Columbia Association, Inc.

Financial Statements

October 31, 2014 and 2013

COLUMBIA ASSOCIATION, INC.

OFFICER'S STATEMENT

I have reviewed the accompanying statement of financial position of Columbia Association, Inc. as of October 31, 2014 and 2013, and the related statements of activities and cash flows for the quarters then ended. In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Columbia Association, Inc. as of October 31, 2014 and 2013, and the results of its operations and its cash flows for the periods then ended, in conformity with generally accepted accounting principles.

Paul Papagjika, Treasurer

Columbia Association, Inc.

Statements of Financial Position
October 31, 2014 and 2013
(in Thousands)

Assets

	2014	2013
Cash and cash equivalents	$ 14,875	$ 415
Accounts receivable, net	14,133	11,732
Prepaid expenses and other assets	815	1,448
Debt service fund	2,838	3,007
Risk management fund	6,474	6,548
Workers' compensation fund	2,682	2,329
Property, facilities and equipment, net	109,096	104,233
Intangible assets, net	319	319
Deferred bond issuance/financing costs, net	138	2
Total assets	$ 151,370	$ 130,033

Liabilities and Net Assets

	2014	2013
Liabilities		
Line of credit	$ -	$ 14,189
Accrued interest	110	216
Accounts payable and accrued expenses	8,285	9,863
Deferred revenue	14,765	11,511
	23,160	35,779
Term debt		
Senior secured bonds	2,702	5,314
Term loan	29,625	-
Capital lease obligations	268	405
Total term debt	32,595	5,719
Total liabilities	55,755	41,498
Net assets		
Unrestricted	95,615	88,535
Total net assets	95,615	88,535
Total liabilities and net assets	$ 151,370	$ 130,033

See Notes to Financial Statements.

Columbia Association, Inc.

Statements of Activities
Periods Ended October 31, 2014 and 2013
(in Thousands)

	2014	2013
Revenue		
Property assessments	$ 34,982	$ 34,251
Sport and fitness	13,302	12,807
Community services	1,785	1,865
Sales and marketing	2	2
Community building and sustainability	90	66
Open space management	392	183
Revitalization	33	45
Interest income and other	(61)	40
Total revenue	50,512	49,259
Expenses		
Sport and fitness	13,914	13,512
Community services	4,951	5,115
Sales and marketing	220	201
Community building and sustainability	446	564
Open space management	5,106	4,984
Revitalization	486	498
Administrative	4,178	4,826
Interest	457	556
Total expenses	29,758	30,256
Increase in unrestricted net assets	20,754	19,003
Unrestricted net assets, beginning	74,861	69,532
Unrestricted net assets, end	$ 95,615	$ 88,535

See Notes to Financial Statements.

Columbia Association, Inc.

Statements of Cash Flows
Periods Ended October 31, 2014 and 2013
(in Thousands)

	2014	2013
Cash flows from operating activities		
Increase in unrestricted net assets	$ 20,754	$ 19,003
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities		
Depreciation expense and amortization	4,109	3,765
Amortization of deferred bond issuance costs	6	6
(Gain) loss on disposal of fixed assets	55	(4)
Unrealized (gain) loss on marketable securities	13	-
Changes in operating assets and liabilities		
Accounts receivable	(495)	1,326
Prepaid expenses and other assets	1,500	(30)
Accrued interest	-	(182)
Accounts payable and accrued expenses	(3,186)	(2,484)
Deferred revenue	(354)	(1,862)
Net cash provided by operating activities	22,402	19,538
Cash flows from investing activities		
Net purchases of investments held by trustees	(2,671)	(2,502)
Purchase of property, facilities and equipment	(7,546)	(3,355)
Proceeds from the sale of equipment	100	4
Net cash used in investing activities	(10,117)	(5,853)
Cash flows from financing activities		
Line of credit	(27,012)	(7,245)
Bond issuance/finance costs	(144)	-
Long-term debt principal payments		
Senior secured bonds	-	(6,059)
Capital lease obligations	(80)	(79)
Term loan	29,625	-
Net cash used in financing activities	2,389	(13,383)
Net increase (decrease) in cash and cash equivalents	14,674	302
Cash and cash equivalents, beginning	201	113
Cash and cash equivalents, end	$ 14,875	$ 415
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$ 498	$ 735

See Notes to Financial Statements.

