

WATERTOWN FAMILY YMCA, INC.

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FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

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WATERTOWN FAMILY YMCA, INC.

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POULSEN & PODVIN, CPA, P.C.

Certified Public Accountants

145 Clinton St.

Watertown NY 13601

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Watertown Family YMCA, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Watertown Family YMCA, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watertown Family YMCA, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2013, on our consideration of Watertown Family YMCA, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Watertown Family YMCA, Inc.'s internal control over financial reporting and compliance.

Poulsen & Podwin, CPA, P.C.

Watertown, New York
May 3, 2013

WATERTOWN FAMILY YMCA, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

ASSETS	2012	2011
Cash and cash equivalents	\$ 1,493,335	\$ 940,006
Unconditional promises to give - net of allowance of \$8,000 and \$13,000 (Note 2)	355,309	594,944
Accounts receivable - grants and contracts	75,097	61,464
Inventory	2,871	806
Prepaid expenses	107,258	98,435
Investments (Note 3)	286,283	244,331
Property and equipment, net (Note 4)	5,621,897	5,731,177
Deferred loss on sale/leaseback (Note 5)	<u>140,187</u>	<u>142,412</u>
TOTAL ASSETS	<u>\$ 8,082,237</u>	<u>\$ 7,813,575</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 244,912	\$ 35,450
Accrued expenses	42,711	37,474
Notes Payable (Note 6)	820,220	1,010,836
Deferred revenue (Note 7)	<u>53,924</u>	<u>32,361</u>
Total Liabilities	<u>1,161,767</u>	<u>1,116,121</u>
NET ASSETS		
Unrestricted		
Designated by Board		
Unemployment reserve	64,873	64,866
Capital reserve	267,323	116,291
Blue Sharks reserve	23,323	19,262
Ground lease	22,708	22,706
Undesignated	387,223	67,642
Fixed assets	<u>5,621,897</u>	<u>5,731,177</u>
Total Unrestricted	<u>6,387,347</u>	<u>6,021,944</u>
Temporarily Restricted (Note 8)	257,425	399,812
Permanently Restricted (Note 9)	<u>275,698</u>	<u>275,698</u>
Total Net Assets	<u>6,920,470</u>	<u>6,697,454</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,082,237</u>	<u>\$ 7,813,575</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN FAMILY YMCA, INC.

