



**COLUMBIA ASSOCIATION, INC.
FOURTH QUARTER FY 2015 FINANCIAL REPORT**

VARIANCE EXPLANATIONS - required for line-item variances in a budget center (not summary page) for each variance that exceeds \$25,000 and 25 percent. This requirement does not apply to totals or subtotals.

COMPANY-WIDE FINANCIAL HIGHLIGHTS

As Milton noted in his letter, the Columbia Association (CA) completed FY 15 \$3.9 million above the budgeted increase in net assets. While these results are very favorable, it is entirely attributable to lower than budgeted expenses, of which over \$2.3 million, or 60 percent, is related to staffing issues that are temporary. Total income of nearly \$65.6 million was \$849,000 or 1.3 percent under budget for the year, and approximately \$2.3 million, or 3.6 percent higher than FY 14. Total operating expenses of almost \$59 million were 7.4 percent below budget, and \$745,000 or 1.3 percent higher than last year.

The Fourth Quarter FY 15 Financial Report reflects changes made to the organizational structure and staffing effective January 2015. FY 14 results and the FY 15 budget were restated as much as possible to provide continuity and bases for comparison. In addition to the replacement of “service bureau” with “department,” the major changes are:

- The Life Services Service Bureau has been eliminated, and the Sport & Fitness and the Community Services departments are presented separately.
- Community Services now includes the Horse Center, has regained the Volunteer Center and Columbia Community Exchange, and no longer includes the Village Community Associations.
- The Village Community Associations are presented separately, and the CA staff liaison is the Director of Planning and Community Affairs.
- The Open Space and Facilities Services Department is comprised of elements of the former Revitalization and Community Building and Open Space Management service bureaus. The department includes Open Space Management, Landscape Services, Watershed Management and Improvements, Capital Improvements and Construction Management.
- The Communications/Community Engagement Service Bureau is now the Communications and Marketing Department. This department also includes the sales and marketing function, which had been part of Life Services. The two divisions within Communications and Marketing are Customer and Member Services and Branding and Media Production.
- The Office of the President is shown separately with its components of Internal Audit and General Counsel, all of which had been part of the Assurance Service Bureau. The Office of the President also includes the Office of Planning and Community Affairs, functions of which had been part of the Community Building and Open Space Management Service Bureau.

- The Assurance Service Bureau was eliminated, and Information Technology and Human Resources, including Team and Organizational Development are now part of the Administrative Services Department, which also includes the accounting, finance and purchasing functions and the annual charge page.

Income Variances – Actual to Budget

Key income variances as compared to budget are:

- **Annual Charge** revenue is on budget for the year.
- **Tuition and Enrollment** revenue is under budget by \$300,000 for the year. The shortfall is due to one fewer week in the camp season because of school snow days, lower than projected camp enrollment and an increase in income-qualified participants in camps CA-wide, including Sport & Fitness and Art Center camps. Higher than budgeted Tuition and Enrollment revenue from School Age Services due to increased enrollment and the additional week of school partially offset the shortfall from camps.
- **Fees** revenue is under budget by \$740,000 for the year, due primarily to the delay in opening Haven on the Lake, fewer rounds of golf and outings at both golf clubs because of weather and the Hobbit’s Glen Golf clubhouse construction, and a shortfall in personal training revenue at the fitness clubs as a result of staff turnover.
- **Other Income** is over budget by \$362,000 (71 percent) for the year, due primarily to the receipt of watershed grant and other reimbursements, collection of annual charge interest receivables, and collection of fees related to architectural covenant cases.
- **The total of Membership and Package Plan Income** of over \$17.5 million is essentially on budget for the year, with a combined negative variance of \$65,000, or 0.3 percent.

Income Variances – Year to Year

Key income variances as compared to FY 14 are:

- The **Annual Charge** revenue variance of \$857,000 (2.5 percent) is due to slight increases in property assessments from the cap, phase-in values from transfers and additional billing for downtown improvements.
- **Sales** revenue is \$367,000 lower than last year, due to the “Black Friday” promotion held in FY 14, and not in FY 15. There is a corresponding negative variance in Cost of Sales.
- **Gain (Loss) on Fixed Asset Disposals** is \$379,000 better than FY 14, due to the FY 14 write-off of the remaining un-depreciated balance on the old Hobbit’s Glen clubhouse.
- **The total of Membership and Package Plan Income** is \$1.3 million above the same period in FY 14. As noted in the FY 14 fourth quarter analysis, FY 14 total membership income was understated due to issues with discount amortization. There is no impact on FY 15 as we are able to use the actual contract term length, not an estimate, to amortize the remaining discounts. The impact of that understatement on the FY 14 revenue was approximately \$589,000 as shown below:

<i>Dollars in 000’s</i>	FY 2014 Fourth Quarter Actual
Membership Revenue – as reported	\$2,476
Package Plan Revenue – as reported	\$13,692
Combined Membership and Package Plan Revenue – as reported	\$16,168
Impact of using actual terms for discount amortization	\$589
Combined revenue – if revised	\$16,757

As a result, the year-to-year variance for the year would be:

<i>Dollars in 000's</i>	FY 2014 Actual	FY 2015 Actual	Variance Amount	Variance %
Combined revenue	\$16,757	\$17,516	\$759	4.5%

Membership rate increases in FY 15 over FY 14 contributed slightly to the revenue variance; the increases averaged 2.1 percent for Outdoor Pools/Swim Center pricing and 1.3 percent for all Package Plan and single-facility membership pricing. The opening of Haven on the Lake, increased Outdoor Pools/Swim Center and single facility memberships also contributed to the positive variance.

