COLUMBIA ASSOCIATION, INC.
Columbia, Maryland

FINANCIAL STATEMENTS
October 31, 2009 and 2008

COLUMBIA ASSOCIATION, INC.

OFFICER'S STATEMENT

I have reviewed the accompanying statement of financial position of Columbia Association, Inc. as of October 31, 2009 and 2008, 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 October 31, 2009 and 2008, and the results of its operations and its cash flows for the periods then ended, in conformity with generally accepted accounting principles.

Rafia Siddiqui, Vice President and CFO

COLUMBIA ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
As of October 31, 2009 and 2008

	2009	2008
ASSETS		
ASSETS		
Cash and cash equivalents	$ 177,000	$ 221,000
Accounts receivable, net	15,042,000	15,222,000
Prepaid expenses and other assets	669,000	697,000
Debt service fund	7,748,000	8,802,000
Risk management fund	6,880,000	6,782,000
Workers' compensation fund	1,283,000	1,084,000
Property, facilities and equipment, net	97,079,000	97,182,000
Intangible assets, net	319,000	319,000
Deferred bond issuance/financing costs, net	75,000	109,000
TOTAL ASSETS	$ 129,272,000	$ 130,418,000
LIABILITIES AND NET ASSETS		
LIABILITIES		
Line of credit	$ 2,488,000	$ 3,580,000
Accrued interest	1,389,000	1,640,000
Accounts payable and accrued expenses	5,943,000	4,691,000
Deferred revenue	14,818,000	15,546,000
	24,638,000	25,457,000
Term debt:		
Senior secured bonds	31,979,000	37,595,000
Capital lease obligations	284,000	377,000
Term loan	5,845,000	7,088,000
Total term debt	38,108,000	45,060,000
Total liabilities	62,746,000	70,517,000
NET ASSETS		
Unrestricted	66,526,000	59,901,000
Total net assets	66,526,000	59,901,000
TOTAL LIABILITIES AND NET ASSETS	$ 129,272,000	$ 130,418,000

The accompanying notes are an integral part of the financial statements

COLUMBIA ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
For the Quarters Ended October 31, 2009 and 2008

	2009	2008
REVENUES AND GAINS		
Property assessments	$ 32,092,000	$ 31,221,000
Operating revenues:		
Sport and fitness	12,937,000	12,958,000
Communications and marketing	2,000	2,000
Community services	1,826,000	1,933,000
Open space management	76,000	146,000
Interest income	89,000	250,000
Unrealized loss on marketable securities	(44,000)	(68,000)
Total revenues and gains	46,978,000	46,442,000
EXPENSES		
Operating expenses:		
Sport and fitness	13,234,000	13,029,000
Communications and marketing	354,000	308,000
Community services	4,414,000	4,588,000
Open space management	4,663,000	4,632,000
Administrative	3,435,000	3,285,000
Interest	1,722,000	2,126,000
Total expenses	27,822,000	27,968,000
INCREASE IN UNRESTRICTED NET ASSETS	19,156,000	18,474,000
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	47,370,000	41,427,000
UNRESTRICTED NET ASSETS, END OF QUARTER	$ 66,526,000	$ 59,901,000

The accompanying notes are an integral part of the financial statements

COLUMBIA ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
For the Quarters Ended October 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net assets	$ 19,156,000	$ 18,474,000
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation expense and amortization	3,723,000	3,632,000
Amortization of deferred bond issuance costs	15,000	19,000
Loss (gain) on disposal of fixed assets	10,000	(7,000)
Unrealized (gain) loss on marketable securities	44,000	68,000
Effects of changes in operating assets and liabilities:		
Accounts receivable	(561,000)	(1,182,000)
Prepaid expenses and other assets	379,000	287,000
Accrued interest	(1,000)	(10,000)
Accounts payable and accrued expenses	(1,998,000)	(2,772,000)
Deferred revenue	(616,000)	(255,000)
Net cash provided by operating activities	20,151,000	18,254,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of investments held by trustees	(6,308,000)	(6,814,000)
Purchase of property, facilities and equipment	(3,582,000)	(3,204,000)
Proceeds from the sale of equipment	2,000	11,000
Net cash used in investing activities	(9,888,000)	(10,007,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit	(10,108,000)	(7,886,000)
Long-term debt principal payments:		
Senior secured bonds	-	(249,000)
Capital lease obligations	(53,000)	(52,000)
Net cash used in financing activities	(10,161,000)	(8,187,000)
DECREASE IN CASH AND CASH EQUIVALENTS	102,000	60,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	75,000	161,000
CASH AND CASH EQUIVALENTS, END OF QUARTER	$ 177,000	$ 221,000

The accompanying notes are an integral part of the financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Columbia Association, Inc. (the Association), is a nonprofit membership corporation, quasi-governmental in function, 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.

