

YOUNG MEN'S CHRISTIAN ASSOCIATION  
OF ORANGE COUNTY

Financial Statements

Year ended December 31, 2014  
(With Independent Auditors' Report Thereon)

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YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Financial Statements

Year ended December 31, 2014

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Board of Directors  
Young Men's Christian Association of Orange County  
Tustin, California

## INDEPENDENT AUDITORS' REPORT

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Young Men's Christian Association of Orange County (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and 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 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 the 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 financial position of the Young Men's Christian Association of Orange County as of December 31, 2014, 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.

## ***Report on Summarized Comparative Information***

We have previously audited the Young Men's Christian Association of Orange County's 2013 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 19, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## ***Other Matters***

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *Child Care and Development Block Grant Reconciliation – Revenues and Expenses* 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 audits 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.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2015 on our consideration of the Young Men's Christian Association of Orange County internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Young Men's Christian Association of Orange County's internal control over financial reporting and compliance.

*Mayer Hoffman McCann P.C.*

Irvine, California  
May 19, 2015

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Statements of Financial Position

December 31, 2014

(with comparative information for the prior year)

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 5,768,960	8,415,165
Investments (note 3)	5,012,062	-
Receivables		
Accounts receivable, net (note 4)	755,906	541,930
Pledges	23,730	-
Deposits	48,459	48,459
Prepaid insurance	86,820	92,959
Other prepaid expenses	263,124	301,148
Total current assets	<u>11,959,061</u>	<u>9,399,661</u>
Land held for resale	149,863	149,863
Property and equipment, net (note 5)	<u>12,414,820</u>	<u>13,320,928</u>
Total assets	<u>\$ 24,523,744</u>	<u>22,870,452</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 537,153	584,834
Accrued payroll and employee benefits	1,181,270	1,238,418
Deposits payable	2,917	2,857
Program fees received in advance	501,669	527,782
Deferred Santa Ana Project funding, current portion (note 5)	250,000	250,000
Note payable, current portion (note 6)	132,003	127,253
Total current liabilities	<u>2,605,012</u>	<u>2,731,144</u>
Long-term liabilities:		
Claims payable (note 13)	350,352	229,067
Interest rate swap liability (note 7)	24,775	39,369
Note payable, less current portion (note 6)	1,771,651	1,903,262
Deferred Santa Ana Project funding, less current portion (note 5)	<u>1,250,000</u>	<u>1,500,000</u>
Total long-term liabilities	<u>3,396,778</u>	<u>3,671,698</u>
Total liabilities	<u>6,001,790</u>	<u>6,402,842</u>
Net assets (note 9):		
Unrestricted net assets	18,219,552	15,939,362
Temporarily restricted	212,402	438,248
Permanently restricted	90,000	90,000
Total net assets	<u>18,521,954</u>	<u>16,467,610</u>
Total liabilities and net assets	<u>\$ 24,523,744</u>	<u>22,870,452</u>

See accompanying notes to financial statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Statement of Activities

Year ended December 31, 2014

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
<u>Operations</u>				
Support, revenue and gains:				
Fundraising support:				
Contributions (cash)	\$ 947,920	779,113	168,807	-
Contributions (in-kind)	11,630	11,630	-	-
Special events - net of direct costs	106,321	106,321	-	-
Total fundraising support	1,065,871	897,064	168,807	-
Program revenue:				
Child care fees	17,085,603	17,085,603	-	-
Membership fees	6,406,303	6,406,303	-	-
Health and fitness fees	2,476,906	2,476,906	-	-
Adventure Guides fees	1,701,411	1,701,411	-	-
Government assistance	1,055,879	1,055,879	-	-
Donated use of facilities/land	865,910	865,910	-	-
Camp fees	797,355	797,355	-	-
Community programs fees	1,207,924	1,207,924	-	-
Facility fees	438,176	438,176	-	-
Total program revenue	32,035,467	32,035,467	-	-
Other income	213,035	213,035	-	-
Net assets released from restrictions	-	394,653	(394,653)	-
Total support, revenue and gains	33,314,373	33,540,219	(225,846)	-
Operating expense:				
Program expenses:				
Child care	12,613,130	12,613,130	-	-
Health & fitness	10,026,827	10,026,827	-	-
Adventure Guides	1,689,516	1,689,516	-	-
Camping	191,222	191,222	-	-
Other community services	2,178,481	2,178,481	-	-
Total program expenses	26,699,176	26,699,176	-	-
Supporting services:				
Administration and general costs	4,214,620	4,214,620	-	-
Fundraising	383,217	383,217	-	-
Total supporting services	4,597,837	4,597,837	-	-
Total expenses	31,297,013	31,297,013	-	-
Operating margin	2,017,360	2,243,206	(225,846)	-
<u>Capital campaign, endowment &amp; other</u>				
Investment income	15,004	15,004	-	-
Increase in fair value of interest rate swap	14,594	14,594	-	-
Gain on disposal of capital assets	7,386	7,386	-	-
Capital campaign, endowment & other - net	36,984	36,984	-	-
Increase (decrease) in net assets	2,054,344	2,280,190	(225,846)	-
Net assets at beginning of year	16,467,610	15,939,362	438,248	90,000
Net assets at end of year	\$ 18,521,954	18,219,552	212,402	90,000

See accompanying notes to financial statements.



YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Statement of Activities

Year ended December 31, 2013

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
<u>Operations</u>				
Support, revenue and gains:				
Fundraising support:				
Contributions (cash)	\$ 1,169,274	774,604	394,670	-
Contributions (in-kind)	23,974	23,974	-	-
Special events - net of direct costs	171,528	171,528	-	-
Total fundraising support	1,364,776	970,106	394,670	-
Program revenue:				
Child care fees	16,515,420	16,515,420	-	-
Membership fees	5,768,909	5,768,909	-	-
Health and fitness fees	2,416,136	2,416,136	-	-
Adventure Guides fees	1,718,807	1,718,807	-	-
Government assistance	946,025	946,025	-	-
Donated use of facilities/land	866,418	866,418	-	-
Camp fees	676,681	676,681	-	-
Community programs fees	1,146,095	1,146,095	-	-
Facility fees	373,964	373,964	-	-
Total program revenue	30,428,455	30,428,455	-	-
Other income	150,513	150,513	-	-
Net assets released from restrictions	-	111,952	(111,952)	-
Total support, revenue and gains	31,943,744	31,661,026	282,718	-
Operating expense:				
Program expenses:				
Child care	12,064,965	12,064,965	-	-
Health & fitness	9,281,298	9,281,298	-	-
Adventure Guides	1,711,759	1,711,759	-	-
Camping	217,856	217,856	-	-
Other community services	1,821,423	1,821,423	-	-
Total program expenses	25,097,301	25,097,301	-	-
Supporting services:				
Administration and general costs	4,298,162	4,298,162	-	-
Fundraising	407,080	407,080	-	-
Total supporting services	4,705,242	4,705,242	-	-
Total expenses	29,802,543	29,802,543	-	-
Operating margin	2,141,201	1,858,483	282,718	-
<u>Capital campaign, endowment &amp; other</u>				
Investment income	2,237	2,237	-	-
Increase in fair value of interest rate swap	26,551	26,551	-	-
Disposal of capital assets	(61,216)	(61,216)	-	-
Capital campaign, endowment & other - net	(32,428)	(32,428)	-	-
Increase in net assets	2,108,773	1,826,055	282,718	-
Net assets at beginning of year	14,358,837	14,113,307	155,530	90,000
Net assets at end of year	\$ 16,467,610	15,939,362	438,248	90,000

See accompanying notes to financial statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Statement of Functional Expenses

Year ended December 31, 2014

	Program Services				
	Child Care	Health and Fitness	Adventure Guides Activities	Camping	Other Community Services
Salaries and wages	\$ 7,295,995	4,398,742	202,564	30,549	1,302,149
Employee benefits	1,142,241	420,949	40,914	4,105	121,079
Payroll taxes	591,648	359,480	16,003	2,494	107,087
Professional fees	10,591	3,115	210	60	217
Supplies	120,320	114,825	2,376	412	12,964
Telephone	168,219	60,914	10,733	691	22,452
Postage	7,079	4,742	723	85	881
Occupancy	852,328	2,478,656	64,431	3,298	53,449
Depreciation	259,414	970,321	254	17	14,321
Equipment	55,388	236,811	3,898	432	5,041
Printing and promotion	292,706	120,856	5,590	2,324	4,738
Fundraising campaign	-	-	-	-	-
Employee and travel expense	27,236	18,254	3,209	135	6,220
Meetings, training, and conferences	64,469	56,038	12,977	954	7,304
Program costs	1,025,809	395,746	1,296,399	142,506	415,212
Vehicle expense	174,266	49	8	70	58,125
Administrative expenses	286,422	178,181	23,764	247	5,313
Fair share	176,112	97,764	3,813	2,227	18,217
Recruitment and relocation	43,357	21,314	76	616	23,596
Bad debt expense	19,530	90,070	1,574	-	116
Interest	-	-	-	-	-
Total expenses	<u>\$ 12,613,130</u>	<u>10,026,827</u>	<u>1,689,516</u>	<u>191,222</u>	<u>2,178,481</u>

See accompanying notes to financial statements.

