stockman kast ryan + co LLP

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE PIKES PEAK REGION

AND

YMCA FOUNDATION OF THE PIKES PEAK REGION

Consolidated Financial Statements

For the Year Ended December 31, 2012

And

Independent Auditors' Report

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE PIKES PEAK REGION AND YMCA FOUNDATION OF THE PIKES PEAK REGION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Young Men's Christian Association of the Pikes Peak Region

We have audited the accompanying consolidated financial statements of Young Men's Christian Association of the Pikes Peak Region and YMCA Foundation of the Pikes Peak Region (collectively, the Organization), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2012, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 18, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stockman Kast Ryan & Co., LLP

June 20, 2013

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE PIKES PEAK REGION AND YMCA FOUNDATION OF THE PIKES PEAK REGION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012 (with comparative totals for 2011)

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
ASSETS					
Cash and cash equivalents	$ 864,784	$ 20,786	$ 7,671	$ 893,241	$ 867,294
Accounts receivable	268,973			268,973	59,794
Promises to give, net		138,272		138,272	13,743
Investments	1,202,708	1,042	198,383	1,402,133	1,750,584
Prepaid expenses and other	234,913			234,913	199,041
Beneficial interest in trusts		541,600	1,201,500	1,743,100	1,809,600
Bond issuance costs, net	159,113			159,113	170,478
Land held for sale	1,200,000			1,200,000	1,200,000
Property and equipment, net	38,145,489		257,759	38,403,248	39,778,647
TOTAL ASSETS	$ 42,075,980	$ 701,700	$ 1,665,313	$ 44,442,993	$ 45,849,181
LIABILITIES AND NET ASSETS					
Accounts payable	$ 516,573			$ 516,573	$ 483,159
Accrued expenses	838,097			838,097	715,947
Deferred revenue	621,023			621,023	599,793
Charitable gift annuity	671,674			671,674	692,031
Interest rate swap agreement	1,484,027			1,484,027	1,319,640
Notes payable	262,326			262,326	280,006
Bonds payable	16,303,500			16,303,500	16,993,750
TOTAL LIABILITIES	20,697,220	$ —	$ —	20,697,220	21,084,326
NET ASSETS					
Unrestricted	21,378,760			21,378,760	22,293,365
Temporarily restricted		701,700		701,700	856,196
Permanently restricted			1,665,313	1,665,313	1,615,294
Total net assets	21,378,760	701,700	1,665,313	23,745,773	24,764,855
TOTAL LIABILITIES AND NET ASSETS	$ 42,075,980	$ 701,700	$ 1,665,313	$ 44,442,993	$ 45,849,181

See notes to financial statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE PIKES PEAK REGION AND YMCA FOUNDATION OF THE PIKES PEAK REGION

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012 (with comparative totals for 2011)

	2012				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**2011 Total**
PUBLIC SUPPORT AND REVENUE					
Contributions	$ 1,678,971	$ 41,400		$ 1,720,371	$ 1,804,575
Special events, net of expenses of $86,244 and $65,045 in 2012 and 2011, respectively	122,336			122,336	98,792
Total public support	1,801,307	41,400	$ —	1,842,707	1,903,367
Memberships	11,545,457			11,545,457	10,776,532
Program service fees	3,621,168			3,621,168	2,987,243
Rental income	303,870			303,870	224,189
Investment income	131,925		2,519	134,444	8,128
Merchandise sales	83,911			83,911	70,686
Investment income from split interest agreement	51,611			51,611	38,362
Change in value of split interest agreements	(11,674)	(114,000)	47,500	(78,174)	(86,756)
Loss on interest rate swap agreement	(164,387)			(164,387)	(777,467)
Other	34,347			34,347	119,554
Total revenue	15,596,228	(114,000)	50,019	15,532,247	13,360,471
Net assets released from restrictions	81,896	(81,896)	—	—	—
Total public support and revenue	17,479,431	(154,496)	50,019	17,374,954	15,263,838
EXPENSES					
Program services	15,575,447			15,575,447	14,530,167
General and administrative	2,724,177			2,724,177	2,399,810
Fundraising	94,412			94,412	65,747
Total expenses	18,394,036	—	—	18,394,036	16,995,724
CHANGE IN NET ASSETS	(914,605)	(154,496)	50,019	(1,019,082)	(1,731,886)
NET ASSETS, Beginning of year	22,293,365	856,196	1,615,294	24,764,855	26,496,741
NET ASSETS, End of period	$ 21,378,760	$ 701,700	$ 1,665,313	$ 23,745,773	$ 24,764,855

