



March 4, 2016

To: Columbia Association Board of Directors
Advisory Committee Chairpersons
Village Board Chairs
Village Managers
Members of the Press
CA Management

From: Andrew C. Stack, Board Chair

The Columbia Association Board of Directors Work Session will be held on Thursday, March 10, 2016 at 7:30 p.m. at the Columbia Association Building, 6310 Hillside Court, Suite 100, Columbia, MD 21046.

AGENDA

- | | |
|---|---------|
| 1. Call to Order (Announce Directors/Staff in Attendance) | 1 min. |
| 2. Approval of Agenda | 1 min. |
| 3. Resident Speakout
(Limited to the topics of the work session only, per the "Policy on Conduct of Work Sessions of Board of Directors and Board Committees" adopted by the CA Board of Directors on August 28, 2008) | |
| 4. Chairman's Remarks | 3 min. |
| 5. President's Remarks; Follow-Up Questions from the Board Members | 10 min. |
| 6. Work Session Topics | |
| (a) Proposed New Membership Structures | 60 min. |
| (b) Board Work Plan for Calendar Year 2016 – Develop Next Steps | 45 min. |
| 7. Work Session Reports | 20 min. |
| (a) FY 16 3 rd Quarter Financial Report | |
| (b) FY 16 3 rd Quarter Financial Statements | |
| 8. Adjournment – Anticipated Ending Time: Approximately 10:00 p.m. | |

Next Board Meeting: March 24, 2016

ARRANGEMENTS FOR AN INTERPRETER FOR THE HEARING IMPAIRED CAN BE MADE BY CALLING 410-715-3111 AT LEAST THREE DAYS IN ADVANCE OF THE MEETING.

CA Mission Statement

Working every day in hundreds of ways to make Columbia an even better place to live, work, and play.

CA Vision Statement

Making Columbia the community of choice today and for generations to come.



CA PROPOSED

MARCH 10, 2016

New Membership Structure

**Be responsive
to the
Columbia
marketplace!**

Purpose and Strategic Goals

Reposition CA memberships
to create value for stakeholders
at competitive rates

**Be highly
competitive!**

.....
Current reality: A 20+year old structure and declining membership trends
.....

“ ... to ascertain if the current membership structure and rates are effective
in expanding participation, capturing market share, maximizing revenue and
providing market competitive and flexible options for the user
community now and going forward ... ”

TAKEN FROM RFP ISSUED AT BOARD REQUEST

- **Deliver programs and services that meet stakeholders' expectations and enhance the quality of life in Columbia**
 - Continuously evaluate and adjust programs and services...
 - Promote recreation, health, wellness...
 - Create an exceptional customer service experience!
 - Demonstrate the practices of a high-performing and responsive organization
 - Continuously evaluate ... manage community expectations in regard to changes

TAKEN FROM CA'S STRATEGIC PLAN

**Create value
for all ages
and lifestyles!**

**Simplify
membership!**

Contents

1

**Highlight
ClubIntel
research
and findings**

2

**Critical
principles
that apply to
recommendations**

3

**Proposed new
membership
restructure:**

Current plans, ClubIntel
recommendations and
proposed membership plans

4

**Transition
plan**

5

**Pricing
philosophy**

6

**Summary
and next
steps**

Study Methodology

Phase One

- Conducted in-depth interviews with key CA leadership team members and Board Members (seven in total).

Phase Two

- Moderated three focus groups with Members to explore sentiment regarding their club usage and behavior, lifestyle demands, and ideation of future revenue-generating opportunities for CA.

Phase Three

- Conducted site visits to each CA property, as well as clue scanning (onsite and online) among competitive clubs/properties within a five county radius of CA to collect intelligence on marketing, sales, branding, pricing, and general membership offerings.

Phase Four

- Conducted an online survey to collect both Member and Non-Member feedback. Members were asked about their perceptions of the CA experience, offerings that drive value, appeal of various membership offerings and price sensitivities. A total of 1,507 responses were collected providing statistical validity at 95% +/- 1.54%.

Phase Five

- Analysis and benchmarking of revenue and member behavioral metrics.

Employee and Leadership Perspectives*

Perceived barriers and challenges to implementing a new membership and pricing structure

#	Barriers and/or Challenge to Change
1	A legacy culture that has always tried to be everything to everyone rather than focusing on a core set of initiatives that best serves the needs of the majority of the residents.
2	Legacy/tenured staff who say, "We have always done it this way and it works." A complacency to change among tenured staff at the corporate and club level.
3	Board directives grounded in reactionary decisions influenced by a small vocal minority rather than looking at strategic directives based on the larger voice of the entire Columbia membership audience.
4	Legacy thinking that is unbalanced and grounded too heavily in the social directive of the Association's mission rather than using a balanced scorecard approach that weights decision making based on the social and for-profit aspects of the business necessary to achieve the Association's vision and mission.
5	Internal legacy systems (software, policies and procedures) that will require work to change
6	A highly vocal group of long-time residents who prefer not to see any change; who are comfortable with the ways things are presently.

* Analysis derived from leadership in-depth interviews

Strengths

Affluent, Older and Educated Membership

- Members may have more discretionary income to spend (50% of respondents have Household Incomes exceeding \$100,000 annually).
- Members are also older than the surrounding community (approximately 64% are over the age of 45 compared to only 39% for Howard County).
- Members are highly educated with nearly 87% having a four-year degree and 55% a post-graduate degree.

Members are Active Users of Fitness and Sports

- Over 50% of members use the facilities more than 2x a week, while 31% use the facilities at least 3x a week.
- Athletic facilities generate approximately half of the total CA visits.
- PPP generates over 70% of all visits, but represent 60% of memberships.