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STATEMENTS OF ACTIVITIES
FOR YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
UNRESTRICTED NET ASSETS		
Unrestricted revenues and gains		
Contributions	\$ 142,040	\$ 151,646
Federated fundraising	52,172	47,699
Government and other contracts	680,288	626,391
Membership dues and program income	3,384,830	3,347,642
Rental income	117,636	110,962
Sales and commissions	20,145	23,802
Investment income	8,893	6,845
Realized and unrealized gain (loss) on investments	10,090	(11,952)
Miscellaneous revenue	32,321	22,938
Net assets released from restrictions (Note 8)	229,512	161,396
Total Unrestricted Revenues and Gains	<u>4,677,927</u>	<u>4,487,369</u>
 Expenses		
Program services		
Downtown YMCA activities	975,987	995,219
Carthage YMCA activities	542,246	517,877
Fairgrounds YMCA activities	1,044,499	1,018,677
Child care	1,509,350	1,325,971
Supporting services		
Administrative	240,442	238,664
Total Unrestricted Expenses	<u>4,312,524</u>	<u>4,096,408</u>
 Increase in Unrestricted Net Assets	<u>365,403</u>	<u>390,961</u>
 TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted revenues and gains		
Contributions	50,046	
Federated fundraising	37,079	33,413
Capital Campaign	-	60,050
Net assets released from restrictions (Note 8)	<u>(229,512)</u>	<u>(161,396)</u>
 Decrease in Temporarily Restricted Net Assets	<u>(142,387)</u>	<u>(67,933)</u>
 PERMANENTLY RESTRICTED NET ASSETS		
Contributions	<u>-</u>	<u>33,538</u>
 Increase in Permanently Restricted Net Assets	<u>-</u>	<u>33,538</u>
 Increase in Net Assets	223,016	356,566
Net Assets - Beginning of Year	<u>6,697,454</u>	<u>6,340,888</u>
Net Assets - End of Year	<u>\$ 6,920,470</u>	<u>\$ 6,697,454</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN FAMILY YMCA, INC.
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STATEMENTS OF FUNCTIONAL EXPENSES
FOR YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012					Total
	Program Services				Supporting Services	
	Downtown YMCA Activities	Outreach YMCA Activities	Fairgrounds YMCA Activities	Child Care	Admin-istrative	
Salaries and wages	\$ 505,324	\$ 327,912	\$ 520,320	\$ 925,533	\$ 135,476	\$ 2,414,565
Employee benefits	68,487	41,456	64,983	129,374	33,745	338,045
Total Salary and Related Expenses	573,811	369,368	585,303	1,054,907	169,221	2,752,610
Conferences and conventions	975	2,525	3,615	16,750	1,180	25,045
Contractual services	21,535	3,230	5,172	1,523	24,483	55,943
Dues	20,683	4,081	17,800	25,200	8,413	76,177
Financing	14,126	4,091	52,223	11,843	915	83,198
Fundraising expense	1,736		6,826		629	9,191
Occupancy	117,798	24,543	125,147	41,233	3,000	311,721
Insurance	13,025	6,473	33,365	5,504	20,501	78,868
Postage and shipping	5,032	2,214	640	3,531		11,417
Printing, publications and promotion	7,396	3,001	16,406	2,418	3,960	33,181
Supplies and other program expense	106,879	93,983	97,407	192,303	(493)	490,079
Telephone	5,609	2,777	2,516	3,966		14,868
Travel and employee expense	7,091	3,886	6,381	10,116	2,251	29,725
Administration	14,979	5,353	14,250	15,663	15,698	65,943
Bad debt expense					(12,500)	(12,500)
Total Operating Expenses before Depreciation and Amortization	910,675	525,525	967,051	1,384,957	237,258	4,025,466
Depreciation and Amortization Expense	65,312	16,721	77,448	124,393	3,184	287,058
Total Operating Expenses	\$ 975,987	\$ 542,246	\$ 1,044,499	\$ 1,509,350	\$ 240,442	\$ 4,312,524

The accompanying notes are an integral part of these financial statements.

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	Program Services				Supporting Services	Total
	Downtown YMCA Activities	Outreach YMCA Activities	Fairgrounds YMCA Activities	Child Care	Admin-istrative	
Salaries and wages	\$ 507,093	\$ 302,682	\$ 475,209	\$ 838,177	\$ 127,827	\$ 2,250,988
Employee benefits	72,387	36,244	67,087	101,535	23,691	300,944
Total Salary and Related Expenses	579,480	338,926	542,296	939,712	151,518	2,551,932
Conferences and conventions	606	160	975	25,710	425	27,876
Contractual services	18,876	2,057	4,300		23,390	48,623
Dues	20,945	4,000	17,700	21,701	5,104	69,450
Financing	15,837	3,377	54,740	12,556	89	86,599
Fundraising expense	1,452		17,766		399	19,617
Occupancy	137,168	29,083	158,874	31,809	3,000	359,934
Insurance	8,503	5,502	28,333	12,687	23,973	78,998
Postage and shipping	7,286	3,542	1,183	2,027		14,038
Printing, publications and promotion	15,716	3,833		1,229	5,672	26,450
Supplies and other program expense	96,173	93,520	107,714	138,163	(13)	435,557
Telephone	5,202	5,018	2,970	3,762		16,952
Travel and employee expense	6,401	5,026	6,238	8,679	7,196	33,540
Administration	13,411	4,215	12,948	12,850	18,967	62,391
Bad debt expense					(4,154)	(4,154)
Total Operating Expenses before Depreciation and Amortization	927,056	498,259	956,037	1,210,885	235,566	3,827,803
Depreciation and Amortization Expense	68,163	19,618	62,640	115,086	3,098	268,605
Total Operating Expenses	\$ 995,219	\$ 517,877	\$ 1,018,677	\$ 1,325,971	\$ 238,664	\$ 4,096,408

WATERTOWN FAMILY YMCA, INC.

STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 223,016	\$ 356,566
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	284,833	266,380
Amortization of deferred loss	2,225	2,225
Realized (gain) loss on investments	484	(13,776)
Unrealized (gain) loss on investments	(10,574)	25,728
Non-cash contribution	(60,839)	(14,851)
(Increase) decrease in operating assets		
Unconditional promises to give	239,635	140,532
Accounts receivable - grants and contracts	(13,633)	13,990
Accrued interest receivable		89
Inventory	(2,065)	1,288
Prepaid expenses	(8,823)	(66,374)
Increase (decrease) in operating liabilities		
Accounts payable	209,462	2,144
Accrued expenses	5,237	11,465
Deferred revenue	21,563	(78,717)
Net Cash Provided by Operating Activities	890,521	646,689
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(113,060)	(46,375)
Sale or maturity of investments	142,037	132,659
Purchase of property and equipment	(175,553)	(567,268)
Net Cash Used by Investing Activities	(146,576)	(480,984)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of principle note	(190,616)	(188,497)
Net Cash Used by Financing Activities	(190,616)	(188,497)
Net Increase (Decrease) in Cash and Cash Equivalents	553,329	(22,792)
Cash and Cash Equivalents - Beginning of Year	940,006	962,798
Cash and Cash Equivalents - End of Year	\$ 1,493,335	\$ 940,006
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	\$ 45,215	\$ 47,834
Cash paid during the year for income taxes	-	-

There were no noncash financing or investing activities during the year ended December 31, 2012 and 2011.

The accompanying notes are an integral part of these financial statements.

WATERTOWN FAMILY YMCA, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Watertown Family YMCA, Inc. (YMCA) is a non-profit organization, which originated in 1855 and was chartered in 1870. The Organization operates a recreational/athletic facility and also offers various childcare services and health education programs to the general public. Most of the YMCA's funding is received from membership and special program fees. During 2004, the Organization opened a recreational/athletic facility in Carthage, NY. The Carthage Youth Club conveyed the property to the YMCA under an agreement dated June 28, 2004.

In May of 2006 the organization entered into a two year lease arrangement for a facility located at 585 Rand Drive in Watertown, then known as Ultimate Goal. The lease was extended for a third year while the YMCA awaited approval from New York State related to a ground lease as the facility is located on New York State parkland. During 2009, this ground lease was approved by the State and the City of Watertown and the YMCA completed the purchase of the facility from the previous owner, the Watertown Savings Bank. The facility, renamed the Fairgrounds YMCA, includes two indoor playing fields for lacrosse, soccer and football, a gymnasium, two racquetball courts, a fitness center, a dance studio and a gymnastics center.

In June of 2009 the YMCA purchased the building and property at 514 Washington Street in Watertown. The YMCA ran a capital campaign in 2010 which will supply the funds necessary to eliminate the debt created by the purchase and allow for the facility to be converted into a day care for 80 – 100 children. This facility was renovated during 2010 and opened in January 2011.

By motion of the Board of Directors the Watertown YMCA now operates programs through four branches named the Downtown YMCA – 119 Washington Street, Watertown, the Fairgrounds YMCA – 585 Rand Drive, Watertown, YMCA SACC – 585 Rand Drive, Watertown, and the Outreach YMCA – 250 State Street, Carthage.

A. Youth Programs

The YMCA's Youth Programs are designed to help children develop specific skills, build self-esteem, learn values, make friends, and have fun in a safe, well-supervised environment. Programs include youth sports leagues and clinics, fitness programs, parent/child programs, babysitting certification and a teen center.

YMCA Youth Programs serve over 6,300 youths between the ages of 6 months and 17 years.

B. Aquatic Programs

Annually, the YMCA Aquatic Programs serve a variety of age groups, from toddler to senior citizen. Hundreds of children are enrolled in YMCA swim lessons each program session. In addition to lessons, the YMCA offers an extensive lap and recreation swim program, as well as a very popular water exercise class for seniors and arthritics. Also, the YMCA pool is used for pool parties. The YMCA also has a competitive swim team known as the Blue Sharks, which utilizes pools at Wiley and Watertown High School. Over 100 youth swim competitively with the team and parent volunteers are involved in the management of the team and in the operation of swim meets.

WATERTOWN FAMILY YMCA, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

C. Childcare Programs

The YMCA childcare programs are designed to provide a safe, caring, and fun environment for children of working parents. The addition of the daycare at 514 Washington Street in January of 2011 rounded out our childcare offerings. The licensed daycare operates from 6:00 am to 6:00 pm and has a capacity of 80 children. It can accommodate 14 infants, 22 toddlers, and 44 preschoolers. The School Age Child Care program offers a variety of activities before and after school for children grades K-6 in 18 school sites located in 7 school districts in Jefferson County. The program has over 900 children enrolled and over 400 children attend daily. This program has become a very popular alternative to sending youngsters home alone every day after school. Financial assistance is available for both daycare and SACC. More information is included in the section called Gateway Financial Assistance Program.

