

Columbia Association, Inc.

Financial Statements

January 31, 2015 and 2014

COLUMBIA ASSOCIATION, INC.

OFFICER'S STATEMENT

I have reviewed the accompanying statement of financial position of Columbia Association, Inc. as of January 31, 2015 and 2014, 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 January 31, 2015 and 2014, 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
January 31, 2015 and 2014
(in Thousands)**

	<u>Assets</u>	
	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 6,706	\$ 564
Accounts receivable, net	13,908	10,649
Prepaid expenses and other assets	1,493	1,430
Debt service fund	-	136
Risk management fund	6,470	6,540
Workers' compensation fund	2,682	2,326
Property, facilities and equipment, net	113,440	104,816
Intangible assets, net	319	319
Deferred bond issuance/financing costs, net	133	1
	<hr/>	<hr/>
Total assets	<u>\$ 145,151</u>	<u>\$ 126,781</u>
	<u>Liabilities and Net Assets</u>	
<u>Liabilities</u>		
Line of credit	\$ -	\$ 20,720
Accrued interest	-	45
Accounts payable and accrued expenses	11,389	9,047
Deferred revenue	14,707	11,062
	<hr/>	<hr/>
	26,096	40,874
	<hr/>	<hr/>
Term debt		
Senior secured bonds	-	2,701
Term loan	29,247	-
Capital lease obligations	233	371
	<hr/>	<hr/>
Total term debt	29,480	3,072
	<hr/>	<hr/>
Total liabilities	55,576	43,946
Net assets		
Unrestricted	89,575	82,835
	<hr/>	<hr/>
Total net assets	89,575	82,835
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 145,151</u>	<u>\$ 126,781</u>

See Notes to Financial Statements.

Columbia Association, Inc.

Statements of Activities
Periods Ended January 31, 2015 and 2014
(in Thousands)

	<u>2015</u>	<u>2014</u>
Revenue		
Property assessments	\$ 34,934	\$ 34,281
Sport and fitness	19,443	18,831
Community services	2,926	2,970
Sales and marketing	2	2
Community building and sustainability	165	108
Open space management	506	437
Revitalization	44	49
Interest income and other	(39)	80
Unrealized gain (loss) on marketable securities	(13)	(12)
	<u>57,968</u>	<u>56,746</u>
Total revenue		
Expenses		
Sport and fitness	20,046	19,316
Community services	7,089	7,302
Sales and marketing	321	318
Community building and sustainability	707	863
Open space management	7,502	7,260
Revitalization	707	689
Administrative	6,164	6,989
Interest	718	706
	<u>43,254</u>	<u>43,443</u>
Total expenses		
Increase in unrestricted net assets	14,714	13,303
Unrestricted net assets, beginning	<u>74,861</u>	<u>69,532</u>
Unrestricted net assets, end	<u>\$ 89,575</u>	<u>\$ 82,835</u>

See Notes to Financial Statements.

Columbia Association, Inc.

Statements of Cash Flows
Periods Ended January 31, 2015 and 2014
(in Thousands)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Increase in unrestricted net assets	\$ 14,714	\$ 13,303
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities		
Depreciation expense and amortization	5,979	5,553
Amortization of deferred bond issuance costs	11	7
(Gain) loss on disposal of fixed assets	55	(5)
Unrealized (gain) loss on marketable securities	13	12
Changes in operating assets and liabilities		
Accounts receivable	(270)	2,409
Prepaid expenses and other assets	822	(12)
Accrued interest	(110)	(353)
Accounts payable and accrued expenses	(82)	(3,300)
Deferred revenue	(412)	(2,311)
Net cash provided by operating activities	<u>20,720</u>	<u>15,303</u>
Cash flows from investing activities		
Net purchases of investments held by trustees	171	368
Purchase of property, facilities and equipment	(13,760)	(5,726)
Proceeds from the sale of equipment	100	5
Net cash used in investing activities	<u>(13,489)</u>	<u>(5,353)</u>
Cash flows from financing activities		
Line of credit	(27,012)	(714)
Bond issuance/finance costs	(144)	-
Long-term debt principal payments		
Senior secured bonds	(2,702)	(8,672)
Capital lease obligations	(115)	(113)
Term loan	29,247	-
Net cash used in financing activities	<u>(726)</u>	<u>(9,499)</u>
Net increase (decrease) in cash and cash equivalents	6,505	451
Cash and cash equivalents, beginning	<u>201</u>	<u>113</u>
Cash and cash equivalents, end	<u>\$ 6,706</u>	<u>\$ 564</u>
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	<u>\$ 913</u>	<u>\$ 1,055</u>

See Notes to Financial Statements.

Columbia Association, Inc.

**Notes to Financial Statements
January 31, 2015 and 2014
(in Thousands)**

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.

Columbia Association, Inc.

**Notes to Financial Statements
January 31, 2015 and 2014
(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 January 31, 2015 and 2014, 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 the term loan are being amortized using the effective interest method over the term of the debt. Accumulated amortization as of January 31, 2015 and 2014 was \$11 and \$736 respectively. Amortization expense for the periods ended January 31, 2015 and 2014 was \$11 and \$7, 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

Columbia Association, Inc.
Notes to Financial Statements
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(in Thousands)

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 \$357 and \$412 for the periods ended January 31, 2015 and 2014, 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. Net unrelated business income was \$4 and \$5 for the periods ended January 31, 2015 and 2014, respectively.

Columbia Association, Inc.