Low Satisfaction, Yet High Renewal

- The CA experience receives moderately low satisfaction scores with the overall scores being negative.
- Intentions to renew is strong possibly due to contractual obligations, low-cost memberships, or simply the convenience of CA facility locations.

Three Assets Generate High Value Perceptions

- Athletic facilities
- Indoor/Outdoor Pools
- Bike Paths and Trails

Strong Tennis non-dues Revenue

- CA generates just over \$37,000 annually per court.
- Industry averages between \$25,000 to \$50,000 annually per court.

Weaknesses

Moderately Low Satisfaction

- Majority of members rated their CA experiences within an acceptable range of performance, but not strong or great.
- Moderate performance indicates an opportunity to create stronger value perceptions, especially before initiating changes in membership

Emotional Connectedness

- There is a considerable lack of emotional connectedness with over 40% of members indicating they do not have an emotional bond with CA.
- There's a large contingency (37%) who do not feel CA has a strong, positive reputation.
- There is extremely low pride associated with the CA membership, with well over 50% indicating they don't take pride in belonging to CA.

Value Perceptions

- Value perceptions are moderate at best with over a third of the members expressing discontent.
- These low value perceptions may have a significant impact on the Association's ability to generate future revenue if not resolved first.

Athletic Facility Non-Dues Revenue

- CA underperforms when compared to the industry average.
- CA clubs capture only 33% to 45% of the typical health/fitness club.
- Examples of non-dues revenue include personal training, small group training and Pilates private training

Flexible and Convenient Access

- Younger families and working adults are terribly time squeezed.
- CA experience does not accommodate the needs of those with a lifestyle that requires more flexible access to services.
- For example, group exercise classes are not readily available in the evening or weekends.

Opportunities

Services to Accommodate Younger Generations and their Families

- The membership base is presently skewed toward those over the age of 45 leaving an opportunity to serve those 25 to 44.
- Individuals in this market tend to be married with nearly 40% having children at home.

Value Creation to Address Lifestyle Needs

- Offer membership with exclusive access to the three athletic facilities.
- Offer a membership specific for pools and sport/skate park.
- Other services that provide strong appeal are complimentary guest passes, access to group exercise classes, treadmills without upgrade, online class registration, and free trial to premium group exercise classes.

Premium Pricing for Access

- Members are willing to pay a premium for access to unlimited group exercise classes at the three athletic facilities and Haven on the Lake.
- The price point members are willing to pay for access to unlimited classes is actually more than the average price point paid for a PPP membership.

Simplify Membership

- Membership packages and corresponding pricing need to be simplified (over 200 presently).
- Members prefer to customize their membership experience (select the offerings they desire) rather than being forced to purchase a bundle.
- Members prefer not to have long-term contracts and pricing.

Streamline the Sales Process

- Members voice discontent with the membership sales process.
- The sales process should include greater conveniences for accessing information and conducting business (e.g., online systems and decentralized sales locations).

Athletic Non-Dues Revenue

- Athletic facilities can be more productive at generating non-dues revenues, particularly in one-on-one personal training and small group training.
- Comparisons to industry benchmarks indicates revenues from these areas could easily be doubled.

Threats

Low Price Sensitivity

- Members and residents prefer lower pricing options, however, will pay more for classes and experiences that meet their needs.
- Optimal price points are similar to the prices already paid for some existing memberships.
- Non-members prefer lower price points than members across the various membership offerings.

Golf and Athletics are Priced Above Market

- CA's pricing for its golf properties, in particular Hobbits Glenn are well above those of the competition.
- CA's pricing for its athletic facilities is higher than the competition, especially when factoring in the additional cost members must pay to access group exercise classes through the purchase of PPP.

Members have Dual Memberships

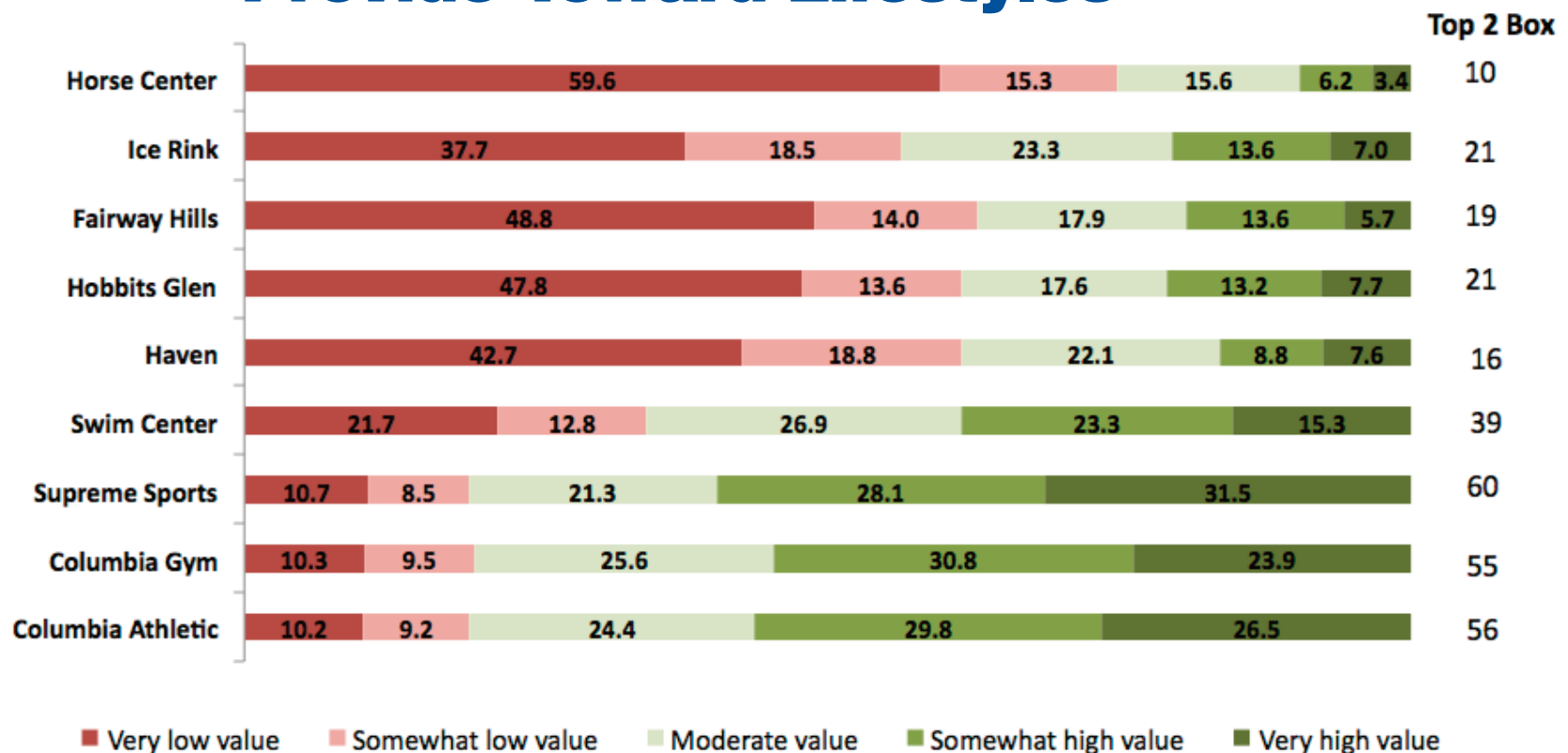
- Dual memberships with competitive clubs is prevalent.
- Nearly one-fourth of respondents have memberships at other facilities.
- Most frequently mentioned include Lifetime Fitness, the YMCA, local yoga/barre/Pilate studios, Planet Fitness and Gold's.
- Yoga is the largest specific need being fulfilled by competitors.

