WATERTOWN FAMILY YMCA, INC.

FINANCIAL STATEMENTS

December 31, 2013

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INDEPENDENT AUDITORS' REPORT

BOARD OF TRUSTEES
WATERTOWN FAMILY YMCA, INC.

We have audited the accompanying financial statements of **WATERTOWN FAMILY YMCA, INC.**, (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watertown Family YMCA, Inc., as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2014, 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.

Prior Period Financial Statements and Report on Summarized Comparative Information

The financial statements as of December 31, 2012, were audited by Poulsen & Podvin, CPA, P.C., who merged with Bowers & Company CPAs PLLC as of January 1, 2014, and whose report dated May 3, 2013, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bowers & Company

Watertown, New York
May 8, 2014

STATEMENT OF FINANCIAL POSITION

December 31, 2013 with Comparative Totals for 2012

ASSETS

	2013	2012
Cash and Cash Equivalents	$ 982,350	$ 1,493,335
Investments	1,039,609	286,283
Accounts Receivable - Grants and Contracts	49,367	75,097
Prepaid Expenses	103,307	107,258
Unconditional Promises to Give -		
Net of Allowance of $3,000 and $8,000	180,634	355,309
Inventory	2,546	2,871
Property and Equipment, Net	5,575,064	5,621,897
Deferred Loss on Sale/Leaseback	137,962	140,187
TOTAL ASSETS	$ 8,070,839	$ 8,082,237

LIABILITIES

	2013	2012
Accounts Payable	$ 192,992	$ 244,912
Accrued Expenses	48,673	42,711
Notes Payable	522,978	820,220
Deferred Revenue	50,323	53,924
	814,966	1,161,767

NET ASSETS

	2013	2012
Unrestricted		
Designated by Board		
Unemployment Reserve	64,880	64,873
Capital Reserve	870,987	267,323
Blue Sharks Reserve	19,168	23,323
Ground Lease	0	22,708
Undesignated	325,399	387,223
Fixed Assets	5,575,064	5,621,897
Total Unrestricted	6,855,498	6,387,347
Temporarily Restricted	124,677	257,425
Permanently Restricted	275,698	275,698
	7,255,873	6,920,470
TOTAL LIABILITIES AND NET ASSETS	$ 8,070,839	$ 8,082,237

See notes to financial statements.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2013 with Summarized Totals at December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2013	Totals 2012 (Summarized)
Revenue and Other Support:					
Contributions	$ 112,151	$ 0	$ 0	$ 112,151	$ 192,086
Federated Fundraising	53,014	37,046	0	90,060	89,251
Government and Other Contracts	726,147	0	0	726,147	680,288
Membership Dues and Program Income	3,573,789	0	0	3,573,789	3,384,830
Rental Income	120,863	0	0	120,863	117,636
Sales and Commissions	15,593	0	0	15,593	20,145
Investment Income	9,547	356	0	9,903	8,893
Realized and Unrealized Gain on Investments	52,221	0	0	52,221	10,090
Miscellaneous Revenue	22,883	0	0	22,883	32,321
Net Assets Released from Restrictions	170,150	(170,150)	0	0	0
Total Revenue and Other Support	4,856,358	(132,748)	0	4,723,610	4,535,540
Expenses and Losses					
Program Services					
Health and Wellness Branch	2,209,509	0	0	2,209,509	2,562,732
Youth Development Branch	1,860,990	0	0	1,860,990	1,509,350
Supporting Services					
Administrative	317,708	0	0	317,708	240,442
Total Expenses and Losses	4,388,207	0	0	4,388,207	4,312,524
Change in Net Assets	468,151	(132,748)	0	335,403	223,016
Net Assets:					
Beginning of Year	6,387,347	257,425	275,698	6,920,470	6,697,454
End of Year	$ 6,855,498	$ 124,677	$ 275,698	$ 7,255,873	$ 6,920,470

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2013 with Summarized Totals at December 31, 2012

