

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION

AND

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2004 AND 2003

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ADDITIONAL INFORMATION
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DECEMBER 31, 2004 AND 2003

CONTENTS

	<u>PAGE</u>
<u>REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS</u>	1 - 2
 <u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statements of Functional Expenses	6
Notes to Financial Statements	7 - 19
 <u>ADDITIONAL INFORMATION</u>	
Schedule of Expenditures of Federal Awards.....	20
Schedule of Expenditures of State Awards.....	21
Bond Sinking Fund Requirements	22
 <u>OTHER REPORTS</u>	
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23
Report of Independent Certified Public Accountants on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	24 - 25
Schedule of Findings and Questioned Costs.....	26 - 28



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Young Men's Christian Association of Middle Tennessee
Nashville, Tennessee

We have audited the accompanying statements of financial position of the Young Men's Christian Association of Middle Tennessee (the "YMCA") as of December 31, 2004 and 2003, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the YMCA's management. Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Young Men's Christian Association of Middle Tennessee as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2005, on our consideration of the YMCA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The additional information, pages 20 - 22, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yrafi CPAs PLLC

Nashville, Tennessee
May 12, 2005

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 9,563,093	\$ 9,564,739
Accounts and grants receivable	300,805	406,657
Contributions receivable, net - Note 3	6,533,459	4,188,531
Property, plant and equipment, net - Note 5	82,367,196	81,995,625
Prepaid expenses	957,873	617,470
Bond issue costs, net - Note 2	383,572	410,970
Cash restricted for investment in property and equipment	4,800,800	2,042,191
Investments - Note 4	289,915	263,827
Other	91,895	91,895
TOTAL ASSETS	<u>\$ 105,288,608</u>	<u>\$ 99,581,905</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 3,024,775	\$ 3,612,058
Derivative liability - interest rate swap - Note 7	3,472,589	4,362,622
Debt obligations - Note 7:		
Long-term notes payable	3,065,923	2,173,572
Bonds payable	38,110,000	40,900,000
Deferred compensation obligation - Note 4	289,915	263,827
Deferred revenue:		
Membership dues	1,045,147	958,155
Grants	40,753	5,008
TOTAL LIABILITIES	<u>49,049,102</u>	<u>52,275,242</u>
LEASES, COMMITMENTS AND CONTINGENCIES - Notes 11 and 12		
<u>NET ASSETS</u>		
Unrestricted:		
Board designated for:		
Contingency reserve	1,439,043	1,419,178
Major maintenance reserve	553,290	545,546
Capital asset reserve	3,389,887	3,083,586
Undesignated	39,523,027	36,027,631
Total unrestricted	44,905,247	41,075,941
Temporarily restricted	11,334,259	6,230,722
TOTAL NET ASSETS	<u>56,239,506</u>	<u>47,306,663</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 105,288,608</u>	<u>\$ 99,581,905</u>

See accompanying notes to financial statements.

2003		
Unrestricted	Temporarily Restricted	Totals
\$ 3,709,184	\$ 2,028,319	\$ 5,737,503
47,267	-	47,267
182,517	-	182,517
3,146,757	-	3,146,757
30,081,849	-	30,081,849
15,610,745	-	15,610,745
486,667	-	486,667
216,285	-	216,285
9,083	-	9,083
168,123	-	168,123
434,746	-	434,746
(360,500)	-	(360,500)
59,548	-	59,548
<u>3,610,285</u>	<u>(3,610,285)</u>	<u>-</u>
<u>57,402,556</u>	<u>(1,581,966)</u>	<u>55,820,590</u>
45,129,656	-	45,129,656
6,494,440	-	6,494,440
<u>886,607</u>	<u>-</u>	<u>886,607</u>
<u>52,510,703</u>	<u>-</u>	<u>52,510,703</u>
4,891,853	(1,581,966)	3,309,887
<u>36,184,088</u>	<u>7,812,688</u>	<u>43,996,776</u>
<u>\$ 41,075,941</u>	<u>\$ 6,230,722</u>	<u>\$ 47,306,663</u>

