

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

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2019 and 2018

Young Men’s Christian Association of the Greater Houston Area

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Young Men's Christian Association of the Greater Houston Area (the YMCA) and its affiliate, YMCA of the Greater Houston Area Endowment Foundation (collectively the Association), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018 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

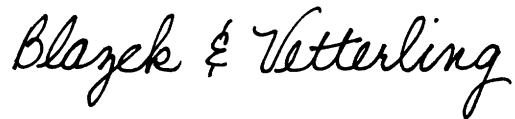
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Association as of December 31, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the consolidating statement of financial position as of December 31, 2019 and consolidating statement of activities for the year ended December 31, 2019 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 20, 2020 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.

A handwritten signature in black ink that reads "Blazek & Vetterling". The signature is written in a cursive, flowing style.

April 20, 2020

Young Men's Christian Association of the Greater Houston Area

Consolidated Statements of Financial Position as of December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 1,795,687	\$ 1,936,494
Accounts receivable	564,577	599,902
Interest receivable	235,341	248,241
Contributions receivable, net (<i>Note 4</i>)	12,622,219	9,887,383
Prepaid expenses and other assets	2,063,791	1,532,018
Land and buildings held for sale	264,594	1,526,660
Investments (<i>Notes 5 and 6</i>)	57,628,679	62,628,940
Bond proceeds held in trust (<i>Note 10</i>)	5,670,000	5,670,000
Right to use facilities (<i>Note 7</i>)	3,244,419	3,437,281
Operating lease right-of-use assets (<i>Note 8</i>)	534,258	
Derivative agreements (<i>Note 6</i>)		62,986
Property and equipment, net (<i>Notes 8 and 9</i>)	<u>243,608,984</u>	<u>238,772,851</u>
TOTAL ASSETS	<u>\$ 328,232,549</u>	<u>\$ 326,302,756</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 3,977,721	\$ 3,522,155
Grant reversion payable		1,212,502
Construction payable	45,186	5,151,409
Accrued expenses	2,795,436	2,439,294
Finance lease liabilities (<i>Note 8</i>)	4,224,359	3,339,735
Operating lease liabilities (<i>Note 8</i>)	534,258	
Deferred contract revenue	2,410,352	1,426,216
Bonds payable, net (<i>Note 10</i>)	<u>132,229,588</u>	<u>131,720,564</u>
Total liabilities	<u>146,216,900</u>	<u>148,811,875</u>
Contingencies (<i>Note 14</i>)		
Net assets (<i>Note 13</i>):		
Without donor restrictions (<i>Note 11</i>)	167,776,965	158,977,355
With donor restrictions (<i>Note 12</i>)	<u>14,238,684</u>	<u>18,513,526</u>
Total net assets	<u>182,015,649</u>	<u>177,490,881</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 328,232,549</u>	<u>\$ 326,302,756</u>

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, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contracts revenue:			
Membership	\$ 56,815,023		\$ 56,815,023
Program	33,397,921		33,397,921
Other contract services	2,897,122		2,897,122
Contributions:			
Government agencies (<i>Note 14</i>)		\$ 21,633,987	21,633,987
In-kind	303,353	7,277,248	7,580,601
United Way	2,329,366		2,329,366
Other	1,894,324	9,196,163	11,090,487
Land grant reversion	(458,000)		(458,000)
Loss on valuation of contributions receivable		(500,000)	(500,000)
Special events	1,386,337		1,386,337
Direct donor benefit costs	(464,221)		(464,221)
Net investment return	4,284,149	586,032	4,870,181
Net gain on sale of property and equipment	2,497,003		2,497,003
Other income	446,836		446,836
Total operating revenue	<u>105,329,213</u>	<u>38,193,430</u>	<u>143,522,643</u>
Net assets released from restrictions:			
Capital expenditures	11,976,514	(11,976,514)	
Expenditure for program purposes	27,483,529	(27,483,529)	
Expiration of time restrictions	3,008,229	(3,008,229)	
Total	<u>147,797,485</u>	<u>(4,274,842)</u>	<u>143,522,643</u>
OPERATING EXPENSES:			
Program services:			
Healthy Living	55,727,498		55,727,498
Youth Development	40,160,937		40,160,937
Social Responsibility	23,690,051		23,690,051
Total program services	119,578,486		119,578,486
Management and general	16,625,840		16,625,840
Fundraising	2,249,715		2,249,715
Total operating expenses	<u>138,454,041</u>		<u>138,454,041</u>
Changes in net assets from operating activities	9,343,444	(4,274,842)	5,068,602
Loss on early extinguishment of debt (<i>Note 10</i>)	(2,591,963)		(2,591,963)
Change in value of derivative agreements	(62,986)		(62,986)
Net results of involuntary conversion (<i>Note 16</i>)	2,111,115		2,111,115
CHANGES IN NET ASSETS	8,799,610	(4,274,842)	4,524,768
Net assets, beginning of year	<u>158,977,355</u>	<u>18,513,526</u>	<u>177,490,881</u>
Net assets, end of year	<u>\$ 167,776,965</u>	<u>\$ 14,238,684</u>	<u>\$ 182,015,649</u>