	Program Services						Supporting Services	Totals	
	Health and Wellness Branch			Youth Development Branch					
	Downtown YMCA Activities	Carthage YMCA Activities	Fairgrounds YMCA Activities	Child Care	Day Care Center	Youth	Admin-istrative	2013	2012 (Summarized)
Salaries and Wages	$ 475,492	$ 101,136	$ 549,748	$ 638,561	$ 327,062	$ 203,660	$ 159,469	$ 2,455,128	$ 2,414,565
Employee Benefits	63,503	17,712	77,646	83,598	34,048	37,883	35,875	350,265	338,045
Total Salary and Related Expenses	538,995	118,848	627,394	722,159	361,110	241,543	195,344	2,805,393	2,752,610
Conferences and Conventions	1,014	275	2,025	16,182	539	580	775	21,390	25,045
Contractual Services	15,581	2,050	4,765	0	7,975	0	25,567	55,938	55,943
Dues	24,229	3,230	20,751	15,431	7,663	7,663	8,971	87,938	76,177
Financing	14,897	3,969	51,348	4,203	1,647	0	787	76,851	83,198
Fundraising Expense	3,452	0	0	1,306	0	0	550	5,308	9,191
Occupancy	115,549	16,916	136,102	22,580	20,068	3,020	3,000	317,235	311,721
Insurance	12,139	6,070	34,549	867	3,261	584	23,799	81,269	78,868
Postage and Shipping	4,453	179	2,425	3,336	0	238	0	10,631	11,417
Printing, Publications and Promotion	9,457	1,812	10,747	1,767	0	102	5,055	28,940	33,181
Supplies and Other Program Expense	108,025	11,804	92,810	115,754	59,330	65,438	(2,979)	450,182	490,079
Telephone	7,233	1,542	5,160	2,103	1,398	3,343	0	20,779	14,868
Travel and Employee Expense	7,181	999	4,376	12,107	1,237	2,999	6,547	35,446	29,725
Administration	14,213	3,601	14,802	9,035	3,245	3,232	14,822	62,950	65,943
Bad Debt Expense (Recovery)	0	0	0	0	0	0	32,259	32,259	(12,500)
Total Operating Expenses before Depreciation and Amortization	876,418	171,295	1,007,254	926,830	467,473	328,742	314,497	4,092,509	4,025,466
Depreciation and Amortization Expense	52,979	17,337	84,226	73,111	31,727	33,107	3,211	295,698	287,058
TOTAL EXPENSES	$ 929,397	$ 188,632	$ 1,091,480	$ 999,941	$ 499,200	$ 361,849	$ 317,708	$ 4,388,207	$ 4,312,524

See notes to financial statements.

STATEMENT OF CASH FLOWS
Year Ended December 31, 2013 with Comparative Totals for 2012

	2013	2012
Cash Flows from Operating Activities:		
Changes in Net Assets	$ 335,403	$ 223,016
Adjustments to Reconcile Changes in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation	293,473	284,833
Amortization of Deferred Loss	2,225	2,225
Bad Debt Expense (Recovery)	32,259	(12,500)
Realized (Gain) Loss on Investments	(3,533)	484
Unrealized (Gain) on Investments	(48,688)	(10,574)
Non-Cash Contribution	0	(60,839)
(Increase) Decrease in Operating Assets		
Accounts Receivable - Grants and Contracts	25,730	(13,633)
Prepaid Expenses	3,951	(8,823)
Unconditional Promises to Give	142,416	252,135
Inventory	325	(2,065)
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(51,920)	209,462
Accrued Expenses	5,962	5,237
Deferred Revenue	(3,601)	21,563
Net Cash Provided by Operating Activities	734,002	890,521
Cash Flows from Investing Activities:		
Net Proceeds (Purchases) of Investments	(701,105)	28,977
Purchase of Property and Equipment	(246,640)	(175,553)
Net Cash Used by Investing Activities	(947,745)	(146,576)
Cash Flows from Financing Activities		
Repayment of Principle Note	(297,242)	(190,616)
Net Cash Used by Financing Activities	(297,242)	(190,616)
Net Increase (Decrease) in Cash and Cash Equivalents	(510,985)	553,329
Cash and Cash Equivalents - Beginning of Year	1,493,335	940,006
Cash and Cash Equivalents - End of Year	$ 982,350	$ 1,493,335