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,932,843	\$ 3,309,887
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,520,329	3,389,530
Loss on disposition of property and equipment	35,325	13,407
Equity in loss of joint venture	-	360,500
Unrealized (gain) loss on investments	(26,089)	(59,548)
Change in derivative liability - interest rate swap	(890,033)	(845,290)
Non-cash contribution - Note 6	-	(655,340)
(Increase) decrease in:		
Pledges for property, plant and equipment	(7,095,052)	(1,424,999)
Accounts and grants receivable	105,852	(129,522)
Prepaid expenses and other	(340,403)	(15,269)
Increase (decrease) in:		
Accounts payable and accrued expenses	(587,283)	699,806
Deferred compensation	26,088	59,547
Deferred revenue	<u>122,737</u>	<u>(190,869)</u>
TOTAL ADJUSTMENTS	<u>(5,128,529)</u>	<u>1,201,953</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,804,314</u>	<u>4,511,840</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(3,977,328)	(2,973,343)
Investment in joint venture - Note 6	-	(475,853)
(Increase) decrease in cash restricted for investment in property, plant and equipment	<u>(2,758,609)</u>	<u>(880,013)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(6,735,937)</u>	<u>(4,329,209)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of property	77,501	-
Proceeds received from pledges for property, plant and equipment	4,750,124	3,253,049
Principal payments on debt obligations	(3,428,152)	(3,137,115)
Proceeds from notes payable	<u>1,530,504</u>	<u>329,271</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>2,929,977</u>	<u>445,205</u>
INCREASE (DECREASE) IN CASH	(1,646)	627,836
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>9,564,739</u>	<u>8,936,903</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ <u>9,563,093</u>	\$ <u>9,564,739</u>
INTEREST EXPENSE PAID	\$ <u>2,046,334</u>	\$ <u>2,100,272</u>

See accompanying notes to financial statements.

2003

PROGRAM SERVICES	SUPPORTING SERVICES		TOTAL
	ADMINISTRATIVE	FUNDRAISING	
\$ 22,221,390	\$ 2,921,065	\$ 406,771	\$ 25,549,226
2,659,128	260,172	88,643	3,007,943
1,969,269	202,093	30,874	2,202,236
26,849,787	3,383,330	526,288	30,759,405
1,046,833	859,561	23,269	1,929,663
3,061,281	219,329	70,145	3,350,755
581,479	111,054	6,681	699,214
111,594	56,701	8,693	176,988
4,787,927	209,831	-	4,997,758
1,880,038	220,234	-	2,100,272
(756,653)	(88,637)	-	(845,290)
1,313,132	485,884	5,668	1,804,684
413,591	429,896	108,366	951,853
589,840	138,208	22,488	750,536
263,661	-	4,768	268,429
178,920	69,372	35,004	283,296
778,631	157,656	14,467	950,754
248,364	5,640	-	254,004
391,701	236,381	60,770	688,852
41,740,126	6,494,440	886,607	49,121,173
3,389,530	-	-	3,389,530
\$ 45,129,656	\$ 6,494,440	\$ 886,607	\$ 52,510,703

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Young Men's Christian Association of Middle Tennessee (the "YMCA") is a worldwide charitable fellowship united by a common loyalty to Jesus Christ for the purpose of helping persons grow in spirit, mind and body. The YMCA is working to build strong kids, strong families and strong communities by serving 194,800 members at twenty-three YMCA centers throughout seven Middle Tennessee counties and Scottsville, Kentucky. YMCA programs encompass a variety of areas including youth and teen programs, adult and family programs, outreach and wellness.

Basis of Presentation

The financial statements of the YMCA present the combined accounts and operations of the Corporate Office and all YMCA centers and have been prepared on the accrual basis of accounting. All significant transactions and balances between and among the Corporate Office and the centers have been eliminated in combination.

