THE CLUB FOUNDATION

FINANCIAL STATEMENTS

Years Ended October 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Governors

THE CLUB FOUNDATION

We have audited the accompanying financial statements of The Club Foundation (the "Foundation") which comprise the statements of financial position as of October 31, 2013 and 2012, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of October 31, 2013 and 2012, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Meyers Hoffman McCann, P.C.

Bethesda, Maryland
January 20, 2014

THE CLUB FOUNDATION

STATEMENTS OF FINANCIAL POSITION

October 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	141,616	$ 19,826
Investments in marketable securities	2,055,529	1,961,448
Pledges receivable, net	2,351,242	2,160,684
Prepaid expenses and other assets	990	-
Investment in LLC	83,474	92,947
TOTAL ASSETS	$ 4,632,851	$ 4,234,905
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 21,204	$ 78,670
NET ASSETS		
Unrestricted net assets	3,021,746	2,653,896
Temporarily restricted net assets	213,105	125,543
Permanently restricted net assets	1,376,796	1,376,796
TOTAL NET ASSETS	4,611,647	4,156,235
TOTAL LIABILITIES AND NET ASSETS	$ 4,632,851	$ 4,234,905

See Notes to Financial Statements

THE CLUB FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended October 31, 2013 and 2012

	2013	2012
Change in unrestricted net assets		
REVENUE		
Campaign contributions	$ 1,035,106	$ 1,146,420
Contributions, gifts and grants	162,965	194,753
Special events	170,995	200,845
CMAA in-kind contributions	47,969	39,731
Interest and dividends	30,620	29,764
	1,447,655	1,611,513
Net assets released from restrictions	69,305	9,688
TOTAL REVENUE	1,516,960	1,621,201
EXPENSES		
Grants and scholarships	675,088	556,102
Fundraising	418,479	393,691
Special events	174,774	202,268
General and administrative	92,960	72,455
TOTAL EXPENSES	1,361,302	1,224,516
Change in unrestricted net assets before non-operating items	155,658	396,685
Change in fair value of investments	221,665	68,985
Investment in LLC loss	(9,473)	(26,972)
CHANGE IN UNRESTRICTED NET ASSETS	367,850	438,698
Change in temporarily restricted net assets		
Campaign contributions	43,250	70,772
Interest and dividends	13,790	16,509
Change in fair value of investments	99,827	38,262
Net assets released from restrictions	(69,305)	(9,688)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	87,562	115,855
CHANGE IN NET ASSETS	455,412	554,553
NET ASSETS, BEGINNING OF YEAR	4,156,235	3,601,682
NET ASSETS, END OF YEAR	$ 4,611,647	$ 4,156,235

THE CLUB FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended October 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 455,412	$ 554,553
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Realized and unrealized gain on investments	(321,492)	(107,247)
Investment in LLC loss	9,473	26,972
Discount on pledges receivable	(55,394)	(53,753)
Decrease (increase) in operating assets		
Pledges receivable	(135,164)	(326,925)
Prepaid expenses and other assets	(990)	12,566
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(57,466)	(205,476)
Deferred revenue	-	(13,050)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(105,621)	(112,360)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,258,256)	(813,372)
Proceeds from investments	1,485,667	1,186,535
NET CASH FLOWS FROM INVESTING ACTIVITIES	227,411	373,163
CASH FLOWS FROM FINANCING ACTIVITIES		
Curtailment of margin loan	-	(397,444)
NET CASH FLOWS FROM FINANCING ACTIVITIES	-	(397,444)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	121,790	(136,641)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,826	156,467
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 141,616	$ 19,826
Supplemental disclosure of cash flow information:		
Interest paid	$ -	$ 4,910

See Notes to Financial Statements

THE CLUB FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(1) <u>Nature of activities and significant accounting policies</u>

The Club Foundation (the "Foundation") was created in 1988 as the only 501(c)(3) organization focused solely on the club industry. The Foundation seeks to fund the life cycle of a club manager's career. Therefore, the Foundation provides dollars for the following five key areas: 1) Students, 2) Faculty, 3) Club Managers, 4) CMAA Chapters, and 5) Industry at Large. The Club Foundation has a donor base of constituents that seek to further the knowledge and skills of those individuals that operate country clubs, yacht clubs, city clubs and more.

Basis of accounting – The Foundation's financial statements have been prepared on the accrual basis of accounting.

Cash and cash equivalents – All highly liquid investments with a maturity of three months or less have been considered as cash equivalents on the financial statements.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are reflected at fair values based on quoted prices in active markets (all Level 1 measurements). To adjust the carrying values of these securities, the change in fair market value is charged or credited to the statement of activities and changes in net assets.