The Outreach branch is the service provider for programs offered at both Case Middle school in the Watertown City School District called YEP (Youth empowerment program) and MAP (Motivation and achievement program) offered at the middle school in the Carthage School District. Programs are designed for academic upgrading, self-esteem building, and involve active play. There are no fees for the programs which are supported by grants from Department of Defense, Youth Bureau, and the United Way. There are over 100 youth attending daily between the two programs.

D. Gateway Financial Assistance Program

The YMCA Gateway Assistance Program's goal is to remove financial barriers impacting accessibility to YMCA membership programs and YMCA SACC services. The Program was able to assist with the payment of SACC fees for 146 children, preschool fees for 9 children, and daycare fees for 32 children. The program was also used to assist 1,469 individuals including 386 families involving 697 children to become a part of the YMCA membership and for 284 children to participate in programs like soccer leagues, gymnastics, dance, swim lessons and art. The value of the YMCA assistance for SACC is \$124,800, for membership it is \$113,400 and for programs it is \$51,015, for a total of \$289,215.

E. Health and Physical Education Programs

Since its beginning, the YMCA has provided youth and adults with programs and facilities to build strong and healthy bodies. Primarily offered to its members, which is approximately 8,600, the Health and Education Programs are provided to the community through programs operating in the Fitness Centers, aerobics studios and gymnasiums at all three locations and in the pools and Ready to be Fit center at the Downtown YMCA.

F. Community Building

The YMCA, with funding support from Fort Drum and Armed Services YMCA of the USA, operates a program called Strong Communities. This program operates in communities outside of Fort Drum. Its goal is to improve the quality of life for military families by raising their awareness of programs and services available in their host communities.

G. Volunteers

The YMCA could not operate without the support and guidance of its volunteers. The YMCA receives over 750 hours of policy and committee support from 21 volunteers, 1200 hours of assistance with special events from 141 volunteers, another 9,000 hours of support from over 225 sports team coaches, and 400 hours from 252 quilters throughout New York State for the Operation Kid Comfort program.

WATERTOWN FAMILY YMCA, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Basis of Accounting

The financial statements of Watertown Family YMCA, Inc. have been prepared on the accrual basis in accordance with generally accepted accounting principles.

Pledges

Pledges, including unconditional promises to give, are recorded when received. All pledges are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

Endowment contributions and investments are permanently restricted by the donor. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

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

Contributions and Net Assets

Contributions received as well as collectible unconditional promises to give (pledges receivable) are recognized in the period received and are recorded as unrestricted, temporarily restricted, or permanently restricted support based on the existence and/or nature of any donor restriction. Net assets of the Organization and changes therein are classified and reported as follows:

Permanently Restricted – permanently restricted net assets represent bequests or donations with donor imposed restrictions that can never be removed. Earnings on the YMCA permanently restricted funds have been specified by the donors to be used for operational purposes.

Temporarily Restricted – temporarily restricted net assets have donor-imposed restrictions that end with either the passage of time or when a purpose restriction is accomplished. At the time the restriction ends, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restriction. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

WATERTOWN FAMILY YMCA, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Unrestricted – unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.

Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Open Tax Years

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ended 2012, 2011, 2010, and 2009 are subject to examination by the IRS, generally for 3 years after they were filed.

Fixed Assets

Fixed assets are stated at cost or fair value at date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Additions and betterments of \$2,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The net fixed asset balances have been recorded as a separate component in unrestricted net assets.

Functional Allocation of Expenses

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

Inventories

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

Donated Services, Materials and Facilities

The Organization receives donated services from a variety of unpaid volunteers. No amounts have been recognized in the accompanying Statements of Activities because the criteria for recognition of such volunteer effort do not meet the criteria for recognition.

Concentration of Credit Risk

The Organization maintains cash in demand deposits with federally insured banks. At times, the balances in these accounts may be in excess of federally insured limits. At December 31, 2012 and 2011, there were no deposits in excess of federally insured limits.