Financial statement presentation follows the accounting and reporting standards established by the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the assets, liabilities and net assets of the YMCA are reported as follows:

- Unrestricted - includes unrestricted resources and represents expendable funds available for support of the YMCA's operations.
- Temporarily restricted - includes gifts from contributions restricted for specific programs or time periods. As of December 31, 2004 and 2003, all temporarily restricted net assets were from contributions and pledges for capital improvements at the various YMCA facilities and for construction of the North Rutherford YMCA.
- Permanently restricted - includes gifts which contain provisions requiring in perpetuity that the principal be invested and the income or specific portions thereof be used for operations. The YMCA had no permanently restricted net assets as of December 31, 2004 or 2003.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Unrestricted Funds include three board-designated reserves as follows:

- Contingency reserve - for supplementing YMCA programs in the event of an operating cash shortage.
- Major maintenance reserve - for major replacement costs or bond payments in the event of a catastrophe.
- Capital asset reserve - for major equipment additions or building improvements in the event of an operating cash shortage.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

The Agency also receives grant revenue from various federal and state agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant.

The Agency reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Donated Services

Many individuals volunteer their time and perform a variety of tasks for or on behalf of the YMCA. During 2004 and 2003, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking account balances, money market funds, and certificates of deposit with original maturities of 90 days or less.

Investments

Investments are carried at fair value (generally at quoted market prices). Net realized and unrealized gains and losses are reflected in the Statement of Activities.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (3.65% for 2004; 3.25% in 2003). Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

The allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends.

Property, Plant and Equipment and Depreciation

Land, building, equipment and furniture are recorded at cost, when purchased, or at fair value at the date of the gift when donated to the YMCA (for all items that exceed threshold materiality limits). Depreciation is calculated by the straight-line method to allocate the cost of depreciable assets, as so determined, to operations over estimated useful lives of ten years for equipment and furniture, five years for software, fifteen years for land improvements and forty years for buildings.

Management reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The YMCA assesses recoverability of the carrying value of the asset by estimating future net cash flows expected to result from the assets, including eventual disposition. If the future cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and the fair value.

Bond Issue Costs and Amortization

Bond issue costs are capitalized and amortized by the straight-line method over the term of the related bond obligation.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Compensated absences or paid time off ("PTO") is accrued for full-time staff members. Staff members accumulate PTO hours to be used when they wish or need to be away from work for various reasons, including vacation, personal illness, holiday, personal time, bereavement, etc. Current policy is to allow employees to earn monthly credits in hours based on years of service as follows: 15 years and over - 30.00 hours; 10 to 14 years - 26.66 hours; 5 to 9 years - 23.30 hours; and 0 to 4 years - 20.00 hours. The maximum allowable carryover of PTO credits is based on years of service as follows: 15 years and over - 360 hours; 10 to 14 years - 320 hours; 5 to 9 years - 280 hours; and 0 to 4 years - 240 hours.

Derivatives

The YMCA utilizes a derivative financial instrument to manage its interest rate exposure by reducing the impact of fluctuating interest rates on its debt service requirements. Derivatives are recognized as either assets or liabilities in the statement of financial position at fair value. Changes in the fair value of derivatives are recognized currently in the statement of activities and allocated to functional expenses on the same basis as financing costs.

Deferred Revenue

Deferred revenue consists of membership dues and unearned grant revenue.

Income from membership dues is deferred initially and recognized over the periods to which the dues relate.

Grant funds received prior to expenditure are recorded initially as deferred revenue and recognized in the period a liability is incurred for eligible expenditures under the terms of the grant.

Income Taxes

The YMCA is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program services - includes activities carried out to fulfill the YMCA's mission to provide nurturing and healthy development of children, teens, adults, seniors, families and communities.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Supporting services

Management and general - relates to the overall direction of the organization. These expenses are not identifiable with a particular program or event or with fundraising, but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Expenses that relate to more than one function are allocated among applicable functions on the basis of objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

Use of Estimates in the Preparation of Financial Statements

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

NOTE 2 - BOND ISSUE COSTS

Capitalized bond issue costs consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Bond issue costs	\$ 547,960	\$ 547,960
Less: accumulated amortization	<u>(164,388)</u>	<u>(136,990)</u>
	<u>\$ 383,572</u>	<u>\$ 410,970</u>