Note 1 - Organization and summary of significant accounting policies

Organization

Columbia Association, Inc. (the "Association") is a nonprofit membership corporation, incorporated under Maryland law. It develops and operates recreation and community facilities; provides community programs and assistance; and maintains and develops park land and open space in Columbia, Maryland. The Association is governed by an eleven-member Board of Directors comprised of the Association's President and ten members elected by residents of each of the ten villages.

Use of estimates in preparing financial statements

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Cash and cash equivalents

The Association defines cash equivalents as all highly liquid investments with maturities of ninety days or less when acquired, except when such investments are held by trustees for the debt service, risk management or workers' compensation funds.

Accounts receivable

Accounts receivable consist principally of membership fees receivable, which are uncollateralized and generally have a term of one to three years. Accounts receivable also include property assessments, which are collateralized by the resident's property.

The carrying amount of accounts receivable is reduced by a valuation allowance. The reserve for abatements and allowance for doubtful accounts is based on management's assessment of the collectability of specific member accounts and the amount of abatements residents will receive on their property assessment. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the reserves for abatements and allowance for doubtful accounts.

Debt service fund

Under the terms of the senior secured bond agreements, the Association deposits annual charge revenues with a trustee under a sinking fund arrangement. Investments in this fund are used to pay principal and interest payments on the bonds and are invested in U.S. Governmental Securities money market funds, which are stated at fair value.

Investments held by trustees

Investments held by trustees consisting of money market funds and U.S. Government mortgage bonds and treasuries are stated at fair value.

(in Thousands)

Property, facilities and equipment, net
Land includes approximately 3,400 acres of land that has been contributed to the Association since the establishment of the community of Columbia and is recorded at zero value. The contributed land is subject to a zoning ordinance limiting its usage to public or community usage. Facilities, equipment and land improvements that have a limited life are stated at cost and are depreciated using the straight-line method.

Assets	Estimated Useful Lives
Building and recreational facilities	10 to 40 years
Land improvements	20 to 25 years
Furniture, equipment and other	5 to 10 years

Costs of parks, lakes and related permanent land improvements are accounted for as land and are not depreciated because they have an indefinite useful life. Normal, recurring or periodic repair and maintenance costs are expensed as incurred.

Accounting for the Impairment or Disposal of Long-Lived Assets ("FASB ASC 360-10"), requires that an impairment loss be recognized only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and that the measurement of any impairment loss be the difference between the carrying amount and the fair value of the asset. There have been no impairment losses recognized during the periods ended October 31, 2014 and 2013, respectively.

Intangible assets
Goodwill relates to the purchase of land. The annual assessment revenue levied from this transaction exceeds the carrying amount of the goodwill and therefore no adjustment to carrying value is deemed necessary.

Deferred bond issuance/financing costs
Expenses related to the issuance of the senior secured bonds and term loan are being amortized using the effective interest method over the term of the debt. Accumulated amortization as of October 31, 2014 and 2013 was $6 and $735 respectively. Amortization expense for the periods ended October 31, 2014 and 2013 was $6 and $2, respectively. During fiscal year 2014, fully amortized financing costs were written off the statements of financial position in the amount of $1,038 with no additional impact to the statements of activities.

Risk management fund
Under the Association's risk management program, self-insured claims for general liability risks are accrued based on the best estimate of the ultimate cost of both asserted claims and unasserted claims from reported incidents and estimated losses from unreported

incidents. Such estimates are reviewed by counsel. The Association is funding the risk management program under a trust fund arrangement, which currently provides for funding as actuarially determined by independent actuaries.

Workers' compensation fund
The Association has a self-insurance program for workers' compensation. Under this program, the Association has a workers' compensation fund for its estimate of the ultimate cost of both asserted and unasserted claims from reported workers' compensation incidents. Claims and fund expenses are paid directly out of the workers' compensation fund. The program includes a trust deposit escrow account in the name of Maryland Workers' Compensation Commission for the benefit of the Association. The investment level of the fund will be periodically reviewed by the State of Maryland Workers' Compensation Commission and by independent actuaries.