WATERTOWN FAMILY YMCA, INC.
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 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011

Fair Value of Financial Statements

The carrying amounts of cash and cash equivalents, accounts receivable – grants and contracts and unconditional promises to give (pledges) and other receivables to be received in less than one year approximate fair value because of the short maturity of those financial instruments. Pledges that are receivable in more than one year approximate fair value because they have been discounted at an appropriate interest rate. See Note 2. The net carrying amounts of investments are fair value. See Note 15.

Subsequent Events

Subsequent events were evaluated through May 3, 2013, which is the date which the financial statements were available to be issued.

NOTE 2 – PROMISES TO GIVE

Unconditional promises to give consists of the following:

	<u>2012</u>	<u>2011</u>
United Way Services	\$ 37,080	\$ 33,413
Restricted for Capital Campaign	353,721	629,581
	<u>390,801</u>	<u>662,994</u>
Gross unconditional promises to give	390,801	662,994
Less: Unamortized discount	(27,492)	(55,050)
Less: Allowance for uncollectible promises	(8,000)	(13,000)
	<u>355,309</u>	<u>594,944</u>
Net unconditional promises to give	<u>\$ 355,309</u>	<u>\$ 594,944</u>
Amounts due in:		
Less than one year	\$ 193,009	
One to five years	197,792	
	<u>\$ 390,801</u>	

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 4%.

The amount due from United Way Services consists of the following:

	<u>2012</u>	<u>2011</u>
Allocation for the next fiscal year:		
General allocation	<u>\$ 37,080</u>	<u>\$ 33,413</u>

WATERTOWN FAMILY YMCA, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 3 – INVESTMENTS

The following investments were held by the YMCA at December 31, 2012 and 2011, and are recorded at fair-market value.

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Operating Funds:				
Corporate Stock	\$ 25,507	\$ 25,252	\$ 4,808	\$ 4,245
Total Operating Funds	<u>25,507</u>	<u>25,252</u>	<u>4,808</u>	<u>4,245</u>
Non-operating Funds:				
Mutual Funds	30,366	28,931	28,999	25,694
Corporate Stock	174,066	196,713	163,708	181,217
Franklin Income Series - Mixed	35,151	35,387	35,151	33,175
Total Non-operating Funds	<u>239,583</u>	<u>261,031</u>	<u>227,858</u>	<u>240,086</u>
Total Operating and Non-operating Funds	<u>\$ 265,090</u>	<u>\$ 286,283</u>	<u>\$ 232,666</u>	<u>\$ 244,331</u>

The following depicts the availability of non-operating funds:

	<u>2012</u>			<u>2011</u>		
	<u>Cash</u>	<u>Invest- ments</u>	<u>Total</u>	<u>Cash</u>	<u>Invest- ments</u>	<u>Total</u>
Non-operating funds	\$ 80,383	\$ 261,031	\$ 341,414	\$ 100,980	\$ 240,086	\$ 341,066
Less:						
Unexpendable - Permanent Endowments	<u>(14,667)</u>	<u>(261,031)</u>	<u>(275,698)</u>	<u>(35,612)</u>	<u>(240,086)</u>	<u>(275,698)</u>
Unrestricted expendable funds	<u>\$ 65,716</u>	<u>\$ -</u>	<u>\$ 65,716</u>	<u>\$ 65,368</u>	<u>\$ -</u>	<u>\$ 65,368</u>

WATERTOWN FAMILY YMCA, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 4 – PROPERTY AND EQUIPMENT

The major categories of property and equipment as of December 31 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Land	\$ 131,000	\$ 131,000
Buildings and improvements	5,153,123	5,007,818
Leasehold improvements	2,607,562	2,584,328
Furniture, fixtures and equipment	989,929	982,915
	<u>8,881,614</u>	<u>8,706,061</u>
Total Property and Equipment	8,881,614	8,706,061
Less: Accumulated Depreciation	<u>(3,259,717)</u>	<u>(2,974,884)</u>
Net Property and Equipment	<u>\$ 5,621,897</u>	<u>\$ 5,731,177</u>

NOTE 5 – DEFERRED LOSS

In 1985, the YMCA gave title to their building to Bugbee Housing Development Fund Company so that it could obtain financing through HUD for the construction of low-income housing. The YMCA leases the building back from Bugbee Housing for \$1 per year. The deferred loss associated with this leaseback began being amortized at \$9,668 per year for a 40 year period in 1985. As of January 1, 2011, the leaseback period was extended through 2075. The remainder of the leaseback is being amortized at \$2,225 per year for the remaining 65 years. Upon termination of the agreement, title to the building reverts back to the YMCA.