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Temporarily restricted:		
Less than one year	\$ 2,632,684	\$ 2,620,083
One to five years	3,076,301	2,231,301
Five years and greater	<u>2,183,334</u>	<u>196,358</u>
	7,892,319	5,047,742
Less allowance for uncollectible contributions	(675,000)	(650,000)
Less discount to net present value	<u>(683,860)</u>	<u>(209,211)</u>
Total	<u>\$ 6,533,459</u>	<u>\$ 4,188,531</u>

Conditional promises to give at December 31, consist of the following:

	<u>2004</u>	<u>2003</u>
Robertson County YMCA Capital Campaign	\$ 189,000	\$ 221,000
Joe C. Davis YMCA Outdoor Center	<u>4,500,000</u>	<u>-</u>
	<u>\$ 4,689,000</u>	<u>\$ 221,000</u>

In December 2004, the YMCA received a challenge grant in the amount of \$4,500,000 from the Joe C. Davis Foundation to support the YMCA's efforts to expand the current Center and to build a resident outdoor camping program and facility for use by the YMCA at the Joe C. Davis YMCA Outdoor Center. The gift is subject to the YMCA's ability to raise an additional \$4,500,000 for the Overnight Camp program prior to December 31, 2006.

NOTE 4 - INVESTMENTS AND DEFERRED COMPENSATION OBLIGATION

Investments consist of an equity mutual fund, which had a value of \$289,915 at December 31, 2004 (\$263,827 in 2003). These investments were transferred to a "rabbi trust" established on February 1, 2002, for the purpose of accumulating assets designated to meet the YMCA's obligation to its former executive director under a deferred compensation arrangement. The Trust is irrevocable; however, trust assets are subject to general claims of the YMCA's creditors in the event of the YMCA's insolvency.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Land and land improvements	\$ 9,449,051	\$ 9,466,360
Buildings and improvements	84,669,232	81,608,033
Equipment and furniture	12,952,598	12,656,615
Software	282,440	282,440
Construction-in-progress	<u>2,808,374</u>	<u>2,319,071</u>
	110,161,695	106,332,519
Less: accumulated depreciation	<u>(27,794,499)</u>	<u>(24,336,894)</u>
	<u>\$ 82,367,196</u>	<u>\$ 81,995,625</u>

NOTE 6 - INVESTMENT IN ST. THOMAS/YMCA, LLC

During 2001, the YMCA and Saint Thomas Network ("STN"), formerly known as Saint Thomas Health Services, a non-profit agency, formed and became 50% owners of St. Thomas/YMCA, LLC (the "LLC"), a limited liability company. The purpose of the LLC was to integrate complementary services and promote community health and services in the areas of wellness, prevention, conditioning and rehabilitation, all in accordance with the exempt purposes of the YMCA and STN. The YMCA and STN each appointed four members to the LLC's advisory board of directors.

Effective August 31, 2003, STN transferred its 50% membership interest in the LLC to the YMCA, leaving the YMCA as the sole member. The operations and activities of the LLC continue to be operated by the YMCA at one of its centers. Accordingly, the LLC's operations subsequent to August 31, 2003, were consolidated with the YMCA. The effects of these transactions to the YMCA were to recognize the net book value of the LLC's building improvements and furniture and equipment, in the amount of \$655,340, in property, plant and equipment in 2003, and to eliminate the YMCA's investment in the LLC. Prior to the transfer by STN, the YMCA's share of the LLC's losses for the 8 months ended August 31, 2003, was \$360,500. During this same period, the YMCA made additional capital contributions to the LLC of \$475,853. In March 2004, the LLC was legally terminated.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 7 - DEBT OBLIGATIONS

Debt obligations consist of the following at December 31:

