

COLUMBIA ASSOCIATION, INC.
Columbia, Maryland

FINANCIAL STATEMENTS
October 31, 2011 and 2010

COLUMBIA ASSOCIATION, INC.

OFFICER'S STATEMENT

I have reviewed the accompanying statement of financial position of Columbia Association, Inc. as of October 31, 2011 and 2010, 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, 2011 and 2010, 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 cursive script, appearing to read "Paul Papagjika", is written above a horizontal line.

Paul Papagjika, Treasurer

COLUMBIA ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
As of October 31, 2011 and 2010
(\$000's)

ASSETS	2011	2010
ASSETS		
Cash and cash equivalents	\$ 290	\$ 183
Accounts receivable, net	15,337	14,546
Prepaid expenses and other assets	1,532	1,340
Debt service fund	7,053	7,696
Risk management fund	6,947	6,848
Workers' compensation fund	1,663	1,479
Property, facilities and equipment, net	99,909	96,364
Intangible assets, net	319	319
Deferred bond issuance/financing costs, net	28	48
	\$ 133,078	\$ 128,823
TOTAL ASSETS		
LIABILITIES AND NET ASSETS		
LIABILITIES		
Line of credit	\$ 4,298	\$ 1,786
Accrued interest	878	1,146
Accounts payable and accrued expenses	9,553	7,631
Deferred revenue	14,829	14,566
	29,558	25,129
Term debt:		
Senior secured bonds	21,415	26,933
Capital lease obligations	95	191
Term loan	3,110	4,521
	24,620	31,645
Total term debt		
	54,178	56,774
Total liabilities		
NET ASSETS		
Unrestricted	78,900	72,049
Total net assets	78,900	72,049
TOTAL LIABILITIES AND NET ASSETS	\$ 133,078	\$ 128,823

The accompanying notes are an integral part of the financial statements.

COLUMBIA ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
For the Periods Ended October 31, 2011 and 2010
(\$000's)

	2011	2010
REVENUE		
Service Bureaus		
Administrative:		
Property assessments	\$ 33,260	\$ 32,553
Interest income	56	67
Unrealized gain (loss) on marketable securities	18	(36)
Operations:		
Sport and fitness	13,061	12,950
Community services	1,925	1,852
Open space management	249	184
Sales and marketing	1	2
Community building and sustainability	100	5
	48,670	47,577
Total revenue		
	48,670	47,577
EXPENSES		
Service Bureaus		
Operations:		
Sport and fitness	12,898	12,703
Community services	4,676	4,489
Open space management	4,689	4,319
Sales and marketing	103	144
Community building and sustainability	643	607
Administrative	4,403	4,075
Interest	1,163	1,454
	28,575	27,791
Total expenses		
	28,575	27,791
INCREASE IN UNRESTRICTED NET ASSETS	20,095	19,786
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	58,805	52,263
UNRESTRICTED NET ASSETS, END OF QUARTER	\$ 78,900	\$ 72,049

The accompanying notes are an integral part of the financial statements.

COLUMBIA ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
For the Periods Ended October 31, 2011 and 2010
(\$000's)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net assets	\$ 20,095	\$ 19,786
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation expense and amortization	3,796	3,905
Amortization of deferred bond issuance costs	8	12
Loss (gain) on disposal of fixed assets	-	(1)
Unrealized (gain) loss on marketable securities	(18)	36
Effects of changes in operating assets and liabilities:		
Accounts receivable	(1,087)	(599)
Prepaid expenses and other assets	(224)	260
Accrued interest	-	-
Accounts payable and accrued expenses	(1,990)	(1,382)
Deferred revenue	(232)	(273)
Net cash provided by operating activities	20,348	21,744
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of investments held by trustees	(6,095)	(6,489)
Purchase of property, facilities and equipment	(3,542)	(4,656)
Proceeds from the sale of equipment	13	-
Net cash used in investing activities	(9,624)	(11,145)
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit	(10,457)	(10,542)
Long-term debt principal payments:		
Capital lease obligations	(54)	(53)
Net cash used in financing activities	(10,511)	(10,595)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	213	4
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	77	179
CASH AND CASH EQUIVALENTS, END OF QUARTER	\$ 290	\$ 183

The accompanying notes are an integral part of the financial statements.

COLUMBIA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2011 and 2010
(In Thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. 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 quarters. Accounts receivable also include property assessments, which are collateralized by the resident's property.