Revenue recognition
Property assessments consist of annual charges for which future services are not required and are recognized as revenue when the annual charges are levied and due. Membership and other fees are recognized as revenue on a pro rata basis during the membership period with unearned fees recorded as deferred revenue.

Rental expense
Rental expense is recognized over the lease terms as it becomes payable according to the provisions of the respective leases. However, if the rental expense varies from a straight-line basis, future rental expense including scheduled and specific rent increase and/or rent concession are recognized on a straight-line basis over the lease terms.

Advertising
The Association uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising and promotion costs totaled $239 and $244 for the periods ended October 31, 2014 and 2013, respectively.

Income taxes
Although exempt from federal and state income taxes as provided for under Section 501(c)(4) of the Internal Revenue Code, the Association is subject to federal and state taxes on unrelated business income, if any.

The Association adopted the guidance provided *Accounting for Uncertainty in Income Taxes* ("FASB ASC 740-10") on April 1, 2009. Management has determined that the Association has no material uncertain tax positions that would require recognition under the guidance. The federal and state income tax returns of the Association are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed. Unrelated business income was $3 through the periods ended October 31, 2014 and 2013, respectively.

Columbia Association, Inc.

Notes to Financial Statements
October 31, 2014 and 2013
(in Thousands)

Reclassification
Certain prior year amounts have been reclassified to conform with the current year presentation.

Note 2 - Accounts receivable

Accounts receivable are comprised of the following as of October 31, 2014 and 2013:

	2014	2013
Membership fees	$ 14,214	$ 11,148
Annual charges	1,471	2,166
Other	583	185
Total accounts receivable	16,268	13,499
Less reserves for abatements and allowance for doubtful accounts	2,135	1,767
	$ 14,133	$ 11,732

Note 3 - Investments and other assets

Debt service fund
Investments of $2,838 in 2014 and $3,007 in 2013 in the Debt Service Fund are held by a Trustee and consist of a U.S. Governmental Securities Money Market Fund in which the fair value approximates cost.

Risk management fund
Investments included in the Risk Management Fund are held by a Trustee and are combined in a portfolio, which consists of the following as of October 31, 2014 and 2013:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 418	$ 418	$ 120	$ 120
Government debt securities	6,120	6,056	6,454	6,428
	$ 6,538	$ 6,474	$ 6,574	$ 6,548

(in Thousands)

Workers' compensation fund

Investments included in the Workers' Compensation Fund are held by a Trustee in a portfolio, which consists of the following as of October 31, 2014 and 2013:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 397	$ 397	$ 395	$ 395
Government debt securities	2,282	2,285	1,933	1,934
	$ 2,679	$ 2,682	$ 2,328	$ 2,329

Note 4 - Fair value measurements

In determining fair value, the Association uses various valuation approaches within the FASB ASC 820 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

FASB ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. FASB ASC 820 defines levels within the hierarchy based on the reliability of inputs as follows:

- Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

- Level 2 - Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy.

Trading and available-for-sale securities

Debt securities consisting of government agency debt obligations are generally valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality and type. Debt securities are generally classified within Level 2 of the valuation hierarchy.

(in Thousands)

The following table presents assets measured at fair value by classification within the fair value hierarchy as of October 31, 2014:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Government debt securities	$ -	$ 8,341	$ 8,341

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of October 31, 2013:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Government debt securities	$ -	$ 8,362	$ 8,362

Note 5 - Property, facilities and equipment, net

Property, facilities and equipment consist of the following as of October 31, 2014 and 2013:

	2014	2013
Land	$ 6,533	$ 6,533
Parks, lakes and related improvements	10,400	10,400
Land improvements	66,433	50,019
Buildings and recreation facilities	88,316	87,560
Furniture, equipment and other	28,070	29,613
Construction-in-progress	15,733	23,621
Total property, facilities and equipment	215,485	207,746
Less accumulated depreciation	106,389	103,513
Property, facilities and equipment, net	$ 109,096	$ 104,233

(in Thousands)

Note 6 - Property assessments

The principal source of the Association's revenue is an annual charge, based on a rate (68 cents per $100 of assessed valuation in both fiscal years 2014 and 2013) established annually by the Board of Directors, on all of Columbia's assessable real property. The Association's net assessed value is 50% of the State's assessed phased-in cash value subject to a 10% cap; however, the Board of Directors capped the increase at 2.5% for fiscal years 2014 and 2013.