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 1 – NATURE OF ACTIVITIES

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 supplied the funds necessary to eliminate the debt created by the purchase and allowed for the facility to be converted into a day care for 70 – 80 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 two branches named Health and Wellness, which includes all membership and wellness programs at the three facilities, and Youth Development, which includes all youth and childcare programs.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 1 – NATURE OF ACTIVITIES - Continued

Health and Wellness Branch

The focus of the health and wellness branch is to offer opportunities for everyone in the family to be active in a safe environment open to all. Programs are designed to promote healthy lifestyles, develop specific skills, teach strong character values and encourage the development of friendships.

This branch operates out of three facilities.

The Fairgrounds Y is a large facility (75,000 sq. ft.) which includes 2 indoor soccer fields, a gymnasium, 2 racquet courts, an aerobics studio, a fitness center, an arts center, and a gymnastics center. Programming includes soccer, lacrosse, basketball, football, art classes, gymnastics, childwatch center, aerobic classes and dance. There are about 3,000 members and thousands of program participants.

The Downtown Y is a traditional Y with a fitness center, aerobics studio, spinning studio, gymnasium, childwatch center and 2 pools. Most programming is designed to support the over 6,000 members. This facility in addition to member programming offers swim lessons and administers the activities of the YMCA Blue Sharks swim team with over 100 members.

The Carthage Y is a non-traditional Y in a small community with a different rate structure to ensure accessibility within that community. Facilities include a fitness center, childwatch, gymnasium, and an aerobics studio. With 1,000 members this neighborhood Y is an important part of the fabric of the Carthage and area community.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 1 – NATURE OF ACTIVITIES – Continued

Youth Development Branch

The focus of the youth development branch is the offering of licensed childcare programming for youth ages 3 months to 12 years old and development programming for youth ages 10-17. Programming is developed to ensure a safe environment, character and self esteem building program, active play and academic upgrading. Most programs are state licensed with Office of Family and Children's Services. Funding support for programming is received from Armed Services YMCA of the USA, the Department of Defense, Youth Bureau of Jefferson County and the United Way.

The branch operates under three units.

School Age Childcare – SACC is a licensed before and after school care program offered in 16 area schools. There are 600-800 children registered with 350-400 attending daily. Programming includes full day for summer and school breaks. Programming focuses on active play character development and academic support. This unit also offers administrative and staffing for a preschool offered at the Fairgrounds Y.

The Daycare is located at 514 Washington Street and offers licensed full day care from 7:00 am to 6:00 pm for up to 14 infants, 22 toddlers and 44 preschoolers. Capacity is 80 children. Helathy nutrition, active play and a safe environment are the areas of concentration for the 20 staff who care for the children.

Youth Development unit has a strong relationship with the Carthage School District for its youth development programming through activities like MAP, CASE and Sneaks and Snacks. Active play, special interest programming and academic upgrading are focus areas. This unit also includes our Armed Services programming including HERO programming for youth with self esteem issues, Kid Comfort which makes children's quilts for deploying families and respite care for military families.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 1 – NATURE OF ACTIVITIES – Continued

A. 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 and daycare fees for 21 children. The program was also used to assist 1,575 individuals including 385 families involving 750 children to become a part of the YMCA membership and for 499 children to participate in programs like soccer leagues, gymnastics, dance, swim lessons and art. The value of the YMCA assistance for childcare is $157,449, for membership it is $127,156 and for programs it is $43,510, for a total of $328,115. This program is funded through fundraising efforts of the YMCA Board of Directors and strong community support through United Way of Northern New York.

B. Volunteers

The YMCA could not operate without the support and guidance of its volunteers. The YMCA receives over 320 hours of policy and committee support from 21 volunteers, 1,508 hours of assistance with special events from 166 volunteers, another 4,620 hours of support from over 225 sports team coaches, and 600 hours from 268 quilters throughout New York State for the Operation Kid Comfort program. In total, the YMCA received approximately 8,750 volunteer hours from 757 volunteers.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 2013, 2012, 2011, and 2010 are subject to examination by the IRS, generally for 3 years after they were filed.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

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 Statement of Activities and in the Statement 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 Statement 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, 2013 and 2012, there were no deposits in excess of federally insured limits.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

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 3. The net carrying amounts of investments are fair value.