Low Emotional Connectedness

- Approximately 40% of members indicate they have no emotional bond with CA (overall scores for emotional connectedness were highly negative).
- Emotional connectedness has been shown to provide a significant lift in consumer spending and repeat business, in many instances as much as a 50% increase in spend and repeat visits.

Among the various facility offerings that CA has, the three athletic clubs are considered the most influential when it comes to providing value to members' lifestyles. After the three athletic clubs, the swim center garners the most influence. Hobbit's Glen and the Ice rink, while not among the top four drivers of value, do have a strong influence among a select group of members.

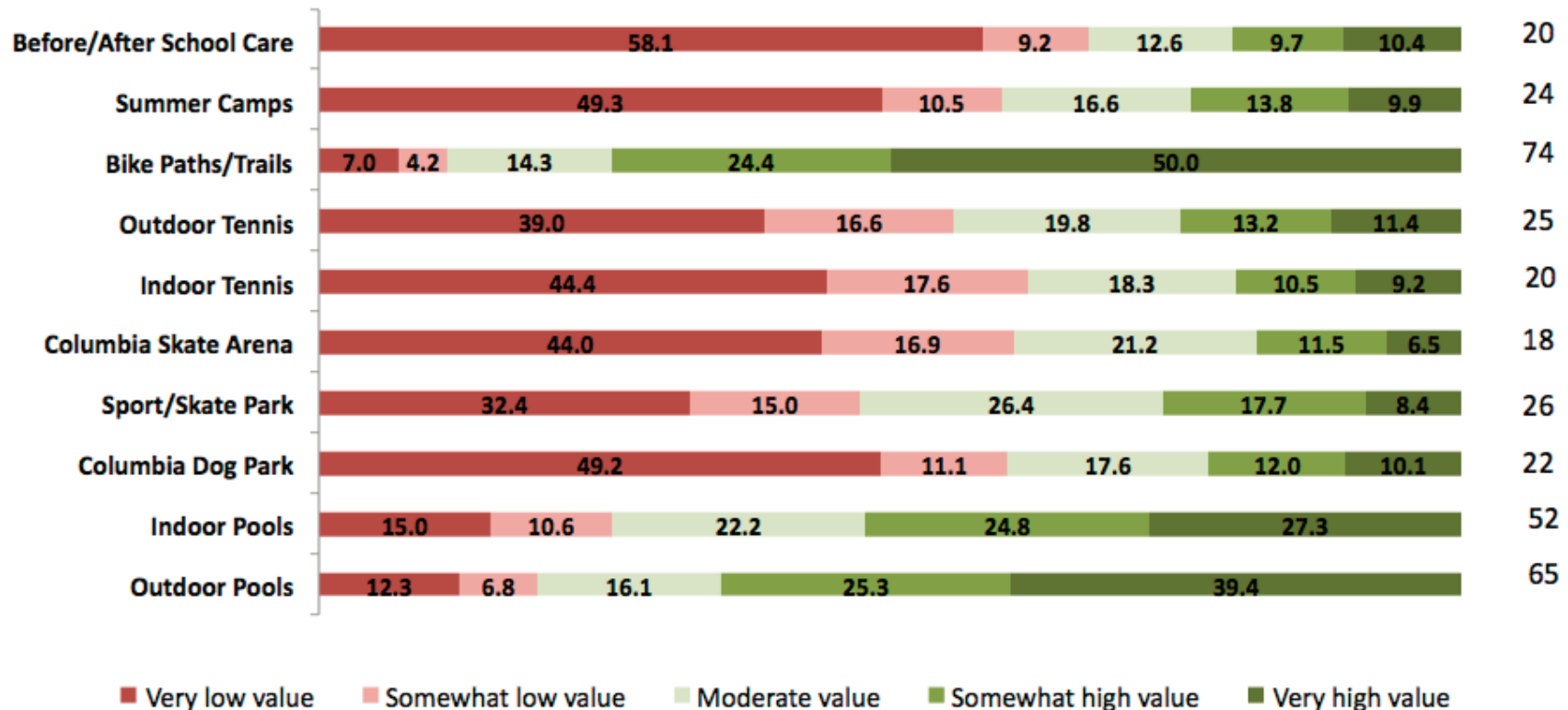
The Value CA Facilities Provide Toward Lifestyles



When members are asked about the various services that CA offers and the value each provides towards enriching their lifestyle, the pools and bike paths clearly are important to a much broader segment of the community.