<u>Notes payable</u>	<u>2004</u>	<u>2003</u>
Note payable to the Wadlington Children's Trust, is payable in monthly principal installments of \$500 plus interest at the published prime rate plus 1%.	\$ 16,829	\$ 22,829
Various notes payable on vehicles purchased for employee and program usage. Total monthly payments range from \$325 to \$842 including interest ranging from 2.9% to 9.7% per annum. Maturities range through 2009.	113,403	75,226
Note payable to YMCA Foundation is an interest-bearing, open-ended debt agreement approved by the Board of Directors. Interest is charged quarterly at a rate of 1/2 of 1% above the average published prime rate for the quarter then ended. The note was paid off in April, 2005.	150,000	150,000
Note payable to Bank of America to fund certain construction projects. Interest is charged at a fixed rate of 7.87%. The note matures in monthly installments through August 31, 2014.	506,950	539,349
Note payable to Bank of America for construction of the Brentwood Teen Center. Interest is charged at the rate of 70 basis points above the LIBOR rate and is due monthly through December 15, 2006, at which time the outstanding principal balance is due.	107,333	161,000
Note payable to Bank of America for construction of the Clarksville expansion, payable in monthly principal installments of \$12,500, plus interest. Interest is charged at a rate of 70 basis points above the LIBOR rate. The note was paid off in March, 2005.	37,500	187,500

(Continued on next page)

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 7 - DEBT OBLIGATIONS (CONTINUED)

	<u>2004</u>	<u>2003</u>
Note payable to Bank of America for construction of the Sumner Pool, payable in monthly principal installments of \$13,889, plus interest. Interest is charged at the rate of 70 basis points above the LIBOR rate. All unpaid principal and interest are due August 1, 2005.	\$ 97,219	\$ 263,887
Note payable to Bank of America for purchase of the 900 Church Street administrative building, payable in monthly principal installments of \$3,820, plus interest. Interest is charged at the rate of 70 basis points above the LIBOR rate. All unpaid principal and interest are due April 15, 2014.	420,120	465,960
Note payable to Bank of America for construction of a two-story parking deck at the Green Hills center. Interest is charged at the rate of 70 basis points above the LIBOR rate. All unpaid principal and interest are due March 15, 2011.	<u>1,616,569</u>	<u>307,821</u>
Total notes payable	<u>3,065,923</u>	<u>2,173,572</u>
<u>Bonds payable</u>		
1998 Industrial Revenue Bonds, face value \$52,000,000, final maturity date of December 1, 2018. Mandatory sinking fund deposits toward principal repayment are due annually. Interest on the bonds is determined weekly by the Remarketing Agent and ranged from 0.95% -1.75% during 2004 (0.75% - 1.35% in 2003); the rate is not to exceed a maximum rate of 12%.	(1) <u>38,110,000</u>	<u>40,900,000</u>
Total bonds payable	<u>38,110,000</u>	<u>40,900,000</u>
TOTAL DEBT OBLIGATIONS	<u>\$ 41,175,923</u>	<u>\$ 43,073,572</u>

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 7 - DEBT OBLIGATIONS (CONTINUED)

- (1) The YMCA has an interest rate swap agreement with the Bank of America in order to lessen exposure to fluctuating interest rates on the Bonds. The interest rate swap is applicable to a scheduled notional amount, which reduces annually each January. Under the agreement, the YMCA makes a monthly interest payment to the Bank equal to a per annum rate of 4.33% times the scheduled annual notional amount (\$37,320,000 in 2004; \$38,230,000 in 2003), and the Bank makes a monthly interest adjustment payment to the YMCA equal to the applicable notional amount times a per annum rate of 70% of the London Interbank Offering Rate (LIBOR). Through March 2006, there is a 6% cap provision on the total interest to be paid. The swap agreement terminates on December 1, 2018, the final maturity date of the Bonds.

Annual principal maturities and sinking fund requirements of debt obligations as of December 31, 2004, are as follows:

	<u>Notes Payable</u>	<u>Sinking Fund Requirements</u> ⁽²⁾	<u>Total</u>
<u>Years Ending December 31:</u>			
2005	\$ 496,547	\$ -	\$ 496,547
2006	357,789	-	357,789
2007	402,735	-	402,735
2008	397,689	700,000	1,097,689
2009	348,103	700,000	1,048,103
Thereafter	<u>1,063,060</u>	<u>36,710,000</u>	<u>37,773,060</u>
	<u>\$ 3,065,923</u>	<u>\$ 38,110,000</u>	<u>\$ 41,175,923</u>

- (2) The YMCA entered into a Reimbursement Agreement with the Bank of America, pursuant to which the Bank issued its Letter of Credit in favor of the Bond Trustee in the original stated amount of the Bonds (approximately \$53 million). Minimum principal reimbursement payments required under the Agreement as of December 31, 2004, are as follows:

<u>Year ending December 31,</u>	<u>Required Reimbursement Payment</u>
2005	\$ 2,710,000
2006	1,660,000
2007	2,070,000
2008	2,070,000
2009	2,070,000
Thereafter	<u>27,530,000</u>
	<u>\$ 38,110,000</u>

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 7 - DEBT OBLIGATIONS (CONTINUED)

On December 31, 2004, the YMCA entered into a Master Loan Agreement with the Bank of America for additional loan commitments up to \$25,000,000 through December 31, 2007. The agreement provides for both revolving and term loans during the term of the agreement. Revolving loans provide for interest only payments, with a maturity date within twenty-four months of the date of the original note. Term loans require monthly principal and interest payments based on a twenty-year amortization, with a maturity date within five years of the date of the original note. Interest rates charged on both types of loans are calculated and adjusted annually based on specified ratios tied to LIBOR and calculated as of December 31.

The YMCA also has a \$500,000 maximum revolving line of credit with the Bank that is available through December 31, 2006. There have been no borrowings under this agreement as of December 31, 2004.

NOTE 8 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the YMCA to concentrations of credit risk consist principally of cash and cash equivalents and contributions receivable. Cash balances are maintained at two financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000 for each bank. The balances per bank at December 31, 2004 and 2003, exceeded the FDIC limit by approximately \$14,500,000 and \$11,200,000, respectively. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

Contributions receivable represent concentrations of credit risk to the extent that they are receivable from concentrated sources. Contributions receivable from two donors amounted to 75% of total outstanding contributions receivable and 53% of contribution revenue as of and for the year ended December 31, 2004 (47% of contributions receivable from one donor in 2003).

NOTE 9 - EMPLOYEE BENEFIT PLANS

The YMCA participates in a defined contribution, individual account, money purchase retirement plan, which is administered by the Young Men's Christian Association Retirement Fund (a separate corporation). This plan is for the benefit of all eligible professional and nonprofessional staff of duly organized and reorganized YMCA's throughout the United States.

Contributions to the plan by employees and employer YMCA's are based on a percentage of the participating employees' salaries and are remitted monthly. Total contributions to the plan by the YMCA of Middle Tennessee, which are included in employee benefits, amounted to \$1,864,461 in 2004, and \$1,641,647 in 2003.

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

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 10 - RELATED PARTY TRANSACTIONS AND RELATED ENTITIES

The YMCA purchases insurance, and contracts for marketing services, law services and construction through certain Board members. The total of such expenditures approximated \$1,407,000 in 2004, and \$670,000 in 2003.

The YMCA Foundation of Middle Tennessee (the "Foundation") was formed to establish a permanent endowment fund, using the income for the benefit of the YMCA. The YMCA has representation on the Foundation's Board of Directors but does not have a majority voting interest. The Foundation receives donor designated funds and also makes grants to other not-for-profit organizations. For the year ended December 31, 2004, the Foundation paid out total grants of \$144,701 (\$151,821 in 2003), of which \$137,254 (\$143,961 in 2003) was paid to the YMCA and included in grant revenues.

A condensed summary of financial information of the Foundation as of and for the years ended December 31, follows:

	<u>2004</u>	<u>2003</u>
Total assets	\$ 5,078,234	\$ 4,759,487
Total liabilities	<u>86,605</u>	<u>84,024</u>
Net Assets	<u>\$ 4,991,629</u>	<u>\$ 4,675,463</u>
Net Assets:		
Unrestricted	\$ 4,482,901	\$ 3,958,551
Unrestricted - Philanthropic Funds	87,614	74,190
Temporarily Restricted	<u>421,114</u>	<u>642,722</u>
Total Net Assets	<u>\$ 4,991,629</u>	<u>\$ 4,675,463</u>
Total Support and Revenue, including unrealized gains on investments of: \$211,810 in 2004; \$426,271 in 2003	\$ 546,230	\$ 673,376
Total Expenses	\$ 230,064	\$ 217,067
Resources held for the benefit of the YMCA	\$ 4,904,015	\$ 4,601,273

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 11 - OPERATING LEASES

The YMCA is obligated on several noncancelable operating leases for office space, equipment and vehicles that expire at various dates through 2011. Total rental expense incurred under these leases for the years ended December 31, 2004 and 2003, amounted to: office space - \$599,313 and \$626,476, respectively; equipment - \$822,743 and \$653,871, respectively; and vehicles - \$146,797 and \$155,794, respectively.