Supporting Services

<u>Subtotal</u>	<u>Administrative and General</u>	<u>Fundraising</u>	<u>Subtotal</u>	<u>Total</u>
13,229,999	1,927,629	202,733	2,130,362	15,360,361
1,729,288	383,632	32,158	415,790	2,145,078
1,076,712	133,122	14,812	147,934	1,224,646
14,193	777,032	30,005	807,037	821,230
250,897	32,794	210	33,004	283,901
263,009	36,861	1,413	38,274	301,283
13,510	7,284	1,695	8,979	22,489
3,452,162	226,890	307	227,197	3,679,359
1,244,327	252,153	6	252,159	1,496,486
301,570	21,684	378	22,062	323,632
426,214	22,631	10,366	32,997	459,211
-	-	50,114	50,114	50,114
55,054	14,701	672	15,373	70,427
141,742	112,982	29,855	142,837	284,579
3,275,672	109,916	28	109,944	3,385,616
232,518	11,568	9	11,577	244,095
493,927	46,864	2,857	49,721	543,648
298,133	-	5,549	5,549	303,682
88,959	24,701	50	24,751	113,710
111,290	-	-	-	111,290
-	72,176	-	72,176	72,176
<u>26,699,176</u>	<u>4,214,620</u>	<u>383,217</u>	<u>4,597,837</u>	<u>31,297,013</u>

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Statement of Functional Expenses

Year ended December 31, 2013

	Program Services				
	<u>Child Care</u>	<u>Health and Fitness</u>	<u>Adventure Guides Activities</u>	<u>Camping</u>	<u>Other Community Services</u>
Salaries and wages	\$ 7,023,087	4,236,614	203,879	37,337	1,133,343
Employee benefits	936,389	337,147	23,584	4,252	84,777
Payroll taxes	567,751	342,284	16,123	3,045	92,328
Professional fees	9,824	4,641	110	49	44
Supplies	116,307	112,207	2,820	510	11,817
Telephone	161,071	51,911	10,292	800	19,097
Postage	9,375	6,476	1,112	139	1,131
Occupancy	843,147	2,201,435	73,370	3,432	51,295
Depreciation	242,589	946,571	109	14	9,171
Equipment	46,491	179,428	4,032	504	4,309
Printing and promotion	320,966	103,834	7,301	4,358	4,789
Fundraising campaign	36	28	5	1	6
Employee and travel expense	28,181	14,512	4,820	710	9,747
Meetings, training, and conferences	81,259	65,711	14,639	1,378	11,648
Program costs	1,027,794	376,452	1,312,325	156,997	309,128
Vehicle expense	175,383	1	-	550	44,990
Administrative expenses	236,814	157,989	31,919	29	3,296
Fair share	160,878	86,146	5,241	2,527	14,478
Recruitment and relocation	33,565	14,644	78	1,224	15,803
Bad debt expense	44,058	43,267	-	-	226
Interest	-	-	-	-	-
<b>Total expenses</b>	<b>\$ 12,064,965</b>	<b>9,281,298</b>	<b>1,711,759</b>	<b>217,856</b>	<b>1,821,423</b>

See accompanying notes to financial statements.

Supporting Services

<u>Subtotal</u>	<u>Administrative and General</u>	<u>Fundraising</u>	<u>Subtotal</u>	<u>Total</u>
12,634,260	2,009,254	203,064	2,212,318	14,846,578
1,386,149	350,115	32,182	382,297	1,768,446
1,021,531	141,485	14,840	156,325	1,177,856
14,668	746,877	30,000	776,877	791,545
243,661	32,882	217	33,099	276,760
243,171	36,160	1,482	37,642	280,813
18,233	9,092	1,134	10,226	28,459
3,172,679	225,904	325	226,229	3,398,908
1,198,454	270,073	6	270,079	1,468,533
234,764	23,273	438	23,711	258,475
441,248	12,466	10,433	22,899	464,147
76	-	67,678	67,678	67,754
57,970	10,866	677	11,543	69,513
174,635	90,685	35,609	126,294	300,929
3,182,696	34,416	75	34,491	3,217,187
220,924	21,386	8	21,394	242,318
430,047	33,438	1,787	35,225	465,272
269,270	-	7,075	7,075	276,345
65,314	22,876	50	22,926	88,240
87,551	150,197	-	150,197	237,748
-	76,717	-	76,717	76,717
<u>25,097,301</u>	<u>4,298,162</u>	<u>407,080</u>	<u>4,705,242</u>	<u>29,802,543</u>