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:			
Contract revenue:			
Membership	\$ 54,915,659		\$ 54,915,659
Program	33,997,731		33,997,731
Other contract services	2,210,010		2,210,010
Contributions:			
Government agencies (<i>Note 14</i>)		\$ 13,340,513	13,340,513
In-kind	88,989	7,666,397	7,755,386
United Way	2,806,277		2,806,277
Other	2,986,325	12,069,757	15,056,082
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
	<u>101,759,433</u>	<u>32,952,568</u>	<u>134,712,001</u>
Total operating revenue			
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)	
	<u>123,580,568</u>	<u>11,131,433</u>	<u>134,712,001</u>
Total			
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
	<u>107,967,885</u>		<u>107,967,885</u>
Total program services			
Management and general	13,668,490		13,668,490
Fundraising	2,200,043		2,200,043
	<u>123,836,418</u>		<u>123,836,418</u>
Total operating expenses			
Changes in net assets from operating activities	(255,850)	11,131,433	10,875,583
Change in value of derivative agreements	405,215		405,215
Net results of involuntary conversion (<i>Note 16</i>)	6,931,150		6,931,150
	<u>7,080,515</u>	<u>11,131,433</u>	<u>18,211,948</u>
CHANGES IN NET ASSETS			
Net assets, beginning of year	<u>151,896,840</u>	<u>7,382,093</u>	<u>159,278,933</u>
Net assets, end of year	<u>\$ 158,977,355</u>	<u>\$ 18,513,526</u>	<u>\$ 177,490,881</u>

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, 2019

EXPENSES	HEALTHY LIVING	YOUTH DEVELOPMENT	SOCIAL RESPONSIBILITY	TOTAL PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries, related taxes, and benefits	\$ 24,684,110	\$ 25,882,021	\$ 8,543,352	\$ 59,109,483	\$ 8,148,565	\$ 1,661,772	\$ 68,919,820
Occupancy	11,762,397	2,366,145	632,036	14,760,578	991,626	32,540	15,784,744
Depreciation and amortization	10,016,797	1,095,057	25,996	11,137,850	472,225	23,267	11,633,342
Supplies	2,130,342	6,687,028	623,811	9,441,181	69,532	48,652	9,559,365
Allocations to service providers			8,685,770	8,685,770			8,685,770
Professional fees and contract services	1,597,648	1,474,930	288,506	3,361,084	1,919,046	219,646	5,499,776
Interest expense	3,008,120	1,156,970	462,788	4,627,878	675,743		5,303,621
Specific assistance to individuals			3,531,353	3,531,353			3,531,353
Communications	1,060,983	78,400	25,577	1,164,960	1,178,577	38,934	2,382,471
Travel and transportation	189,907	851,553	521,027	1,562,487	432,945	74,355	2,069,787
Printing, publication, and promotion	135,007	41,382	25,815	202,204	1,323,084	358	1,525,646
Equipment rental and maintenance	426,313	46,844	16,824	489,981	425,688		915,669
Membership dues	591,962	4,350	37,235	633,547	66,549	17,413	717,509
Professional development and staff training	42,570	136,290	15,938	194,798	375,463	8,613	578,874
Camping activity supplies		328,703	248,726	577,429			577,429
Bad debt expense					468,394		468,394
Conferences, conventions, and meetings	49,376	3,611	51	53,038	47,163	124,099	224,300
Other	31,966	7,653	5,246	44,865	31,240	66	76,171
Total expenses	<u>\$ 55,727,498</u>	<u>\$ 40,160,937</u>	<u>\$ 23,690,051</u>	<u>\$ 119,578,486</u>	<u>\$ 16,625,840</u>	<u>\$ 2,249,715</u>	138,454,041
Expenses on involuntary conversion							71,432
Direct donor benefit costs							<u>464,221</u>
Total							<u>\$ 138,989,694</u>

