

**YMCA OF SAN DIEGO COUNTY**  
(A California Nonprofit Public Benefit Corporation)

Financial Statements

June 30, 2010  
(with summarized financial information for 2009)

**YMCA OF SAN DIEGO COUNTY**  
(A California Nonprofit Public Benefit Corporation)

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## **Report of Independent Public Accountants**

To the Board of Directors  
YMCA of San Diego County

We have audited the accompanying statement of financial position of the YMCA of San Diego County (a California nonprofit public benefit corporation) (the "YMCA") as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the YMCA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the YMCA's 2009 financial statements, and in our report dated October 22, 2009, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of the YMCA as of June 30, 2010, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

 J.H. Cohn LLP

San Diego, California  
October 21, 2010

**YMCA OF SAN DIEGO COUNTY**  
(A California Nonprofit Public Benefit Corporation)

Statement of Financial Position

June 30, 2010  
(With comparative financial information for 2009)

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 8,903,000	\$ 7,287,000
Pledges and accounts receivable, net (note 5)	14,896,000	15,332,000
Investments (note 6)	39,130,000	38,483,000
Investments whose uses are limited (note 6)	2,367,000	2,299,000
Prepaid expenses and other assets	390,000	479,000
Beneficial interest in charitable remainder trusts (note 2)	4,805,000	4,694,000
Land, buildings, and equipment, net (note 7)	92,601,000	84,914,000
Total assets	<u>\$ 163,092,000</u>	<u>\$ 153,488,000</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 16,473,000	\$ 12,857,000
Deferred revenue (note 8)	6,800,000	6,994,000
Other liabilities (note 9)	895,000	808,000
Total liabilities	<u>24,168,000</u>	<u>20,659,000</u>
Commitments and contingencies (notes 12 and 13)		
Net assets:		
Unrestricted	120,555,000	109,663,000
Temporarily restricted (note 2)	14,018,000	18,945,000
Permanently restricted (note 3)	4,351,000	4,221,000
Total net assets	<u>138,924,000</u>	<u>132,829,000</u>
Total liabilities and net assets	<u>\$ 163,092,000</u>	<u>\$ 153,488,000</u>

See accompanying notes to financial statements.

**YMCA OF SAN DIEGO COUNTY**  
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Statement of Activities

Year ended June 30, 2010  
(With summarized financial information for 2009)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
Revenue:					
Public support:					
Annual support	\$ 4,834,000	\$ -	\$ -	\$ 4,834,000	\$ 5,065,000
Direct contributions	3,671,000	4,307,000	130,000	8,108,000	11,012,000
Special events, net of expenses of approximately \$1,626,000 in fiscal 2010	1,084,000	-	-	1,084,000	1,082,000
Total public support	<u>9,589,000</u>	<u>4,307,000</u>	<u>130,000</u>	<u>14,026,000</u>	<u>17,159,000</u>
Other revenue:					
Program service fees	49,445,000	-	-	49,445,000	49,805,000
Government funded programs	47,605,000	-	-	47,605,000	36,903,000
Membership dues	24,245,000	-	-	24,245,000	23,518,000
Investment and other income	746,000	97,000	-	843,000	1,264,000
Net realized loss on investments	(185,000)	(58,000)	-	(243,000)	(881,000)
Net merchandise sales	348,000	-	-	348,000	327,000
Total other revenue	<u>122,204,000</u>	<u>39,000</u>	<u>-</u>	<u>122,243,000</u>	<u>110,936,000</u>
Total public support and other revenue	<u>131,793,000</u>	<u>4,346,000</u>	<u>130,000</u>	<u>136,269,000</u>	<u>128,095,000</u>
Net assets released from restrictions	<u>9,700,000</u>	<u>(9,700,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support, other revenue, and net assets released from restrictions	<u>141,493,000</u>	<u>(5,354,000)</u>	<u>130,000</u>	<u>136,269,000</u>	<u>128,095,000</u>
Expenses:					
Program services	<u>123,430,000</u>	<u>-</u>	<u>-</u>	<u>123,430,000</u>	<u>113,808,000</u>
Supporting services:					
Management and general	7,045,000	-	-	7,045,000	6,817,000
Fund-raising	1,493,000	-	-	1,493,000	1,815,000
Total supporting services	<u>8,538,000</u>	<u>-</u>	<u>-</u>	<u>8,538,000</u>	<u>8,632,000</u>
Total program and supporting services expenses	<u>131,968,000</u>	<u>-</u>	<u>-</u>	<u>131,968,000</u>	<u>122,440,000</u>
Change in net assets before net unrealized loss on investments	9,525,000	(5,354,000)	130,000	4,301,000	5,655,000
Net unrealized gain (loss) on investments	<u>1,367,000</u>	<u>427,000</u>	<u>-</u>	<u>1,794,000</u>	<u>(2,446,000)</u>
Change in net assets	<u>10,892,000</u>	<u>(4,927,000)</u>	<u>130,000</u>	<u>6,095,000</u>	<u>3,209,000</u>
Net assets at beginning of year	<u>109,663,000</u>	<u>18,945,000</u>	<u>4,221,000</u>	<u>132,829,000</u>	<u>129,620,000</u>
Net assets at end of year	<u>\$ 120,555,000</u>	<u>\$ 14,018,000</u>	<u>\$ 4,351,000</u>	<u>\$ 138,924,000</u>	<u>\$ 132,829,000</u>