See notes to financial statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE PIKES PEAK REGION AND YMCA FOUNDATION OF THE PIKES PEAK REGION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
DECEMBER 31, 2012 (with comparative totals for 2011)

	2012							
	Program Services				Supporting Services			
	Healthy Living	Youth Development	Social Responsibility	Total	Management and General	Fund Raising	Total	2011 Total
PAYROLL EXPENSE								
Salaries	$ 5,262,858	$ 1,778,653	$ 238,284	$ 7,279,795	$ 1,502,389	$ 30,181	$ 8,812,365	$ 7,936,373
Employee benefits	446,237	173,702	28,022	647,961	248,740	2,571	899,272	958,594
Payroll taxes	491,833	167,605	21,533	680,971	119,499	2,185	802,655	712,298
Total	6,200,928	2,119,960	287,839	8,608,727	1,870,628		10,514,292	9,607,265
OPERATING EXPENSE								
Occupancy	1,824,304	760,706	27,025	2,612,035	20,090		2,632,125	2,556,676
Supplies	466,301	362,657	50,458	879,416	64,253	17,678	961,347	879,314
Contractual services	182,716	124,575	54,052	361,343	382,867	453	744,663	502,915
Printing, publications and promotions	136,118	55,477	16,224	207,819	11,363	23,405	242,587	209,869
Insurance	135,484	47,271	2,102	184,857	16,027		200,884	228,192
Education, conferences and training	93,061	25,088	4,861	123,010	57,991	6,476	187,477	149,484
Organization dues	129,329	32,376	3,884	165,589	10,893	4,930	181,412	171,254
Telephone	86,245	31,235	2,471	119,951	53,460	2,191	175,602	139,445
Travel and transportation	22,387	34,361	12,181	68,929	23,682	2,737	95,348	82,754
Postage and shipping	4,385	2,366	1,344	8,095	10,786	1,086	19,967	17,252
Miscellaneous	19,040	6,706	277	26,023	31,461	519	58,003	38,546
Total operating expense	3,099,370	1,482,818	174,879	4,757,067	682,873	59,475	5,499,415	4,975,701
Total expenses before interest, depreciation and amortization	9,300,298	3,602,778	462,718	13,365,794	2,553,501	94,412	16,013,707	14,582,966
Depreciation and amortization	1,617,358	3,870	189	1,621,417	74,324		1,695,741	1,753,044
Interest	444,162	137,383	6,691	588,236	96,352		684,588	659,714
Total expenses	$ 11,361,818	$ 3,744,031	$ 469,598	$ 15,575,447	$ 2,724,177	$ 94,412	$ 18,394,036	
Total expenses - 2011	$ 11,672,007	$ 2,773,620	$ 84,540	$ 14,530,167	$ 2,399,810	$ 65,747		$ 16,995,724

See notes to financial statements.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF THE PIKES PEAK REGION AND YMCA FOUNDATION OF THE PIKES PEAK REGION