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Statements of Cash Flows

Year ended December 31, 2014

(with comparative information for the prior year)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from services	\$ 30,190,840	27,888,061
Contributions received	1,015,507	1,340,802
Grants received	738,707	789,843
Interest received	51,482	2,237
Cash paid to employees for services	(17,562,587)	(16,478,095)
Cash paid to suppliers of goods and services	(11,322,686)	(10,825,595)
Net cash provided by operating activities	<u>3,111,263</u>	<u>2,717,253</u>
Cash flows from investing activities:		
Cash paid to acquire fixed assets	(592,393)	(1,158,833)
Proceeds from disposal of fixed assets	9,401	8,062
Cash paid to acquire investments	(5,047,615)	-
Net cash used for investing activities	<u>(5,630,607)</u>	<u>(1,150,771)</u>
Cash flows from financing activities:		
Principal payment on notes	(126,861)	(122,297)
Net cash used for financing activities	<u>(126,861)</u>	<u>(122,297)</u>
Net increase (decrease) in cash	(2,646,205)	1,444,185
Cash and cash equivalents at beginning of year	<u>8,415,165</u>	<u>6,970,980</u>
Cash and cash equivalents at end of year	<u>\$ 5,768,960</u>	<u>8,415,165</u>

See accompanying notes to financial statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Statements of Cash Flows, Continued

Year ended December 31, 2014

(with comparative information for the prior year)

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided by operating activities:		
Increase in net assets	\$ 2,054,344	2,108,773
Noncash reconciling items:		
Depreciation	1,496,486	1,468,533
Unrealized loss on investment	35,553	-
Write down of loan receivable	-	150,197
(Gain) loss on sale of property and equipment	(7,386)	61,216
Increase on fair value of interest rate swap	(14,594)	(26,551)
Changes in working capital:		
Accounts receivable	(213,976)	(96,817)
Pledges receivable	(23,730)	-
Deposits	-	8,600
Prepaid insurance	6,139	(24,591)
Other prepaid expenses	38,024	23,626
Accounts payable	(47,681)	(10,806)
Accrued payroll and employee benefits	(57,148)	136,930
Deposits payable	60	(734,209)
Program fees received in advance	(26,113)	(103,817)
Deferred Santa Ana project funding	(250,000)	(250,000)
Claims payable	121,285	6,169
	<u>121,285</u>	<u>6,169</u>
Net cash provided by operating activities	<u>\$ 3,111,263</u>	<u>2,717,253</u>
Supplemental Disclosures:		
Interest paid	<u>\$ 72,176</u>	<u>76,717</u>
Non-cash investing and financing activities for the years ended December 31, 2014 and 2013:		
Increase in fair value of interest rate swap	\$ 14,594	26,551
Donated stock	25,004	14,802

See accompanying notes to financial statements.

# YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

## Notes to Financial Statements

Year ended December 31, 2014

### (1) Summary of Significant Accounting Policies

#### (a) Organization

The Young Men's Christian Association of Orange County (the YMCA or Y) is a charitable organization which puts Christian principles into practice through programs that build spirit, mind, and body for all. The Y has been active in Orange County since 1922 and consists of nine operating branches located throughout Orange County. The Y provides programs that incorporate our core Christian values of honesty, caring, respect and responsibility. At the Y, strengthening community is our cause. Every day we work side-by-side with our neighbors to make sure that everyone, regardless of age, income or background, has the opportunity to learn, grow and thrive. Our vision is to improve lives and strengthen character by fostering youth and family development, healthy living and social responsibility driven by passionate staff and volunteers.

The Y provides service for the following program areas:

- Child Care: With so many demands on today's families, parents need all the support they can get. That's why child care at the Y is about more than looking after kids. It's about nurturing their development by providing a safe place to learn foundational skills, develop healthy, trusting relationships and build self-reliance through the Y values of caring, honesty, respect and responsibility. We believe the values and skills learned early on are vital building blocks for quality of life. Because of the Y community, kids in neighborhoods around the nation are taking more interest in learning and making smarter life choices. At the Y, kids learn character which shapes responsible decisions, the value of social responsibility and the gift of giving back, good sportsmanship and, most importantly, they learn to be themselves. We believe that all kids deserve the opportunity to discover who they are and what they can achieve. That's why, through the Y, millions of youth today are cultivating the values, skills and relationships that lead to positive behaviors, better health and educational achievement.
- Health and Fitness: The Y provides health and wellness programming to youth and adults to increase the positive impact on the health of children and families in Orange County and Riverside County through programs and partnerships which promote healthier decisions and provide opportunities to get involved, give back and get connected. Being healthy means more than simply being physically active. It's about maintaining a balanced spirit, mind and body. The Y is a place where everyone can work toward that balance by challenging themselves to learn a new skill or hobby, fostering connections with friends through our lifelong learning programs, and bringing your loved ones closer together through our many family-centered activities. At the Y, it's not about the activity as much as it is about the benefits of living healthier.



# YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

## Notes to Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies, (Continued)

#### (a) Organization, (Continued)

- Adventure Guides Activities: The Y provides Adventure Guides participants with a family oriented program providing an opportunity for parents and children to spend quality one-on-one time together to help strengthen the family relationships and create memories that will last a lifetime. The Ys core values of caring, honesty, respect and responsibility provide direction as parents guide children on their journey. Along the way adults model, teach and demonstrate these values as well as give children many opportunities to practice and celebrate with them. Initially, these four values provide guidance in helping children select activities, make decisions, and choose appropriate courses of action both in the program and in their lives.
- Camping: Y camps have a rich tradition dating back to as early as 1909. The Y offers both residential and day camps that are designed to help children learn to appreciate and respect nature and each other. Through the Y's core values we nurture character development through the Ys core values of caring, honesty, respect and responsibility. Y camping programs are educational and experiential; they promote cognitive development, physical well-being, social growth, character development, leadership skills, and a respect for the environment. Through a variety of engaging activities and the use of natural surroundings, YMCA camping programs encourage participants to explore and develop their interests and abilities in a safe and nurturing environment.
- Other Community Services: Y youth and teen programs give kids good role models to help them develop self-esteem and good values, including cooperation, respect for the body, good citizenship, and a strong work ethic.

The Y provides a multitude of community service programs providing safe and structured activities within a variety of services targeted towards high risk youth, fragile families in crisis, and other programs targeted to at-risk populations. The Y programs include individual family counseling, mentoring, tutoring, programs targeted towards high-risk youth, developmentally disabled adults, fragile families in crisis, foster care youth and other at-risk populations. We also provide unique styles of programming to impact the growing epidemic of youth obesity through school-based fitness and nutrition programs. These services enhance the lives of youth, their families and provide enrichment to the community.

#### (b) Basis of Accounting

The financial statements of the YMCA have been prepared on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recognized when incurred.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(c) Financial Statement Presentation

The YMCA's accounting and reporting policies comply with the accounting and reporting provisions of the American Institute of Certified Public Accountants *Audit and Accounting Guide for Not for Profit Organizations*.

(d) Income Taxes

The YMCA qualifies as a tax-exempt organization under Section 501(c)(3) as described in Sections 509(a)(1) and 170(b)(1)(A)(iv) of the Internal Revenue Code (the "Code") and, accordingly, there is no provision for income taxes. In addition, the YMCA qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable. Furthermore, the YMCA evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts.

The YMCA's federal Return of Organization Exempt from Income Tax (Form 990) for the fiscal years ended 2011, 2012 and 2013 are subject to IRS examination, generally for three years after filing.

(e) Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the YMCA considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

(f) Donated Materials, Services and Facilities

Donated materials and other noncash contributions, if received, would be reflected in the accompanying statements at their estimated market values at date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis of deriving their value. A large number of volunteers donate their time as officers and directors of the YMCA and as volunteers in programs and at fundraising events. These volunteer services received by the YMCA did not meet the above criteria and therefore are not reflected in the accompanying financial statements.

Donated services in the amount of \$6,000 were recorded during the year ended December 31, 2014. Other donated items in the amount of \$5,630 were recorded for the year ended December 31, 2014.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(f) Donated Materials, Services and Facilities, (Continued)

Donated use of facilities/land received during the year ended December 31, 2014 included: 3.57 acres of land from the United States of America – Department of the Army, 20,455 square feet of building and 23,655 square feet of land from the City of Laguna Niguel. In addition, the YMCA occupies 4 acres of land, as well as 27,327 square feet of building donated by the City of Mission Viejo. Donated use of facilities/land is considered an exchange transaction and recorded as revenue and “occupancy” expenses in the accompanying financial statements at their estimated fair market value. The YMCA recognized a fair value of \$865,910 for donated use of these facilities for the year ended December 31, 2014. The methodology to estimate the fair value of the donated use of facilities is the “market” approach. The market approach uses comparable available buildings and actual completed transactions to determine values. Thus, the market approach provides good estimate of what the property would sell or lease for if it were vacant and available for a buyer/tenant to occupy.

(g) Accrued Vacation

As of December 31, 2014, the accrued vacation liability was \$458,508 and is included as a component of accrued payroll and employee benefits in the accompanying financial statements.