See accompanying notes to financial statements.

**YMCA OF SAN DIEGO COUNTY**  
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Statement of Functional Expenses

Year ended June 30, 2010  
(With summarized financial information for 2009)

	Supporting services				
	Program services	Management and general	Fundraising	Total supporting services	Total expenses
					2010
					2009
Personnel costs:					
Salaries	\$ 51,560,000	\$ 4,383,000	\$ 910,000	\$ 5,293,000	\$ 56,853,000
Health and retirement	5,624,000	655,000	155,000	810,000	6,434,000
Payroll taxes and other	5,091,000	433,000	91,000	524,000	5,615,000
Total personnel costs	62,275,000	5,471,000	1,156,000	6,627,000	68,902,000
Contracted services	35,730,000	301,000	54,000	355,000	36,085,000
National dues	274,000	-	-	-	274,000
Supplies	5,316,000	78,000	155,000	233,000	5,549,000
Telephone and postage	1,207,000	154,000	10,000	164,000	1,371,000
Rents	3,374,000	257,000	-	257,000	3,631,000
Care of buildings and grounds	2,063,000	23,000	-	23,000	2,086,000
Utilities	2,371,000	67,000	-	67,000	2,438,000
Transportation	1,377,000	59,000	2,000	61,000	1,438,000
Staff training	634,000	168,000	61,000	229,000	863,000
Insurance	374,000	41,000	-	41,000	415,000
Printing and promotion	969,000	76,000	40,000	116,000	1,085,000
Rental, maintenance and purchase of minor equipment items	1,383,000	80,000	-	80,000	1,463,000
Miscellaneous	1,344,000	27,000	15,000	42,000	1,386,000
Provision for doubtful receivables	163,000	-	-	-	163,000
Depreciation and amortization	4,576,000	243,000	-	243,000	4,819,000
Loss on disposal of assets	-	-	-	-	-
Total program and supporting services including depreciation and amortization	\$ 123,430,000	\$ 7,045,000	\$ 1,493,000	\$ 8,538,000	\$ 131,968,000
					\$ 122,440,000

See accompanying notes to financial statements.

