Columbia Association, Inc.

Financial Statements

October 31, 2017 and 2016

Columbia Association, Inc.

Index

Columbia Association, Inc.

Statements of Financial Position
October 31, 2017 and 2016
(in Thousands)

Assets

	2017	2016
Cash and cash equivalents	$ 10,940	$ 18,320
Accounts receivable, net	6,515	11,895
Prepaid expenses and other assets	2,153	1,750
Risk management fund	6,471	6,469
Workers' compensation fund	3,249	2,994
Property, facilities and equipment, net	126,186	116,555
Intangible assets, net	319	319
Total assets	$ 155,833	$ 158,302

Liabilities and Net Assets

	2017	2016
Liabilities		
Accounts payable and accrued expenses	$ 11,725	$ 12,858
Deferred revenue	7,138	12,462
	18,863	25,320
Term debt		
Term loan, net of deferred financing costs	24,736	26,382
Capital lease obligations	398	265
Total term debt	25,134	26,647
Total liabilities	43,997	51,967
Net assets		
Unrestricted	111,836	106,335
Total liabilities and net assets	$ 155,833	$ 158,302

See Notes to Financial Statements.

Columbia Association, Inc.

Statements of Activities
Periods Ended October 31, 2017 and 2016
(in Thousands)

	2017	2016
Revenue		
Property assessments	$ 38,810	$ 37,210
Sport and fitness	13,596	13,596
Community services	2,201	1,998
Communications and marketing	94	-
Open space and facility services	239	423
Village community associations	10	8
Interest income and other	87	40
Unrealized gain on marketable securities	(2)	22
Total revenue	55,035	53,297
Expenses		
Sport and fitness	14,760	14,795
Community services	3,737	3,123
Communications and marketing	1,318	1,243
Open space and facility services	6,863	6,626
Village community associations	2,408	2,288
Administrative	4,817	4,392
Interest	408	505
Total expenses	34,311	32,972
Increase in unrestricted net assets	20,724	20,325
Unrestricted net assets, beginning	91,112	86,010
Unrestricted net assets, end	$ 111,836	$ 106,335

See Notes to Financial Statements.

Columbia Association, Inc.

Statements of Cash Flows
Periods Ended October 31, 2017 and 2016
(in Thousands)

	2017	2016
Cash flows from operating activities		
Increase in unrestricted net assets	$ 20,724	$ 20,325
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities		
Depreciation expense and amortization	4,706	4,477
Bad debt expense	326	99
Amortization of deferred financing costs	7	8
Loss (gain) on disposal of fixed assets	207	151
Unrealized (gain) loss on marketable securities	2	(22)
Changes in operating assets and liabilities		
Accounts receivable	414	61
Prepaid expenses and other assets	(427)	(207)
Accounts payable and accrued expenses	(1,122)	998
Deferred revenue	(1,406)	(890)
Net cash provided by operating activities	23,431	25,000
Cash flows from investing activities		
Net purchases of investments held by trustees	(13)	(10)
Purchase of property, facilities and equipment	(13,421)	(6,250)
Proceeds from the sale of equipment	12	73
Net cash used in investing activities	(13,422)	(6,187)
Cash flows from financing activities		
Repayments of line of credit, net	-	(307)
Principal payments on capital lease obligations, net	(77)	(82)
Principal payments on term loan	(837)	(806)
Net cash used in financing activities	(914)	(1,195)
Net increase in cash and cash equivalents	9,095	17,618
Cash and cash equivalents, beginning	1,845	702
Cash and cash equivalents, end	$ 10,940	$ 18,320
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 487	$ 509

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 risk management and 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 property subject to the annual charge.

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.

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.

(in Thousands)

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 is periodically reviewed by the State of Maryland Workers' Compensation Commission and by independent actuaries.

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 and are reflected in the risk management fund and workers' compensation fund on the statements of financial position.

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. 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. 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

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 were no impairment losses recognized during the periods ended October 31, 2017 and 2016, respectively.

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

(in Thousands)

Deferred financing costs

Expenses related to the term loan are being amortized using the effective interest method over the term of the respective debt. Accumulated amortization as of October 31, 2017 and 2016 was $53 and $39, respectively. Amortization expense for the periods ended October 31, 2017 and 2016 was $7 and $7, respectively. Estimated future amortization expense is as follows:

Year ending April 30,	Amortization expense
2018	$ 7
2019	13
2020	12
2021	11
2022	10

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 costs of advertising are expensed as incurred. Advertising and promotion costs totaled $312 and $318 for the periods ended October 31, 2017 and 2016, 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 in *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. Net unrelated business income was $0 and $1 for the periods ended October 31, 2017 and 2016, respectively.

Reclassifications

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

(in Thousands)

Note 2 - Accounts receivable

Accounts receivable are comprised of the following as of October 31, 2017 and 2016:

	2017	2016
Membership fees	$ 6,222	$ 12,210
Annual charges	1,966	2,059
Other	493	425
Total accounts receivable	8,681	14,694
Less reserves for abatements and allowance for doubtful accounts	2,166	2,799
	$ 6,515	$ 11,895

Note 3 - Investments and other assets

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, 2017 and 2016:

	2017		2016	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	$ 1,058	$ 1,058	$ 403	$ 403
Government debt securities	5,414	5,400	6,065	6,060
Accrued interest	13	13	6	6
	$ 6,485	$ 6,471	$ 6,474	$ 6,469

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, 2017 and 2016:

	2017		2016	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	$ 123	$ 123	$ 107	$ 107
Government debt securities	3,117	3,126	2,871	2,887
	$ 3,240	$ 3,249	$ 2,978	$ 2,994

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.