Future minimum lease payments required under all noncancelable operating leases that have remaining terms in excess of one year as of December 31, 2004, are:

	<u>Office</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Total</u>
<u>Years Ending December 31:</u>				
2005	\$ 544,767	\$ 517,642	\$ 109,810	\$ 1,172,219
2006	248,774	277,577	109,810	636,161
2007	150,519	98,579	80,165	329,263
2008	155,031	94,870	54,474	304,375
2009	146,014	6,523	54,474	207,011
Thereafter	<u>-</u>	<u>-</u>	<u>29,831</u>	<u>29,831</u>
	<u>\$ 1,245,105</u>	<u>\$ 995,191</u>	<u>\$ 438,564</u>	<u>\$ 2,678,860</u>

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The YMCA has received certain federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in disallowance of expenditures, management believes that any required reimbursements would not be significant. Accordingly, no provision has been made for any potential reimbursements to the grantors.

The YMCA has a management agreement with the YMCA of Scottsville and Allen County, Inc., for the YMCA of Middle Tennessee to oversee the day-to-day operations of the facility. Currently, the Scottsville Center land, building and equipment are included in the YMCA's total assets; however, it is anticipated that these assets will be transferred to the YMCA of Scottsville and Allen County, Inc. in the future. The carrying value of these assets that would be transferred out approximates \$5.4 million at December 31, 2004.

At December 31, 2004, the YMCA had outstanding construction commitments of approximately \$5.0 million on four construction projects.

ADDITIONAL INFORMATION

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2004

Grant Description	Federal CFDA#	Grant Number	Grant Period	(Accrued) Deferred Revenue 1/1/2004	1/1/04 - 12/31/04		(Accrued) Deferred Revenue 12/31/2004
					Receipts	Expenditures	
U.S. DEPARTMENT OF AGRICULTURE							
PASSED THROUGH STATE OF TENNESSEE DEPARTMENT OF HUMAN SERVICES:							
Child & Adult Care Food Program (CACFP)							
Northwest	10.558	DA-03-00050	10/01/03 - 09/30/04	(2,615)	30,167	27,552	-
Northwest	10.558	DA-03-00050	10/01/04 - 09/30/05	-	6,574	9,575	(3,001)
Margaret Maddox Family YMCA	10.558	DA-03-00050	10/01/03 - 09/30/04	(1,906)	11,462	9,556	-
Margaret Maddox Family YMCA	10.558	DA-03-00050	10/01/04 - 09/30/05	-	1,204	3,571	(2,367)
School Age Services	10.558	DA-03-00050	10/01/03 - 09/30/04	(30,683)	145,098	114,415	-
School Age Services	10.558	DA-03-00050	10/01/04 - 09/30/05	-	42,268	59,767	(17,499)
TOTAL U.S. DEPARTMENT OF AGRICULTURE				(35,204)	236,773	224,436	(22,867)
U.S. DEPARTMENT OF EDUCATION							
PASSED THROUGH METROPOLITAN NASHVILLE PUBLIC SCHOOLS:							
21st Century Community Learning Centers (Club MCM)	* 84.287A	2-5008038-00 A1	08/01/00 - 07/31/05	5,008	265,148	229,403	40,753
TOTAL U.S. DEPARTMENT OF EDUCATION				5,008	265,148	229,403	40,753
U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT							
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:							
HOPE VI Preston Taylor Homes: Boys & Girls Club YMCA	14.866	TN43URD0051199	10/01/02 - 08/31/04	(4,167)	91,662	87,495	-
HOPE VI Additional Funds	14.866	TN43URD0051199	05/10/04 - 05/10/05	-	58,500	58,500	-
COMMUNITY DEVELOPMENT BLOCK GRANT Youth Enrichment Initiatives - Boys & Girls Club YMCA	14.218	B-02-MC470007	06/01/04 - 08/15/04	-	20,000	20,000	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				(4,167)	170,162	165,995	-
U.S DEPARTMENT OF LABOR							
PASSED THROUGH THE STATE OF TENNESSEE DEPARTMENT OF LABOR							
Workforce Essentials	17.259	04-08-999-187	08/14/03 - 06/30/05	-	44,801	51,604	(6,803)
TOTAL U.S. DEPARTMENT OF LABOR				-	44,801	51,604	(6,803)
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ (34,363)	\$ 716,884	\$ 671,438	\$ 11,083