**YMCA OF SAN DIEGO COUNTY**  
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Statement of Cash Flows

Year ended June 30, 2010  
(With comparative financial information for 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,095,000	\$ 3,209,000
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gain)/ loss on investments	(1,551,000)	3,327,000
Depreciation and amortization	4,819,000	4,536,000
Loss on disposal of assets	-	156,000
Net discount amortization	17,000	67,000
Provision for doubtful receivables	163,000	592,000
Contributions restricted for capital projects and endowment	(4,307,000)	(7,948,000)
(Increase) decrease in beneficial interest in charitable remainder trusts	(111,000)	564,000
Decrease (increase) in pledges and accounts receivable	222,000	(3,834,000)
(Increase) decrease in prepaid expenses and other assets	89,000	(35,000)
Increase in accounts payable and accrued expenses	1,155,000	10,000
Decrease in deferred revenue	(194,000)	(692,000)
Net cash provided by (used in) operating activities	<u>6,397,000</u>	<u>(48,000)</u>
Cash flows from investing activities:		
Purchases and construction of land, buildings, and equipment	(10,045,000)	(5,921,000)
Purchases of investments	(25,143,000)	(27,218,000)
Proceeds from the sale of equipment	-	27,000
Proceeds from the sale or maturity of investments	25,998,000	23,137,000
Net cash used in investing activities	<u>(9,190,000)</u>	<u>(9,975,000)</u>
Cash flows from financing activities:		
Net gift annuities issued (matured)	102,000	(75,000)
Contributions restricted for capital projects and endowment	4,307,000	7,948,000
Net cash provided by financing activities	<u>4,409,000</u>	<u>7,873,000</u>
Increase (decrease) in cash and cash equivalents	1,616,000	(2,150,000)
Cash and cash equivalents, beginning of year	<u>7,287,000</u>	<u>9,437,000</u>
Cash and cash equivalents, end of year	<u>\$ 8,903,000</u>	<u>\$ 7,287,000</u>

**Supplemental Schedule of Noncash Investing Activities**

At June 30, 2010, the Association recorded \$2,461,000 of liabilities related to construction in progress activities incurred for its capital projects during the current fiscal period.

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Notes to Financial Statements

**(1) Summary of Significant Accounting Policies**

**(a) Nature of Operations**

The YMCA of San Diego County (a California nonprofit public benefit corporation) (the "YMCA" or the "Association") is dedicated to improving the quality of human life and to helping all people realize their fullest potential as children of God through development of the spirit, mind, and body.

Major programs of the YMCA of San Diego County include the following:

- **Active Older Adults** – active older adult council, recreational trips, instructional classes, and health and well being seminars
- **Aquatics** – swimming lessons, recreational and fitness swimming, competitive swimming, SCUBA diving, aquatics for special populations (arthritis), national lifeguard certification, and water exercise
- **Camping** – environmental education, family camp, day camping, intersession programs for year-round schools, resident camping, teen adventure programs, and teen caravans
- **Child Development** – infant/toddler, preschool and before/after school child care, and child care information and referral
- **Family Life** – parent/child programs and family activities
- **Health Enhancement** – youth fitness, mind/body fitness, cardiovascular fitness and strength training, wellness and healthful living training, active older adult fitness, and personal training
- **Leadership Development** – volunteer training, leadership development skills in youth, and board and committee training
- **Social Services** (Intervention, Diversion) – gang/abuse prevention, counseling, crisis shelter, literacy, school outreach and technology training
- **Sports and Skill Development** – youth sports leagues, camp, recreation, instruction, adult sports, martial arts and gymnastics
- **Teens** – leaders in training, junior lifeguard training, teen clubs, Youth and Government, and Teen Council

**(b) Method of Reporting**

The financial statements of the YMCA were prepared in conformity with the *AICPA Audit and Accounting Guide, Not-For-Profit Entities*, and include the accounts of its Corporate Office, all of its branches in San Diego County, and other associated units. All significant inter-entity transactions and balances have been eliminated.



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Notes to Financial Statements

**(c) Basis of Accounting**

The YMCA classifies its net assets and its revenues, gains and other support, and expenses based on the existence or absence of donor-imposed restrictions. Temporarily restricted net assets result from contributions whose use is limited by donor stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the YMCA pursuant to those stipulations. Permanently restricted net assets result from contributions whose use is limited by donor stipulations that do not expire. Unrestricted net assets represent resources over which the Board of Directors has discretionary control.

The YMCA reports contributions of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, the related temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted income which is received and expended in the current year is recorded as unrestricted income.

**(d) Cash and Cash Equivalents**

The YMCA considers all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents.

**(e) Land, Buildings, and Equipment**

Land, buildings and equipment are stated at cost or, if donated, at fair value at date of donation. Major renewals and improvements are capitalized, while maintenance and repairs that do not extend the lives of the assets are charged to operations when incurred. When assets are sold or retired, the cost and accumulated depreciation are removed from the respective accounts and any profit or loss on the disposition is credited or charged to revenue. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	10 - 30 years
Furniture, fixtures, and equipment	5 to 10 years
Buses and vans	5 years
Leasehold interest	Lesser of 20 years or remaining life of the lease
Leasehold improvements	Lesser of 3 to 25 years or remaining life of the lease

No depreciation is taken on construction in progress until it is placed in service.