The net assessed value for assessment years beginning July 1 was as follows:

2015	$10,279,012
2014	10,077,166

Note 7 - Line of credit

The Association has available an unsecured line of credit with a bank, which, under a loan agreement, is limited to borrowings of $45,000. The outstanding note bears interest at the lower of the bank's prime rate or LIBOR plus 95 basis points (0.15% and 0.18% as of October 31, 2014 and 2013, respectively) and is due on demand. Additionally, the note bears an unused commitment fee of 15 basis points on any difference between the preauthorized schedule of the projected outstanding balance and the amount of the credit actually used. The Association had $-0- and $14,189 outstanding under the line of credit as of October 31, 2014 and 2013, respectively.

The Association had $230 in letters of credit issued through a bank as of October 31, 2014 and 2013, respectively, none of which has been drawn upon.

Note 8 - Term debt

Senior secured bonds

Senior secured bonds bear interest at annual rates ranging from 6.81% to 11.5%. The weighted average rate as of October 31, 2014 and 2013 was 9.82% and 9.78%, respectively. Such bonds are secured by annual charge revenue and mature in 2015. The balance at October 31, 2014 and 2013 was $2,702 and $5,314, respectively.

Under the terms of the bond agreements, annual charge revenues are deposited with a trustee under a sinking fund arrangement as security for principal and interest payments.

Aggregate maturities of the Association's senior secured bonds for fiscal year 2015 are $2,702.

Term loan

On June 26, 2014, the Association entered into a 15-year fixed rate bank loan with TD Bank in the amount of $30,000. The loan’s interest rate is 3.63% and matures in fiscal year 2030. The Association is making monthly principal and interest payments beginning in August 2014 for the term of the loan. The funds were used to refinance certain interim indebtedness incurred to finance capital improvements. As of October 31, 2014, the future loan principal payments are as follows:

(in Thousands)

2015	$	765
2016		1,567
2017		1,629
2018		1,690
2019 and thereafter		23,974
Total	$	29,625

Capital lease obligation

The cost and accumulated amortization of equipment under capital leases were $1,112 and $779, respectively, as of October 31, 2014, and $1,112 and $668, respectively, as of October 31, 2013. As of October 31, 2014, the future minimum annual payments under capital leases are as follows:

2015	$	59
2016		142
2017		70
Total minimum lease payments		271
Less: amount representing interest		(3)
Present value of net minimum lease payments	$	268

Note 9 - Retirement benefit plan

Substantially all full-time and eligible part-time employees are covered by a defined contribution retirement benefit plan. Contributions are based on 6% of eligible employees' salaries. Previously, employees became fully vested in the plan after seven years of service. Effective April 1, 2007, employees become fully vested after six years of service. Expenses under this plan were $491 and $563 for the periods ended October 31, 2014 and 2013, respectively.

Note 10 - Commitments

The Association leases certain facilities and equipment under operating leases. Rental expense, exclusive of these costs, was $530 and $364 for the periods ended October 31, 2014 and 2013, respectively.

(in Thousands)

As of October 31, 2014, the Association's total commitment for minimum annual rentals, exclusive of maintenance and other occupancy costs, under noncancellable operating leases are:

2015	$	508
2016		871
2017		797
2018		813
2019 and thereafter		6,481
Total	$	9,470

The lease for the headquarters building includes a rent abatement for the period September 1, 2011 to February 28, 2012 valued at $249. Accrued abatements of $46 and $101 were included in accounts payable and accrued expenses as of October 31, 2014 and 2013, respectively. The lease for the IT offices also includes rent abatement for the period August 1, 2012 to July 31, 2013 valued at $10. Accrued abatements of $4 and $7 were included in accounts payable and accrued expenses as of October 31, 2014 and 2013, respectively. The lease for Haven on the Lake includes rent abatement for the period September 1, 2014 to August 31, 2015 valued at $386. The lease also includes a tenant improvement allowance of $1,377. As of October 31, 2014 the Association has recorded a receivable of $478 for the expenses incurred related to the tenant allowance. The abatements and allowance are amortized over the life of the lease and are reflected as a reduction of rent expense as reported in the statements of activities.