CONSOLIDATED STATEMENT OF CASH FLOWS
DECEMBER 31, 2012 (with comparative totals for 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,019,082)	$ (1,731,886)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,695,741	1,753,044
Provision for uncollectible promises to give	(36,400)	(28,150)
Amortization of discount on promises to give	(5,000)	(15,500)
Other	(7,500)	24,240
Net realized and unrealized (gains) losses on investments	(112,071)	24,463
Loss on interest rate swap agreement	164,387	777,467
Change in value of split interest agreement	78,174	86,756
Contributions restricted for long-term purposes		(643,600)
Change in operating assets and liabilities:		
Accounts receivable	(209,179)	25,599
Pledges receivable	(113,272)	
Prepaid expenses and other	(35,872)	38,468
Accounts payable and accrued expenses	155,564	(76,907)
Deferred revenue	21,230	(9,478)
Net cash provided by operating activities	576,720	224,516
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	698,732	269,053
Proceeds on sale of property and equipment	7,500	22,800
Purchase of investments	(238,210)	(544,277)
Purchase of property and equipment	(150,943)	(202,265)
Distribution from trust		164,000
Net cash provided by (used in) investing activities	317,079	(290,689)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of contributions restricted for long-term purposes	30,143	185,255
Payments on gift annuity	(32,031)	(33,795)
Principal payments on promissory note	(170,964)	(179,239)
Principal payments on bonds	(695,000)	(655,000)
Net cash used in financing activities	(867,852)	(682,779)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,947	(748,952)
CASH AND CASH EQUIVALENTS, Beginning of year	867,294	1,616,246
CASH AND CASH EQUIVALENTS, End of year	$ 893,241	$ 867,294
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 686,863	$ 661,747
Assets acquired through issuance of promissory notes	$ 153,284	$ 174,588

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Young Men's Christian Association of the Pikes Peak Region's (YMCA) purpose and objectives are to operate institutions exclusively for religious, charitable, scientific and educational purposes, including the rehabilitation and welfare of youth and to establish and maintain a fellowship of individuals and families of all faiths. Including, helping persons develop Christian personalities and to aid in building a Christian society through the improvement of physical, mental, social, moral and educational conditions of persons who participate in YMCA programs and the community served by the YMCA. The YMCA currently has fifteen centers operating out of eight facilities (including Camp Shadybrook) serving individuals in the Colorado Springs and surrounding El Paso County area.

The YMCA Foundation of the Pikes Peak Region (Foundation) was established as a supporting organization of the YMCA.

Principles of Consolidation — The consolidated financial statements include the accounts of the YMCA and the Foundation (collectively referred to as the Organization). The Foundation is consolidated since the YMCA has both an economic interest in and control over the Foundation. All material interorganization transactions have been eliminated.

Basis of Presentation — The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

The accompanying financial statements include certain prior-year summarized comparative information in total. 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 Organization's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Cash and Cash Equivalents — For purposes of the statement of cash flows, the Organization considers cash, amounts due from banks and highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents.

Accounts Receivable — Accounts receivable relate to amounts due for various services. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. At December 31, 2012 and 2011 no allowance had been recorded on the accounts receivable.

Promises to Give — Unconditional promises to give are recognized as revenues in the period received as assets, decreases of liabilities or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected within one year and at the present value of estimated future cash flows if expected to be collected in more than one year. Amortization of the discount is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Investments — Investments are recorded at fair value, with realized and unrealized gains and losses included as unrestricted revenue in the consolidated statements of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Donated investments are recorded at fair value on the date of donation. Fair values for mutual funds and common stocks are determined principally through quoted market prices. Fair values for fixed income securities are determined principally through pricing services.

Property and Equipment — Property and equipment are stated at cost or, if donated, at the fair market value at the date of the donation. Acquisitions of property and equipment in excess of $3,000 and having a useful life exceeding one year and expenditures, repairs, maintenance, renewals, and betterments that materially prolong the useful lives of the assets are capitalized. Depreciation is computed using the straight-line method over estimated useful lives of ten to fifty years for buildings and improvements and three to twenty-five years for furniture, fixtures and equipment.

Contributions — Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and is reported as contribution revenue.