The YMCA reports contributions of property as unrestricted support unless explicit donor stipulations specify how the donated property must be used. Contributions of property with explicit restrictions that specify how the property is to be used and contributions of cash and other assets that must be used for property additions are reported as restricted support. In the absence of explicit donor stipulations about how the property must be maintained, the YMCA reports expirations of donor restrictions when the donated or acquired property is placed in service.

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Notes to Financial Statements

**(f) Leases**

Leases that transfer substantially all of the benefits and risks of ownership of leased property are accounted for as capital leases. Other leases are accounted for as operating leases.

**(g) Split Interest Agreements**

The YMCA is licensed by the State of California Department of Insurance as a Grants and Annuities Society. As such, the YMCA may issue charitable gift annuity contracts. As of June 30, 2010, the YMCA had issued 35 annuity contracts entered into with 24 separate donors. The present value of the life annuities associated with these contracts is recorded as other liabilities (see note 9).

The YMCA is the beneficiary of assets held in an irrevocable split interest agreement pooled income fund administered by a bank trustee. The assets of the pooled income fund are recorded in investments at fair market value (see note 6). The difference between the fair market value of the assets in the pooled income fund and the present value of estimated future contributions to be received has been recorded as deferred revenue (see note 8). The amortization of discount and changes in actuarial assumptions are reflected within the direct contribution line item in the statement of activities.

The YMCA is the beneficiary in five irrevocable charitable trusts, for which the YMCA is not the trustee. Each trust names the YMCA as a residual beneficiary following the death of one or more life income beneficiaries. The fair value of the assets to be received under each trust, discounted for the estimated time until receipt, has been recorded in beneficial interest in charitable remainder trusts and in temporarily restricted net assets. The current year change in the valuation of beneficial interest in charitable remainder trusts is included in temporarily restricted contributions on the statement of activities.

The YMCA estimates fair value of split interest agreements by using net present value calculations with discount rates of 4.5% to 6% and estimated life expectancies based upon the mortality rate tables published by the Internal Revenue Service ("IRS").

**(h) Public Support and Revenue**

All public support and revenue is considered available for unrestricted use, unless specifically restricted by the donor or the terms of a grant. General membership fees are reported as unrestricted revenue in the year in which they are earned and specific program fees are recognized as revenue in the year in which the related services are provided.

**(i) Donated Services**

Contributed services are reflected in the accompanying financial statements at the fair value of the services received, if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would otherwise need to be purchased if not provided by donation.

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Notes to Financial Statements

**(i) *Donated Services (concluded)***

A substantial number of corporations and volunteers have donated significant amounts of time and services in the YMCA's program operations and in its fund-raising campaigns. Contributed services are not reflected in the accompanying financial statements, as they generally do not meet the criteria described above.

**(j) *Use of Certain Facilities***

Nominal rentals are paid by the YMCA under the terms of various long-term lease agreements with local municipalities. The leases require the YMCA to fulfill certain conditions annually. As such conditions are satisfied, the YMCA recognizes contribution revenue and a corresponding expense in an amount approximating the annual fair-value rental of the leased properties. Such amount totaled \$1,873,000 for the year ended June 30, 2010.

**(k) *Functional Expenses***

Amounts for program services shown in the statement of functional expenses include expenses of branches and other units. Management and general expenses are expenses of the Corporate Office.

**(l) *Advertising Expenses***

Advertising costs are expensed as incurred. Advertising expense totaled \$576,000 for the year ended June 30, 2010.

**(m) *Income Taxes***

The YMCA, a California nonprofit public benefit corporation, is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and the Revenue and Taxation Code of the State of California.

On July 1, 2009, the YMCA adopted the recognition requirements for uncertain income tax positions as required by accounting principles generally accepted in the United States of America, with no cumulative effect adjustment required. Income tax benefits and/or liabilities are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The YMCA has analyzed the tax positions taken in its filings with the Internal Revenue Service and the California Franchise Tax Board. The YMCA believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the YMCA's financial condition, results of operations or cash flows. Accordingly, the YMCA has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2010.

