YMCA OF SAN DIEGO COUNTY

(A California Nonprofit Public Benefit Corporation)

Financial Statements

June 30, 2012

(with summarized financial information for 2011)

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, 2012, 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 2011 financial statements, and in our report dated October 20, 2011, 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 2012 financial statements referred to above present fairly, in all material respects, the financial position of the YMCA as of June 30, 2012, 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.

CohnReznick LLP

San Diego, California
November 5, 2012

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

Statement of Financial Position

June 30, 2012
(With comparative financial information for 2011)

Assets	2012	2011
Cash and cash equivalents	$ 9,024,000	$ 10,544,000
Pledges and accounts receivable (note 5)	15,500,000	11,398,000
Investments (note 6)	38,755,000	35,319,000
Investments for which uses are limited (note 6)	2,425,000	2,645,000
Prepaid expenses and other assets	932,000	648,000
Beneficial interest in charitable remainder trusts (note 2)	159,000	4,829,000
Land, buildings, and equipment, net (note 10)	103,150,000	103,614,000
Total assets	$ 169,945,000	$ 168,997,000
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 12,608,000	$ 13,965,000
Deferred revenue (note 11)	7,376,000	7,263,000
Other liabilities (note 12)	1,212,000	1,063,000
Total liabilities	21,196,000	22,291,000
Commitments and contingencies (notes 15 and 16)		
Net assets:		
Unrestricted	137,538,000	132,383,000
Temporarily restricted (note 2)	4,267,000	7,402,000
Permanently restricted (note 3)	6,944,000	6,921,000
Total net assets	148,749,000	146,706,000
Total liabilities and net assets	$ 169,945,000	$ 168,997,000

See accompanying notes to financial statements.

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

Statement of Activities

Year ended June 30, 2012
(With summarized financial information for 2011)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2012	Total 2011
Revenue:					
Public support:					
Annual support	$ 5,263,000	-	-	$ 5,263,000	$ 4,847,000
Direct contributions	5,648,000	$ 4,190,000	$ 477,000	10,315,000	9,098,000
Special events, net of expenses of approximately $1,680,000 in fiscal 2012	1,048,000	-	-	1,048,000	1,130,000
Total public support	11,959,000	4,190,000	477,000	16,626,000	15,075,000
Other revenue:					
Program service fees	49,300,000	-	-	49,300,000	47,126,000
Government funded programs	43,691,000	-	-	43,691,000	52,421,000
Membership dues	27,016,000	-	-	27,016,000	25,484,000
Investment income	480,000	179,000	-	659,000	750,000
Net realized gain on investments	206,000	106,000	-	312,000	586,000
Net merchandise sales	380,000	-	-	380,000	366,000
Total other revenue	121,073,000	285,000	-	121,358,000	126,733,000
Total public support and other revenue	133,032,000	4,475,000	477,000	137,984,000	141,808,000
Net assets released from restrictions	8,064,000	(7,610,000)	(454,000)	-	-
Total revenue	141,096,000	(3,135,000)	23,000	137,984,000	141,808,000
Expenses:					
Program services	126,293,000	-	-	126,293,000	128,844,000
Supporting services:					
Management and general	7,916,000	-	-	7,916,000	7,283,000
Fund-raising	1,782,000	-	-	1,782,000	1,572,000
Total supporting services	9,698,000	-	-	9,698,000	8,855,000
Total program and supporting services expenses	135,991,000	-	-	135,991,000	137,699,000
Change in net assets before net unrealized gain on investments	5,105,000	(3,135,000)	23,000	1,993,000	4,109,000
Net unrealized gain on investments	50,000	-	-	50,000	3,673,000
Change in net assets	5,155,000	(3,135,000)	23,000	2,043,000	7,782,000
Net assets at beginning of year	132,383,000	7,402,000	6,921,000	146,706,000	138,924,000
Net assets at end of year	$ 137,538,000	$ 4,267,000	$ 6,944,000	$ 148,749,000	$ 146,706,000

See accompanying notes to financial statements.