*Considered a major program under OMB Circular A-133.

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2004

Grant Description	Grant Number	Grant Period	(Accrued) Deferred Revenue 1/1/2004	1/1/04 - 12/31/04		(Accrued) Deferred Revenue 12/31/2004
				Receipts	Expenditures	
STATE OF TENNESSEE						
DEPARTMENT OF HEALTH						
Buffalo Soldiers and Little Sisters	Z-04-015340-00	7-1-03 / 6-30-04	\$ (10,317)	\$ 41,267	\$ 30,950	\$ -
Buffalo Soldiers and Little Sisters	Z-05-021352-00	7-1-04 / 6-30-05	-	25,792	30,950	(5,158)
Passed through United Way of Metropolitan Nashville:						
Seal Team		01/01/03 - 12/31/03	(5,165)	5,165	-	-
TOTAL STATE OF TENNESSEE			(15,482)	72,224	61,900	(5,158)
DEPARTMENT OF HEALTH						
TOTAL EXPENDITURES OF STATE AWARDS			\$ (15,482)	\$ 72,224	\$ 61,900	\$ (5,158)

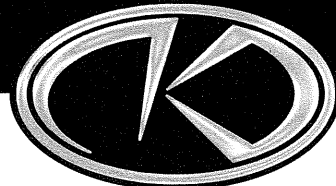
YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

BOND SINKING FUND REQUIREMENTS

DECEMBER 31, 2004

<u>Year</u>	<u>1998 Industrial Revenue Bonds Principal Payments Required</u>
2005	\$ -
2006	-
2007	-
2008	700,000
2009	700,000
2010	2,400,000
2018	<u>34,310,000</u>
	<u>\$ 38,110,000</u>

OTHER REPORTS



KraftCPAs
PLLC

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Young Men's Christian Association of Middle Tennessee
Nashville, Tennessee

We have audited the financial statements of the Young Men's Christian Association of Middle Tennessee (the "YMCA") as of and for the year ended December 31, 2004, and have issued our report thereon dated May 12, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the YMCA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the YMCA's financial statements are free of 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 that are required to be reported herein under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the YMCA in a separate letter dated May 12, 2005.

This report is intended solely for the information of the Board of Directors, management, others within the organization, federal awarding agencies and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

KraftCPAs PLLC

Nashville, Tennessee
May 12, 2005



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Young Men's Christian Association of Middle Tennessee
Nashville, Tennessee

Compliance

We have audited the compliance of the Young Men's Christian Association of Middle Tennessee (the "YMCA") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2004. The YMCA's major Federal program is identified in the Summary of Audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the YMCA's management. Our responsibility is to express an opinion on the YMCA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the YMCA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the YMCA's compliance with those requirements.

In our opinion, the YMCA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the Young Men's Christian Association of Middle Tennessee is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the YMCA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management, others within the organization, federal awarding agencies and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

YrathCPAs PLLC

Nashville, Tennessee
May 12, 2005

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2004

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes x No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes x None Reported

Noncompliance material to financial statements noted?

_____ Yes x No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes x No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes x None Reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ Yes x No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
84.287A	21 st Century Community Learning Centers (Club MCM)

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 x Yes _____ No

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2004

Section II - Financial Statement Findings

A. Current year:

None

B. Prior year:

None reported

YOUNG MEN'S CHRISTIAN ASSOCIATION OF MIDDLE TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Section III - Federal Award Findings and Questioned Costs

A. Current year:

None

B. Prior year:

None reported