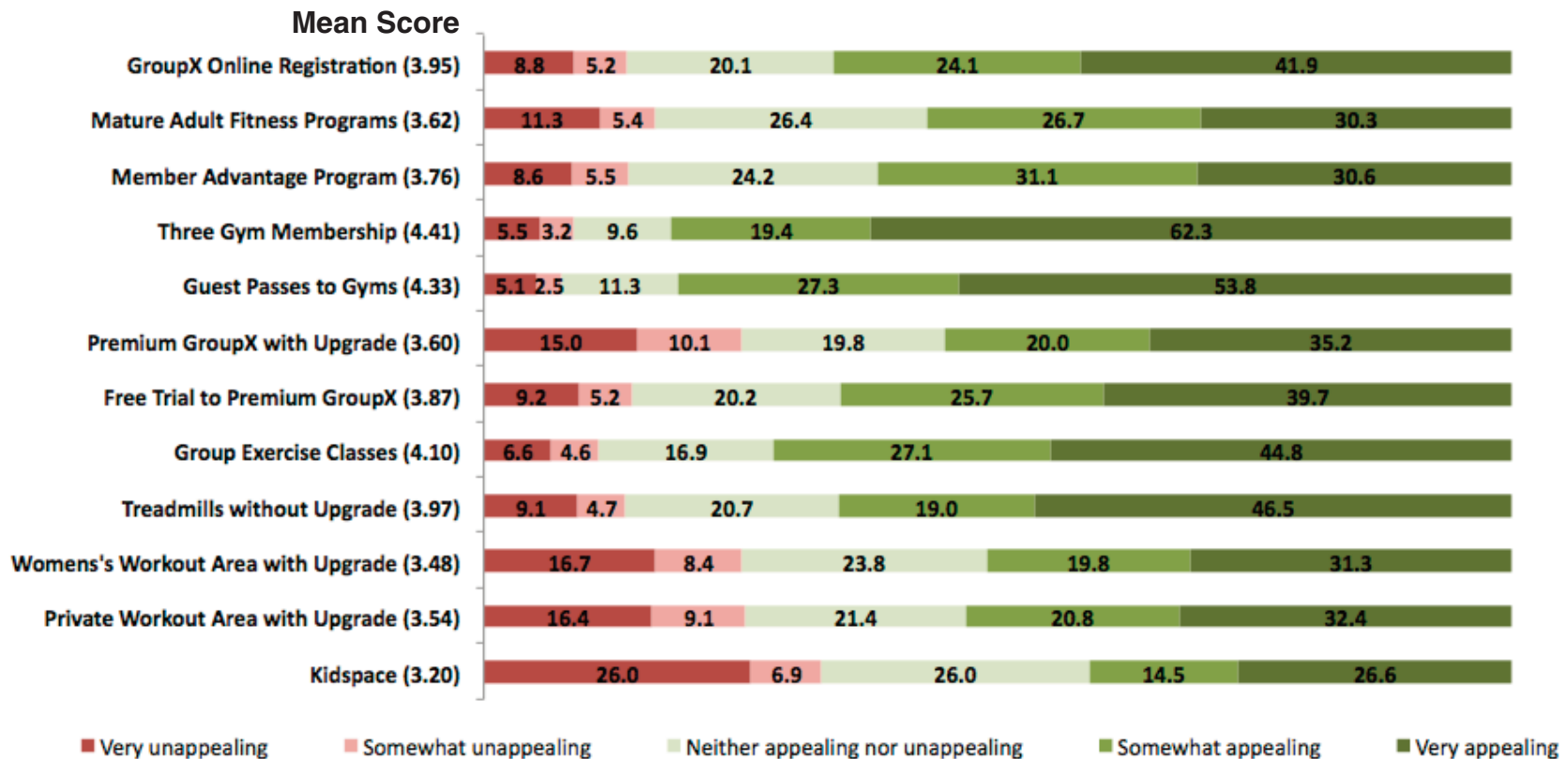
The Value CA Services Provide Toward Lifestyles

Top 2 Box



There is a great deal of interest and appeal among a wide variety of existing and potential CA programs/services. Among the various programs and services that CA can extend members, the five generating the most appeal, in order of importance are: three gym memberships, guest passes to the gyms, group exercise classes, treadmills without an upgrade fee and online registration for group exercise classes.

Appeal of Various CA Programs/Services



Fitness Only Membership Generates a Low Price Point

When survey respondents were asked what they would be prepared to pay for a gym membership offering access to all three athletic facilities including treadmills ...

consumers indicated they did not place much value on a pure fitness experience (no group exercise) thus the low price sensitivities. Non-CA members have lower price tolerances than CA members!

Group Exercise Worth Twice as Much as Fitness Only

When survey respondents were asked what they would be prepared to pay for a membership offering access to all three athletic facilities and group fitness classes ...

consumers indicated they were prepared to pay twice as much for a fitness experience involving group exercise as one without it.

Pools Hold Incremental Value

When survey respondents were asked what they would be prepared to pay for a family membership offering access to the outdoor pools and indoor swim center ...

consumers indicated they were prepared to pay for the recreational experience beyond fitness ... it has the ability to capture a greater share of market.