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 and amortization	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
Professional fees and contract services	1,488,967	1,186,303	336,150	3,011,420	1,652,808	380,842	5,045,070
Interest expense	3,252,071	1,250,796	500,319	5,003,186	545,862		5,549,048
Specific assistance to individuals			1,630,729	1,630,729			1,630,729
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
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
Professional development and staff training	47,606	57,171	8,942	113,719	326,397	1,226	441,342
Camping activity supplies		325,736	220,005	545,741			545,741
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	<u>\$ 52,381,120</u>	<u>\$ 37,227,784</u>	<u>\$ 18,358,981</u>	<u>\$ 107,967,885</u>	<u>\$ 13,668,490</u>	<u>\$ 2,200,043</u>	123,836,418
Expenses on involuntary conversion							1,070,138
Direct donor benefit costs							<u>445,846</u>
Total							<u>\$ 125,352,402</u>

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 December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 4,524,768	\$ 18,211,948
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for building construction	(4,357,345)	(10,745,409)
Contributions restricted for endowment	(314,700)	(61,925)
Contributed land	(3,484,800)	
Contribution of property to City of Houston		76,297
Bad debt expense and loss on valuation of contributions receivable	968,394	
Net realized and unrealized (gain) loss on investments	(3,348,196)	1,825,646
Net gain on sale of property and equipment	(2,497,003)	(3,639,602)
Loss on land grant reversion	458,000	
Depreciation and amortization	11,633,342	9,768,023
Amortization of right to use facilities	192,862	182,299
Amortization of bond issuance costs and bond premium	(258,241)	(159,541)
Loss on early extinguishment of debt	2,591,963	
Change in value of derivative agreements	62,986	(405,215)
Insurance proceeds	(2,182,547)	(8,001,288)
Changes in operating assets and liabilities:		
Accounts receivable	35,325	(111,718)
Interest receivable	12,900	16,692
Contributions receivable	(3,083,258)	(442,898)
Prepaid expenses and other assets	(531,773)	(831,777)
Accounts payable and accrued expenses	(400,794)	97,117
Contract liabilities	984,136	(141,760)
Split-interest agreement liabilities		(124,781)
Net cash provided by operating activities	<u>1,006,019</u>	<u>5,512,108</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(16,613,641)	(11,265,073)
Proceeds from sale of investments	16,383,165	18,071,422
Net change in money market mutual funds held as investments	8,578,933	(8,198,475)
Purchases of property and equipment	(17,435,869)	(20,773,567)
Proceeds from sale of property and equipment	4,401,947	4,784,896
Insurance proceeds for building construction and equipment, net	<u>2,182,547</u>	<u>8,001,288</u>
Net cash used by investing activities	<u>(2,502,918)</u>	<u>(9,379,509)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on bonds	(1,410,000)	(4,550,000)
Proceeds from issuance of bonds	515,000	
Bond issuance costs	(487,998)	
Principal payments on financing leases	(871,283)	(43,826)
Proceeds from contributions restricted for building construction	3,737,373	6,397,479
Contributions restricted for endowment	314,700	61,925
Termination fee for derivative agreement	<u>(441,700)</u>	
Net cash provided by financing activities	<u>1,356,092</u>	<u>1,865,578</u>
NET CHANGE IN CASH	(140,807)	(2,001,823)
Cash, beginning of year	<u>1,936,494</u>	<u>3,938,317</u>
Cash, end of year	<u>\$ 1,795,687</u>	<u>\$ 1,936,494</u>

(continued)

Young Men's Christian Association of the Greater Houston Area

Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018 *(continued)*

	<u>2019</u>	<u>2018</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$5,095,546	\$5,178,719
Noncash financing transactions:		
Issuance of Series 2019 Bonds	\$69,320,000	
Refund of Series 2016 Bonds	\$(69,320,000)	
Finance lease obligation for equipment	\$1,755,907	\$3,383,561
Operating lease obligation for office space and equipment	\$1,010,127	
In-kind construction	\$108,446	\$3,299,855

See accompanying notes to consolidated financial statements.

Young Men's Christian Association of the Greater Houston Area

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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 represent amounts due from exchange transactions and are based on amounts that reflect the consideration to which the Association expects to be entitled to in exchange for services already provided. An allowance for accounts receivable is established when changed circumstances indicate the balance may no longer be collected in full. Accounts are written off after collection efforts have been exhausted and an account is deemed uncollectible. The Association believes that all accounts receivable at December 31, 2019 will be fully collected. Accordingly, no allowance for doubtful accounts is required. The Association does not have any financing components associated with its receivables nor does it require collateral.

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, if material. 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. An allowance for contributions receivable is provided when it is believed balances may not be collected in full. 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 utilized 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.