The carrying amount of accounts receivable is reduced by a valuation allowance. The reserve for abatements and allowance for doubtful accounts is based on management's assessment of the collectability of specific member accounts and the amount of abatements residents will receive on their property assessment. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the reserves for abatements and allowance for doubtful accounts.

COLUMBIA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2011 and 2010
(In Thousands)

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, 2011 and 2010) 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 (FASB) Interpretation No 144, *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.

Intangible Assets

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

Deferred Bond Issuance/Financing Costs

Expenses related to the issuance of the senior secured bonds and the term loan are being amortized using the effective interest method over the term of the bonds and loan. Accumulated amortization as of October 31, 2011 and 2010 was \$1,128 and \$1,182, respectively.

COLUMBIA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2011 and 2010
(In Thousands)

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 U.S. 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.

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 \$118 and \$140 for the quarters ended October 31, 2011 and 2010, 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
October 31, 2011 and 2010
(In Thousands)

NOTE 2 – ACCOUNTS RECEIVABLE

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

	<u>2011</u>	<u>2010</u>
Membership fees	\$ 13,227	\$ 13,072
Annual charges	2,329	1,776
Other	<u>315</u>	<u>268</u>
Total accounts receivable	15,871	15,116
Less reserves for abatements and allowance for doubtful accounts	<u>534</u>	<u>570</u>
Accounts receivable, net	<u><u>\$ 15,337</u></u>	<u><u>\$ 14,546</u></u>

NOTE 3 – INVESTMENTS AND OTHER ASSETS

Debt Service Fund

Investments of \$7,053 in 2011 and \$7,696 in 2010 in the Debt Service Fund are held by a Trustee and consist of a U.S. Governmental Securities Money Market Fund in which the fair value approximates cost.

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.

Following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy.

COLUMBIA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2011 and 2010
(In Thousands)

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2011:

	<u>Fair Value Measurements Using</u>		<u>Total</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	
Government debt securities	\$ -	\$ 8,057	\$ 8,057
Interest rate swap agreement	\$ -	\$ 3,110	\$ 3,110

The following table presents assets and liabilities measured at fair value by classification within the fair value hierarchy as of October 31, 2010:

	<u>Fair Value Measurements Using</u>		<u>Total</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	
Government debt securities	\$ -	\$ 2,368	\$ 2,368
Interest rate swap agreement	\$ -	\$ 4,521	\$ 4,521

COLUMBIA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2011 and 2010
(In Thousands)

NOTE 5 – PROPERTY, FACILITIES AND EQUIPMENT, NET

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

	<u>2011</u>	<u>2010</u>
Land	\$ 6,533	\$ 6,533
Parks, lakes, and related improvements	10,400	10,400
Land improvements	45,667	44,135
Buildings and recreational facilities	84,277	82,957
Furniture, equipment and other	26,714	26,612
Construction-in-progress	<u>18,835</u>	<u>12,341</u>
Total property, facilities and equipment	192,426	182,978
Less accumulated depreciation	<u>92,517</u>	<u>86,614</u>
Property, facilities and equipment, net	<u><u>\$ 99,909</u></u>	<u><u>\$ 96,364</u></u>

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 2011 and 2010) 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 year 2011 and 2010.

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

2011	\$ 9,766,000
2010	\$ 9,567,000

NOTE 7 – 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 \$30,000. 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 preauthorized schedule of the projected outstanding balance and the amount of the credit actually used. The Association had \$4,298 and \$1,786 outstanding under the line of credit as of October 31, 2011 and 2010, respectively.

The Association had \$230 in letters of credit issued through a bank as of October 31, 2011 and 2010.

COLUMBIA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2011 and 2010
(In Thousands)

NOTE 8 – 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, 2011 and 2010 was 8.88% and 9.1%, respectively. Such bonds are secured by annual charge revenues and mature at various dates between fiscal years 2011 and 2015. The balance at October 31, 2011 and 2010 was \$21,415 and \$26,933, 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 \$3,110 and \$4,521 at October 31, 2011 and 2010, respectively, 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 \$3,110 and \$4,521 on this swap agreement as of October 31, 2011 and 2010, respectively.

Aggregate maturities of the Association's senior secured bonds and term loan as of October 31, 2011 are as follows:

2012	\$	6,913
2013		6,239
2014		4,566
2015		4,777
2016		<u>2,030</u>
Total	\$	<u>24,525</u>

Capital Lease Obligation

The cost and accumulated amortization of equipment under capital leases were both \$558 as of October 31, 2011, and were \$558 and \$446, respectively, as of October 31, 2010. The Association did not enter into any new capital lease obligations during the quarters ended October 31, 2011 and 2010.