During the development of Columbia, the Association incurred substantial operating losses and capital outlays for property, facilities and equipment. This early activity was financed by the issuance of long-term debt. The Association's revenues from assessments and services have funded the debt service requirement since fiscal year 1985.

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 fee receivables, 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 collectibility 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Construction period interest is capitalized ($0 for the quarters ended October 31, 2009 and 2008) as part of the cost of the asset.

Assets	Life
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.

Financial Accounting Standards Board FAS No. 144, *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. The Association has applied the Statement and it did not have an impact on its financial statements.

Intangible Assets

Goodwill relates to the purchase of land. The annual charge revenue levied from this transaction exceeds the carrying amount of the goodwill.

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 bonds and loan. Accumulated amortization as of October 31, 2009 and 2008 was $1,300,000 and $1,407,000, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 US Governmental Securities money market funds, which are stated at fair value.

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.

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.

New Accounting Standards

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109 (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, disclosure and transition. FIN 48 was effective for fiscal years beginning after December 15,

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

2006, but the effective date has been deferred to fiscal years beginning after December 15, 2008 for certain nonpublic enterprises by FASB Staff Position No. FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* (FSP FIN 48-3).

The Association has elected to defer the adoption of FIN 48 and will continue to account for uncertain tax positions using the guidance in FASB Statement No. 5, *Accounting for Contingencies*, until FIN 48 is adopted. The Association has not determined the effect, if any, the adoption of FIN 48 will have on the Association's financial position and results of operations. The cumulative effect of adopting FIN 48, if any, will be recorded as an adjustment of net assets.

Change in Accounting Principles

Effective January 1, 2008, the Association adopted FASB Statement No. 157, *Fair Value Measurements* (FAS 157), which provides a comprehensive framework for measuring fair value and expands disclosures which are required about fair value measurements. Specifically, FAS 157 sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. The adoption of FAS 157 did not have a material impact on the Association's financial statements.

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following as of October 31:

	2009	2008
Membership fees	$ 13,354,000	$ 13,491,000
Annual charges	1,906,000	1,843,000
Other	358,000	317,000
Total accounts receivable	15,618,000	15,651,000
Less reserves for abatements and allowance for doubtful accounts	576,000	429,000
Accounts receivable, net	$ 15,042,000	$ 15,222,000

NOTE 3 – FAIR VALUE MEASUREMENTS

In determining fair value, the Association uses various valuation approaches within the FAS 157 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

FAS 157 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. FAS 157 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.

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.

Interest Rate Swap Agreements

The fair value of interest rate swaps are estimated by a third party using a model that builds a yield curve from market data for activity traded securities at various times and maturities and takes into account current interest rates and the current credit worthiness of the respective counterparties. Such securities are classified within Level 2 of the valuation hierarchy.

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of October 31, 2009:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Debt securities	$ -	$ 2,739,000	$ 2,739,000
Interest rate swap agreement	$ -	$ 5,845,000	$ 5,845,000

NOTE 4 – PROPERTY, FACILITIES AND EQUIPMENT, NET

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

	2009	2008
Land	$ 6,533,000	$ 6,533,000
Parks, lakes, and related improvements	10,400,000	10,400,000
Land improvements	41,370,000	40,313,000
Buildings and recreational facilities	85,430,000	82,989,000
Furniture, equipment and other	23,999,000	26,315,000
Construction-in-progress	13,887,000	11,910,000
Total property, facilities and equipment	181,619,000	178,460,000
Less accumulated depreciation	84,540,000	81,278,000
Property, facilities and equipment, net	$97,079,000	$97,182,000

NOTE 5 – PROPERTY ASSESSMENTS

An annual charge, based on a rate (68 cents per $100 of assessed valuation in fiscal years 2010 and 2009) established annually by the Board of Directors, on all of Columbia's assessable real property is the principal source of the Association's revenue. 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 2010 and 2009.

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

2009	$ 9,430,000,000
2008	9,134,000,000

NOTE 6 – LINES OF CREDIT

The Association has available an unsecured line of credit with a bank, which, under a loan agreement, is limited to borrowings of $25,000,000. The outstanding note bears interest at the lower of the bank's prime rate or LIBOR plus 110 basis points and is due on demand. Additionally, the note bears an unused commitment fee of 25 basis points on any difference between the pre-authorized schedule of the projected outstanding balance and the amount of credit actually used. The Association had $2,488,000 and $3,580,000 outstanding under the line of credit as of October 31, 2009 and 2008, respectively.

As of October 31, 2009 and 2008, the Association had $252,000 in letters of credit issued through a bank.

NOTE 7 – TERM DEBT

Senior Secured Bonds and Fixed Rate Loan

Senior secured bonds bear interest at annual rates ranging from 6.81% to 18.65%. The weighted average rate as of October 31, 2009 and 2008 was 9.22% and 9.23%, respectively. Such bonds are secured by annual charge revenues and mature at various dates between fiscal years 2010 and 2015. The balance at October 31, 2009 and 2008 was $31,979,000 and $37,595,000, 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 has a variable rate loan with Wachovia Bank N.A. in the amount of $5,845,000, which matures in fiscal year 2013. The loan is secured by a first assignment of the income stream from membership revenue.

