Columbia Association, Inc.

Financial Statements

January 31, 2019 and 2018

Columbia Association, Inc.

Index

Columbia Association, Inc.

Statements of Financial Position
January 31, 2019 and 2018
(in Thousands)

Assets

	2019	2018
Cash and cash equivalents	$ 151	$ 3,860
Accounts receivable, net	3,146	4,685
Prepaid expenses and other assets	1,994	1,926
Risk management fund	6,516	6,476
Workers' compensation fund	3,546	3,256
Property, facilities and equipment, net	135,868	128,258
Intangible assets, net	319	319
Total assets	$ 151,540	$ 148,780

Liabilities and Net Assets

	2019	2018
Liabilities		
Line of credit	$ 748	$ -
Accounts payable and accrued expenses	14,718	13,257
Deferred revenue	4,613	5,723
	20,079	18,980
Term debt		
Term loan, net of deferred financing costs	22,594	24,318
Capital lease obligations	218	359
Total term debt	22,812	24,677
Total liabilities	42,891	43,657
Net assets		
Unrestricted	108,649	105,123
Total net assets	108,649	105,123
Total liabilities and net assets	$ 151,540	$ 148,780

See Notes to Financial Statements.

Columbia Association, Inc.

Statements of Activities
Periods Ended January 31, 2019 and 2018
(in Thousands)

	2019	2018
Revenue		
Annual charge	$ 40,877	$ 38,852
Sport and fitness	19,582	20,139
Community services	3,471	3,411
Communications and marketing	141	134
Open space and facility services	566	607
Village community associations	18	11
Interest income and other	257	162
Unrealized (loss) gain on marketable securities	11	(2)
Total revenue	64,923	63,314
Expenses		
Program services:		
Sport and fitness	22,587	21,356
Community services	5,199	4,983
Communications and marketing	1,727	2,040
Open space and facility services	10,862	10,558
Village community associations	3,878	3,599
Total program services	44,253	42,536
Supporting services:		
Administrative	7,391	6,770
Total expenses	51,644	49,306
Increase in unrestricted net assets	13,279	14,008
Unrestricted net assets, beginning	95,370	91,112
Unrestricted net assets, ending	$ 108,649	$ 105,120

See Notes to Financial Statements.

Columbia Association, Inc.

Statements of Cash Flows
Periods Ended January 31, 2019 and 2018
(in Thousands)

	2019	2018
Cash flows from operating activities		
Increase in unrestricted net assets	$ 13,279	$ 14,008
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities		
Depreciation expense and amortization	7,745	7,039
Bad debt expense	274	466
Amortization of deferred financing costs	10	10
Loss on disposal of fixed assets	771	175
Unrealized loss (gain) on marketable securities	(11)	2
Changes in operating assets and liabilities		
Accounts receivable	(232)	2,104
Prepaid expenses and other assets	(331)	(200)
Accounts payable and accrued expenses	(754)	410
Deferred revenue	89	(2,821)
Net cash provided by operating activities	20,840	21,193
Cash flows from investing activities		
Net purchases of investments held by trustees	(86)	(25)
Purchase of property, facilities and equipment	(14,255)	(17,825)
Proceeds from the sale of equipment	164	46
Net cash used in investing activities	(14,177)	(17,804)
Cash flows from financing activities		
Net borrowings (repayments) under line of credit	(5,157)	-
Net principal payments on capital lease obligations	(117)	(116)
Principal payments on term loan	(1,306)	(1,258)
Net cash provided by (used in) financing activities	(6,580)	(1,374)
Net (decrease) increase in cash and cash equivalents	83	2,015
Cash and cash equivalents, beginning	68	1,845
Cash and cash equivalents, ending	$ 151	$ 3,860
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 684	$ 711

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 year. Accounts receivable also include annual charge balances, which are collateralized by the related 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 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 and estimated losses from unreported 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 3,600 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	3 to 10 years

Expenditures are capitalized if the expenditure results in a new asset with a useful life of at least two years and meets the monetary threshold or represents an addition to an existing asset that materially improves or extends the asset beyond its original intended function or increases the useful life by at least two years. The monetary threshold is defined as $2,500 for a single item except for certain equipment or livestock, which should be capitalized if a single item costs at least $1,500. This includes an expenditure that is for a group of identical or coordinating items with a total cost of at least $2,500 that are purchased together and replaced at the same time.

Accounting for the Impairment or Disposal of Long-Lived Assets, 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 January 31, 2019 and 2018, respectively.

(in Thousands)

Intangible assets

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

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 January 31, 2019 and 2018 was $70 and $57, respectively. Amortization expense for the periods ended January 31, 2019 and 2018 was $10 and $10, respectively. Estimated future amortization expense is as follows:

Year ending April 30,	Amortization expense
2019	$ 3
2020	12
2021	11
2022	10
2023	9
2024 and thereafter	29
	$ 74

Revenue recognition

Annual charge revenue consists 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 $255 and $473 for the periods ended January 31, 2019 and 2018, 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* 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 for the periods ended January 31, 2019 and 2018.

(in Thousands)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, costs have been allocated among the programs and supporting services that benefit from those costs.

Reclassifications

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

Subsequent events

The Association evaluated subsequent events through March 3, 2019, the date the financial statements were available to be issued.

