access to all YMCA of Greater Houston locations, and program fees for camps, youth sports, childcare, fitness training, and other sponsored activities. Revenue is recognized when the services are provided to a customer, in an amount that reflects the consideration the Association expects to be entitled to in exchange for those services.

All of the Association's revenue from contracts with customers are from performance obligations satisfied over time and are sold to residents of the greater Houston area. Revenue is recognized ratably as services are rendered over the membership period or the term of the enrollment period for camps, youth sports, childcare, and fitness training. Payment is due prior to the month of membership or prior to the enrollment period for camps, youth sports, childcare, and fitness training.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from a donor or government agency. 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.

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 $643,000 for the year ended December 31, 2018, which is reported with printing, publication and promotion in the statement of functional expenses.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to one or more program or supporting activities are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation, interest expense, and occupancy costs are allocated based on square footage. Information technology costs are allocated based on estimates of time and costs of specific technology utilized.

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 agreements and the net results of 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 pronouncement – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (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 the Association for fiscal year 2019. Management does not expect adoption of this ASU to have a significant impact on the financial statements.

NOTE 2 – ADOPTION OF NEW ACCOUNTING STANDARDS

The Association adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU and all subsequently clarifying ASU's replaced most existing revenue recognition guidance in U. S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Association adopted the new standard effective January 1, 2018, using the full retrospective method.

The Association's revenue arrangements are recognized over time and consist of performance obligations that are satisfied ratably over a period of no more than one year. Based on the Association's review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard. Adoption of this ASU had no impact on total beginning net assets but resulted in additional disclosures and changes in presentation.

In conjunction with the adoption of ASU 2014-09, the Association adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. The Association adopted the new standard effective January 1, 2018, using the retrospective method. Adoption of this standard had no impact on total beginning net assets.

The Association adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958),* as of and for the year ended December 31, 2018. Under this ASU, net assets are presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments are grouped with *net assets with donor restrictions*. New or enhanced disclosures are 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 are required to be presented by both nature and function and investment return is presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets expire when assets are placed in service. These amendments have been applied on a retrospective basis. Adoption of this ASU resulted in reclassification of previously reported net assets to conform to the 2018 presentation but had no impact on total beginning net assets.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 comprise the following:

Financial assets at December 31, 2018:	
Cash	$ 1,936,494
Accounts receivable from contracts with customers	599,902
Interest receivable	248,241
Contributions receivable, net	9,887,383
Investments	62,628,940
Bond proceeds held in trust	5,670,000
Total financial assets	80,970,960
Less financial assets available for general expenditure:	
Donor-restricted and board-designated endowment assets less appropriation for 2019	10,661,105
Debt service and sinking funds	45,063,000
Other donor-restricted assets subject to satisfaction of restriction and the passage of time	12,371,769
Total financial assets available for general expenditure	$ 12,875,086

Financial assets available for general expenditures include cash, marketable debt and equity securities, contributions receivable, and accounts receivable including amounts expected to be appropriated by the Board of Directors from endowment earnings during the upcoming year. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Association considers all expenditures related to its ongoing activities of providing Healthy Living, Youth Development, and Social Responsibility programs, as well as the conduct of services undertaken to support those activities, to be general expenditures.

The Association is substantially supported by program revenues and regularly monitors liquidity required to meet its operating needs while striving to maximize the investment of available funds. As part of the organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Association's Board of Directors has designated a portion of its resources without donor restrictions as board-designated for endowment. These funds are invested for long-term appreciation and current income but remain available to be spent at the board's discretion.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2018 consist of the following:

Contributions from government agencies	$ 2,240,648
Contributions for building construction	5,643,819
Other contributions	2,534,408
Contributions receivable	10,418,875
Allowance for doubtful accounts	(251,142)
Discount to net present value	(280,350)
Contributions receivable, net	$ 9,887,383

Contributions receivable at December 31, 2018 are expected to be collected as follows:

2019	$ 6,192,000
2020	1,283,577
2021	1,005,827
2022	1,005,827
2023	931,644
Total contributions receivable	$ 10,418,875

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 contribution receivable and is being amortized over the life of the lease. At December 31, 2018, the unamortized balance is $598,547.

Conditional contributions – At December 31, 2018, the Association has a $2,000,000 conditional contribution of a gift of $500,000 in cash and land with an estimated fair market 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.

Conditional contributions from government agencies – At December 31, 2018, the Association has approximately $13,155,000 of conditional contributions from various government agencies primarily for refugee assistance. The contributions will be recognized as revenue when the conditions, which include performance of allowable activities and incurring allowable expenses, are met.