Statement of Cash Flows

	2013	2012
Cash Paid During the Year For:		
Interest on Borrowed Funds	$ 34,752	$ 45,215

There were no noncash investing and financing activities during 2013 and 2012.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2012 financial statement presentation to correspond to the current year's format. Total net assets are unchanged due to these reclassifications.

Subsequent Events

Subsequent events were evaluated through May 8, 2014, which is the date which the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 3 – PROMISES TO GIVE

Unconditional promises to give consist of the following:

	2013	2012
United Way Services	$ 37,046	$ 37,080
Restricted for Capital Campaign	153,940	353,721
Gross Unconditional Promises to Give	190,986	390,801
Less: Unamortized Discount	(7,352)	(27,492)
Less: Allowance for Uncollectible Promises	(3,000)	(8,000)
Net Unconditional Promises to Give	$ 180,634	$ 355,309
Amounts Due in:		
Less than One Year	$ 146,403	
One to Five Years	44,583	
	$ 190,986	

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:

	2013	2012
Allocation for the next fiscal year:		
General Allocation	$ 37,046	$ 37,080

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 4 – INVESTMENTS

The following investments were held by the YMCA at December 31, 2013 and 2012, and are recorded at fair-market value.

	2013		2012	
	Cost	**Market**	**Cost**	**Market**
Operating Funds:				
Corporate Stock	$ 26,003	$ 32,395	$ 25,507	$ 25,252
Certificates of Deposit	700,000	696,831	0	0
Total Operating Funds	726,003	729,226	25,507	25,252
Non-Operating Funds:				
Mutual Funds	31,151	29,220	30,366	28,931
Corporate Stock	175,559	242,934	174,066	196,713
Franklin Income Series - Mixed	35,151	38,229	35,151	35,387
Total Non-Operating Funds	241,861	310,383	239,583	261,031
Total Operating and Non-Operating Funds	$967,864	$1,039,609	$265,090	$286,283

The following depicts the availability of non-operating funds:

	2013			2012		
	Cash	**Invest-ments**	**Total**	**Cash**	**Invest-ments**	**Total**
Non-Operating Funds	$73,015	$310,383	$383,398	$ 80,383	$261,031	$341,414
Less:						
Unexpendable - Permanent Endowments	0	(275,698)	(275,698)	(14,667)	(261,031)	(275,698)
Unrestricted Expendable Funds	$73,015	$ 34,685	$107,700	$ 65,716	$ 0	$ 65,716

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 5 – PROPERTY AND EQUIPMENT

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

	2013	2012
Land	$ 131,000	$ 131,000
Buildings and Improvements	5,280,895	5,153,123
Leasehold Improvements	2,666,728	2,607,562
Furniture, Fixtures and Equipment	963,854	989,929
Total Property and Equipment	9,042,477	8,881,614
Less: Accumulated Depreciation	(3,467,413)	(3,259,717)
Net Property and Equipment	$ 5,575,064	$ 5,621,897

NOTE 6 – 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, 2013 and 2012, respectively.

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

	2013	2012
Deferred Loss on Sale/Leaseback	$ 386,714	$ 386,714
Less: Accumulated Amortization	(248,752)	(246,527)
Net Deferred Loss on Sale/Leaseback	$ 137,962	$ 140,187

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 7 – NOTES PAYABLE

Notes payable consisted of the following:

	2013	2012
Watertown Savings Bank, monthly payments of $3,322, including interest currently at 5.75%, maturing August 1, 2024.	$ 211,527	$ 335,211
Watertown Local Development Corp., monthly payments of $3,163, including interest currently at 5%, maturing August 1, 2024.	311,451	335,009
Watertown Local Development Corp., annual payment of $150,000, including interest currently at 3%, maturing September 1, 2013.	0	150,000
	$ 522,978	$ 820,220

Maturities of notes payable are as follows:

Years ending December 31,	
2014	49,399
2015	54,103
2016	57,108
2017	60,281
2018	63,631
Thereafter	238,456
Total	$ 522,978