Note 2 - Accounts receivable

Accounts receivable are comprised of the following as of January 31, 2019 and 2018:

	2019	2018
Membership fees	$ 2,654	$ 5,285
Annual charges	936	1,124
Other	511	580
Total accounts receivable	4,101	6,989
Less reserves for abatements and allowance for doubtful accounts	955	2,304
	$ 3,146	$ 4,685

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 January 31, 2019 and 2018:

	2019		2018	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	$ 428	$ 428	$ 1,058	$ 1,058
Government debt securities	6,047	6,031	5,414	5,405
Accrued interest	57	57	13	13
	$ 6,532	$ 6,516	$ 6,485	$ 6,476

(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, 2019 and 2018:

	2019		2018	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	$ 174	$ 174	$ 130	$ 130
Government debt securities	3,352	3,372	3,119	3,126
	$ 3,526	$ 3,546	$ 3,249	$ 3,256

Note 4 - Fair value measurements

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

Professional guidance 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. The 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.

(in Thousands)

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of January 31, 2019:

	Fair value measurements using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total
Government debt securities*	$ -	$ 9,403	$ 9,403

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of January 31, 2018:

	Fair value measurements using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total
Government debt securities*	$ -	$ 8,531	$ 8,531

*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 January 31, 2019 and 2018:

	2019	2018
Land	$ 6,533	$ 6,533
Parks, lakes and related improvements	10,391	10,400
Land improvements	79,730	76,684
Buildings and recreation facilities	129,397	113,910
Furniture, equipment and other	31,270	31,219
Construction-in-progress	12,075	18,798
Total property, facilities and equipment	269,396	257,544
Less accumulated depreciation	133,528	129,286
Property, facilities and equipment, net	$ 135,868	$ 128,258

(in Thousands)

Note 6 - Annual charge

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 2019 and 2018) 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 2019 and 2018.

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

2019	$	11,898,862
2018		11,371,188

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 $33,000. The outstanding note bears interest at the lower of the bank's prime rate or LIBOR plus 55 basis points (3.1% and 2.11% as of January 31, 2019 and 2018, 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 $748 and $-0- outstanding under the line of credit as of January 31, 2019 and 2018.

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 January 31, 2019, the future loan principal payments are as follows:

(in Thousands)

2019	$	447
2020		1,817
2021		1,887
2022		1,957
2023		2,031
2024 and thereafter		14,529
Total term loan		22,668
Less deferred financing costs, net		(74)
Term loan, net	$	22,594

Capital lease obligation

The cost and accumulated amortization of equipment under capital leases were $574 and $450, respectively, as of January 31, 2019, and $581 and $317, respectively, as of January 31, 2018. As of January 31, 2019, the future minimum annual payments under capital leases are as follows:

2019	$	23
2020		143
2021		54
Total minimum lease payments		220
Less amount representing interest		(2)
Present value of net minimum lease payments	$	218

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 $891 and $895 for the periods ended January 31, 2019 and 2018, respectively.

Note 10 - Commitments

The Association leases certain facilities and equipment under operating leases. Rental expense, exclusive of these costs, was $1,535 and $1,490 for the periods ended January 31, 2019 and 2018, 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 $468 and $388, which was included in accounts payable and accrued expenses as of January 31, 2019 and 2018, respectively.

(in Thousands)

As of January 31, 2019, the Association's total commitment for minimum annual rentals, exclusive of maintenance and other occupancy costs, under non-cancellable operating leases is:

2019	$	388
2020		1,578
2021		1,610
2022		1,642
2023		1,675
2024 and thereafter		6,287
Total	$	13,180

The lease for the headquarters building located on Hillside Court includes a rent abatement for the period September 1, 2015 to July 31, 2016 valued at $460. Accrued abatements of $336 and $372 were included in accounts payable and accrued expenses as of January 31, 2019 and 2018, 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 $231 and $266 were included in accounts payable and accrued expenses as of January 31, 2019 and 2018, respectively. The lease also includes a tenant improvement allowance of $1,378. Accrued allowances of $929 and $995 were included in accounts payable as of January 31, 2019 and 2018, 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:

	2018	2017
Reconciliation of benefit obligations		
Obligation at beginning of year	$ 678	$ 704
Service cost	31	28
Interest cost	27	27
Actuarial gain	-	(72)
Amortization of net loss	(5)	-
Amortization of unrecognized past service cost	(15)	-
Benefit payments	(11)	(9)
Obligation at end of year	$ 705	$ 678
Amount not yet recognized in net periodic postretirement benefit costs		
Unrecognized prior service credit	$ -	$ 15
Unrecognized gain	112	111
Total amount not yet recognized in net periodic postretirement benefit costs	$ 112	$ 126
Net periodic postretirement benefit costs include		
Service cost	$ 31	$ 28
Interest cost	27	27
Amortization of net gain from prior periods	-	(8)
Amortization of unrecognized prior service cost	(15)	(15)
Net periodic postretirement benefit costs	$ 43	$ 32

The discount rate was 4.45% and 5.60% as of April 30, 2018 and 2017. The gross trend rate for health care coverage is 10.0% grading to 4.45% 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	$ 8	$ (7)
Effect on the health care component of the accumulated postretirement benefit obligation	87	(76)

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

2019	$ 21
2020	33
2021	39
2022	51
2023	54
2024 - 2027	272
	$ 470

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 $1,287 and $1,338 are included in accrued expenses as of January 31, 2019 and 2018. 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 $2,179 and $2,214 are included in accrued expenses as of January 31, 2019 and 2018, 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, 2019.

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.