(h) Property and Equipment

Items costing a nominal amount and repairs and maintenance are charged to expense as incurred, except expenses that materially extend asset lives, which are capitalized. Purchased fixed assets are capitalized at historical cost. Management has reviewed the carrying value of property, plant and equipment and will recognize impairments when the expected future operating cash flow derived from such assets is less than their carrying value.

Donated property and equipment are recorded as support at their estimated fair value at the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these donated assets must be maintained, the YMCA reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The YMCA reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment other than land are depreciated over their estimated useful lives using the straight-line method.

(i) Land Held for Resale

The YMCA owns certain land in Huntington Beach that was originally purchased in order to build a facility for YMCA programs on the land. Due to zoning restrictions, it became difficult to build the facilities originally intended. The YMCA is in the process of selling the property.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(j) Restricted and Unrestricted Revenue and Support

The YMCA records contributions received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

(k) Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(l) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Fair Value Measurements

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(m) Fair Value Measurements, (Continued)

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

(n) Subsequent Events

Subsequent events have been evaluated by management through May 19, 2015, which is the date the financial statements were available to be issued. Additional information is disclosed in footnote 16.

(o) Operations

For purposes of the accompanying statement of activities, the terms *operations* and *operating margin* are used to report the on-going activities of the YMCA exclusive of certain other items such as capital campaign activities, endowment activities, investment activities, and changes in donor conditions.

(p) Prior Year Data

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles.

(2) Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of December 31, 2014:

Petty cash	\$ 2,550
Demand deposits	3,877,329
Money market accounts	<u>1,889,081</u>
Total cash and cash equivalents	<u>\$ 5,768,960</u>

The YMCA has deposits with banks in excess of federally insured limits of \$4,089,322 at December 31, 2014. Deposits at federally insured institutions are insured up to at least \$250,000 per depositor.

Included in cash are certain funds that are restricted for long-term purposes, including the endowment fund balance. Restricted balances were \$90,000 at December 31, 2014.

The YMCA's money market accounts are considered Level 1 fair value measurements for the year ended December 31, 2014.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements

(Continued)

(3) Investment

During 2014 the YMCA initiated an investment program. The fair value of investments at December 31, 2014 are:

Equity securities	\$ 1,658,526
Bonds	307,494
Mutual Funds	2,678,050
Other	<u>367,992</u>
 Total investments	 <u>\$ 5,012,062</u>

Investment income consists of the following for the year ended December 31, 2014:

Interest and dividend income	\$ 26,443
Net realized gains	34,628
Net unrealized losses	(35,553)
Less: management fees	<u>(10,514)</u>
 Investment income, net	 <u>\$ 15,004</u>

Fair values of assets measured on a recurring basis at December 31, 2014 are as follows:

	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
Energy	\$ 70,867	70,867	-	-
Financial services	123,490	123,490	-	-
Industrials	85,687	85,687	-	-
Technology	132,071	132,071	-	-
Consumer	176,312	176,312	-	-
Communication services	20,668	20,668	-	-
Healthcare	95,721	95,721	-	-
Utilities	31,136	31,136	-	-
Mutual funds	568,727	568,727	-	-
Materials	20,161	20,161	-	-
Other	333,686	333,686	-	-
Municipal Bonds	153,170	-	153,170	-
Corporate Bonds	154,324	-	154,324	-
Mutual Funds:				
Domestic	1,970,959	1,970,959	-	-
Foreign	707,091	707,091	-	-
Other	<u>367,992</u>	<u>367,992</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,012,062</u>	<u>4,704,568</u>	<u>307,494</u>	<u>-</u>

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements

(Continued)

(4) Accounts Receivable, Net

Net accounts receivable, net of allowance of \$11,930, is comprised of the following at December 31, 2014:

Grants (Government/Foundation)	\$ 358,863
Program	351,294
Other	<u>45,749</u>
Total	<u>\$ 755,906</u>

(5) Property and Equipment

Property and equipment consist of the following at December 31, 2014:

Land	\$ 3,377,403
Buildings and improvements	16,368,291
Furniture and equipment	6,565,994
Vehicles	<u>307,793</u>
	26,619,481
Less accumulated depreciation	<u>(14,204,661)</u>
Property and equipment, net	<u>\$ 12,414,820</u>

Depreciation expense for the year ended December 31, 2014 was \$1,496,486.