In 2013, the Association committed $1,600 to the Inner Arbor Trust, Inc. As of October 31, 2014 and 2013, $-0- and $1,150, respectively, remain unpaid and are included in accounts payable and accrued expenses in the statements of financial position. On June 18, 2014, the State of Maryland assigned $190 in general obligation bond proceeds from the Association to Inner Arbor Trust, Inc. for the design and construction of Symphony Woods Park. Therefore $190 was written off and is included in the Statement of Activities as of October 31, 2014.

Note 11 - Postretirement health care

The Association sponsors a defined postretirement medical benefit plan that covers both salaried and nonsalaried full-time employees and their spouses or surviving spouses. The postretirement health care plan is contributory. The Association will provide a maximum contribution of $2.5 to retired employees and their spouses for employees who have 20 or more years of full-time service with the Association and have passed their 60th birthday. This contribution will decrease to a maximum of $1.5 when the retiree reaches age 65.

(in Thousands)

This benefit terminates on the 10th anniversary of the benefit commencement date. The employee contributes the remainder of the health care cost.

The following table sets forth the funded status of the Association's postretirement health care benefit plan reconciled to the accrued postretirement benefits cost recognized by the Association as of April 30 :

	2014	2013
Reconciliation of benefit obligations		
Obligation at beginning of year	$ 571	$ 519
Service cost	22	26
Interest cost	29	25
Actuarial gain (loss)	(14)	4
Benefit payments	(3)	(3)
Obligation at end of year	$ 605	$ 571
Amount not recognized in net period postretirement benefit cost:		
Unrecognized prior service credit	$ (27)	$ (21)
Unrecognized gain	48	39
Total amount recognized in net periodic postretirement benefit costs	$ 21	$ 18
Net periodic postretirement benefit costs include:		
Service cost	$ 22	$ 26
Interest cost	29	25
Amortization of unrecognized prior service cost	1	1
Net periodic postretirement benefit cost	$ 52	$ 52

The discount rate was 5.6% as of October 31, 2014 and 2013. The gross trend rate for health care coverage is 10.0% grading to 4.6% over five years.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percent change in assumed health care cost trend rates would have the following effects:

(in Thousands)

	1% Increase	1% Decrease
Effect on total service and interest cost components of net periodic postretirement health care benefit cost	$ 7	$ (6)
Effect on the health care component of the accumulated postretirement benefit obligation	77	(67)

Note 12 - Significant estimates

Reserve for general liability self-insurance

Under its general liability self-insurance plan, the Association accrues the estimated expense of general liability claims based on claims filed subsequent to year-end and an additional amount for incurred, but not yet reported claims based on prior experience. Accruals for such costs of $1,499 and $1,455 are included in accrued expenses as of October 31, 2014 and 2013, respectively. Claim payments based on actual claims ultimately filed could differ materially from these estimates.

Reserve for workers' compensation self-insurance

Under its workers' compensation self-insurance plan, the Association accrues the estimated expense of workers' compensation claims based on claims filed subsequent to year-end and an additional amount for incurred, but not yet reported claims based on prior experience.

Accruals for such costs of $1,999 and $1,649 are included in accrued expenses as of October 31, 2014 and 2013, respectively. Claim payments based on actual claims ultimately filed could differ materially from these estimates.

Note 13 - Concentration of credit risk

The Association maintains its cash balance in several accounts in various banks. At times, these balances may exceed the federal insurance limits; however, the Association has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of October 31, 2014.

Note 14 - Contingencies

The Association is periodically a party to various lawsuits, claims and investigations, both actual and potential arising in the normal course of business. Based on internal review and advice of legal counsel, management believes the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on the Association's financial position or results of operations.