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 8 – DEFERRED REVENUE

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

	2013	2012
Various Grants - AYPYN	$ 30,650	$ 15,000
Various Grants - ASPYN	-	22,500
Gift Certificates	4,564	3,564
Other	15,109	12,860
Total Deferred Revenue	$ 50,323	$ 53,924

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

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

	2013	2012
United Way of NNY - Period After December 31	$ 37,046	$ 37,079
Capital Campaign	37,230	170,300
Tennis Account	50,401	50,046
	$ 124,677	$ 257,425

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

	2013	2012
Expiration of Time Restrictions - United Way Services	$ 37,079	$ 33,413
Purpose Restriction Accomplished - Contribution Allowable Expenditures	133,071	196,099
	$ 170,150	$ 229,512

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS

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

	2013	2012
Endowments	$ 275,698	$ 275,698

NOTE 11 – 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, 2013 and 2012 were $26,076 and $24,565, respectively.

NOTE 12 – RENTAL INCOME

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

NOTE 13 – 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, 2013 and 2012.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 13 – OPERATING LEASES - Continued

Future minimum payments under this lease are as follows:

Years ending December 31,	
2014	$ 25,800
2015	25,800
2016	25,800
2017	25,800
2018	25,800
Thereafter	480,058
	$ 609,058

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, 2013 and 2012 were $7,086 and $6,846, respectively.

Future minimum payments under this lease are as follows:

Years ending December 31,	
2014	$ 7,338
2015	7,590
2016	7,862
2017	8,138
2018	8,424
Thereafter	19,244
	$ 58,596

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 was $1,992 and $2,062 for each of the years ended December 31, 2013 and 2012.

NOTE 13 – OPERATING LEASES - Continued

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 was $2,650 for both years ended December 31, 2013 and 2012, respectively.

Future minimum lease payments under these leases are as follows:

Year Ended December 31,	
2014	$ 663

NOTE 14 – ENDOWMENTS

The Organization's endowments consist 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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 14 – ENDOWMENTS - Continued

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.

The composition of endowment net assets as of December 31, 2013 and 2012 are as follows:

2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds:				
Deline	$ 13,469	$	$ 15,000	$ 28,469
Other	94,231	50,401	260,698	405,330
Endowment Net Assets, December 31, 2013	$ 107,700	$ 50,401	$ 275,698	$ 433,799

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	$ 65,715	$ 50,045	$ 275,698	$ 391,458

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 15 – ENDOWMENTS - Continued

The changes in endowment net assets as of December 31, 2013 and 2012 are as follows:

2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, January 1, 2013	$ 65,715	$ 50,045	$ 275,698	$ 391,458
Contributions	0	0	0	0
Investment Income	9,209	356	0	9,565
Net Appreciation (Depreciation)	47,776	0	0	47,776
Transfer to Unrestricted Cash Accounts	(15,000)	0	0	(15,000)
Endowment Net Assets, December 31, 2013	$ 107,700	$ 50,401	$ 275,698	$ 433,799

2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, January 1, 2012				
Contributions	$ 65,368	$ 0	$ 275,698	$ 341,066
Investment Income	0	50,580	0	$ 50,580
Net Appreciation (Depreciation)	31,434	0	0	$ 31,434
Transfer to Unrestricted Cash Accounts	(14,287)	(535)	0	$ (14,822)
Endowment Net Assets, December 31, 2012	(16,800)	0	0	$ (16,800)
	$ 65,715	$ 50,045	$ 275,698	$ 391,458

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 with Comparative Totals for 2012

NOTE 16 – FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis at December 31, 2013 and 2012 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013				
Investments	$1,039,609	$1,039,609	$ -	$ -
December 31, 2012				
Investments	$ 286,283	$ 286,283	$ -	$ -

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

INDEPENDENT AUDITORS' 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*

BOARD OF TRUSTEES
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, 2013, 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 8, 2014

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 Watertown Family YMCA, Inc.'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identifies. 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 to 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, this communication is not suitable for any other purpose.

Bowers & Company

Watertown, New York
May 8, 2014