The Association makes annual principal payments and semi-annual interest payments for the term of the loan. The interest rate is 1-month LIBOR, plus .45% per annum.

The Association simultaneously entered into an interest rate swap agreement for the purpose of converting the Association's floating rate debt with Wachovia Bank N.A. to a fixed rate. This agreement involves the exchange of floating rate interest payments for fixed rate interest payments until the swap agreement matures in fiscal 2013. The agreement changed the Association's interest rate exposure on its floating rate notes to a fixed 6.58%. The Association had an outstanding notational amount of $5,845,000 and $7,088,000 on this swap agreement as of October 31, 2009 and 2008, respectively.

Aggregate maturities of the Association's senior secured bonds and term loan as of October 31, 2009 are as follows:

2010	$ 6,370,000
2011	6,929,000
2012	6,913,000
2013	6,239,000
2014	4,566,000
2015 and thereafter	6,807,000
Total	$37,824,000

Capital Lease Obligation

The cost and accumulated amortization of equipment under capital leases were $558,000 and $334,000, respectively, as of October 31, 2009, and were $558,000 and $223,000, respectively, as of October 31, 2008. The Association did not enter into any new capital lease obligations during the quarters ended October 31, 2009 and 2008.

NOTE 7 – TERM DEBT (CONTINUED)

As of October 31, 2009, the future minimum annual payments under capital leases are as follows:

2010	$ 42,000
2011	98,000
2012	96,000
2013	54,000
Less: amount representing interest	(6,000)
Total	$ 284,000

Cash paid for interest by the Association on all debt was $1,708,000 and $2,118,000 for the quarters ended October 31, 2009 and 2008, respectively.

NOTE 8 – 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 January 1, 2007, employees become fully vested after six years of service. Expenses under this plan were $473,000 and $455,000 for the quarters ended October 31, 2009 and 2008, respectively.

NOTE 9 – COMMITMENTS

The Association leases certain facilities and equipment under operating leases. Under the terms of the leases of the facilities, the Association is required to pay insurance, taxes, maintenance and other occupancy costs. Rental expense, exclusive of these costs, was $455,000 and $440,000 for the quarters ended October 31, 2009 and 2008, respectively.

As of October 31, 2009, the Association's total commitment for minimum annual rentals, exclusive of maintenance and other occupancy costs, under noncancellable operating leases is:

2010	$ 340,000
2011	382,000
2012	619,000
2013	579,000
2014	558,000
2015 and thereafter	769,000
Total	$ 3,247,000

NOTE 10 – POSTRETIREMENT HEALTH CARE

The Association sponsors a defined postretirement medical benefit plan that covers both salaried and non-salaried full-time employees and their spouses or surviving spouses. The postretirement health care plan is contributory. The Association will provide a maximum contribution of $2,500 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 $1,500 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.

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:

	2009	2008
Reconciliation of benefit obligation:		
Obligation at beginning of year	$ 367,000	$ 174,000
Service cost	16,000	16,000
Interest cost	22,000	19,000
Actuarial gain	-	17,000
Plan positive amendment	-	144,000
Benefit payments	(3,000)	(3,000)
Obligation at end of year	$ 402,000	$ 367,000
Funded status:		
Funded status at end of year	$ 402,000	$ 367,000
Unrecognized prior service cost	18,000	19,000
Unrecognized loss	(18,000)	(19,000)
Net amount recognized which is included in accounts payable and accrued expenses	$ 402,000	$ 367,000
Net periodic postretirement benefit costs include:		
Service cost	$ 16,000	$ 16,000
Interest cost	22,000	19,000
Net periodic postretirement benefit cost	$ 38,000	$ 35,000

NOTE 10 – POSTRETIREMENT HEALTH CARE (CONTINUED)

The discount rate was 6% as of April 30, 2009 and 2008. The gross trend rate for health care coverage is 12% grading to 5% over 5 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:

	1% Increase	1% Decrease
Effect on total service and interest cost components of net periodic postretirement health care benefit cost	$ 6,000	$ (5,000)
Effect on the health care component of the accumulated postretirement benefit obligation	52,000	(45,000)

NOTE 11 – 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 $1,152,000 and $529,000 are included in accrued expenses at October 31, 2009 and 2008, respectively. Claims 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 $1,133,000 and $939,000 are included in accrued expenses at October 31, 2009 and 2008, respectively. Claims payments based on actual claims ultimately filed could differ materially from these estimates.

NOTE 12 – RECLASSIFICATIONS

Certain amounts in the 2008 financial statements have been reclassified to be in conformity with the presentation in the 2009 financial statements.