Donation of Long-Lived Assets — The Organization has recorded donations of the use of long-lived assets in which the donor retains legal title as contribution revenue in the period in which the contribution or promise to give is received and expenses in the period the long-lived assets are used. The Organization has adopted a policy of not implying a time restriction and has recorded donated assets as increases in unrestricted net assets

Income Tax Status — The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Organization believes that it does not have any uncertain tax positions that are material to the financial statements. Tax years that remain subject to examination include 2009 through the current period.

Revenue Recognition— Income from membership dues is deferred and recognized over the periods to which the dues relate.

Functional Allocation of Expense — The costs of providing various program and supporting services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated statements of functional expenses provide a detail of the natural classifications of those functional expenses.

Marketing — The Organization expenses marketing costs as they are incurred. Total marketing expenses for 2012 and 2011 were $249,603 and $214,082, respectively.

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

Reclassifications — Certain reclassifications have been made to the 2011 report amounts to conform with the presentation in the current year.

Subsequent Events — The Organization has evaluated subsequent events for recognition or disclosure through June 20, 2013, the date the financial statements were available for issuance.

2. PROMISES TO GIVE

The Organization instituted capital campaigns to raise funds to build new facilities and improve existing facilities. Cash and promises to give raised through the capital campaign are restricted to payment of costs related to the facilities and campaign costs. Those restrictions are deemed to expire as payments are made. In addition, the Organizations received promises to give through its Partners Annual Campaign which may be used for operations. Discounts on future promises to give are recorded using a discount rate of 5.25%.

Unconditional promises to give are as follows at December 31:

	2012	2011
Net unconditional promises to give:		
Due in less than one year	$ 151,872	$ 38,643
Due in one to five years		30,100
Total	151,872	68,743
Allowance for uncollectable amounts	(13,600)	(50,000)
Unamortized discount		(5,000)
Total	$ 138,272	$ 13,743

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2012	2011
Land	$ 5,203,026	$ 5,203,026
Buildings and improvements	48,842,169	48,767,311
Furniture and equipment	4,743,281	4,619,207
Construction in progress	340,231	287,750
Total	59,128,707	58,877,294
Less accumulated depreciation	20,725,459	19,098,647
Net property and equipment	$ 38,403,248	$ 39,778,647

Included in buildings and improvements is $4,600,000 paid by the City of Colorado Springs for the aquatics portion of the Southeast facility. Under the terms of the contribution the City will retain title for 25 years at which time the Organization will receive title. However, the Organization has unrestricted use of the aquatics facilities and is responsible for its operation and management.

4. BENEFICIAL INTEREST IN TRUSTS

The Organization is the beneficiary of various irrevocable, perpetual trusts held and administered by third parties. Under the terms of the trust agreements, the Organization is to receive a stated percentage of the interest earned on the corpus of the trust assets in perpetuity for its unrestricted use. The Organization's share of the assets held in the trusts totaled $1,201,500 and $1,154,000 as of December 31, 2012 and 2011, respectively, and are reported at fair value and included in permanently restricted net assets in the Organization's consolidated statement of financial position. Fair value in the trusts is determined primarily based in the Organization's proportionate share of the fair value of the underlying assets of the trusts. Fair value of the underlying assets is determined using quoted market prices and pricing services.

During the year ended December 31, 2011, the Organization was named as the remainder beneficiary under a charitable remainder trust, for which a local bank serves as the trustee and makes annual distributions to the lead beneficiary. The distributions are to continue for the lifetime of the lead beneficiary. Upon the death of such beneficiary, the trust's remaining principal will be distributed to the Organization. Based on the beneficiary's life expectancy, an estimated annual investment return of approximately 7% and a discount rate of approximately 15%, the present value and future benefits to be received by the Organization is estimated to be $529,600 and $643,600 at December 31, 2012 and 2011, respectively. This amount is classified as temporarily restricted until the trust's assets are distributed to the Organization.

The Organization is also a beneficiary under other charitable remainder trusts recorded at their estimated fair values of $12,000 at December 31, 2012 and 2011.