NOTE 5 – INVESTMENTS

Investments at December 31, 2018 consist of the following:

Government agency securities	$ 18,720,028
Corporate bonds	13,962,781
U. S. Treasury securities	13,099,265
Money market mutual funds	9,431,416
Common stock	6,456,782
Exchange-traded funds	545,559
Real estate investment trusts	413,109
Total investments	$ 62,628,940

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 statement of financial position and statement of activities.

NOTE 6 – 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 December 31, 2018 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Government agency securities:				
0-12 months		$ 50,149		$ 50,149
1-5 years		1,799,697		1,799,697
5-10 years		4,391,202		4,391,202
10+ years		6,820,169		6,820,169
Corporate bonds:				
0-12 months		714,573		714,573
1-5 years		7,191,830		7,191,830
5-10 years		5,977,983		5,977,983
10+ years		78,395		78,395
U. S. Treasury securities:				
0-12 months	$ 1,305,071			1,305,071
1-5 years	12,141,739			12,141,739
5-10 years	5,114,262			5,114,262
10+ years	197,004			197,004
Money market mutual funds	9,431,416			9,431,416
Common stock:				
Financials	1,020,894			1,020,894
Healthcare	1,007,698			1,007,698
Information technology	954,136			954,136
Consumer staples	753,710			753,710
Industrials	647,902			647,902
Consumer discretionary	517,637			517,637
Utilities	482,501			482,501
Energy	426,605			426,605
Telecommunication services	392,320			392,320
Materials	242,668			242,668
Other	10,711			10,711
Exchange-traded funds	545,559			545,559
Real estate investment trusts	413,109			413,109
Total investments	35,604,942	27,023,998		62,628,940
Derivative agreements		62,986		62,986
Total assets measured at fair value	$ 35,604,942	$ 27,086,984	$ 0	$ 62,691,926

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

- *Government agency securities* and *corporate bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.
- *U. S. Treasury securities* are valued using prices obtained from active market maker and inter-dealer brokers on a daily basis.
- *Mutual funds* are valued at the reported net asset value.
- *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.
- *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 7 – RIGHT TO USE FACILITIES

The YMCA and Humble ISD entered into a Joint Use Agreement in February 2017, whereby the YMCA can utilize the Miracle League facilities based on an agreed-upon use schedule for a term of 20 years. Subsequently, the Joint Use Agreement will automatically renew for one-year terms. In exchange for the right to use the Miracle League facilities, the YMCA donated land improvements to Humble ISD. The fair market value of the right to use the Miracle League facilities is reported in the statement of financial position and is being amortized over the 20-year term of the agreement. Rent expense of approximately $177,000 was recognized in the year ended December 31, 2018.

In 2018, the YMCA entered into an agreement with the City of Houston (the City), whereby the YMCA can reserve time and space at the North Wayside Sports and Recreation Center (the Center) for a term of 5 years. In exchange for the right to use the Center, the YMCA donated land and buildings to the City. The fair market value of the right to use the North Wayside Center is reported in the statement of financial position and is being amortized over the 5-year term of the agreement. Contribution expense of approximately $76,000 and rent expense of approximately $5,200 was recognized in the year ended December 31, 2018.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 consists of the following:

Land	$ 23,452,312
Buildings and improvements	254,656,651
Furniture and equipment	28,492,003
Vehicles	1,871,882
Construction in progress	24,452,854
Total property and equipment, at cost	332,925,702
Accumulated depreciation	(94,152,851)
Property and equipment, net	$ 238,772,851

Commitments – The Association entered into contracts with construction contractors and an architect for the renovation of two centers damaged as a result of Hurricane Harvey. At December 31, 2018, outstanding commitments under these contracts are approximately $8,383,000.

NOTE 9 – CAPITAL LEASE

During 2018, the Association entered into capital leases for fitness equipment with a total capitalized cost of approximately $3,384,000 and accumulated amortization of $43,826 at December 31, 2018. Amortization expense of $43,826 was recognized in fiscal year 2018. Interest expense was approximately $61,000 for the year ended December 31, 2018. Future minimum lease payments are as follows:

2019	$ 715,420
2020	715,420
2021	715,420
2022	715,420
2023	655,802
Total minimum lease payments	3,517,482
Less: Interest	(177,747)
Present value of net minimum lease payments	$ 3,339,735

NOTE 10 – DERIVATIVE AGREEMENTS

The Association entered into an interest rate swap agreement with a bank that effectively converted its variable rate bonds to fixed rates. The terms of the interest rate swap agreement at December 31, 2018 are as follows:

TERMS	NOTIONAL AMOUNT	FAIR VALUE
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.	$33,680,000	$62,986

NOTE 11 – 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. At December 31, 2018, the balance of the debt service reserve fund is $39,393,000 and is included in investments on the statement of financial position.