The YMCA completed the Santa Ana project in November 2010. The project included two recreational pools, a soccer arena, sports field, a health and nutrition modular facility and an office modular on the YMCA site along with an Olympic size pool with lockers and shower facilities on the Segerstrom High School campus that is adjacent to the YMCA site. The majority of the project was funded by the Children and Families Commission of Orange County. The grant is considered to be an exchange transaction pursuant to the YMCA contract with the Commission to provide certain community services at the site over a specified ten year period. Accordingly, the Children and Families Commission of Orange County funding is not recognized as revenue upon incurrence of the related construction costs. Funding from the Commission is recorded as deferred revenue to be recognized ratably over the ten year service period stipulated in the contract with the Commission. Revenue recognition commenced January 2012 and continues through December 2020 at a rate of \$250,000 per year. Deferred Santa Ana Project Funding for the year ended December 31, 2014 was \$1,500,000.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements

(Continued)

(6) Note Payable

Note payable consists of the following as of December 31, 2014:

In September 2011 the YMCA entered into a \$2,300,000 note with a variable interest rate, payable to Bank of America in monthly principal and interest installments. Refer to Note 7 for interest rate terms. The variable interest rate at December 31, 2014 was 2.421%. Final payment is due September 1, 2016. This note is secured by the North Orange County facility.

Principle Balance	\$ 1,903,654
Less current portion	<u>(132,003)</u>
Note payable – long term	<u>1,771,651</u>

Future requirements to amortize outstanding notes are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Hedging</u> <u>Derivatives, Net</u>	<u>Total</u>
2015	\$ 132,003	44,337	21,945	198,285
2016	<u>1,771,651</u>	<u>27,755</u>	<u>13,733</u>	<u>1,813,139</u>
	<u>\$ 1,903,654</u>	<u>72,092</u>	<u>35,678</u>	<u>2,011,424</u>

The above table incorporates the net receipts/payments of the hedging derivative instrument that is associated with this debt issue. These amounts assume that current interest rates on variable-rate notes and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate notes and net receipts/payments on the hedging derivative instruments will vary. Refer to Note 7 for additional information regarding the derivative instrument associated with the debt of the YMCA.



YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements

(Continued)

(7) Interest Rate Swap Liability

The following table displays the objectives and terms of the YMCA's hedging derivative instrument outstanding at December 31, 2014, along with the credit rating of the associated counterparty.

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty (Bank of America) Credit Rating
Cash flow hedges:						
Pay-fixed interest rate swap	Hedge of changes in cash flows on the outstanding notes payable	\$1,903,654	9/1/2011	9/1/2016	Pay 3.619%; Receive USLIBOR rate plus 2.25%	A

The fair value balance and notional amount of derivative instruments outstanding at December 31, classified by type, and the changes in fair value of such derivative instruments for the year then ended December 31, are as follows:

	Changes in Fair Value		Fair Value	
	Classification	Amount	Classification	Amount
Cash flow hedges:				
Pay-fixed interest rate swaps	Increase in fair value of interest rate swap for the year ended December 31, 2014	\$ 14,594	Liability at December 31, 2014	\$ 24,775

The YMCA's interest rate swap is considered a Level 2 fair value measurement for the year ended December 31, 2014.

(8) Net Assets Released from Restrictions

Satisfaction of program restrictions	\$ 25,500
Satisfaction of purpose restriction	322,716
Satisfaction of time restrictions	<u>46,437</u>
Total net assets released from restrictions	<u>\$ 394,653</u>

YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements

(Continued)

(9) Net Assets

Net assets consist of the following at December 31, 2014:

Unrestricted net assets:

Invested in property and equipment, net of related debt	\$ 10,500,285
Available for operations	<u>7,719,267</u>
Total unrestricted net assets	<u>18,219,552</u>

Temporarily restricted net assets:

Restricted for:

Subsequent years programs	168,608
Annual Partners campaign	<u>43,794</u>
Total temporarily restricted net assets	<u>212,402</u>

Permanently restricted net assets:

Restricted for:

Chick Hearn Foundation Endowment	<u>90,000</u>
Total permanently restricted net assets	<u>90,000</u>

Total net assets \$ 18,521,954

(10) Operating Leases

The YMCA leases various facilities and equipment pursuant to lease agreements which expire through 2017. The YMCA's facility leases provide for annual escalations, common area maintenance charges and renewal options. The YMCA is liable for insurance for both the facilities and equipment leases. Future minimum payments under noncancelable operating leases with an initial term of one year or more were as follows for the year ending December 31:

	<u>Facility</u>	<u>Equipment</u>	<u>Total</u>
2015	\$ 1,182,644	167,779	1,350,423
2016	1,039,327	590,813	1,630,140
2017	904,095	48,935	953,030
2018	317,385	24,337	341,722
2019	239,660	14,666	254,326
Thereafter	<u>529,321</u>	<u>-</u>	<u>529,321</u>
	<u>\$4,212,432</u>	<u>846,530</u>	<u>5,058,962</u>

Total rental expense for operating leases described above were \$1,170,755 for the year ended December 31, 2014.