Deferred contract revenue results from payments received before the performance obligations are satisfied and is expected to be recognized as revenue in the following year. Deferred contract revenue includes payments from contracts with customers in excess of revenue recognized. At December 31, 2019, 2018 and 2017, deferred contract revenue was \$2,410,352, \$1,426,216 and \$1,567,976, respectively.

Bond issuance costs represent costs incurred related to the issuance of debt and are amortized over the term of the debt. Bond premium is the excess of net proceeds, after expenses, received upon issuance of debt over the amount repayable at its maturity. Unamortized bond issuance costs and 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.

Contract revenue 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 a period of time and are sold to residents of the greater Houston area. Revenue is recognized based on service output as services are rendered over the membership period or the term of the enrollment period for camps, youth sports, childcare, and fitness training. Membership discounts are provided to individuals as needed and reduces the amount of consideration the Association expects to be entitled to receive. Payment is due prior to the month of membership or prior to the service date 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 grantor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the organization is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been 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.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special events.

Advertising costs are expensed as incurred. The Association recognized advertising costs totaling approximately \$828,000 and \$643,000 for the years ended December 31, 2019 and 2018, respectively, 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. 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 more than one activity 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. Loss on early extinguishment of debt, 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.

NOTE 2 – ADOPTION OF NEW ACCOUNTING STANDARD

The Association adopted 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. The ASU also required expanded disclosures related to the amount, timing and uncertainty of cash flows arising from leases. The Association adopted the new standard effective January 1, 2019, using the modified retrospective method. Therefore, comparative information for fiscal year 2018 has not been restated and continues to be reported under Accounting Standards Codification (ASC) 840. Adoption of this ASU had no impact on total beginning net assets at January 1, 2019.

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 comprise the following:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash	\$ 1,795,687	\$ 1,936,494
Accounts receivable	564,577	599,902
Interest receivable	235,341	248,241
Contributions receivable, net	12,622,219	9,887,383
Investments	57,628,679	62,628,940
Bond proceeds held in trust	<u>5,670,000</u>	<u>5,670,000</u>
Total financial assets	<u>78,516,503</u>	<u>80,970,960</u>
Less financial assets not available for general expenditure:		
Donor-restricted and board-designated endowment assets less appropriation	12,692,711	10,661,105
Debt service reserve fund and sinking funds held in trust	31,753,000	45,063,000
Other donor-restricted assets subject to satisfaction of restriction and the passage of time	<u>6,496,800</u>	<u>12,371,769</u>
Total financial assets available for general expenditure	<u>\$ 27,573,992</u>	<u>\$ 12,875,086</u>

Financial assets available for general expenditure include 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, capital projects, 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 become 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 of Directors' discretion.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2019</u>	<u>2018</u>
Receivables for building construction	\$ 5,572,895	\$ 5,045,272
Receivables from government agencies	4,358,405	2,240,648
Receivables from others	2,080,643	1,762,009
Receivables from the United Way	621,891	772,399
Unamortized contributed use of facilities	<u>459,130</u>	<u>598,547</u>
Contributions receivable	13,092,964	10,418,875
Allowance for uncollectible receivables	(310,296)	(251,142)
Discount to net present value	<u>(160,449)</u>	<u>(280,350)</u>
Contributions receivable, net	<u>\$ 12,622,219</u>	<u>\$ 9,887,383</u>

Contributions receivable at December 31, 2019 are expected to be collected as follows:

2020	\$ 8,357,616
2021	2,022,789
2022	2,022,789
2023	<u>689,770</u>
Total contributions receivable	<u>\$ 13,092,964</u>

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 was recognized in 2006 and is being amortized over the life of the lease. At December 31, 2019 and 2018, unamortized balances of \$459,130 and \$598,547, respectively, are reflected as contributions receivable.

Conditional contributions from government agencies – At December 31, 2019, the Association has approximately \$10,251,000 of conditional contributions from various government agencies primarily for refugee assistance. The contributions will be recognized as revenue when the conditions are met, which include performance of allowable activities and incurring allowable expenses.