Membership Structure and Pricing Framework

Critical principles that apply to recommendations

All membership recommendations and pricing recommendations to come are primarily based on the results of the ClubIntel research (in-depth interviews, focus groups, competitive shopping and survey of members and nonmembers).

We propose six core membership categories and each will be offered as individual, couple or family memberships. There will also be benefits for employees of CA-assessed businesses.

Haven on the Lake will keep its separate stand-alone membership categories and will continue to offer add-on membership packages.

A family can only have one membership type. The main cardholder determines what category of membership the family will have.
The only exception to this will be Haven on the Lake memberships.

We propose, as did ClubIntel, that we continue with an income-qualified membership.

Hobbit's Glen will still be positioned as a semi-private course that is aligned with similar market offerings and practices.

Summary of Proposed Memberships

1

Fitness Membership

- One fitness club (all equipment and group fitness classes)
- One guest pass for use each month

2

Recreation Membership

- All outdoor pools
- Swim Center with SplashDown
- SportsPark
- SkatePark
- Ice Rink
- All outdoor and indoor tennis courts (additional fees for indoor)
- One guest pass for use each month

3

AquaFit Membership

- **Recreation Membership**
- All three fitness clubs and everything in them (all equipment and group fitness classes)
- Discounted green fees
- Two guest passes for use each month

4

Weekday Golf Membership

- Eight-day advance reservations
- Unlimited green fees on **weekdays**, both courses
- Handicap fees

5

Seven-Day Golf Membership






- Eight-day advance reservations
- Unlimited green fees on **all seven days**, both courses
- Handicap fees

6













Golf-Fit Membership

- **AquaFit Membership**
- **Seven-Day Golf Membership**
- KidSpace free
- Two guest passes for use each month

Benefit Comparison: Proposed Fitness Membership
















































Amenities	CA Existing Single Club	Club Intel Proposed Athletic	Club Intel Proposed Group Fitness	CA Staff Proposed Fitness
Three Fitness Clubs				
Choose One of Three Fitness Clubs				
Treadmills				
Haven on the Lake Healing Environments				
Women's Only Gym				
KidSpace Free				
Guest Pass		 One Monthly	 One Monthly	 One To Use Each Month
Group Exercise Classes				 At Chosen Club

Benefit Comparison: Proposed Recreation Membership

Amenities	CA Existing Outdoor Pools/Swim Center	CA Existing Tennis	Club Intel Proposed Recreation	CA Staff Proposed Recreation
Outdoor Pools/Swim Center*				
Outdoor/Indoor Tennis Courts*				 Athletic Club Courts Included
SportsPark/SkatePark*				
Ice Rink*				
Guest Pass	 Two per contract year			 One To Use Each Month
Membership Type	Individual, Two Member and Family		Family Only	Individual, Two Member and Family












*Additional fees may apply.

Benefit Comparison: Proposed AquaFit Membership

Amenities	CA Existing Package Plan	CA Existing Package Plan Plus	Club Intel Proposed Aqua Athletic	Club Intel Proposed Aqua-Group Fitness	CA Staff Proposed AquaFit
Three Fitness Clubs					
Women's Only Gym					
Group Fitness Classes				 Haven Classes Included	
Treadmills					
Outdoor/Indoor Tennis Courts*					 Athletic Club Courts Included
Ice Rink*					
Haven on the Lake Healing Environments					
Outdoor Pools/Swim Center*					
SportsPark/SkatePark*					
Discounted Green Fees					
KidSpace Free					
Guest Pass	 Four Per Contract Year	 Six Per Contract Year	 One Monthly	 One Monthly	 Two to Use Each Month




*Additional fees may apply.

Benefit Comparison: Proposed Weekday Golf Membership

Amenities	CA Existing Hobbit's Glen Weekday	CA Existing Fairway Hills Weekday	Club Intel Proposed Weekday Golf	CA Staff Proposed Weekday Golf
Eight-Day Advance Reservation				
Unlimited Green Fees: Weekdays, One Course*				
Unlimited Green Fees: Weekdays, Both Courses*				
Handicap Fees Included				

*Additional fees may apply.

Benefit Comparison: Proposed Seven-day Golf/GolfFit Membership

Amenities	CA Existing Hobbit's Glen Annual	CA Existing Fairway Hills Annual	Club Intel Proposed Golf Seven-Day	CA Staff Proposed Golf Seven-Day	CA Staff Proposed GolfFit
Eight-Day Advance Reservation					
Unlimited Green Fees: Seven days, One Course*					
Unlimited Green Fees: Seven days, Both Courses*					
Handicap Fees Included					
Three Fitness Clubs					
Women's Only Gym					
Group Fitness Classes			 Includes Haven Classes		
Treadmills					
Outdoor/Indoor Tennis Courts*					 Athletic Club Courts Included
Ice Rink*					
Haven on the Lake Healing Environments					
Outdoor Pools/Swim Center*					
SportsPark/SkatePark*					
KidSpace Free					
Guest Pass			 One Monthly		 Two to Use Each Month

*Additional fees may apply.

Transition Plan

Current memberships will be converted to the most comparable new membership plan.

Example: Package Plan Plus membership will be converted to AquaFit.

Members will continue to pay their current membership rate until their renewal date; at that time, they may opt for a different membership option or pay the new membership rate for the plan to which they were moved.

Membership Pricing Philosophy

1. The goal of resident membership rates is to maximize participation while generating a revenue stream to meet CA's financial goals.

2. The goal of non-resident membership rates is, at a minimum, to match the market for comparative services and programs. (An exception to this is in the rare instances where a specific facility has limited capacity. In this case, non-resident rates are raised above the market to manage the number of non-resident memberships.)

3. Resident membership rates are discounted in acknowledgement that residents pay an annual charge to CA.

4. In an effort to make Sport & Fitness memberships affordable to all residents, additional discounts on the resident membership rates are available for CA residents who are income-qualified.