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

Statement of Functional Expenses

Year ended June 30, 2012
(With summarized financial information for 2011)

		Supporting services			Total expenses	
	Program services	**Management and general**	**Fund raising**	**Total supporting services**	2012	2011
Personnel costs:						
Salaries	$ 54,416,000	$ 4,899,000	$ 991,000	$ 5,890,000	$ 60,306,000	$ 59,758,000
Health and retirement	6,594,000	770,000	167,000	937,000	7,531,000	6,725,000
Payroll taxes and other	4,850,000	482,000	94,000	576,000	5,426,000	6,315,000
Total personnel costs	65,860,000	6,151,000	1,252,000	7,403,000	73,263,000	72,798,000
Contracted services	31,143,000	388,000	192,000	580,000	31,723,000	36,115,000
National dues	279,000	-	-	-	279,000	262,000
Supplies	5,397,000	60,000	192,000	252,000	5,649,000	5,659,000
Telephone and postage	1,172,000	132,000	11,000	143,000	1,315,000	1,472,000
Rents	3,523,000	155,000	-	155,000	3,678,000	3,785,000
Care of buildings and grounds	2,103,000	26,000	-	26,000	2,129,000	1,633,000
Utilities	2,685,000	59,000	-	59,000	2,744,000	2,651,000
Transportation	1,414,000	67,000	3,000	70,000	1,484,000	1,458,000
Staff training	737,000	222,000	55,000	277,000	1,014,000	925,000
Insurance	529,000	59,000	-	59,000	588,000	521,000
Printing and promotion	986,000	203,000	53,000	256,000	1,242,000	1,097,000
Rental, maintenance, and purchase of minor equipment items	2,193,000	39,000	7,000	46,000	2,239,000	1,777,000
Miscellaneous	1,672,000	89,000	17,000	106,000	1,778,000	1,881,000
Provision for doubtful receivables	393,000	-	-	-	393,000	144,000
Depreciation and amortization	5,817,000	266,000	-	266,000	6,083,000	5,521,000
Loss on disposal of assets	390,000	-	-	-	390,000	-
Total program and supporting services including depreciation	$ 126,293,000	$ 7,916,000	$ 1,782,000	$ 9,698,000	$ 135,991,000	$ 137,699,000

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2012
(With comparative financial information for 2011)

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 2,043,000	$ 7,782,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(362,000)	(4,259,000)
Depreciation and amortization	6,083,000	5,521,000
Loss on disposal of assets	390,000	—
Net discount amortization	62,000	90,000
Provision for losses on receivables	265,000	144,000
Contributions restricted for capital projects & endowment	(4,667,000)	(5,848,000)
(Increase) decrease in beneficial interest in charitable remainder trusts	4,670,000	(24,000)
(Increase) decrease in pledges and accounts receivable	(4,429,000)	3,264,000
Increase in prepaid expenses and other assets	(284,000)	(258,000)
Decrease in accounts payable and accrued expenses	(1,357,000)	(3,052,000)
Increase in other liabilities	261,000	60,000
Increase in deferred revenue	113,000	463,000
Net cash provided by operating activities	2,788,000	3,883,000
Cash flows from investing activities:		
Purchases and construction of land, buildings, and equipment	(6,103,000)	(15,990,000)
Purchases of investments	(16,276,000)	(18,350,000)
Proceeds from the sale of equipment	94,000	—
Proceeds from the sale or maturity of investments	13,422,000	26,142,000
Net cash used in investing activities	(8,863,000)	(8,198,000)
Cash flows from financing activities:		
Net gift annuities issued/(matured)	(112,000)	108,000
Contributions restricted for capital projects & endowment	4,667,000	5,848,000
Net cash provided by financing activities	4,555,000	5,956,000
(Decrease) increase in cash and cash equivalents	(1,520,000)	1,641,000
Cash and cash equivalents, beginning of year	10,544,000	8,903,000
Cash and cash equivalents, end of year	$ 9,024,000	$ 10,544,000

Supplemental Schedule of Noncash Investing Activities

Included in liabilities at June 30, 2011, is $544,000 related to construction in progress activities incurred but not yet paid.

See accompanying notes to financial statements.

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

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.

(1) Summary of Significant Accounting Policies (continued)

(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.

(1) Summary of Significant Accounting Policies (continued)

(f) Fair value of financial instruments:

The Association's material financial instruments at June 30, 2012 for which disclosure of estimated fair value is required by certain accounting standards consisted of cash and cash equivalents, accounts receivable, notes receivable from unrelated and related parties, marketable securities, and accounts payable. The fair values of cash and cash equivalents, accounts receivable and accounts payable are equal to their carrying value because of their liquidity and short-term maturity. Marketable securities are stated at fair value based on quoted market values. As a result of the relationship between the Association and its related parties, there is no practical method that can be used to determine the fair values of notes receivable from related parties. Management believes that the fair values of notes receivable from unrelated parties do not differ materially from their aggregate carrying values in that substantially all the obligations bear variable interest rates that are based on periodically adjustable market interest rates.

(g) 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.