NOTE 5 – INVESTMENTS

Investments consist of the following:

	<u>2019</u>	<u>2018</u>
U. S. Treasury securities	\$ 19,485,634	\$ 13,099,265
Corporate bonds	16,066,870	13,962,781
Government agency securities	11,378,301	18,720,028
Common stock	8,138,653	6,456,782
Exchange-traded funds	1,340,743	545,559
Money market mutual funds	852,483	9,431,416
Real estate investment trusts	<u>365,995</u>	<u>413,109</u>
Total investments	<u>\$ 57,628,679</u>	<u>\$ 62,628,940</u>

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, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
U. S. Treasury securities:				
0-12 months	\$ 4,530,092			\$ 4,530,092
1-5 years	9,190,417			9,190,417
5-10 years	5,411,243			5,411,243
10+ years	353,882			353,882
Corporate bonds:				
0-12 months		\$ 739,534		739,534
1-5 years		10,055,383		10,055,383
5-10 years		5,110,969		5,110,969
10+ years		160,984		160,984
Government agency securities:				
1-5 years		1,489,345		1,489,345
5-10 years		3,388,273		3,388,273
10+ years		6,500,683		6,500,683
Common stock:				
Healthcare	1,469,977			1,469,977
Financials	1,387,786			1,387,786
Information technology	1,283,844			1,283,844
Industrials	1,003,611			1,003,611
Consumer staples	995,436			995,436
Consumer discretionary	609,688			609,688
Telecommunication services	485,805			485,805
Energy	389,617			389,617
Utilities	339,466			339,466
Materials	146,907			146,907
Other	26,516			26,516
Exchange-traded funds	1,340,743			1,340,743
Money market mutual funds	852,483			852,483
Real estate investment trusts	<u>365,995</u>			<u>365,995</u>
Total assets measured at fair value	<u>\$ 30,183,508</u>	<u>\$ 27,445,171</u>	<u>\$ 0</u>	<u>\$ 57,628,679</u>

Assets measured at fair value at December 31, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
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
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
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
Common stock:				
Healthcare	1,007,698			1,007,698
Financials	1,020,894			1,020,894
Information technology	954,136			954,136
Industrials	647,902			647,902
Consumer staples	753,710			753,710
Consumer discretionary	517,637			517,637
Telecommunication services	392,320			392,320
Energy	426,605			426,605
Utilities	482,501			482,501
Materials	242,668			242,668
Other	10,711			10,711
Exchange-traded funds	545,559			545,559
Money market mutual funds	9,431,416			9,431,416
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	<u>\$ 35,604,942</u>	<u>\$ 27,086,984</u>	<u>\$ 0</u>	<u>\$ 62,691,926</u>

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

- *U. S. Treasury securities* are valued using prices obtained from active market makers and inter-dealer brokers on a daily basis.
- *Corporate bonds* and *government agency securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.
- *Common stock*, *exchange-traded funds* and *real estate investment trusts* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the reported net asset value.
- *Derivative agreements* are valued by using independent quotation bureau valuation models which include cash flow analysis, credit spread and benchmark rate curves.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 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 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 both years ended December 31, 2019 and 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 value of the right to use the Center is reported in the statement of financial position and is being amortized over the 5-year term of the agreement. Rent expense of approximately \$15,800 and \$5,200 was recognized in the years ended December 31, 2019 and 2018, respectively. Contribution expense of approximately \$76,000 was recognized in the year ended December 31, 2018.

NOTE 8 – OPERATING AND FINANCE LEASES

The Association leases certain office space and other office equipment used in its operations that are classified as operating leases. Payments due under these lease contracts are fixed. The Association also entered into finance leases for fitness and copier equipment.

As of December 31, 2019, right-of-use (ROU) assets and lease liabilities related to operating and finance leases are as follows:

Operating lease ROU assets	\$534,258
Finance lease ROU assets included in property and equipment, net of accumulated amortization of \$967,314	\$4,166,410
Operating lease liabilities	\$534,258
Finance lease liabilities	\$4,224,359

During 2019, lease costs associated with operating and finance leases are as follows:

Operating lease cost:	
Fixed rent expense	\$ 498,256
Finance lease cost:	
Amortization of ROU assets	871,283
Interest expense	<u>229,193</u>
Total lease costs	<u>\$ 1,598,732</u>

During the year ended December 31, 2019, cash and non-cash activities associated with operating and finance leases are as follows:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$498,256
Operating cash flows from finance leases	\$229,193
Financing cash flows from finance leases	\$871,283

Non-cash investing and financing liabilities:

New operating lease liabilities	\$1,010,127
New finance lease liabilities	\$1,755,907

Future payments due under operating and finance leases as of December 31, 2019 is as follows:

	<u>OPERATING</u>	<u>FINANCE</u>
2020	\$ 461,878	\$ 992,982
2021	86,018	1,129,833
2022	393	1,097,850
2023		1,320,067
2024		<u>82,611</u>
Total minimum lease payments	548,289	4,623,343
Less effects of discounting	<u>(14,031)</u>	<u>(398,984)</u>
Lease liabilities recognized	<u>\$ 534,258</u>	<u>\$ 4,224,359</u>

As of December 31, 2019, the weighted-average remaining lease term for all operating leases is 12.23 months, while the weighted-average remaining lease term for all finance leases is 3.99 years. The weighted average discount rate associated with operating leases as of December 31, 2019 is 4.8%, while the weighted-average discount rate associated with finance leases is 4.58%.