5. CHARITABLE GIFT ANNUITY

In a prior year, the Organization entered into a charitable gift annuity under which the Organization obtained ownership of land and a building, valued at $1,260,000. In exchange for the gift, the Organization is obligated to pay the donor monthly payments of $6,300 for as long as the donor lives. A liability was recorded for the present value of future payments over the donor's estimated remaining life expectancy, using a discount rate of 6%.

6. NOTES PAYABLE

Notes payable consist of the following at December 31:

	2012	2011
Notes payable to a vendor, payable in monthly installments of $10,378, including interest at 5.5% to 7.4%, due March 2013 through 2015, secured by equipment carried at $202,707.	$ 202,707	$ 207,697
Note payable to an individual, payable in monthly installments of $1,080, including interest at 9.0%, due June 2018, secured by land carried at $251,149.	56,043	63,583
Note payable to a financing company, payable in monthly installments of $455, including interest at 4.9%, due October 2013, secured by a vehicle carried at $5,428.	3,576	8,726
Total	$ 262,326	$ 280,006

Required annual minimum principal payments on the above notes are as follows:

2013	$ 136,355
2014	73,811
2015	23,251
2016	10,792
2017	11,805
Thereafter	6,312
Total	$ 262,326

7. BONDS PAYABLE

Bonds payable consist of the following at December 31:

	2012	2011
Bonds payable	$ 16,370,000	$ 17,065,000
Less unamortized discount	66,500	71,250
Bonds payable, net	$ 16,303,500	$ 16,993,750

On December 26, 2006, El Paso County, Colorado (the County) issued $19,000,000 of Colorado Variable Rate Demand Revenue Bonds (the Bonds), the proceeds of which were loaned to the Organization. The Bonds mature on December 31, 2025. An additional $16,000,000 of 2006 bonds is available to be issued in the future, if the Organization proceeds with development of new facilities. The Bonds were issued to finance the costs of: 1) acquiring, constructing, completing and equipping real and personal property in connection with the construction of the Tri-Lakes facility and to finance additional improvements and renovations to other facilities; 2) refinancing the Issuer's outstanding Variable Rate Demand Revenue Bonds, Series 2002; and 3) paying certain costs of issuance relating to the Bonds.

The County issued the Bonds under an Indenture of Trust between the County and Wells Fargo Bank West, National Association (Wells Fargo), the Trustee. Payment of principal and interest on the Bonds, and purchase price of the Bonds upon optional and mandatory tender, are secured by an irrevocable direct-pay letter of credit from Wells Fargo in the amount of $10,503,713.

The bonds bear interest at a weekly interest rate determined by the Remarketing Agent (effective rate at December 31, 2012 is 0.10%) payable on the first business day of each March, June, September and December.

The Letter of Credit is secured by the Organization's real property and improvements. Under the Indenture of Trust and the Mortgage and Loan Agreement, quarterly the Organization shall deposit into the Bond Principal Fund, an amount equal to one-forth of the annual principal reduction coming due on the immediately succeeding December 1 (whether at maturity or upon a sinking fund redemption) and into the Bond Interest Fund on the business day next preceding each interest payment date, an amount equal to the interest coming due on the Bonds on the immediately succeeding interest payment date.

The loan agreement under the bonds payable and the related reimbursement agreement under letters of credit contain certain restrictive covenants including the requirement to maintain a liquidity ratio of not less than 2.0 and a debit service coverage ratio of not less than 1.10. As of December 31, 2012 the Organization's liquidity ratio and debt service coverage ratio as defined by the reimbursement agreement, were 1.79 and 1.06, respectively, which are lower than the required level and is a breach of the bond agreement. Wells Fargo has waived these requirements of the agreement as of December 31, 2012.