Contributions and pledges receivable – Unconditional promises to give are recognized as revenue in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Pledges receivable are carried at present value less an estimate made for uncollectible pledges based on a review of all outstanding promises. Management determines the allowance for uncollectible pledges by using the historical experience applied on an aging of pledges. Pledges are written-off when deemed uncollectible. The provision for uncollectible pledges, based on management's evaluation of the collection of pledges, at October 31, 2013 and 2012 was $39,000.

Investment in LLC – The Foundation owns a 30% membership interest in 1733 CMAA, LLC (the "LLC"). The investment is reported on the equity method.

Net assets – The Foundation follows the presentation requirements of ASC 958-205-05 and 958-10-15. These codifications require the Foundation to recognize any contributions as support in the period received or when an unconditional promise to give has been made. In addition, contributed services using specialized skills that would have been required to be purchased if not provided by donation are also recognized. Further, net assets are classified as permanently restricted (the net assets cannot be spent due to the donor permanently restricting the use of funds), temporarily restricted (the net assets can be expended but only in accordance with donor-imposed restrictions), or unrestricted (the net assets may be spent in accordance with management and Board wishes). As of October 31, 2013, the Foundation had unrestricted net assets of $3,021,746 ($2,653,896 as of October 31, 2012), temporarily restricted net assets of $213,105 ($125,543 as of October 31, 2012), and permanently restricted net assets of $1,376,796 ($1,376,796 as of October 31, 2012).

(1) Nature of activities and significant accounting policies (continued)

Income taxes – The Foundation is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Foundation had no unrelated business income for the years ended October 31, 2013 and 2012.

Accounting for Uncertainty in Income Taxes – The Foundation has adopted ASC Topic 740-10 which prescribes measurement and disclosure requirements for current and deferred income tax provisions. The topic provides for a consistent approach in identifying and reporting uncertain tax provisions. It is management's belief that the Foundation does not hold any uncertain tax positions. The Foundation's returns are subject to examination by the IRS generally for three years after they were filed.

Fair value of financial instruments – The carrying amounts of certain assets and liabilities including cash, promises to give, and accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.

Use of estimates – The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events – The Foundation has evaluated subsequent events through January 20, 2014, which is the date the financial statements were available to be issued.

(2) Pledges receivable

Pledges receivable are due to be collected in the following periods:

	October 31,	
	2013	2012
Receivable in less than one year	$ 966,790	$ 762,829
Receivable in one to five years	1,522,084	1,459,843
Receivable in more than five years	1,250	21,500
Total pledges receivable	2,490,124	2,244,172
Discount to present value	(99,882)	(44,488)
Allowance for uncollectible pledges	(39,000)	(39,000)
Net pledges receivable	$ 2,351,242	$ 2,160,684

Amounts due after October 31, 2013 have been discounted to their estimated present value using a discount rate of 2.4% (1% in 2012).

(3) Related parties

Operating transactions with CMAA

CMAA receives and disburses funds on behalf of the Foundation. For the year ended October 31, 2013, CMAA owed the Foundation $570 (the Foundation owed CMAA $70,155 for the year ended October 31, 2012). During the year ended October 31, 2013, the Foundation gave grants to CMAA in the amount of $189,000 ($179,000 during the year ended October 31, 2012).

CMAA has an agreement with the Foundation that provides for, among other things, CMAA to contribute the value of shared building expenses, equipment usage, office services, and professional services. The fair value of those in-kind services was estimated to be $47,969 for the year ended October 31, 2013 ($39,731 for the year ended October 31, 2012).

For the year ended October 31, 2013, the Foundation contributed $21,189 to the 401(k) plan of CMAA relating to CMAA employees who spent time on the Foundation ($22,788 for the year ended October 31, 2012).

Investment in LLC and related transactions

During 2008, 1733 CMAA, LLC was formed as a limited liability company. The Foundation holds a 30% membership interest, along with two other members, CMAA and Premier Club Services, Inc. An asset of $239,622 was recorded by the Foundation to reflect the investment, which was a result of a contribution from CMAA. The Foundation's share of the LLC's net loss for the year ended October 31, 2013 was $9,473 (a $26,972 loss for the year ended October 31, 2012).

The LLC also rents office space to the Foundation under a twelve-year lease which expires in January 2020. Rent expense for the year ended October 31, 2013 was $40,290 ($39,214 for the year ended October 31, 2012).

(4) Investments and fair value measurements

FASB Codification Topic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below.