During 2018, the Association entered into finance 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 and interest expense of \$61,000 was recognized for the year ended December 31, 2018. Operating lease payments for the year ended December 31, 2018 were approximately \$325,000.

NOTE 9 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 26,326,691	\$ 23,452,312
Buildings and improvements	287,943,706	254,656,651
Furniture and equipment	28,288,915	28,492,003
Vehicles	1,837,975	1,871,882
Construction in progress	<u>244,663</u>	<u>24,452,854</u>
Total property and equipment, at cost	344,641,950	332,925,702
Accumulated depreciation	<u>(101,032,966)</u>	<u>(94,152,851)</u>
Property and equipment, net	<u>\$ 243,608,984</u>	<u>\$ 238,772,851</u>

NOTE 10 – 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, 2019, the balance of the debt service reserve fund is \$26,083,000 and is included in investments in the statement of financial position.

In May 2019, on behalf of the Association, the Harris County Cultural Education Facilities Finance Corporation issued bonds in the aggregate principal amount of \$69,835,000 (Series 2019 Bonds), the proceeds of which were used to refund outstanding Harris County Cultural Education Facilities Finance Corporation revenue refunding bonds (Series 2016A and B Bonds) and fund a portion of the cost of issuance of the Series 2019 Bonds. A loss on early extinguishment of debt of \$2,591,963 was recognized in fiscal year 2019 and is comprised of a write off of \$2,150,263 of bond issuance costs and a \$441,700 termination fee for the derivative agreement.

The interest rate of the Series 2013A Bonds is a fixed rate of 5% at December 31, 2019. The interest rate of the Series 2019 Bonds is a fixed rate of 2.7% at December 31, 2019. The bonds contain various covenants related to fiscal operations and financial performance, including limitations on additional borrowings. The Series 2013A and 2019 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 in the consolidated statement of financial position at December 31, 2019.

Principal amounts due under each bond are as follows:

	SERIES <u>2013A</u>	SERIES <u>2019</u>	TOTAL <u>2019</u>	TOTAL <u>2018</u>
Series 2013A	\$ 60,580,000		\$ 60,580,000	\$ 61,990,000
Series 2019		\$ 69,835,000	69,835,000	
Series 2016A				35,640,000
Series 2016B				<u>33,680,000</u>
Total bonds payable	60,580,000	69,835,000	130,415,000	131,310,000
Bond premium – Series 2013	3,967,819		3,967,819	4,327,266
Bond issuance costs:				
Series 2013	(1,676,620)		(1,676,620)	(3,349,255)
Series 2019		(476,611)	(476,611)	
Series 2016				<u>(567,447)</u>
Bonds payable, net	<u>\$ 62,871,199</u>	<u>\$ 69,358,389</u>	<u>\$ 132,229,588</u>	<u>\$ 131,720,564</u>

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

2020	\$ 1,500,000
2021	3,705,000
2022	3,860,000
2023	4,045,000
Thereafter	<u>117,305,000</u>
Total bonds payable	<u>\$ 130,415,000</u>

Interest expense, including amortization of bond issuance costs and bond premium, was approximately \$5,075,000 and \$5,486,000 for the years ended December 31, 2019 and 2018, respectively. The effective interest rates for the years ended December 31, 2019 and 2018 were 3.88% and 4.09%, respectively.

NOTE 11 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Board-designated endowment for operations	\$ 8,998,445	\$ 7,676,191
Cash and investments designated for debt service and sinking funds held in trust	31,753,000	45,063,000
Property and equipment, net of acquisition debt	107,109,851	98,561,143
Undesignated	<u>19,915,669</u>	<u>7,677,021</u>
Total net assets without donor restrictions	<u>\$ 167,776,965</u>	<u>\$ 158,977,355</u>

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 12 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Capital projects	\$ 7,518,800	\$ 12,153,169
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	2,714,213	3,226,829
General endowment subject to spending policy and appropriation	<u>4,005,671</u>	<u>3,133,528</u>
Total net assets with donor restrictions	<u>\$ 14,238,684</u>	<u>\$ 18,513,526</u>

NOTE 13 – ENDOWMENTS

The Foundation's endowment funds were established for the purpose of supporting operating needs and program services that are consistent with the Association's mission, and to provide growth and expansion of programs and/or creation of new programs. The funds include both donor-restricted endowment funds and funds designated by the Board of Directors (the Board) of the Foundation to function as endowments.