(h) 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, 2012, the YMCA had issued 33 annuity contracts entered into with 26 separate donors. The present value of the life annuities associated with these contracts is recorded as other liabilities (see note 12).

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 11). 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 two 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, is recorded in beneficial interest in charitable remainder trusts and in temporarily restricted net assets until trust termination. 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.

(1) Summary of Significant Accounting Policies (continued)

(h) Split Interest Agreements (concluded)

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

(i) 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.

(j) 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.

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.

(k) 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 $1,959,000 for the year ended June 30, 2012.

(l) 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. Expenses are charged to program services, management and general, and fundraising based on a combination of specific identification and allocation by management.

(m) Advertising Expenses

Advertising costs are expensed as incurred. Advertising expense totaled $732,000 for the year ended June 30, 2012.

(1) Summary of Significant Accounting Policies (continued)

(n) 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.

In accordance with FASB ASC 740-10-15-2, 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, 2012.

The Association's U.S. Federal and state income tax returns prior to fiscal years 2009 and 2008, respectively, are closed. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, change in tax law and new authoritative rulings.

(o) 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.

(p) 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 current risk-free interest rates, which range from 0.7% to 4.9%. Accretion of discount on long-term unconditional promises to give is included in contribution revenue.

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (concluded)

(q) 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, 2011, from which the summarized information was derived.

(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 2012 and temporarily restricted net asset balances as of June 30, 2012 were $7,610,000 and $4,267,000, respectively. $3,024,000 of the temporarily restricted net assets balance relates to the construction and acquisition of property and equipment, $1,084,000 relates to the endowment fund, and $159,000 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 141 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.

(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, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (83,000)	$ 1,084,000	$ 6,944,000	$ 7,945,000
Board-designated endownment funds	18,224,000	-	-	18,224,000
Total funds	$ 18,141,000	$ 1,084,000	$ 6,944,000	$ 26,169,000

(4) Endowment (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 17,196,000	$ 1,222,000	$ 6,921,000	$ 25,339,000
Investment return:				
Investment income	395,000	179,000	-	574,000
Net appreciation (realized and unrealized)	241,000	106,000	-	347,000
Total investment return	636,000	285,000	-	921,000
Contributions	220,000	-	477,000	697,000
Transfers to increase board-designated endowment funds	504,000	-	-	504,000
Release of restrictions	454,000	-	(454,000)	-
Appropriation of endowment assets for expenditure	(869,000)	(423,000)	-	(1,292,000)
Endowment net assets, end of year	$ 18,141,000	$ 1,084,000	$ 6,944,000	$ 26,169,000

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 $83,000 as of June 30, 2012. 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 were 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.

(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, 2012 consist of the following:

Corporate and branch capital development program	$ 5,254,000
Less discount to recognize pledges at present value	(62,000)
	5,192,000
Notes receivable	148,000
Government program receivables	3,745,000
Shepherd trusts receivable	5,535,000
Program receivables and other pledges	1,145,000
	10,573,000
Less allowance for uncollectible amounts	(265,000)
Net receivables	$ 15,500,000

(5) Pledges and Accounts Receivable (concluded)

The YMCA receives pledges from individuals, foundations, government entities and corporations. A range of discount rates from 0.7% 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, 2012.

Of the Corporate and branch capital development program receivables, approximately $1,949,000 is due within one year and the balance of approximately $3,304,000 within two to five years at June 30, 2012. The program receivables and other pledges are due within one year.

At June 30, 2012, the YMCA has a receivable of approximately $5,535,000 from two charitable remainder trust agreements. The trusts terminated upon the death of the income beneficiary, at which time the remainder of the trusts were due to the remaining charitable beneficiaries. The YMCA's share is 60% of one trust and 25% of the other trust. As of June 30, 2012, the YMCA has received $584,000 in distributions from the trusts. The remaining trust assets are comprised of cash and several real estate properties located in San Diego County. The trustee is in the process of selling the properties and liquidating the trusts. At June 30, 2012, the portions of the trusts attributable to the fair value of the future benefits to be received by the YMCA were reflected in the statement of financial position. The fair value of the remainder interest was calculated using expected future cash flows and the appraised values of the real estate, which were discounted for valuation and fees using an interest rate of 5%, which resulted in an increase in unrestricted contribution revenue and an increase in assets of approximately $873,000.