The Organization has interest rate swap agreements outstanding for the purpose of hedging the risk of interest rate fluctuations associated with the bonds payable, not for speculation. On July 12, 2010, the Organization entered into an interest rate swap agreement associated with its Variable Rate Demand Obligation Bonds, Series 2002. Pursuant to this agreement, the Organization pays a rate of 2.67% on the outstanding balance of the bonds and receives interest at the Bond Market Association (BMA) municipal swap index rate. The swap matures July 1, 2020. In December 2007, the Organization entered into an interest rate swap agreement associated with its Variable Rate Demand Obligation Bond fixed, which mature December 1, 2017. Pursuant to the agreement, the Organization pays a rate of 3.74% on the outstanding balance of the bonds and receives interest at the BMA index rate. The Organization recorded unrealized losses of $(164,387) and $(777,467) due to changes in the fair value of the interest swap agreements during the years ended December 31, 2012 and 2011, respectively.

Amounts required to be deposited into the Bond Principal Fund are as follows:

2013	$ 725,000
2014	760,000
2015	790,000
2016	825,000
2017	865,000
Thereafter	12,405,000
Total	$ 16,370,000

8. INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2: Prices determined using significant other observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

The following table show quantitative information about significant unobservable inputs related to Level 3 fair value measurements used as of December 31, 2012.

	Valuation Techniques	**Unobservable Input**	**Range**
Beneficial investment in trust	Discounted cash	Expected life of lead beneficiary	5.06 years
		Return on assets	7 %
		Discount rate	15 %

The methodology to record the interest rate swap agreement at fair value was based on discounted cash flows based on information received from the counterparty.

The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by Level, within the fair value hierarchy, the Organization's assets and liabilities at fair value as of December 31:

	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2012:				
ASSETS				
INVESTMENTS				
Bond mutual funds:				
Domestic	$ 252,335	$ 252,335		
International	64,907	64,907		
Corporate stocks:				
Domestic	130,609	130,609		
International	26,776	26,776		
Mixed strategy mutual funds	215,290	215,290		
Equity mutual funds:				
Domestic	142,326	142,326		
International	129,462	129,462		
Corporate bonds	48,802		$ 48,802	
REIT's and other mutual funds	181,626	181,626		
Total investments	1,192,133	1,143,331	48,802	$ —
OTHER ASSETS				
Beneficial interest in trusts	1,743,100		1,213,500	529,600
Total	$ 2,935,233	$ 1,143,331	$ 1,262,302	$ 529,600
LIABILITIES				
Interest rate swap agreement	$ 1,484,027			$ 1,484,027
Charitable gift annuity	671,674		$ 671,674	
Total	$ 2,155,701	$ —	$ 671,674	$ 1,484,027

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2011:				
ASSETS				
INVESTMENTS				
Bond mutual funds:				
Domestic	$ 562,604	$ 562,604		
International	78,179	78,179		
Corporate stocks:				
Domestic	142,531	142,531		
International	37,290	37,290		
Mixed strategy mutual funds	181,923	181,923		
Equity mutual funds:				
Domestic	148,268	148,268		
International	100,691	100,691		
Corporate bonds	134,184		$ 134,184	
REIT's and other mutual funds	154,914	154,914		
Total investments	1,540,584	1,406,400	134,184	
OTHER ASSETS				
Beneficial interest in trusts	1,809,600		1,166,000	$ 643,600
Total	$ 3,350,184	$ 1,406,400	$ 1,300,184	$ 643,600
LIABILITIES				
Interest rate swap agreement	$ 1,319,640			$ 1,319,640
Charitable gift annuity	692,031		$ 692,031	
Total	$ 2,011,671	$ —	$ 692,031	$ 1,319,640

Activity relating to assets measured on a recurring basis using significant unobservable inputs (Level 3) is summarized below:

Beneficial interest in trust, January 1, 2011	$ —
Contribution	643,600
Beneficial interest in trust, December 31, 2011	643,600
Change in value recognized as a loss	114,000
Beneficial interest in trust, December 31, 2012	$ 529,600

Activity relating to liabilities measured on a recurring basis using significant unobservable inputs (Level 3) is summarized below:

Interest rate swap agreements, January 1, 2011	$ 542,173
Change in value recognized as a loss	777,467
Interest rate swap agreements, December 31, 2011	1,319,640
Change in value recognized as a loss	164,387
Interest rate swap agreements, December 31, 2012	$ 1,484,027

Included in investments are water rights which are carried at cost of $210,000 at December 31, 2012 and 2011. The water rights consist of 143.2 shares of Mountain Mutual Reservoir Company purchased by the Organization to help insure a water supply for Camp Shadybrook.