Donor-restricted endowment funds are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). The Board has interpreted TUPMIFA as allowing the Foundation to appropriate for expenditure or accumulate as much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund was established, subject to explicit donor stipulations.

Donor-restricted endowment net assets are classified as *net assets with donor restrictions* until appropriated in accordance with spending policies and used for the stipulated purpose, if any. The Foundation classifies contributions to an endowment plus any donor-stipulated accumulations as *net assets with donor restrictions* required to be maintained in perpetuity. The unappropriated accumulated investment return on donor-restricted endowments also are classified as *net assets with donor restrictions* – accumulated net investment return. The Board has interpreted TUPMIFA as not precluding the Foundation from spending below the amount required to be maintained in perpetuity subject to prudent standards. An endowment fund is *underwater* if the fair value of the fund's investments falls below the amount required to be maintained in perpetuity because of declines in the fair value of investments and/or continued appropriation and spending in accordance prudent measures. There were no underwater funds at December 31, 2019 and 2018.

Board-designated endowment funds are classified as *net assets without donor restrictions* and represents funds the Board has internally designated to be invested to provide support for the Association generally for a long-term, but not necessarily a specified period of time. The Board retains discretion over the use of these funds.

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 the Foundation, the assets of the Foundation are invested in a manner that 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 endowment 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 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 its current mission, the Board of the Foundation may authorize distributions to meet the YMCA's objectives. This policy is 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:

	BOARD- DESIGNATED ENDOWMENT	WITH DONOR RESTRICTIONS		TOTAL
		ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	
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 the Association	(138,808)	(48,753)		(187,561)
Expenses	<u>(209,900)</u>			<u>(209,900)</u>
Endowment net assets, December 31, 2018	<u>7,676,191</u>	<u>1,232,108</u>	<u>1,901,420</u>	<u>10,809,719</u>
Contributions and other additions	15,360		314,700	330,060
Net investment return	1,436,768	586,032		2,022,800
Distribution to the Association	(75,277)	(28,589)		(103,866)
Expenses	<u>(54,597)</u>			<u>(54,597)</u>
Endowment net assets, December 31, 2019	<u>\$ 8,998,445</u>	<u>\$ 1,789,551</u>	<u>\$ 2,216,120</u>	<u>\$ 13,004,116</u>

NOTE 14 – CONTRIBUTIONS FROM GOVERNMENT AGENCIES

The Association is the recipient of 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. Contributions from government agencies include the following:

	<u>2019</u>	<u>2018</u>
Federal grants and contracts:		
U. S. Department of Health and Human Services	\$ 15,636,739	\$ 11,359,690
U. S. Department of Homeland Security	2,555,594	188,032
U. S. Department of Education	1,470,665	362,146
U. S. Department of Justice	747,498	640,957
U. S. Department of State	<u>728,858</u>	<u>493,107</u>
Total federal grants and contracts	21,139,354	13,043,932
School districts	321,650	49,824
County	150,100	140,100
Colleges	22,883	61,657
City		<u>45,000</u>
Total contributions from government agencies	<u>\$ 21,633,987</u>	<u>\$ 13,340,513</u>

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 15 – EMPLOYEE BENEFIT PLAN

The Association participates in a defined contribution retirement plan administered by the Young Men’s Christian Association Retirement Fund. Employees may elect to participate following two years of service. The Association contributes 12% of the eligible employee’s compensation into the plan. The Association contributed approximately \$3,479,000 and \$3,220,000 to this plan during the years ended December 31, 2019 and 2018, respectively.

NOTE 16 – 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 reopened in 2019. The following transactions related to the involuntary conversion were recognized in the consolidated statement of activities:

	<u>2019</u>	<u>2018</u>
Insurance proceeds	\$ 2,182,547	\$ 8,001,288
Professional fees for insurance consultants and other costs	<u>(71,432)</u>	<u>(1,070,138)</u>
Total	<u>\$ 2,111,115</u>	<u>\$ 6,931,150</u>

NOTE 17 – SUBSEQUENT EVENTS

On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and on March 13, 2020, a national emergency was declared in the United States. Stay-at-home orders have caused mandated and voluntary closings of multiple facilities resulting in cancellation of youth sports, childcare, fitness training, and other programs. Financial markets have been severely impacted by fears that the COVID-19 pandemic will push the global economy into recession. The U. S. stock market experienced a significant decline and remains volatile resulting in a substantial decline in the fair value of the Association’s investments subsequent to December 31, 2019.