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. In 2011, a donor offered a parcel of land valued at approximately $3.8 million to the YMCA for the Copley project. The 2008 conditional gift donor has agreed to accept part of the land donation as meeting their match requirement when the YMCA receives the deed. Several other conditional pledges with an aggregate amount of $2,408,000 have also been secured by the YMCA to match the pledge noted above. Payments received on these pledges in the aggregate amount of $396,000 have been recorded as liabilities. As of June 30, 2012, the YMCA had not yet received the deed to the land donation and therefore the condition had not yet been met. The remaining balances of the 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.

(6) Investments (concluded)

Investments as of June 30, 2012 consist of the following:

Certificates of deposit	$	8,889,000
Common stocks - domestic		15,768,000
Common stocks - international		3,480,000
Hedge funds		1,655,000
Fixed income securities		8,949,000
Land held for sale		14,000
	$	38,755,000

Investments whose uses are limited as of June 30, 2012 consist of the following:

Pooled income fund (see note 1h)	$	1,239,000
Gift annuity reserve (see note 1h)		1,058,000
Money market account compensating balance for letter of credit (see note 16c)		128,000
	$	2,425,000

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. In 2010, the YMCA invested a small portion of the endowment-related portfolio in a hedge fund of funds. This hedge fund of funds invests in hedge funds with investment objectives using marketable securities and futures contracts to reduce overall portfolio volatility and increase relative investment returns. Investment income of approximately $659,000, net realized capital gains of $312,000 and net unrealized capital gains of $50,000 is net of investment expenses of approximately $121,000 for the year ended June 30, 2012.

(7) 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.

(7) 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, 2012, 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				
Large cap value	$ 4,207,000	$ -	$ -	$ 4,207,000
Large cap growth	4,446,000	-	-	4,446,000
Small/mid cap growth	1,299,000	-	-	1,299,000
Large cap blend	4,482,000	-	-	4,482,000
Small/mid cap value	1,334,000	-	-	1,334,000
Subtotal equity securites - domestic	15,768,000	-	-	15,768,000
Equity securities - international				
Emerging markets	1,153,000	-	-	1,153,000
International equity	2,327,000	-	-	2,327,000
Subtotal equity securites - international	3,480,000	-	-	3,480,000
Hedge Funds	-	-	1,655,000	1,655,000
Fixed income securities				
Mortgage and asset backed securities	-	63,000	-	63,000
International bonds	-	99,000	-	99,000
Corporate bonds	-	770,000	-	770,000
Municipal bonds	-	3,282,000	-	3,282,000
US Treasury securities	-	4,006,000	-	4,006,000
Government sponsored entity bonds	-	729,000	-	729,000
Subtotal fixed income securites	-	8,949,000	-	8,949,000
Certificates of deposit	-	8,889,000	-	8,889,000
Land held for sale	-	-	14,000	14,000
Subtotal investments	19,248,000	17,838,000	1,669,000	38,755,000
Investments whose uses are limited:				
Pooled income fund	-	1,239,000	-	1,239,000
Gift annuity reserve	-	1,058,000	-	1,058,000
Money market fund	-	128,000	-	128,000
Subtotal investments whose uses are limited	-	2,425,000	-	2,425,000
Beneficial interest in charitable remainder trusts	-	-	159,000	159,000
Total assets measured at fair value on a recurring basis	$ 19,248,000	$ 20,263,000	$ 1,828,000	$ 41,339,000

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

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, beneficial interest in charitable trusts, and investment in a hedge fund of funds. 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 hedge fund of funds investment is valued based upon values reported by the fund managers and verified by a third party consultant.

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. There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the twelve months ended June 30, 2012 or 2011.

The following table summarizes fair value measurements using significant Level 3 inputs, and changes therein, for the year ended June 30, 2012:

	Hedge Funds	Land Held For Sale	Beneficial interest in charitable trusts	Total
Balance at July 1, 2011	$ 1,725,000	$ 14,000	$ 4,829,000	$ 6,568,000
Unrealized loss	(70,000)	-	-	(70,000)
Reclassification due to maturity of trust	-	-	(4,663,000)	(4,663,000)
Change in valuation related to actuarial tables or other observable inputs	-	-	(7,000)	- (7,000)
Balance at June 30, 2012	$ 1,655,000	$ 14,000	$ 159,000	$ 1,828,000

(8) Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

At June 30, 2011, the Association adopted new Financial Accounting Standards Board ("FASB") guidance on determining the fair value of investments in certain entities that calculate net asset value ("NAV") per share. This guidance amended prior accounting principles generally accepted in the United States of America by stating that if an investment does not have a readily determinable fair value and has all the attributes of an investment company, a reporting entity is permitted, as a practical expedient, to estimate fair value using the investment's NAV per share. The NAV should be calculated as of the reporting entity's measurement date and, if not, the NAV must be adjusted for significant market events since its calculation. This guidance also precludes a reporting entity from using this practical expedient if it is probable that it will sell the investment at a price other than NAV. The guidance also requires enhanced disclosures about the nature and risk of such investments. At adoption, there was no material impact on the Association's financial position or results of operations.