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Notes to Financial Statements

**(n) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results may differ from these estimates.

**(o) Promises to give**

The YMCA records promises to give cash and other assets by donors at fair market value in the period in which there is sufficient evidence in the form of verifiable documentation that an unconditional promise was received. Conditional promises to give are recognized when the conditions are substantially met.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. The allowance for uncollectible amounts is estimated based upon historical collection rates and specific identification of uncollectible accounts. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using the current risk-free interest rates, which range from 1.8% to 4.9%. Accretion of discount on long-term unconditional promises to give is included in contribution revenue.

**(p) Summarized Information**

The accompanying financial statements include certain prior year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements as of and for the year ended June 30, 2009, from which the summarized information was derived.

**(q) New Accounting Pronouncements**

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value measurements ("ASU 2010-06"). ASU 2010-06 amends FASB ASC 820, Fair Value Measurements and Disclosures, to require additional disclosures regarding fair value measurements. The new disclosures and clarifications of existing disclosures are effective for the reporting period beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward activity of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. Management believes that adopting this guidance will not have a significant impact on the Association's financial position or results of operations.

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Notes to Financial Statements

**(r) Subsequent Events**

Subsequent events have been evaluated through October 21, 2010, which is the date the financial statements were available to be issued.

**(2) Temporarily Restricted Net Assets**

Net assets are released from donor restrictions primarily by incurring expenses which satisfy the restricted purposes. Net assets released from restriction during fiscal year 2010 and temporarily restricted net asset balances as of June 30, 2010 were \$9,700,000 and \$14,018,000 respectively. \$8,843,000 of the temporarily restricted net assets balance relates to the construction and acquisition of property and equipment, \$370,000 relates to the endowment fund, and \$4,805,000 relates to the YMCA's beneficial interest in charitable remainder trusts.

**(3) Permanently Restricted Net Assets**

The YMCA's permanently restricted net assets consist of permanent endowment funds. The endowment funds are subject to donor restrictions requiring that the principal be invested in perpetuity and that income be utilized in support of operations. Accordingly, unless otherwise specified by the donor, income derived from such funds whose donor instructions are unspecified is reported as temporarily restricted net assets until appropriated by the Board of Directors for expenditure.

**(4) Endowment**

The Association's endowment consists of approximately 126 individual funds established for a variety of purposes. The Association's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restriction.

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Notes to Financial Statements

**(4) Endowment (continued)**

**Interpretation of Relevant Law**

The Association has interpreted the State of California's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association has classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Association and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Association; and
- (7) The investment policies of the Association.

Endowment net assets composition by type of fund as of June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (434,000)	\$ 370,000	\$ 4,351,000	\$ 4,287,000
Board-designated endowment funds	<u>13,531,000</u>	<u>-</u>	<u>-</u>	<u>13,531,000</u>
Total funds	<u>\$ 13,097,000</u>	<u>\$ 370,000</u>	<u>\$ 4,351,000</u>	<u>\$ 17,818,000</u>

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Notes to Financial Statements

**(4) Endowment (continued)**

Changes in endowment net assets for the fiscal year ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 10,523,000	\$ 187,000	\$ 4,221,000	\$ 14,931,000
Investment return:				
Investment income	308,000	97,000	-	405,000
Net appreciation (realized and unrealized)	1,168,000	369,000	-	1,537,000
Total investment return	1,476,000	466,000	-	1,942,000
Contributions	1,163,000	-	130,000	1,293,000
Appropriation of endowment assets for expenditure	(65,000)	(283,000)	-	(348,000)
Endowment net assets, end of year	<u>\$ 13,097,000</u>	<u>\$ 370,000</u>	<u>\$ 4,351,000</u>	<u>\$ 17,818,000</u>

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$434,000 as of June 30, 2010. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

**Return Objectives and Risk Parameters**

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results of at least 5% greater than the rate of inflation on a total return basis. Actual returns in any given year may vary from this expected return.

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**(4) Endowment (concluded)**

**Strategies for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association uses a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk parameters.