Investment income consists of the following for the years ended December 31:

	2012	**2011**
Net realized and unrealized gains (losses)	$ 112,071	$ (24,463)
Interest and dividends	22,373	32,591
Total	$ 134,444	$ 8,128

9. BOARD DESIGNATED UNRESTRICTED NET ASSETS

It is the policy of the Board of Directors of the Organization to review its plans for future needs and to designate appropriate sums to assure adequate financing for the needs identified. Amounts designated by the Board of Directors for specific future needs are treated as board designated unrestricted net assets. The balance can be transferred to the undesignated portion of unrestricted net assets at the Board's discretion.

Board designated amounts included in unrestricted net assets as of December 31, 2012 are as follows:

Designated for:	
Payment of bonds	$ 915,634
Endowment funds	644,575
Future maintenance	199,636
Health and dental plans	321,826
Unemployment	139,952
Future equipment purchases	98,673
Technology	19,136
Use in specific programs	48,000
Future vehicle purchases	2,949
Total	$ 2,390,381

10. RESTRICTIONS ON NET ASSETS

Restricted net assets are available for the following purposes:

Temporarily Restricted:	
Beneficial interest in trusts	$ 541,600
Organization programs	21,828
Time restricted promises to give	138,272
Total temporarily restricted net assets	$ 701,700
Permanently Restricted:	
Beneficial interest in perpetual trusts	$ 1,201,500
Land for Briargate facility	257,759
Military program endowment fund	125,068
Organization endowment fund	43,986
Parson teen and youth endowment fund	25,000
Berwick memorial endowment fund	12,000
Total permanently restricted net assets	$ 1,665,313

11. ENDOWMENT FUNDS

The Organization's endowment consists of nine individual funds established for a variety of purposes. Its endowment includes both donor-related endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, 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 restrictions.

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Organization has interpreted 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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of 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 Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization 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 Organization 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 Organization
7) The investment policies of the Organization

Endowment Net Asset Composition by Type of Fund as of December 31, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 1,101	$ 206,054	$ 207,155
Perpetual trust endowment funds			1,201,500	1,201,500
Board-designated endowment funds	$ 644,575			644,575
Total funds	$ 644,575	$ 1,101	$ 1,407,554	$ 2,053,230

Changes in Endowment Net Assets for the year ended December 31, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 606,773	$ 1,101	$ 1,357,535	$ 1,965,409
Investment return:				
Investment income	8,691		2,519	11,210
Net appreciation (realized and unrealized)	48,441		47,500	95,941
Total investment return	57,132	—	50,019	107,151
Appropriation of endowment assets for expenditures	(19,330)	—	—	(19,330)
Endowment net assets, end of year	$ 644,575	$ 1,101	$ 1,407,554	$ 2,053,230

Endowment Net Asset Composition by Type of Fund as of December 31, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 1,101	$ 203,535	$ 204,636
Perpetual trust endowment funds			1,154,000	1,154,000
Board-designated endowment funds	$ 606,773			606,773
Total funds	$ 606,773	$ 1,101	$ 1,357,535	$ 1,965,409

Changes in Endowment Net Assets for the year ended December 31, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 620,133	$ 1,101	$ 1,430,535	$ 2,051,769
Investment return:				
Investment income	12,365			12,365
Net appreciation (realized and unrealized)	(14,186)		(73,000)	(87,186)
Total investment return	(1,821)	—	(73,000)	(74,821)
Appropriation of endowment assets for expenditures	(11,539)	—	—	(11,539)
Endowment net assets, end of year	$ 606,773	$ 1,101	$ 1,357,535	$ 1,965,409

	2012	2011
Permanently Restricted Net Assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 1,407,554	$ 1,357,536
Temporarily Restricted Net Assets		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA	$ 1,101	$ 1,101

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 Organization to retain as a fund of perpetual duration. No deficiency existed as of December 31, 2012 or 2011.