YOUNG MEN’S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements

(Continued)

(11) Related Party Transactions

The YMCA of Orange County is a member association of the National Council of Young Men’s Christian Association of the United States of America. The YMCA of Orange County is an independent autonomous organization, recognized as a member, but separate from the National Council. The YMCA of Orange County must meet annual certification requirements to remain a member. Support related to the YMCA of the United States of America totaled \$303,656 for the year ended December 31, 2014.

The YMCA participates in a defined contribution, individual account, money purchase, retirement plan which is administered by the Young Men’s Christian Association Retirement Fund (a separate corporation). This plan is for the benefit of all eligible employees of the YMCA who qualify under the participation requirements.

In accordance with the agreement with the Retirement Fund, contributions are a percentage of the participating employee’s qualified compensation, are paid for by the YMCA and are to be remitted to the YMCA Retirement Fund monthly. Total YMCA contributions charged to retirement costs for the year ended December 31, 2014 aggregated \$903,269. Unpaid contributions were \$37,332 at December 31, 2014 representing December contributions.

The Young Men’s Christian Association Retirement Fund is operated as a church pension plan and is a non-profit, tax exempt, New York State corporation (1922). Participation is available to all duly organized and reorganized YMCAs in the United States. As a defined contribution plan, the Retirement Fund has no unfunded benefit obligation.

(12) Special Events

The YMCA has nine operating branches, each of which organizes its own special event activities. Special events held by the various branches for the year ended December 31, 2014 were as follows:

	<u>Gross</u> <u>Revenue</u>	<u>Direct</u> <u>Expenses</u>	<u>Net</u> <u>Revenue</u>
Dinners/breakfast	\$ 44,572	(15,593)	28,979
Golf tournaments	99,944	(54,691)	45,253
5/10K runs	<u>72,139</u>	<u>(40,050)</u>	<u>32,089</u>
Totals	<u>\$ 216,655</u>	<u>(110,334)</u>	<u>106,321</u>

# YOUNG MEN'S CHRISTIAN ASSOCIATION OF ORANGE COUNTY

## Notes to Financial Statements

(Continued)

### (13) Claims Payable

The YMCA holds general liability, workers compensation, unemployment, and directors, officers, and trustees liability insurance policies with various self insurance limits. Liabilities for probable claims associated with general liability and directors and officers insurance as well as amounts associated with workers compensation and unemployment insurance are recorded in the accompanying financial statements within *Claims Payable Liability*. Management believes the liability is sufficient to cover probable claims, however it is at least reasonably possible that the YMCA's estimate of claims payable and the range of actual costs may change in the near future.

### (14) Concentration of Risk

The YMCA receives approximately 40% of its total support and revenues (excluding capital campaign, endowment and other) from child care fees associated with child care services performed on the premises of facilities owned by the Capistrano Unified School District (CUSD). The YMCA relies heavily on these child care fees to continue the related child care programs. If the YMCA's relationship with CUSD were to be terminated, it would likely cause a significant reduction in the YMCA's operations.

### (15) Beneficial Interest in Trust

In 2013, the YMCA received documentation of being named in a Trust. The trust has two components, one that is revocable and one that is irrevocable. The irrevocable trust component includes the value of an estate including real and personal property, insurance contracts, retirement investments, and other investments. The revocable trust must first be liquidated prior to the funds being available for the irrevocable trust component. The irrevocable trust requires certain payments to 4 beneficiaries. The remaining trust assets will then be distributed, of which 15% will be distributed to the YMCA of Orange County. At this time the beneficiary interest in the trust is not recorded in the accompanying financial statements because there is no way to estimate the fair value.

### (16) Subsequent Events

During fiscal year 2014 the YMCA of Orange County began servicing Riverside County under the dba YMCA of Riverside County. During the summer of 2015 the YMCA of Orange County will be opening the Murrieta Family YMCA, a fitness facility located in Murrieta. The facility location has been leased, construction is in progress, and as of May 18 presale of 100 membership units has been achieved.

During Fiscal year 2014 the YMCA of Orange County was providing management and administrative services to the San Gabriel Valley YMCA under a paid management agreement. On May 18, 2015 the Board of the San Gabriel Valley YMCA approved the Liquidation of Assets and Payment of Liabilities, the Transfer of Camp E.L.K. and ASES, and the Dissolution and Distribution of Corporate Assets. Under these agreements the YMCA of Orange County will handle the liquidations of assets and payments of liabilities for the San Gabriel Valley YMCA and assume the assets of Camp E.L.K. and the ASES program at West Covina Unified School District. The YMCA of Orange County will assume certain assets per the agreement and will operate under the dba San Gabriel Valley YMCA.

SUPPLEMENTAL SCHEDULE