**Spending Policy and How the Investment Objectives Relate to the Spending Policy**

The Association's policy is to appropriate for distribution each year approximately 5% of the endowment funds' fair value at the end of the prior year. In establishing this policy, the Association considered the long-term expected return on its endowment. Accordingly, over the long-term, the Association expects the current spending policy to allow its endowment to grow at an average annual rate equal to the general inflation rate. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**(5) Pledges and Accounts Receivable**

Pledges and accounts receivable at June 30, 2010 consist of the following:

Corporate and branch capital development program	\$ 5,812,000
Less discount to recognize pledges at present value	(113,000)
	<u>5,699,000</u>
 Notes receivable	 67,000
Government program receivables	8,221,000
Program receivables and other pledges	1,125,000
	<u>9,413,000</u>
 Less allowance for uncollectible amounts	 (216,000)
Net receivables	<u><u>\$ 14,896,000</u></u>



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**(5) Pledges and Accounts Receivable (concluded)**

The YMCA receives pledges from individuals, foundations, government entities and corporations. A range of discount rates from 1.8% to 4.9% (the appropriate rate at the time the pledge was recorded) was used to calculate the estimated present value of capital pledges as of June 30, 2010.

Of the Corporate and branch capital development program receivables, approximately \$1,966,000 is due within one year and the balance of approximately \$3,846,000 within two to five years at June 30, 2010. The program receivables and other pledges are due within one year.

One conditional promise to give in the amount of \$3,000,000 was received by the YMCA in 2008. This pledge is conditioned upon raising one-for-one matching contributions for renovation of the Copley YMCA facility by December 10, 2009, which was later extended to December 10, 2010. Several conditional pledges with an aggregate amount of \$520,000 have been secured by the YMCA to match the pledge noted above. Payments received on these pledges in the aggregate amount of \$75,000 have been recorded as liabilities. As of June 30, 2010, this condition had not yet been met; therefore, the remaining balances of these conditional pledges have not yet been recognized as assets or revenues in the YMCA's financial statements.

**(6) Investments**

Investment funds include endowments, split-interest agreements and other funds earmarked for specific purposes to further the YMCA's mission. These investments other than permanently restricted endowments are held until used for capital expansion and program development as determined by the Board of Directors.

Investments as of June 30, 2010 consist of the following:

Certificates of deposit	\$ 13,622,000
Common stocks - domestic	10,747,000
Common stocks - international	2,521,000
Fixed income securities	12,226,000
Land held for sale	14,000
	<u>\$ 39,130,000</u>

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**(6) Investments (concluded)**

Investments whose uses are limited as of June 30, 2010 consist of the following:

Pooled income fund (see note 1g)	\$ 1,217,000
Gift annuity reserve (see note 1g)	997,000
Money market account compensating balance for letter of credit (see note 13c)	<u>153,000</u>
	<u>\$ 2,367,000</u>

Fixed income securities consist of investments in U.S. government securities, corporate bonds, and government agency securities, which are held by major brokerage firms. Certificates of deposit and money market accounts are held at major financial institutions. All certificates of deposit are purchased in amounts and at institutions meeting requirements for full Federal Deposit Insurance Corporation ("FDIC") insurance coverage. Investments in common stocks are managed by professional investment managers under guidelines approved by the Board of Directors.

**(7) Land, Buildings, and Equipment**

The carrying values of land, buildings, and equipment as of June 30, 2010 are as follows:

Land	\$ 15,990,000
Buildings and machinery	77,832,000
Furniture, fixtures, and equipment	12,673,000
Buses and other vehicles	941,000
Leasehold improvements	18,679,000
Construction in progress	<u>7,751,000</u>
	133,866,000
Less accumulated depreciation and amortization	<u>(41,265,000)</u>
Net land, buildings, and equipment	<u>\$ 92,601,000</u>

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**(8) Deferred Revenue**

At June 30, 2010, deferred revenue consists of the following:

Program revenues	\$ 4,763,000
Pooled income fund (see note 1g)	668,000
Membership dues	1,132,000
Other	237,000
	<u>\$ 6,800,000</u>

Deferred program revenues consist primarily of advance payments for summer camp programs.