The Organization has adopted investment and spending policies for endowment assets with a balanced objective with an emphasis on long-term capital appreciation over current income to insure preservation of real purchasing power and growth of principal. Included in endowments are perpetual trusts held by third parties, these trusts are controlled by the third party and the investment policies of the Organization does not apply to them. The balance of perpetual trusts held by third parties was $1,201,500 and $1,154,000 at December 31, 2012 and 2011, respectively. Endowment assets also include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy the endowment assets are invested in a manner that is intended to produce maximum results while assuming a moderate level of investment risk.

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 that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

12. DONATED SERVICES, FACILITIES AND MATERIALS

The Organization recognizes donated services as contributions if the services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed materials are recorded in the financial statements at their estimated fair value on the date of receipt.

A school district has provided local school facilities for use in YMCA programs at no charge to the Organization. No value has been placed on this donation of space and accordingly no contribution or expense is recorded because management does not believe it to have material value.

In addition, a substantial number of volunteers have donated significant amounts of their time in the Organization's fundraising and membership development programs. These donated services are not reflected in the accompanying financial statements since they do not meet the criteria for recognition under Generally Accepted Accounting Standards.

13. COMMITMENTS AND CONTINGENCIES

The Organization is primarily self-insured for health costs and believes adequate accruals are maintained to cover the retained liability. The accruals for self-insurance liabilities are determined by management based on claims filed and an estimate of material claims incurred but not yet reported and are not discounted. The Organization maintains third-party stop-loss insurance policies to cover health costs in excess of $25,000 per employee in each year.

14. RETIREMENT PLAN

The Organization participates in The YMCA Retirement Fund Retirement Plan (the Retirement Plan) which is a defined contribution, money purchase, church plan that is intended to satisfy the qualification requirements of Section 401(a) of the Internal Revenue Code of 1986, as amended and The YMCA Retirement Fund Tax-Deferred Savings Plan (Tax-Deferred Savings Plan) which is a retirement income account plan as defined in Section 403(b)(9) of the code. Both Plans are sponsored by The Young Men's Christian Association Retirement Fund (the Fund). The Fund is a not-for-profit, tax-exempt pension fund incorporated in the State of New York (1922) organized and operated for the purpose of providing retirement and other benefits for employees of YMCAs through-out the United States. The Plans are operated as church pension plans. Participation is available to all duly organized and reorganized YMCAs and their eligible employees. As a defined contribution plan, the Retirement Plan and Tax-Deferred Savings Plan have no unfunded benefit obligations.

In accordance with our agreement, contributions for the Retirement Plan are a percentage of the participating employees' salary. These amounts are paid by the Organization. Total contributions charged to retirement costs were $541,356 and $548,657 in 2012 and 2011, respectively, of which $50,459 was payable at December 31, 2012.

Contributions to the Tax-Deferred Savings Plan are withheld from employees' salaries and remitted to the YMCA Retirement Fund. There is no matching employer contribution in this plan.

15. CONCENTRATIONS OF CREDIT RISK

The Organization has various money market accounts with brokerage firms which are not insured. The Organization has not experienced any losses in such accounts.

The Organization has significant investments in mutual funds, common stock, and corporate debt securities and is, therefore, subject to concentrations of credit risk. Investments are made by investment managers engaged by the Organization and the investments are monitored by the Organization. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Organization.

16. RELATED PARTY TRANSACTIONS

The Marketing President for a local bank sits on the board of directors of the Organization. This bank holds significant investments, bonds and the swap agreements of the Organization.

17. SUBSEQUENT EVENTS

On January 22, 2013, the Organization entered into an agreement to sell the land held for sale for a contract sales price of $1,250,000.