(in Thousands)

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.

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of October 31, 2017:

	Fair value measurements using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total
Government debt securities*	$ -	$ 8,526	$ 8,526

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of October 31, 2016:

	Fair value measurements using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total
Government debt securities*	$ -	$ 8,947	$ 8,947

(in Thousands)

*Government debt securities are included in the risk management fund and workers' compensation fund as discussed in Note 3.

Note 5 - Property, facilities and equipment, net

Property, facilities and equipment consist of the following as of October 31, 2017 and 2016:

	2017	2016
Land	$ 6,533	$ 6,533
Parks, lakes and related improvements	10,400	10,400
Land improvements	76,216	71,565
Buildings and recreation facilities	113,025	108,389
Furniture, equipment and other	31,098	29,858
Construction-in-progress	16,101	9,537
Total property, facilities and equipment	253,373	236,282
Less accumulated depreciation	127,187	119,727
Property, facilities and equipment, net	$ 126,186	$ 116,555

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 2017 and 2016) 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% annual increase cap; however, the Board of Directors capped the increase at 3.5% for fiscal years 2018 and 2017.

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

2018	$ 11,371,188
2017	10,970,394

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 55 basis points (1.79% and 1.08% as of October 31, 2017 and 2016, respectively) and is due on demand. Additionally, the note bears an unused commitment fee of 10 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- outstanding under the line of credit as of October 31, 2017 and 2016.

(in Thousands)

Note 8 - Term debt

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 began making monthly principal and interest payments 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, 2017, the future loan principal payments are as follows:

2018	$	853
2019		1,753
2020		1,817
2021		1,887
2022 and thereafter		18,517
Total term loan		24,827
Less deferred financing costs, net		(91)
Term loan, net	$	24,736

Interest expense capitalized was $85 and $12 during the periods ended October 31, 2017 and 2016, respectively.

Capital lease obligation

The cost and accumulated amortization of equipment under capital leases were $581 and $276, respectively, as of October 31, 2017, and $831 and $590, respectively, as of October 31, 2016. As of October 31, 2017, the future minimum annual payments under capital leases are as follows:

2018	$	64
2019		143
2020		143
2021		54
Total minimum lease payments		404
Less amount representing interest		(6)
Present value of net minimum lease payments	$	398

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. Employees become fully vested after six years of service. Expenses under this plan were $600 and $490 for the periods ended October 31, 2017 and 2016, respectively.

(in Thousands)

Note 10 - Commitments

The Association leases certain facilities and equipment under operating leases. Rental expense, exclusive of these costs, was $1,004 and $967 for the periods ended October 31, 2017 and 2016, respectively.

The Association records rent expense using the straight-line method over the life of the lease terms, which differs from the amount of rent due under the terms of the leases, resulting in a deferred rent payable, of $362 and $-0-, which was included in accounts payable and accrued expenses as of October 31, 2017 and 2016, respectively.

As of October 31, 2017, the Association's total commitment for minimum annual rentals, exclusive of maintenance and other occupancy costs, under noncancellable operating leases is:

2018	$	761
2019		1,547
2020		1,578
2021		1,610
2022 and thereafter		9,604
Total	$	15,100

The lease for the headquarters building located on Hillside Court includes a rent abatement for the period September 1, 2015 to April 30, 2016 valued at $460. Accrued abatements of $381 and $441 were included in accounts payable and accrued expenses as of October 31, 2017 and 2016, respectively.

The lease for Haven on the Lake includes a rent abatement for the period September 1, 2014 to August 31, 2015 valued at $386. Accrued abatements of $275 and $346 were included in accounts payable and accrued expenses as of October 31, 2017 and 2016, respectively. The lease also includes a tenant improvement allowance of $1,378. Accrued allowances of $1,011 and $1,236 were included in accounts payable as of October 31, 2017 and 2016, respectively. The abatements and allowances are amortized over the life of the lease and are reflected as a reduction of rent expense as reported in the statements of activities.

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

(in Thousands)

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:

	2017	2016
Reconciliation of benefit obligations		
Obligation at beginning of year	$ 704	$ 654
Service cost	28	27
Interest cost	27	29
Actuarial gain	(72)	-
Benefit payments	(9)	(6)
Obligation at end of year	$ 678	$ 704
Amount not yet recognized in net periodic postretirement benefit costs		
Unrecognized prior service credit	$ 15	$ 30
Unrecognized gain	111	48
Total amount not yet recognized in net periodic postretirement benefit costs	$ 126	$ 78
Net periodic postretirement benefit costs include		
Service cost	$ 28	$ 27
Interest cost	27	29
Amortization of net gain from prior periods	(8)	-
Amortization of unrecognized prior service cost	(15)	1
Net periodic postretirement benefit costs	$ 32	$ 57

The discount rate was 4.45% and 5.60% as of April 30, 2017 and 2016. The gross trend rate for health care coverage is 10.0% grading to 4.6% over five years.

(in Thousands)

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:

	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	84	(73)

The following is a projection of expected future benefits under the plan:

2018	$ 19
2019	21
2020	33
2021	39
2022	51
2023 - 2027	326
	$ 489

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 $1,345 and $1,361 are included in accrued expenses as of October 31, 2017 and 2016. 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 $2,254 and $2,147 are included in accrued expenses as of October 31, 2017 and 2016, 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, 2017.

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.