**(9) Other Liabilities**

Other liabilities at June 30, 2010 consist of the following:

Gift annuities payable (see note 1g)	\$ 759,000
Conditional pledge receipts payable	75,000
Notes payable with the Redevelopment Agency of the City of San Diego, due December 24, 2012	61,000
	<u>\$ 895,000</u>

Future maturities are as follows:

2011	\$ 178,000
2012	103,000
2013	163,000
2014	98,000
2015	87,000
Thereafter	266,000
	<u>\$ 895,000</u>

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**(10) Concentration of Credit Risk**

Financial instruments which potentially subject the YMCA to concentrations of credit risk consist principally of cash and cash equivalents, investments and government program receivables.

At June 30, 2010, the YMCA had cash and cash equivalents which exceeded FDIC-insured limits at certain financial institutions in excess of \$250,000.

The YMCA's investment policy includes risk management provisions such as credit quality restrictions, security marketability/liquidity and asset allocation parameters designed to protect against substantial investment losses.

The YMCA had approximately 58 government contracts in fiscal year 2010 from Federal, state, and local sources. The largest 3 contracts were for the Federal and state-funded alternative payment child care programs totaling approximately \$33,763,000 in fiscal year 2010.

**(11) Retirement Plan**

The YMCA participates in a defined contribution, individual account, money purchase retirement plan which is administered by the national YMCA Retirement Fund (the Retirement Fund). This plan is for the benefit of substantially all employees.

The Retirement Fund is operated as a church pension plan and is a nonprofit, tax-exempt New York State corporation. As a defined contribution plan, the Retirement Fund has no unfunded benefit obligations.

In accordance with the agreement with the Retirement Fund, the YMCA contributes monthly 12% of wages for exempt and nonexempt staff who have met participant requirements, as defined in the Retirement Fund agreement. Participants may make voluntary contributions as allowed by existing tax law. Contributions by the YMCA to the Retirement Fund amounted to approximately \$3,751,000 for the year ended June 30, 2010.

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**(12) Commitments**

The YMCA leases land, buildings, and equipment under cancelable and noncancelable operating leases. Several renewable options exist which the YMCA has not exercised as of June 30, 2010. Annual rent expense under these leases amounted to approximately \$1,579,000 in fiscal year 2010.

Minimum future obligations under noncancelable operating leases as of June 30, 2010 are as follows:

Year Ending June 30:	
2011	\$ 1,507,000
2012	1,371,000
2013	994,000
2014	831,000
2015	610,000
Thereafter	1,598,000
	<u>\$ 6,911,000</u>

At June 30, 2010, the YMCA has \$11,310,000 remaining under construction contracts scheduled to be completed in fiscal year 2011.

**(13) Contingencies**

**(a) Legal Matters**

The YMCA is involved in various claims and lawsuits arising from the normal course of its programs and activities, none of which, in the opinion of management or the YMCA's legal counsel, should exceed the YMCA's insurance limits or have a material effect on the financial position of the YMCA.

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**(13) Contingencies (continued)**

**(b) Various Grant Contingencies**

In 2003, the YMCA received a grant from the California Youth Authority to acquire property as noted below. This grant includes conditions for a specified number of years that the property ownership would revert to the State if the YMCA does not use the facilities acquired for the express purposes agreed to in the grant document.

<u>Project</u>	<u>Received in fiscal year</u>	<u>Grant Amount</u>
Youth & Family Services Meade Street Teen Center	2003	\$ 803,000

Also in 2003, the YMCA purchased an apartment building for use in the Youth & Family Services Temporary Living Program. A total of \$310,000 of the \$653,000 purchase price was funded by a City of San Diego Community Development Block Grant. If the YMCA discontinues use of the property as specified in the grant documents, it must repay the grant proceeds in full.

Management fully intends to continue using each of these facilities in a manner which is consistent with the grant terms.

**(c) Letters of Credit**

On July 1, 2003, the YMCA entered into a contract for workers' compensation insurance that required the YMCA to post a \$1,565,000 direct pay standby letter of credit payable to The Travelers Indemnity Company (Travelers) as collateral for potential workers' compensation claims liabilities. The letter of credit, underwritten by Citibank, may be drawn upon only if the YMCA fails to timely reimburse the beneficiary for workers' compensation claims paid, and it requires the YMCA to immediately reimburse the bank for any drawings by the beneficiary. Under the terms of the 2003 and 2004 insurance contracts with Travelers, the YMCA reduced the face amount of the letter of credit to \$153,000 in June 2010, to collateralize potential remaining future claims incurred within these contract years.