The following table lists investments in investment companies which are valued at NAV at June 30, 2012:

Asset category	Strategy	NAV in funds	No. of funds	Redemption terms	Redemption restrictions	Redemption restrictions in place at fiscal year end	Unfunded commitments at fiscal year end
Hedge funds	Multiple strategies including long/short equities, long/short credit, multi-strategy opportunistic, portfolio hedge, macro, and activist.	$ 1,655,000	1	May be redeemed as of last business day of each calendar quarter, with 95 day's written notice.	The fund has a side pocket to delay redemption requests.	None	None

(9) Related Party Transaction

At June 30, 2012, "Pledges and accounts receivable" in the Statement of Financial Position includes a promissory note receivable from an officer originated on December 29, 2010. The note receivable is secured by a deed of trust on real property. It is due December 29, 2020 and bears interest at 8% per annum. The principal balance of this note receivable at June 30, 2012 was $85,000.

(10) Land, Buildings, and Equipment

The carrying values of land, buildings, and equipment as of June 30, 2012 are as follows:

Land	$ 15,990,000
Buildings and machinery	98,685,000
Furniture, fixtures, and equipment	13,717,000
Buses and other vehicles	918,000
Leasehold improvements	23,257,000
Construction in progress	1,387,000
	153,954,000
Less accumulated depreciation and amortization	(50,804,000)
Land, buildings, and equipment, net	$ 103,150,000

(11) Deferred Revenue

At June 30, 2012, deferred revenue consists of the following:

Program revenues	$ 5,341,000
Pooled income fund (see note 1h)	621,000
Membership dues	1,019,000
Other	395,000
	$ 7,376,000

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

(12) Other Liabilities

Other liabilities at June 30, 2012 consist of the following:

Gift annuities payable (see note 1h)	$ 755,000
Conditional pledge receipts payable	396,000
Notes payable with the Redevelopment Agency of the City of San Diego, due December 24, 2012	61,000
	$ 1,212,000

(12) Other Liabilities (concluded)

Future maturities are as follows:

2013	$	566,000
2014		109,000
2015		107,000
2016		103,000
2017		68,000
Thereafter		259,000
	$	1,212,000

(13) 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, 2012, the YMCA had cash and cash equivalents which exceeded FDIC-insured limits at certain financial institutions in excess of $7,366,000.

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 50 government contracts in fiscal year 2012 from Federal, state, and local sources. The largest 3 contracts were for the Federal and state-funded alternative payment child care programs totaling approximately $28,699,000 in fiscal year 2012.

(14) 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 $4,132,000 for the year ended June 30, 2012.

(15) Commitments

The YMCA leases land, buildings, and equipment under cancelable and non-cancelable operating leases. Several renewable options exist which the YMCA has not exercised as of June 30, 2012. Annual rent expense of $3,678,000 for fiscal year 2012 includes annual fair-value rental of the leased properties (Note 1(k)), property taxes and common area maintenance charges of approximately $2,288,000.

Minimum future obligations under non-cancelable operating leases as of June 30, 2012 are as follows:

Year Ending June 30,		
2013	$	1,291,000
2014		1,087,000
2015		865,000
2016		667,000
2017		588,000
Thereafter		723,000
	$	5,221,000

At June 30, 2012, the YMCA has $722,000 remaining under construction contracts scheduled to be completed in fiscal year 2012.

(16) 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.

(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. In September 2012, the YMCA fulfilled its obligation on the note and the California Youth Authority lifted the lien on the property.

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

(16) Contingencies (concluded)

(b) Various Grant Contingencies (concluded)

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) Letter 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 $87,000 in July 2012, to collateralize potential remaining future claims incurred within these contract years.

(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, 2012, the YMCA has accrued approximately $1,652,000 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.

(17) Subsequent events

Subsequent events have been evaluated through November 5, 2012, which is the date the financial statements were available to be issued.

Subsequent to year end, the YMCA was advised by the trustee of two of the charitable remainder trusts, that two real estate properties were sold and that the YMCA should expect to receive a distribution of approximately $1,891,000, which represents the YMCA's share of the trusts, and is included in receivables at June 30, 2012. The remaining properties in these trusts are on the market and in the process of being sold.