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 2016A 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 of the Series 2013A Bond is a fixed rate of 5% at December 31, 2018. The interest rate of the Series 2016A Bonds is a fixed rate of 2.7% determined by a remarketing agent during the initial period, which extended through February 1, 2023. The interest rate is fixed at 2.7% at December 31, 2018. 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 2.86% at December 31, 2018. 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 consolidated statement of financial position at December 31, 2018.

Principal amounts due under each bond at December 31, 2018 are as follows:

	SERIES 2013A	SERIES 2016A	SERIES 2016B	TOTAL
Series 2013A	$ 61,990,000			$ 61,990,000
Series 2016A		$ 35,640,000		35,640,000
Series 2016B			$ 33,680,000	33,680,000
Total bonds payable	61,990,000	35,640,000	33,680,000	131,310,000
Bond premium – Series 2013	4,327,266			4,327,266
Bond issuance costs:				
Series 2013	(3,349,255)			(3,349,255)
Series 2016		(289,399)	(278,048)	(567,447)
Bonds payable, net	$ 62,968,011	$ 35,350,601	$ 33,401,952	$ 131,720,564

Bonds payable are due in the fiscal year ended December 31 as follows:

2019	$ 4,710,000
2020	4,865,000
2021	5,035,000
2022	5,205,000
Thereafter	111,495,000
Total bonds payable	$ 131,310,000

Interest expense and amortization of bond issuance costs was approximately $5,486,000 for the year ended December 31, 2018. The effective interest rate for the year ended December 31, 2018 was 4.09%.

NOTE 12 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at December 31, 2018 consist of the following:

Board-designated endowment for operations	$ 7,676,191
Cash and investments designated for debt service and sinking funds	45,063,000
Property and equipment, net of debt	98,561,143
Undesignated	7,677,021
Total net assets without donor restrictions	$ 158,977,355

The Board of Directors does not have a specific policy in regards to establishing board-designated endowments or reserves. However, the Board of Directors may designate excess cash flow for reserves, specific projects, or endowments as deemed prudent.

NOTE 13 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2018 are restricted as follows:

Subject to expenditure for specified purpose:	
Capital projects	$ 12,153,169
Subject to passage of time:	
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	3,226,829
General endowment subject to spending policy and appropriation	3,133,528
Total net assets with donor restrictions	$ 18,513,526

NOTE 14 – 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 and the unappropriated investment earnings on donor-restricted endowments as *net assets with donor restrictions*. 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

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 December 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.

Changes in endowment net assets are as follows:

		WITH DONOR RESTRICTIONS		
	BOARD-DESIGNATED ENDOWMENT	ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	TOTAL
Endowment net assets, December 31, 2017	$ 7,057,394	$ 1,738,108	$ 1,839,495	$ 10,634,997
Contributions and other additions	1,027,313		61,925	1,089,238
Donor redesignation	333,148	(333,148)		
Net investment return	(392,956)	(124,099)		(517,055)
Distribution to affiliate	(138,808)	(48,753)		(187,561)
Expenses	(209,900)			(209,900)
Endowment net assets, December 31, 2018	$ 7,676,191	$ 1,232,108	$ 1,901,420	$ 10,809,719

Endowment net asset composition as of December 31, 2018:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity		$ 1,901,420	$ 1,901,420
Accumulated net investment return		1,232,108	1,232,108
Board-designated endowment funds	$ 7,676,191		7,676,191
Endowment net assets	$ 7,676,191	$ 3,133,528	$ 10,809,719

NOTE 15 – GOVERNMENT CONTRIBUTIONS

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

Federal contributions:	
U. S. Department of Health and Human Services	$ 11,359,690
U. S. Department of State	493,107
U. S. Department of Justice	640,957
U. S. Department of Education	362,146
U. S. Department of Homeland Security	188,032
Total federal contributions	13,043,932
County	140,100
Colleges	61,657
School districts	49,824
City	45,000
Total government contributions	$ 13,340,513

The Association's government contributions require fulfillment of certain conditions as set forth in the awards 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 awards. Management believes such disallowances, if any, would not be material to the Association's financial position or changes in net assets.

NOTE 16 – 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 $3,220,000 to this plan during the year ended December 31, 2018.