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**(13) Contingencies (concluded)**

**(d) *Self-Insurance***

On July 1, 2004, the YMCA was approved by the State of California Department of Industrial Relations to become a self-insured employer for workers' compensation claims. As such the YMCA is responsible for timely payment of all workers' compensation claims incurred after July 1, 2004. The YMCA carries an excess workers' compensation liability policy that includes a \$750,000 self-insured reserve per claim. To satisfy claims collateralization requirements of California State law, the YMCA is a participant in the California Self Insurer's Security Fund. The YMCA employs a professional third-party administrator to manage workers' compensation claims incurred. As of June 30, 2010, the YMCA has accrued approximately \$1,280,000 as an estimate of workers' compensation claims incurred, but not yet paid or reported as of year-end. This liability is reflected in accounts payable and accrued expenses on the accompanying statement of financial position.

**(14) Assets Measured at Fair Value on a Recurring Basis**

The Association values its financial assets and liabilities based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

In determining the fair value, the Association utilizes the valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. The highest priority is given to Level 1 fair value measurements and the lowest priority is given to Level 3 fair value measurements.

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**(14) Assets Measured at Fair Value on a Recurring Basis (continued)**

Following are the major categories of assets measured at fair value on a recurring basis during the twelve months ended June 30, 2010, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

Asset Category	Level 1	Level 2	Level 3	Totals
Investments:				
Equity securities - domestic	\$ 10,747,000	\$ -	\$ -	\$ 10,747,000
Equity securities - international	2,521,000	-	-	2,521,000
Fixed income securities	-	12,226,000	-	12,226,000
Certificates of deposit	-	13,622,000	-	13,622,000
Land held for sale	-	-	14,000	14,000
Subtotal investments	13,268,000	25,848,000	14,000	39,130,000
Investments whose uses are limited:				
Pooled income fund	-	1,217,000	-	1,217,000
Gift annuity reserve	-	997,000	-	997,000
Money market fund	-	153,000	-	153,000
Subtotal investments whose uses are limited	-	2,367,000	-	2,367,000
Beneficial interest in charitable remainder trusts	-	-	4,805,000	4,805,000
Total assets measured at fair value on a recurring basis	\$ 13,268,000	\$ 28,215,000	\$ 4,819,000	\$ 46,302,000

The Association's investments in short-term and long-term investment securities are exposed to price fluctuations. The fair value measurements for short-term and long-term investment securities are based upon the quoted price in active markets multiplied by the number of securities owned, exclusive of any transaction costs and without any adjustments to reflect discounts that may be applied to selling a large block of securities at one time. The Association's Level 2 investment securities are valued based on prices quoted in over-the-counter markets for identical or substantially similar securities. The Association's Level 3 investments include land held for sale and beneficial interest in charitable trusts. The land held for sale is valued using comparable property sales. The beneficial interest in charitable trusts is valued using a model based upon trust characteristics, actuarial tables, and the present value of future cash flows. The trustees report investment values using observable inputs for each asset type, such as real estate appraisals, market quotes, and over-the-counter comparisons.

The Association does not believe changes in the fair value of these assets will materially differ from the amount that could be realized upon settlement or that the changes in fair value will have a material effect on the Association's financial position or change in net assets. However, the ultimate amount that could be realized upon sale or settlement is dependent on several factors including external market conditions, the terms and conditions of a sale agreement, the counterparty to a sale agreement, the investment's liquidity in capital markets, the actual lifespan of trust life income beneficiaries, and the length of time to liquidate an investment.



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**(14) Assets Measured at Fair Value on a Recurring Basis (concluded)**

The following table summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended June 30, 2010:

	<u>Land Held For Sale</u>	<u>Beneficial interest in charitable trusts</u>	<u>Total</u>
Balance at July 1, 2009	\$ 14,000	\$ 4,694,000	\$ 4,708,000
Change in valuation related to actuarial tables or other observable inputs	<u>-</u>	<u>111,000</u>	<u>111,000</u>
Balance at June 30, 2010	<u>\$ 14,000</u>	<u>\$ 4,805,000</u>	<u>\$ 4,819,000</u>