The extent of the impact of COVID-19 on the Association’s operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on donors, employees, and vendors all of which are uncertain and cannot be predicted. Therefore, while the Association expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Management has evaluated subsequent events through April 20, 2020, 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 December 31, 2019

	<u>YMCA</u>	<u>FOUNDATION</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
ASSETS				
Cash	\$ 1,606,286	\$ 189,401		\$ 1,795,687
Accounts receivable	564,577			564,577
Interest receivable	235,341			235,341
Contributions receivable, net	12,622,219			12,622,219
Prepaid expenses and other assets	2,063,791			2,063,791
Land and buildings held for sale	264,594			264,594
Investments	44,813,964	12,814,715		57,628,679
Bond proceeds held in trust	5,670,000			5,670,000
Right to use facilities	3,244,419			3,244,419
Operating lease right-of-use assets	534,258			534,258
Property and equipment, net	<u>243,608,984</u>			<u>243,608,984</u>
TOTAL ASSETS	<u>\$ 315,228,433</u>	<u>\$ 13,004,116</u>	<u>\$ 0</u>	<u>\$ 328,232,549</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	\$ 3,977,721			\$ 3,977,721
Construction payable	45,186			45,186
Accrued expenses	2,795,436			2,795,436
Finance lease liabilities	4,224,359			4,224,359
Operating lease liabilities	534,258			534,258
Deferred contract revenue	2,410,352			2,410,352
Bonds payable, net	<u>132,229,588</u>			<u>132,229,588</u>
Total liabilities	<u>146,216,900</u>			<u>146,216,900</u>
Net assets:				
Without donor restrictions	158,778,520	\$ 8,998,445		167,776,965
With donor restrictions	<u>10,233,013</u>	<u>4,005,671</u>		<u>14,238,684</u>
Total net assets	<u>169,011,533</u>	<u>13,004,116</u>		<u>182,015,649</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 315,228,433</u>	<u>\$ 13,004,116</u>	<u>\$ 0</u>	<u>\$ 328,232,549</u>

Young Men's Christian Association of the Greater Houston Area

Consolidating Statement of Activities for the year ended December 31, 2019

	YMCA	FOUNDATION	ELIMINATIONS	CONSOLIDATED
OPERATING REVENUE:				
Contract revenue:				
Membership	\$ 56,815,023			\$ 56,815,023
Program	33,397,921			33,397,921
Other contract services	2,897,122			2,897,122
Contributions:				
Government agencies	21,633,987			21,633,987
In-kind	7,580,601			7,580,601
United Way	2,329,366			2,329,366
Other	10,760,427	\$ 330,060		11,090,487
Land grant reversion	(458,000)			(458,000)
Loss on valuation of contributions receivable	(500,000)			(500,000)
Special events	1,386,337			1,386,337
Direct donor benefit costs	(464,221)			(464,221)
Net investment return	2,946,247	2,022,800	\$ (98,866)	4,870,181
Net gain on sale of property and equipment	2,497,003			2,497,003
Other income	501,584		(54,748)	446,836
Total operating revenue	<u>141,323,397</u>	<u>2,352,860</u>	<u>(153,614)</u>	<u>143,522,643</u>
OPERATING EXPENSES:				
Program services:				
Healthy Living	55,727,498	103,866	(103,866)	55,727,498
Youth Development	40,160,937			40,160,937
Social Responsibility	23,690,051			23,690,051
Total program services	119,578,486	103,866	(103,866)	119,578,486
Management and general	16,620,991	15,759	(10,910)	16,625,840
Fundraising	2,249,715	38,838	(38,838)	2,249,715
Total operating expenses	<u>138,449,192</u>	<u>158,463</u>	<u>(153,614)</u>	<u>138,454,041</u>
Changes in net assets from operating activities	2,874,205	2,194,397	0	5,068,602
Loss on early extinguishment of debt	(2,591,963)			(2,591,963)
Change in value of derivative agreements	(62,986)			(62,986)
Net results of involuntary conversion	2,111,115			2,111,115
CHANGES IN NET ASSETS	2,330,371	2,194,397	0	4,524,768
Net assets, beginning of year	<u>166,681,162</u>	<u>10,809,719</u>		<u>177,490,881</u>
Net assets, end of year	<u>\$ 169,011,533</u>	<u>\$ 13,004,116</u>	<u>\$ 0</u>	<u>\$ 182,015,649</u>