5. Our goal is to make the composite rates less than the sum of the stand-alone memberships. (We offer these rates as incentives for individuals to choose the membership that encourages them to participate in all of the Sport & Fitness programs, services and facilities.)

6. There is no double discounting.

7. Adding value and services will increase both market share and revenue.

Summary and Next Steps

The membership options that have been presented were put together thoughtfully using research and recommendations from ClubIntel.

These options will position CA favorably against competition and ensure Columbia stakeholders will find the new options desirable.

March 24

**Board of Directors
votes to approve the
membership options
presented**

April 14

**Presentation to
Board of Directors
recommending
pricing structure
for agreed-upon
membership
options**

April 28

**Board of Directors
votes to approve
the agreed-upon
rate structure**

Resources

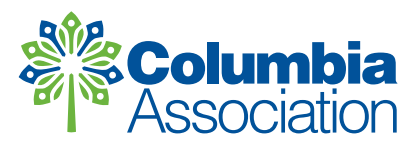
May 28, 2015 Board Meeting

Item_10(a)_Presentation_Club Intel.pdf

September 10, 2015 Board Meeting

Item_10(a)_Club Intel Presentation.pdf







March 3, 2016

To: Columbia Association Board of Directors (Board)

From: Jane Dembner, AICP
Director of Planning and Community Affairs;
Governance Chief of Staff

Subject: Board Development of its 2016 Board Work Plan

At the February 25, 2016 Board meeting, the PSC reviewed and pared down a list of potential work plan items. The PSC recommended the following three items be addressed by the Board in calendar year 2016: membership rates; how to make CA clubs and facilities more competitive; and Board focus on planning, development and zoning issues related to the future of Columbia. Below, I place these items in the context of the Strategic Plan Goals and Objectives.

In addition, based on staff notes from the PSC meeting, there was demonstrated an equal level of board interest in one other work plan item: identify ways to better connect to and provide services or programming for young adults. I have included it below for Board consideration.

Strategic Issue 1: Membership rates

Guiding Strategic Plan Goal and Objective(s)

Goal: Demonstrate the practices of a high-performing and responsive organization.

Related Objective(s): Maintain strong fiscal discipline, control costs, and ensure a high value for CA customers and annual charge payers

Desired Outcome: *Board to articulate*

Strategic Issue 2: How to make CA clubs and facilities more competitive

Guiding Strategic Plan Goal and Objective(s)

Goal: Deliver programs and services that meet stakeholders' expectations and enhance the quality of life in Columbia.

Related Objective(s):

- Continuously evaluate and adjust programs and services to meet changing needs of the entire Columbia community.
- Create an exceptional customer service experience.

Desired Outcome: *Board to articulate*

Strategic Issue 3: Board focus on planning, development and zoning issues related to the future of Columbia

Guiding Strategic Plan Goal and Objective(s)

Goal: Develop and communicate a shared community vision for Columbia, and advance the vision through advocacy, partnerships, and alignment of CA programs and services.

Related Objective(s):

- Facilitate inclusive processes that develop shared visions and plans for the future of Columbia.
- Strengthen relationships with governmental and nonprofit agencies that deliver programs and services in Columbia.
- Communicate the vision widely and use the vision to promote Columbia as a community of choice.

Desired Outcome: *Board to articulate*

Strategic Issue 4: Identify ways to better connect to and provide services or programming for young adults

Guiding Strategic Plan Goal and Objective(s)

Goal: Deliver programs and services that meet stakeholders' expectations and enhance the quality of life in Columbia.

Related Objective(s): Continuously evaluate and adjust programs and services to meet changing needs of the entire Columbia community.

Desired Outcome: *Board to articulate*



March 4, 2016

To: Members of the Columbia Association Board of Directors
Milton W. Matthews, President

From: Susan Krabbe

cc: Jackie Tuma

Subject: Third Quarter FY 2016 Financial Report

The Audit Committee will be reviewing the FY 16 Third Quarter Financial Report at their March 7, 2016 meeting. We anticipate that the committee members will vote to recommend that the Board of Directors be presented with the FY 16 Third Quarter Financial Report at that meeting. Each Board member has received via courier the Financial Report. In addition, the link to the Financial Report is posted as back-up material to the March 10, 2016 Board meeting, even though they have not yet been reviewed by the Audit Committee. The file is too large to post, and so to access the report on line, go to <http://www.columbiaassociation.org>; select About Us; About Columbia Association; Financial Reports; then select "FY16 Third Quarter" under Financial Reports to the Board from the list of financial reports posted.

If you have any questions, please let me know.

Columbia Association, Inc.

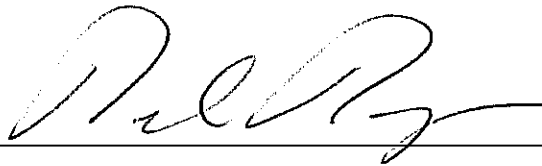
Financial Statements

January 31, 2016 and 2015

COLUMBIA ASSOCIATION, INC.

OFFICER'S STATEMENT

I have reviewed the accompanying statement of financial position of Columbia Association, Inc. as of January 31, 2016 and 2015, 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, 2016 and 2015, and the results of its operations and its cash flows for the periods then ended, in conformity with generally accepted accounting principles.

A handwritten signature in black ink, appearing to read 'Paul Papagjika', is written over a horizontal line.

Paul Papagjika, Treasurer

Columbia Association, Inc.

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Columbia Association, Inc.