Amortization expense was \$2,225 for each of the years ended December 31, 2012 and 2011, respectively.

The following shows the net deferred loss on sale/leaseback:

	<u>2012</u>	<u>2011</u>
Deferred Loss on Sale/Leaseback	\$ 386,714	\$ 386,714
Less: Accumulated Amortization	<u>(246,527)</u>	<u>(244,302)</u>
Net Deferred Loss on Sale/Leaseback	<u>\$ 140,187</u>	<u>\$ 142,412</u>

WATERTOWN FAMILY YMCA, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 6 – NOTES PAYABLE

Notes payable consisted of the following:

	2012	2011
Watertown Savings Bank, monthly payments of \$3,322, including interest currently at 5.75%, maturing August 1, 2024.	\$ 335,211	\$ 355,182
Watertown Local Development Corp., monthly payments of \$3,163, including interest currently at 5%, maturing August 1, 2024.	335,009	355,654
Watertown Local Development Corp., annual payment of \$150,000, including interest currently at 3%, maturing September 1, 2013.	150,000	300,000
	\$ 820,220	\$ 1,010,836

Maturities of notes payable are as follows:

Years ending December 31,	
2013	\$ 192,851
2014	45,209
2015	47,699
2016	50,326
2017	53,099
Thereafter	431,036
Total	\$ 820,220

NOTE 7 – DEFERRED REVENUE

Unexpended grant money at December 31 was composed of the following:

	2012	2011
Various grants - AYPYN	\$ 15,000	\$ 13,000
Various grants - CASE Program		14,414
Various grants - ASPYN	22,500	
Gift certificates	3,564	4,389
Other	12,860	558
Total Deferred Revenue	\$ 53,924	\$ 32,361

WATERTOWN FAMILY YMCA, INC.
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 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2012 AND 2011

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

	2012	2011
United Way of NNY - period after December 31	\$ 37,079	\$ 33,413
Capital Campaign	170,300	366,399
Tennis Account	50,046	
	\$ 257,425	\$ 399,812

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	2012	2011
Expiration of time restrictions - United Way Services	\$ 33,413	\$ 30,417
Purpose restriction accomplished - contribution allowable expenditures	196,099	130,979
	\$ 229,512	\$ 161,396

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following at December 31:

	2012	2011
Endowments	\$ 275,698	\$ 275,698

NOTE 10 – RETIREMENT PLAN

The Organization maintains a deferred contribution pension plan, qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. At present, the Organization matches employee contributions up to a maximum of 6% of employee gross earnings. Contributions to the Plan for the years ended December 31, 2012 and 2011 were \$24,565 and \$22,173, respectively.

NOTE 11 – RENTAL INCOME

The Organization receives rental income from different parties on a short-term basis.

WATERTOWN FAMILY YMCA, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 12 – OPERATING LEASES

Ground lease

The Organization has an operating lease with the City of Watertown for the property in which the Fairgrounds facility is located. This lease commenced on July 9, 2009, and will expire on December 31, 2033. It has an option to renew for an additional 15 years upon approval by the State Legislature. For the first year, monthly lease expense is \$2,000 and is payable in quarterly installments. For each of the next four calendar years, semi-annual lease payments are required in the aggregate of \$12,000. Commencing in 2014 and every five years there-after, the lease payments will increase by 7.5%. Rent expense was \$24,000 for the years ended December 31, 2012 and 2011.

Future minimum payments under this lease are as follows:

Years ending December 31,	
2013	\$ 24,000
2014	25,800
2015	25,800
2016	25,800
2017	25,800
Thereafter	505,858
	<u>\$ 633,058</u>

Parking Lot

The Organization entered into a lease for parking spaces at the Downtown location which began on April 1, 2008 and expired on April 1, 2011. The lease was amended on April 1, 2011 and extended for an additional ten years. The lease calls for a 3.5% annual increase. Rent expense for the years ended December 31, 2012 and 2011 were \$6,846 and \$7,150, respectively.