COLUMBIA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2011 and 2010
(In Thousands)

NOTE 8 – TERM DEBT (CONTINUED)

As of October 31, 2011, the future minimum annual payments under capital leases are as follows:

2012	\$	41
2013		55
Less: amount representing interest		<u>(1)</u>
Total	\$	<u>95</u>

Cash paid for interest by the Association on all debt was \$1,154 and \$1,442 for the quarters ended October 31, 2011 and 2010, respectively.

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 January 1, 2007, employees become fully vested after six years of service. Expenses under this plan were \$465 and \$504 for the quarters ended October 31, 2011 and 2010, respectively.

NOTE 10 – 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 \$410 and \$443 for the quarters ended October 31, 2011 and 2010, respectively.

As of October 31, 2011, the Association's total commitment for minimum annual rentals, exclusive of maintenance and other occupancy costs, under non-cancellable operating leases is:

2012	\$	314
2013		579
2014		558
2015		575
2016		<u>194</u>
Total	\$	<u>2,220</u>

The lease for the headquarters building includes a rent abatement for the period September 1, 2010 to February 28, 2011 valued at \$249. Accrued abatements of \$212 and \$83 were included in the accrued expenses as of October 31, 2011 and 2010, respectively. The abatement is amortized over the life of the lease and is reflected as a reduction of rent expense as reported in the Statements of Activities.

COLUMBIA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2011 and 2010
(In Thousands)

NOTE 11 – 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:

	<u>2011</u>	<u>2010</u>
Reconciliation of benefit obligations:		
Obligation at beginning of year	\$ 442	\$ 402
Service cost	21	19
Interest cost	23	24
Actuarial gain	(14)	-
Benefit payments	(2)	(3)
Obligation at end of year	<u>\$ 470</u>	<u>\$ 442</u>
Amount not recognized in net periodic postretirement benefit cost:		
Unrecognized prior service cost (credit)	\$ (23)	\$ 17
Unrecognized gain (loss)	39	(17)
Total amount recognized in net periodic postretirement benefit costs	<u>\$ 16</u>	<u>\$ -</u>
Net periodic postretirement benefit costs include:		
Service cost	\$ 21	\$ 19
Interest cost	23	24
Amortization of unrecognized prior service cost	1	-
Net periodic postretirement benefit cost	<u>\$ 45</u>	<u>\$ 43</u>

The discount rate was 5.6% and 6.0% as of April 30, 2011 and 2010, respectively. The gross trend rate for health care coverage is 10.0% grading to 4.6% over 5 years.

COLUMBIA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2011 and 2010
(In Thousands)

NOTE 11 – POSTRETIREMENT HEALTH CARE (CONTINUED)

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	\$ 6	\$ (6)
Effect on the health care component of the accumulated postretirement benefit obligation	62	(54)

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 \$1,120 and \$1,149 are included in accrued expenses at October 31, 2011 and 2010, respectively. Claim payments based on actual claims ultimately filed could differ materially from these estimates.

Reserve for Workers' Compensation Self-insurance

Under its workers' compensation self-insurance plan, the Association accrues the estimated expense of workers' compensation claims based on claims filed subsequent to year-end and an additional amount for incurred, but not yet reported claims based on prior experience. Accruals for such costs of \$1,506 and \$1,324 are included in accrued expenses at October 31, 2011 and 2010, respectively. Claim payments based on actual claims ultimately filed could differ materially from these estimates.

NOTE 13 – INCOME TAXES

The Association adopted the guidance provided *Accounting for Uncertainty in Income Taxes* (FASB ASC 740-10), on January 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 for 2010, 2009 and 2008 are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed.

NOTE 14 – RECLASSIFICATIONS

Certain amounts in the 2010 financial statements have been reclassified to be in conformity with the presentation in the 2011 financial statements.

COLUMBIA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2011 and 2010
(In Thousands)

NOTE 15 – 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. The Association is a defendant in litigation with a contractor. The contractor claims breach of contract and is claiming approximately \$1,000,000 in damages to date. The Association intends to vigorously defend against this claim and has filed a counterclaim as well as a third-party complaint against the engineering firm retained by the Association. No amounts have been accrued in the financial statements related to this matter.