Expense Variances – Actual to Budget (Year-to-Date and Current Estimate)

Key variances are as follows:

- **Personnel costs** (the sum of Salaries and Wages, Contract Labor, Payroll Taxes and Employee Benefits) are below budget by \$2.3 million, or 7.9 percent. The variance is attributable to: lower than budgeted hours in Land Maintenance; staff turnover in personal training; the delay in opening Haven on the Lake; reduced hours in Outdoor Pools due to the cool summer; and, open positions in several divisions. In addition to the impact on Employee Benefits from these items, a reduction in workers' compensation expense as a result of the actuarial analysis performed for the audit, as well as differences in actual versus projected benefit elections, contributed to the favorable variance.
- **Insurance** expense is \$412,000 below budget for the year, due to a reduction in general liability expense as a result of an actuarial evaluation performed at year-end.
- **Fees expenses** are below budget by \$586,000 for several reasons, one of which is the write-off of the remaining \$190,000 grant to Inner Arbor Trust, due to the State of Maryland's assignment of a bond bill grant in that amount. Several studies and other consulting work were not completed by year-end, and lower than budgeted legal fees and land maintenance fees also contributed to this variance.
- **Taxes** are under budget by \$198,000 as a result of the successful real property tax appeal impacting most of CA's facilities, which was completed after the budget was established for FY 15.
- **Utilities** expense is \$300,000 under budget for FY 15, mainly as a result of lower than projected gasoline and diesel fuel costs, as well as energy savings in CA facilities and reduced telephone and internet costs.
- **Repairs & Maintenance** expenses are over budget by \$313,000 due to unbudgeted repairs and maintenance items for most of the Sport & Fitness facilities. Savings in Information Technology projects due to CA team members handling projects rather than hiring outside consultants partially offset the negative variance in Sport & Fitness.
- **Depreciation** is under budget by \$662,000 for the year, due to the delay in closing some capital projects and the disposal of obsolete items. Depreciation is not recorded until the project is completed, and the item is placed in service.
- **Interest Expense** is \$639,000 below budget for the year, due mainly to the lower than budgeted issuance costs and interest rate secured for the June 2014 debt issuance, as well as lower than projected usage of the line of credit.

Expense Variances – Year to Year

The significant variances between FY 15 and FY 14 are:

- **Salary & Wages** expense is \$771,000, or 3.6 percent greater than last year, primarily due to average salary and wage increases of 3.5 percent.
- **Annual Performance Incentives** are \$283,000 greater than FY 14, because in FY 14, CA did not meet the requirement for incentives. CA does meet the requirement for FY 15, and so the expense was accrued.
- **Employee Benefits Expense** is \$459,000, or 14 percent, below FY 14, primarily as a result of the decrease in workers' compensation expense due to the actuarial report from the FY 14 audit.
- **Cost of Sales** is \$362,000 lower than last year due to the Black Friday promotion that was held in FY 14 but not repeated in FY 15.
- **Operating Supplies/Expenses** are \$472,000 lower than FY 14 from savings in many departments, but predominately in IT due to less expense incurred for hardware supplies, software, other operating expenses and team member development.
- **Fees** are \$433,000 lower than last year, due to the write-off of the remaining grant to Inner Arbor Trust as noted above. IT consulting fees in FY 14 that were not needed in FY 15 for the learning management and document imaging systems and lower legal fees in FY 15 also contributed to this variance.
- **Rentals** are \$632,000 greater than last year, due primarily to the rent for Haven on the Lake's space in the Whole Foods Market building.
- **Taxes** are \$377,000 higher than FY 14 due to the due to the appeal and successful negotiation of reductions in CA's property values, resulting in an adjustment and refund for two years of charges in FY 14.
- **Depreciation** is \$431,000 greater than FY 14 because of additions to fixed assets (Hobbit's Glen Golf Clubhouse, Haven on the Lake, equipment, building improvements and renovations, etc.) that were placed in service in FY 15.

For further explanation of individual variances throughout the organization, please refer to the FY 15 Fourth Quarter Financial Report and the reports from the department and division directors.

ADMINISTRATIVE SERVICES BUREAU HIGHLIGHTS

The fourth quarter was exceptionally busy and productive for the Department of Administrative Services to the benefit of the organization and the community. The highlight of the year is the achievement of the Aa1 issuer credit rating from Moody's Investors Service, an upgrade from the previous rating of Aa2.

The team has been working with colleagues, vendors and CA's future landlord on the headquarters move project, an extremely complicated effort. In addition to their day-to-day activities, Administrative Services team members collaborated with team members throughout CA, vendors and other partnering entities to also achieve the following:

- Reconfigured the financial report for the January 2015 organizational changes;
- Implemented a pay card program for team members that received checks;
- Began the process for team members to be able to review their paystubs on line;
- Designed, developed and implemented online enrollment (OLE);
- Completed installation and testing of the Inter-County Broadband Network (ICBN), the high speed fiber network at the Athletic Club, Supreme Sports Club, Columbia Gym, Haven on the Lake and the Maintenance Facility;

- Continued installation and testing of a new enterprise wireless (WiFi) solution;
- Supported SNG Group X (group exercise classes) launch including development of metrics reporting;
- Implemented SNG upgrade to version 6.0, a major upgrade to the membership system;
- Conducted a reverse auction for supply of electricity resulting in greater savings than anticipated. CA anticipated up to a 10 percent increase compared to the current contract pricing and received pricing six percent lower than current contract pricing and for 100 percent renewable energy; and,
- Participated in the research and development of a new to CA procurement delivery method "Construction Manager at Risk with a Guaranteed Maximum Price" for large construction projects.