NOTE 17 – LEASE COMMITMENTS

The Association leases certain office space used in its operations. Operating lease payments for the year ended December 31, 2018 were approximately $325,000. As of December 31, 2018, the future minimum annual lease payments under these noncancelable operating leases are as follows:

2019	$ 326,007
2020	326,007
2021	54,335
Total	$ 706,349

NOTE 18 – INVOLUNTARY CONVERSION

In August 2017, 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 did not reopen, although operations will continue in both of those communities in various capacities. The remaining two centers are currently under construction and scheduled to be fully reopened in 2019. A cumulative loss on involuntary conversion of $5,767,795 was previously recognized as a result of the impairment of the building and equipment. During the year ended December 31, 2018, the following transaction related to the involuntary conversion was recognized in the consolidated statement of activities:

Insurance proceeds	$ 8,001,288
Professional fees for insurance consultants and other	(1,070,138)
Total	$ 6,931,150

NOTE 19 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 2, 2019, which is the date that the financial statements were available for issuance. Subsequent to year end, the Association executed an agreement to sell the land and buildings at the Center for Leadership Development for $1,984,000 and land at the Brenda and John Duncan YMCA for approximately $2,904,000. 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 December 31, 2018

	YMCA	FOUNDATION	ELIMINATIONS	CONSOLIDATED
ASSETS				
Cash	$ 1,539,855	$ 396,639		$ 1,936,494
Accounts receivable from contracts with customers	599,902			599,902
Due from Foundation		20,000	$ (20,000)	
Interest receivable	248,241			248,241
Contributions receivable, net	9,887,383			9,887,383
Prepaid expenses and other assets	1,532,018			1,532,018
Land and buildings held for sale	1,526,660			1,526,660
Investments	52,235,860	10,393,080		62,628,940
Bond proceeds held in trust	5,670,000			5,670,000
Right to use facilities	3,437,281			3,437,281
Derivative agreements	62,986			62,986
Property and equipment, net	238,772,851			238,772,851
TOTAL ASSETS	$ 315,513,037	$ 10,809,719	$ (20,000)	$ 326,302,756
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts and reversion grant payable	$ 4,734,657			$ 4,734,657
Construction payable	5,151,409			5,151,409
Accrued expenses	2,439,294			2,439,294
Capital lease payable	3,339,735			3,339,735
Contract liabilities	1,426,216			1,426,216
Due to YMCA	20,000		$ (20,000)	
Bonds payable, net	131,720,564			131,720,564
Total liabilities	148,831,875		(20,000)	148,811,875
Net assets:				
Without donor restrictions	151,301,164	$ 7,676,191		158,977,355
With donor restrictions	15,379,998	3,133,528		18,513,526
Total net assets	166,681,162	10,809,719		177,490,881
TOTAL LIABILITIES AND NET ASSETS	$ 315,513,037	$ 10,809,719	$ (20,000)	$ 326,302,756

Young Men's Christian Association of the Greater Houston Area

Consolidating Statement of Activities for the year ended December 31, 2018

	YMCA	FOUNDATION	ELIMINATIONS	CONSOLIDATED
OPERATING REVENUE:				
Contracts with customers:				
Membership fees	$ 54,915,659			$ 54,915,659
Program fees	33,997,731			33,997,731
Other contract services	2,210,010			2,210,010
Contributions:				
Contributions	14,599,026	$ 457,056		15,056,082
Government contributions	13,340,513			13,340,513
In-kind contributions	7,755,386			7,755,386
United Way contribution	2,806,277			2,806,277
Special events	1,135,866			1,135,866
Direct donor benefit costs	(445,846)			(445,846)
Net investment return	596,136	(517,055)	$ (187,561)	(108,480)
Net gain on sale of property and equipment	3,639,602			3,639,602
Other income	607,502		(198,301)	409,201
Total operating revenue	135,157,862	(59,999)	(385,862)	134,712,001
OPERATING EXPENSES:				
Program services:				
Healthy Living	52,381,120	187,561	(187,561)	52,381,120
Youth Development	37,227,784			37,227,784
Social Responsibility	18,358,981			18,358,981
Total program services	107,967,885	187,561	(187,561)	107,967,885
Management and general	13,656,891	26,146	(14,547)	13,668,490
Fundraising	2,200,043	183,754	(183,754)	2,200,043
Total operating expenses	123,824,819	397,461	(385,862)	123,836,418
Changes in net assets from operating activities	11,333,043	(457,460)	0	10,875,583
Change in value of derivative agreements	405,215			405,215
Net results of involuntary conversion	6,931,150			6,931,150
Transfer to/from Affiliate	(632,182)	632,182		
CHANGES IN NET ASSETS	18,037,226	174,722	0	18,211,948
Net assets, beginning of year	148,643,936	10,634,997		159,278,933
Net assets, end of year	$ 166,681,162	$ 10,809,719	$ 0	$ 177,490,881