**Notes to Financial Statements
January 31, 2015 and 2014
(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 January 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Membership fees	\$ 14,684	\$ 10,593
Annual charges	935	1,398
Other	<u>674</u>	<u>358</u>
 Total accounts receivable	 16,293	 12,349
 Less reserves for abatements and allowance for doubtful accounts	 <u>2,385</u>	 <u>1,700</u>
	<u><u>\$ 13,908</u></u>	<u><u>\$ 10,649</u></u>

Note 3 - Investments and other assets

Debt service fund

Investments of \$-0- in 2015 and \$136 in 2014 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 January 31, 2015 and 2014:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 292	\$ 292	\$ 239	\$ 239
Government debt securities	<u>6,240</u>	<u>6,178</u>	<u>6,337</u>	<u>6,301</u>
	<u><u>\$ 6,532</u></u>	<u><u>\$ 6,470</u></u>	<u><u>\$ 6,576</u></u>	<u><u>\$ 6,540</u></u>

Columbia Association, Inc.

Notes to Financial Statements January 31, 2015 and 2014 (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 January 31, 2015 and 2014:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 147	\$ 147	\$ 392	\$ 392
Government debt securities	2,532	2,535	1,932	1,934
	<u>\$ 2,679</u>	<u>\$ 2,682</u>	<u>\$ 2,324</u>	<u>\$ 2,326</u>

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.

Columbia Association, Inc.

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(in Thousands)**

The following table presents assets measured at fair value by classification within the fair value hierarchy as of January 31, 2015:

	Fair Value Measurements Using		Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
Government debt securities	\$ -	\$ 8,713	\$ 8,713

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		Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
Government debt securities	\$ -	\$ 8,235	\$ 8,235

Note 5 - Property, facilities and equipment, net

Property, facilities and equipment consist of the following as of January 31, 2015 and 2014:

	2015	2014
Land	\$ 6,533	\$ 6,533
Parks, lakes and related improvements	10,400	10,400
Land improvements	67,193	50,835
Buildings and recreation facilities	90,140	88,233
Furniture, equipment and other	28,690	29,851
Construction-in-progress	18,519	24,265
Total property, facilities and equipment	221,475	210,117
Less accumulated depreciation	108,134	105,301
Property, facilities and equipment, net	\$ 113,341	\$ 104,816

Columbia Association, Inc.

Notes to Financial Statements January 31, 2015 and 2014 (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 55 basis points (0.17% and 0.17% as of January 31, 2015 and 2014, 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- and \$20,720 outstanding under the line of credit as of January 31, 2015 and 2014, respectively.

The Association had \$230 in letters of credit issued through a bank as of January 31, 2015 and 2014, 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 January 31, 2015 and 2014 was 0% and 9.78%, respectively. Such bonds are secured by annual charge revenue and they matured in 2015. The balance at January 31, 2015 and 2014 was \$-0- and \$2,701, 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.

The Association's senior secured bonds for were paid off on December 1, 2014.

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

Columbia Association, Inc.
Notes to Financial Statements
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(in Thousands)

indebtedness incurred to finance capital improvements. As of January 31, 2015, the future loan principal payments are as follows:

2015	\$	388
2016		1,567
2017		1,629
2018		1,690
2019 and thereafter		<u>23,974</u>
Total	\$	<u>29,248</u>

Capital lease obligation

The cost and accumulated amortization of equipment under capital leases were \$1,112 and \$807, respectively, as of January 31, 2015, and \$1,112 and \$696, respectively, as of January 31, 2014. As of January 31, 2015, the future minimum annual payments under capital leases are as follows:

2015	\$	24
2016		142
2017		<u>70</u>
Total minimum lease payments		236
Less: amount representing interest		<u>(3)</u>
Present value of net minimum lease payments	\$	<u>233</u>

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 \$745 and \$832 for the periods ended January 31, 2015 and 2014, respectively.

Note 10 - Commitments

The Association leases certain facilities and equipment under operating leases. Rental expense, exclusive of these costs, was \$901 and \$503 for the periods ended January 31, 2015 and 2014, respectively.

Columbia Association, Inc.

**Notes to Financial Statements
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(in Thousands)**

As of January 31, 2015, the Association's total commitment for minimum annual rentals, exclusive of maintenance and other occupancy costs, under noncancellable operating leases are:

2015	\$	254
2016		871
2017		1,487
2018		1,517
2019 and thereafter		<u>14,340</u>
Total	\$	<u>18,469</u>

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 \$37 and \$88 were included in accounts payable and accrued expenses as of January 31, 2015 and 2014, 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 January 31, 2015 and 2014, 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. The Association has accrued \$1,008 and received \$441 of the tenant improvement allowance and has a receivable of \$567 as of January 31, 2015. 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 January 31, 2015 and 2014, \$0- and \$700, 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 January 31, 2015.

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.

Columbia Association, Inc.

**Notes to Financial Statements
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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 :

	<u>2014</u>	<u>2013</u>
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	<u>(3)</u>	<u>(3)</u>
Obligation at end of year	<u>\$ 605</u>	<u>\$ 571</u>
Amount not recognized in net period postretirement benefit cost:		
Unrecognized prior service credit	\$ (27)	\$ (21)
Unrecognized gain	<u>48</u>	<u>39</u>
Total amount recognized in net periodic postretirement benefit costs	<u>\$ 21</u>	<u>\$ 18</u>
Net periodic postretirement benefit costs include:		
Service cost	\$ 22	\$ 26
Interest cost	29	25
Amortization of unrecognized prior service cost	<u>1</u>	<u>1</u>
Net periodic postretirement benefit cost	<u>\$ 52</u>	<u>\$ 52</u>

The discount rate was 5.6% as of January 31, 2015 and 2014. 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:

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	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 \$1,533 and \$1,527 are included in accrued expenses as of January 31, 2015 and 2014, 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 \$1,998 and \$1,646 are included in accrued expenses as of January 31, 2015 and 2014, 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 January 31, 2015.

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.