**Statements of Financial Position
January 31, 2016 and 2015
(in Thousands)**

Assets

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 8,277	\$ 6,706
Accounts receivable, net	12,205	13,908
Prepaid expenses and other assets	1,539	1,493
Risk management fund	6,459	6,470
Workers' compensation fund	2,858	2,682
Property, facilities and equipment, net	115,108	113,440
Intangible assets, net	319	319
Deferred bond issuance/financing costs, net	<u>117</u>	<u>133</u>
 Total assets	 <u>\$ 146,882</u>	 <u>\$ 145,151</u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 11,073	\$ 11,389
Deferred revenue	<u>13,449</u>	<u>14,707</u>
	<u>24,522</u>	<u>26,096</u>
 Term debt		
Term loan	27,691	29,247
Capital lease obligations	<u>93</u>	<u>233</u>
 Total term debt	<u>27,784</u>	<u>29,480</u>
 Total liabilities	52,306	55,576
 Net assets		
Unrestricted	<u>94,576</u>	<u>89,575</u>
 Total liabilities and net assets	 <u>\$ 146,882</u>	 <u>\$ 145,151</u>

See Notes to Financial Statements.

Columbia Association, Inc.

**Statements of Activities
Periods Ended January 31, 2016 and 2015
(in Thousands)**

	<u>2016</u>	<u>2015</u>
Revenue		
Property assessments	\$ 35,915	\$ 34,934
Sport and fitness	20,094	19,428
Community services	2,994	2,950
Communication and marketing	16	2
Open space and facility services	454	667
Village community associations	30	35
Interest income and other	71	(35)
Unrealized gain (loss) on marketable securities	<u>20</u>	<u>(13)</u>
Total revenue	<u>59,594</u>	<u>57,968</u>
Expenses		
Sport and fitness	21,034	20,144
Community services	4,197	4,040
Communication and marketing	1,534	565
Open space and facility services	9,119	8,520
Village community associations	3,327	3,251
Administrative	6,540	6,016
Interest	<u>816</u>	<u>718</u>
Total expenses	<u>46,567</u>	<u>43,254</u>
Increase in unrestricted net assets	13,027	14,714
Unrestricted net assets, beginning	<u>81,549</u>	<u>74,861</u>
Unrestricted net assets, end	<u>\$ 94,576</u>	<u>\$ 89,575</u>

See Notes to Financial Statements.

Columbia Association, Inc.

Statements of Cash Flows
Periods Ended January 31, 2016 and 2015
(in Thousands)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Increase in unrestricted net assets	\$ 13,027	\$ 14,714
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities		
Depreciation expense and amortization	6,364	5,979
Amortization of deferred bond issuance costs	11	11
(Gain) Loss on disposal of fixed assets	(49)	55
Unrealized (gain) loss on marketable securities	(20)	13
Changes in operating assets and liabilities		
Accounts receivable	919	(270)
Prepaid expenses and other assets	27	822
Accrued interest	-	(110)
Accounts payable and accrued expenses	(1,254)	(82)
Deferred revenue	(757)	(412)
Net cash provided by operating activities	<u>18,268</u>	<u>20,720</u>
Cash flows from investing activities		
Net (purchases) sales of investments held by trustees	40	171
Purchase of property, facilities and equipment	(7,732)	(13,760)
Proceeds from the sale of equipment	51	100
Net cash used in investing activities	<u>(7,641)</u>	<u>(13,489)</u>
Cash flows from financing activities		
Line of credit	(1,229)	(27,012)
Bond issuance/finance costs	-	(144)
Long-term debt		
Capital lease obligation payments	(117)	(2,702)
Term loan proceeds	-	(115)
Term loan principal payments	(1,169)	29,247
Net cash provided by (used in) financing activities	<u>(2,515)</u>	<u>(726)</u>
Net (decrease) increase in cash and cash equivalents	8,112	6,505
Cash and cash equivalents, beginning	<u>165</u>	<u>201</u>
Cash and cash equivalents, end	<u>\$ 8,277</u>	<u>\$ 6,706</u>
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	<u>\$ 805</u>	<u>\$ 913</u>

See Notes to Financial Statements.

Columbia Association, Inc.

**Notes to Financial Statements
January 31, 2016 and 2015
(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 property owners and 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 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 property owners 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.

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.

Columbia Association, Inc.

Notes to Financial Statements January 31, 2016 and 2015 (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.

<u>Assets</u>	<u>Estimated Useful Lives</u>
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, 2016 and 2015, 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.

Deferred bond issuance/financing costs

Expenses related to the issuance of the term loan are being amortized using the effective interest method over the term of the respective debt. Accumulated amortization as of January 31, 2016 and 2015 was \$28 and \$11, respectively. Amortization expense for the periods ended January 31, 2016 and 2015 was \$11 and \$11, respectively. Estimated amortization expense for each of the ensuing years through October 31, 2020 are as follows:

2016	\$	4
2017		15
2018		14
2019		13
2020		12

Columbia Association, Inc.

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

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 is 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 \$403 and \$357 for the periods ended January 31, 2016 and 2015, 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.

Columbia Association, Inc.

**Notes to Financial Statements
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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 \$4 and \$3 for the periods ended January 31, 2016 and 2015, respectively.

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, 2016 and 2015:

	2016	2015
Membership fees	\$ 13,751	\$ 14,684
Annual charges	915	935
Other	273	674
	<hr/>	<hr/>
Total accounts receivable	14,939	16,293
Less reserves for abatements and allowance for doubtful accounts	2,734	2,385
	<hr/>	<hr/>
	<u>\$ 12,205</u>	<u>\$ 13,908</u>

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, 2016 and 2015:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 907	\$ 907	\$ 292	\$ 292
Government debt securities	5,592	5,552	6,240	6,178
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>\$ 6,499</u>	<u>\$ 6,459</u>	<u>\$ 6,532</u>	<u>\$ 6,470</u>

Columbia Association, Inc.