Level 1 - Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date.

Level 2 - Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the overall fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation.

(4) Investments and fair value measurements (continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Investments in marketable securities, at fair value, consisted of the following as of October 31, 2013 and 2012:

	October 31,	
	2013	2012
Cash and cash equivalents	$ 22,681	$ 18,051
Mutual funds		
Fixed income	419,060	588,699
Equity	929,365	445,502
Total mutual funds	1,348,425	1,034,201
Common stock		
Consumer	235,263	367,734
Technology	90,846	180,083
Financial	157,991	146,069
Transportation	5,981	-
Energy	63,948	109,050
Capital equipment	61,531	58,166
Utilities	28,266	13,250
Industrial commodities	26,947	24,634
Services	6,149	4,574
Non-financial	7,501	5,636
Total common stock	684,423	909,196
Total investments in marketable securities	$ 2,055,529	$ 1,961,448

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value.

	Investments at Fair Value as of October 31, 2013			
	Level 1	Level 2	Level 3	Total
Investments in marketable securities	$ 2,055,529	$ -	$ -	$ 2,055,529
Total investments at fair value	$ 2,055,529	$ -	$ -	$ 2,055,529

	Investments at Fair Value as of October 31, 2012			
	Level 1	Level 2	Level 3	Total
Investments in marketable securities	$ 1,961,448	$ -	$ -	$ 1,961,448
Total investments at fair value	$ 1,961,448	$ -	$ -	$ 1,961,448

(4) Investments and fair value measurements (continued)

Investment income consisted of the following:

	Years Ended October 31, 2013	2012
Interest and dividends	$ 44,410	$ 46,273
Realized gains, net	189,440	105,075
	233,850	151,348
Unrealized gains, net	132,052	2,172
Gross investment earnings	365,902	153,520
Investment management fees, net	(21,530)	(22,078)
Investment earnings, net	$ 344,372	$ 131,442

(5) Margin loan

The Foundation has a margin loan with its investment custodian. The investments of the Foundation are pledged as collateral under this loan. Interest on the loan accrues at the Fed Fund Rate plus 2.5%. The margin loan balance of $397,444 at October 31, 2011 was paid in full during the year ended October 31, 2012. The Foundation has had no outstanding borrowings at October 31, 2013 and 2012. An Investment Oversight Committee is in place to review the investments and the risk associated with the margin loan on a regular basis throughout the year.

(6) Commitments

As mentioned in Note 3, the Foundation leases office space under an agreement which expires in January 2020. Estimated future commitments are as follows:

Years Ending October 31,	
2014	$ 42,017
2015	43,277
2016	44,576
2017	45,913
2018	47,290
Later years	56,867
	$ 279,940

(7) Endowment funds

At October 31, 2013 and 2012, the Foundation's endowment consists of multiple donor-restricted funds established for Foundation programs. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Governors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets (consisting of earnings on the permanently restricted amounts) is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with its spending policy and the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Investment and Spending Policies

The Foundation has adopted investment and spending policies, approved by the Board of Governors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, the endowment assets are invested so as to achieve a reasonable rate of return relative to the broad equity and fixed income markets across the full business cycle. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The goal of the Foundation's spending policy is to provide a reasonable, predictable, and sustainable structure that supports the intentions of the original endowment. Total investment earnings, to the extent available, are approved for expenditure as part of the Foundation's annual budgetary process.

(7) Endowment funds (continued)

The changes in endowment funds for the years ended October 31, 2013 and 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment
Net assets, October 31, 2011	$ -	$ 9,688	$ 1,376,796	$ 1,386,484
Campaign contributions	-	70,772	-	70,772
Interest and dividends	-	16,509	-	16,509
Change in fair market value		38,262	-	38,262
Net assets released from restrictions	-	(9,688)	-	(9,688)
Net assets, October 31, 2012	-	125,543	1,376,796	1,502,339
Campaign contributions	-	43,250	-	43,250
Interest and dividends	-	13,790	-	13,790
Change in fair market value	-	99,827	-	99,827
Net assets released from restrictions	-	(69,305)	-	(69,305)
Net assets, October 31, 2013	$ -	$ 213,105	$ 1,376,796	$ 1,589,901

(8) Conditional promise to give

The Foundation has a conditional promise to give in the amount of $150,000. This amount is not recorded as contribution revenue until donor conditions are met. If donor conditions are met each year, the promise to give is expected to be recognized as contribution revenue in the following periods:

Years Ending October 31,	
2015	50,000
2016	50,000
2017	50,000
	$ 150,000