Future minimum payments under this lease are as follows:

Years ending December 31,	
2013	\$ 7,089
2014	7,338
2015	7,590
2016	7,862
2017	8,138
Thereafter	27,668
	<u>\$ 65,685</u>

WATERTOWN FAMILY YMCA, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Copier Lease

The Organization entered into a lease for a copier which began on October 19, 2010, and will expire on October 19, 2013. Rental expense for this lease consisted of \$2,062 for each of the years ended December 31, 2012 and 2011.

The Organization entered into a lease for a copier which began on April 4, 2011, and will expire on April 4, 2014. Rental expense for this lease consisted of \$2,168 and \$2,650 for the years ended December 31, 2012 and 2011, respectively.

Future minimum lease payments under these leases are as follows:

Years ending December 31,	
2013	\$ 4,310
2014	663
	<u>\$ 4,973</u>

NOTE 13 – COMMITMENTS

The Organization entered into a four year agreement with the New York State Zoo, whereby the Zoo agrees to provide \$5,000 of education services to the Organization in return for a payment of \$20,000 from the Organization. The education services commenced on January 1, 2009. At December 31, 2012 and 2011, the Organization has a prepaid in the amount of \$-0- and \$5,545, respectively, for the payment made to the Zoo.

NOTE 14 – ENDOWMENTS

The Organization's endowment consists of various donor-specified funds and are subject to donor restrictions. The Deline endowment stipulates that the original principal of the gift is to be held and invested by the Organization indefinitely and income from the fund is to be expended for membership scholarships. The purpose and history of the remaining endowment balance is unknown.

The Organization 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. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce a minimum rate of return of 5% per year after taking into account inflation costs and fees, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

In order to achieve the long-term objective of the Organization, it has recommended that the annual spending from all endowment funds be restricted to between 4 and 5.5 percent of a three year average of the fair market value of the funds.

WATERTOWN FAMILY YMCA, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

The composition of endowment net assets as of December 31, 2012 and 2011 are as follows:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Deline	\$ 12,008	\$	\$ 15,000	\$ 27,008
Other	53,707	50,045	260,698	364,450
Endowment net assets, December 31, 2012	<u>\$ 65,715</u>	<u>\$ 50,045</u>	<u>\$ 275,698</u>	<u>\$ 391,458</u>
	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Deline	\$ 9,399	\$	\$ 15,000	\$ 24,399
Other	55,969		260,698	316,667
Endowment net assets, December 31, 2011	<u>\$ 65,368</u>	<u>\$ -</u>	<u>\$ 275,698</u>	<u>\$ 341,066</u>

The changes in endowment net assets as of December 31, 2012 and 2011 are as follows:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2012	\$ 65,368	\$	\$ 275,698	\$ 341,066
Contributions		50,580		50,580
Investment income	31,434			31,434
Net appreciation (depreciation)	(14,287)	(535)		(14,822)
Transfer to unrestricted cash account	(16,800)			(16,800)
Endowment net assets, December 31, 2012	<u>\$ 65,715</u>	<u>\$ 50,045</u>	<u>\$ 275,698</u>	<u>\$ 391,458</u>
	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2011	\$ 73,438	\$	\$ 242,160	\$ 315,598
Contributions			33,538	33,538
Investment income	5,890			5,890
Net appreciation (depreciation)	(12,815)			(12,815)
Expenditures	(1,145)			(1,145)
Endowment net assets, December 31, 2011	<u>\$ 65,368</u>	<u>\$ -</u>	<u>\$ 275,698</u>	<u>\$ 341,066</u>

WATERTOWN FAMILY YMCA, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 15 – FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis at December 31, 2012 and 2011 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2012</u>				
Investments	\$ 286,283	\$ 286,283	\$	\$
<u>December 31, 2011</u>				
Investments	\$ 244,331	\$ 244,331	\$	\$

Fair value of investments is determined by reference to quoted market prices and other relevant information generated by market transactions.

POULSEN & PODVIN, CPA, P.C.

Certified Public Accountants

145 Clinton St.

Watertown NY 13601

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Watertown Family YMCA, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Watertown Family YMCA, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Watertown Family YMCA, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Watertown Family YMCA, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Watertown Family YMCA, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, the communication is not suitable for any other purpose.

Poulsen & Podvin, CPA, P.C.

Watertown, New York
May 3, 2013