Notes to Financial Statements January 31, 2016 and 2015 (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, 2016 and 2015:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 101	\$ 101	\$ 147	\$ 147
Government debt securities	2,753	2,757	2,532	2,535
	<u>\$ 2,854</u>	<u>\$ 2,858</u>	<u>\$ 2,679</u>	<u>\$ 2,682</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.

Columbia Association, Inc.

**Notes to Financial Statements
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The following table presents assets measured at fair value by classification within the fair value hierarchy as of January 31, 2016:

	<u>Fair Value Measurements Using</u>		
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Total</u>
Government debt securities	\$ -	\$ 8,309	\$ 8,309

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

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

Note 5 - Property, facilities and equipment, net

Property, facilities and equipment consist of the following as of January 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 6,533	\$ 6,533
Parks, lakes and related improvements	10,400	10,400
Land improvements	70,473	67,193
Buildings and recreation facilities	105,686	90,140
Furniture, equipment and other	29,201	28,690
Construction-in-progress	9,121	18,618
	<u>231,414</u>	<u>221,574</u>
Total property, facilities and equipment		
Less accumulated depreciation	<u>116,306</u>	<u>108,134</u>
Property, facilities and equipment, net	<u>\$ 115,108</u>	<u>\$ 113,440</u>

Columbia Association, Inc.

Notes to Financial Statements January 31, 2016 and 2015 (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 2016 and 2015) 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 2016 and 2015.

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

2016	\$	10,576,895
2015		10,279,012

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 (0.98% and 0.72% as of January 31, 2016 and 2015, 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 no outstanding borrowings under the line of credit as of January 31, 2016 and 2015, respectively.

The Association had \$230 in letters of credit issued through a bank as of January 31, 2016 and 2015, respectively, none of which has been drawn upon.

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 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 January 31, 2016, the future loan principal payments are as follows:

2016	\$	398
2017		1,629
2018		1,690
2019		1,753
2020 and thereafter		22,221
Total	\$	<u>27,691</u>

Columbia Association, Inc.

**Notes to Financial Statements
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Capital lease obligation

The cost and accumulated amortization of equipment under capital leases were \$1,112 and \$918, respectively, as of January 31, 2016, and \$1,112 and \$807, respectively, as of January 31, 2015. The future minimum annual payments under capital leases are as follows:

2016	\$	23
2017		<u>70</u>
Present value of net minimum lease payments	\$	<u><u>93</u></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 \$846 and \$745 for the periods ended January 31, 2016 and 2015, respectively.

Note 10 - Commitments

The Association leases certain facilities and equipment under operating leases. Rental expense, exclusive of these costs, was \$1,294 and \$901 for the periods ended January 31, 2016 and 2015, respectively.

As of January 31, 2016, the Association's total commitment for minimum annual rentals, exclusive of maintenance and other occupancy costs, under noncancellable operating leases are:

2016	\$	197
2017		1,487
2018		1,517
2019		1,547
2020 and thereafter		<u>12,793</u>
Total	\$	<u><u>17,541</u></u>

The lease for CA's new headquarters building began on September 1, 2015. The lease includes rent abatement for the period September 1, 2015 to April 30, 2016 valued at \$460. The lease also includes a relocation allowance of \$329. Accrued abatements of \$287 for the new headquarters building and \$37 for the old headquarters building were included in accounts payable and accrued expenses as of January 31, 2016 and 2015 respectively.

Columbia Association, Inc.

**Notes to Financial Statements
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The lease for the IT offices also includes rent abatement for the period August 1, 2012 to October 31, 2012 valued at \$10. Accrued abatements of \$0 and \$4 were included in accounts payable and accrued expenses as of January 31, 2016 and 2015, respectively. The lease for Haven on the Lake includes rent abatement for the period September 1, 2014 to August 31, 2015 valued at \$386. Accrued abatements of \$360 and \$153 were included in accounts payable and accrued expenses as of January 31, 2016 and 2015, respectively. The lease also includes a tenant improvement allowance of \$1,378. Accrued abatements of \$1,285 and \$1,056 were included in accounts payable and accrued expenses as of January 31, 2016 and 2015, respectively. 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. 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. This amount is included in interest and other income on the statements of activities for the period ended 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. This benefit terminates on the 10th anniversary of the benefit commencement date. The employee contributes the remainder of the health care cost.

Columbia Association, Inc.

**Notes to Financial Statements
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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>2015</u>	<u>2014</u>
Reconciliation of benefit obligations		
Obligation at beginning of year	\$ 605	\$ 571
Service cost	25	22
Interest cost	27	29
Actuarial gain (loss)	2	(14)
Benefit payments	<u>(5)</u>	<u>(3)</u>
Obligation at end of year	<u>\$ 654</u>	<u>\$ 605</u>
Amount not recognized in net period postretirement benefit cost:		
Unrecognized prior service credit	\$ (26)	\$ (27)
Unrecognized gain	<u>48</u>	<u>48</u>
Total amount recognized in net periodic postretirement benefit costs	<u>\$ 22</u>	<u>\$ 21</u>
Net periodic postretirement benefit costs include:		
Service cost	\$ 25	\$ 22
Interest cost	27	29
Amortization of unrecognized prior service cost	<u>1</u>	<u>1</u>
Net periodic postretirement benefit cost	<u>\$ 53</u>	<u>\$ 52</u>

The discount rate was 5.6% as of April 30, 2016 and 2015. The gross trend rate for health care coverage is 10.0% grading to 4.6% over five years.

Columbia Association, Inc.

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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:

	<u>1% Increase</u>	<u>1% Decrease</u>
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	83	(72)

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 \$1,387 and \$1,533 are included in accrued expenses as of January 31, 2016 and 2015, 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 \$2,120 and \$1,998 are included in accrued expenses as of January 31, 2016 and 2015, 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, 2016.

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.