Audited Financial Statements

THE CLUB FOUNDATION

October 31, 2017

Contents

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Independent Auditor's 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, 2017 and 2016, and the related statements of activities 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 Foundation'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 Foundation'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 Club Foundation as of October 31, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tate & Tryon

Washington, DC
January 19, 2018

The Club Foundation

Statements of Financial Position

October 31,	2017	2016
Assets		
Current assets		
Cash and cash equivalents - Note B	$ 265,850	$ 463,141
Pledges receivable, current portion, net - Note C	180,166	580,262
Due from related party - Note F	111,201	-
Prepaid expenses and other assets	6,682	4,351
Total current assets	563,899	1,047,754
Pledges receivable, noncurrent portion, net - Note C	116,708	198,360
Investments in marketable securities - Notes B & D	2,886,208	2,288,997
Investment in LLC - Note E	55,237	62,085
Total assets	$ 3,622,052	$ 3,597,196
Liabilities and Net Assets		
Current liabilities		
Due to related party - Note F	$ -	$ 135,823
Total current liabilities	-	135,823
Net assets - Notes G & H		
Unrestricted	1,939,475	1,914,058
Temporarily restricted	305,781	170,519
Permanently restricted	1,376,796	1,376,796
Total net assets	3,622,052	3,461,373
Total liabilities and net assets	$ 3,622,052	$ 3,597,196

See notes to the financial statements.

Statements of Activities

Years Ended October 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support								
Contributions, gifts, and grants	$ 301,420	$ -	$ -	**$ 301,420**	$ 158,979	$ -	$ -	$ 158,979
Campaign contributions	146,199	13,772	-	**159,971**	175,977	17,717	-	193,694
CMAA in-kind contributions - Note F	59,581	-	-	**59,581**	67,249	-	-	67,249
Interest and dividends - Note D	26,687	16,960	-	**43,647**	20,982	13,842	-	34,824
Fundraising events	6,805	-	-	**6,805**	17,556	-	-	17,556
Net assets released from restrictions - Notes G & H	16,999	(16,999)	-	**-**	9,980	(9,980)	-	-
Total revenue and support	557,691	13,733	-	**571,424**	450,723	21,579	-	472,302
Expense								
Grants and scholarships	334,992	-	-	**334,992**	269,522	-	-	269,522
Fundraising	215,363	-	-	**215,363**	146,847	-	-	146,847
General and administrative	166,301	-	-	**166,301**	28,391	-	-	28,391
Total expense	716,656	-	-	**716,656**	444,760	-	-	444,760
Change in net assets from operations	(158,965)	13,733	-	**(145,232)**	5,963	21,579	-	27,542
Net gain (loss) on investments in marketable securities - Note D	191,230	121,529	-	**312,759**	(12,754)	(8,414)	-	(21,168)
Loss on investment in LLC - Note E	(6,848)	-	-	**(6,848)**	(11,154)	-	-	(11,154)
Change in net assets	25,417	135,262	-	**160,679**	(17,945)	13,165	-	(4,780)
Net assets, beginning of year	1,914,058	170,519	1,376,796	**3,461,373**	1,972,854	116,503	1,376,796	3,466,153
Reclassifications	-	-	-	-	(40,851)	40,851	-	-
Net assets, end of year	**$ 1,939,475**	**$ 305,781**	**$ 1,376,796**	**$ 3,622,052**	**$ 1,914,058**	**$ 170,519**	**$ 1,376,796**	**$ 3,461,373**

See notes to the financial statements.

Statements of Cash Flows

Year Ended October 31,	2017	2016
Cash flows from operating activities		
Change in net assets	**$ 160,679**	$ (4,780)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	**(312,759)**	21,168
Loss on investment in LLC	**6,848**	11,154
Bad debt	**125,000**	-
Change in discount on pledges receivable	**5,802**	(29,977)
Changes in assets and liabilities:		
Pledges receivable	**350,946**	579,490
Due from related party	**(111,201)**	-
Prepaid expenses and other assets	**(2,331)**	1,154
Due to related party and accrued expenses	**(135,823)**	(190,618)
Total adjustments	**(73,518)**	392,371
Net cash provided by operating activities	**87,161**	387,591
Cash flows from investing activities		
Purchases of investments	**(1,692,822)**	(563,581)
Proceeds from sale of investments	**1,408,370**	540,893
Net cash used in investing activities	**(284,452)**	(22,688)
Net (decrease) increase in cash and cash equivalents	**(197,291)**	364,903
Cash and cash equivalents, beginning of year	**463,141**	98,238
Cash and cash equivalents, end of year	**$ 265,850**	$ 463,141

See notes to the financial statements.

A. Organization and Summary of Significant Accounting Policies

Organization: The Club Foundation (the Foundation) was created in 1988 as the charitable nonprofit organization focused solely on the club industry. The Foundation seeks to fund the life cycle of a club manager's career. The Foundation provides dollars for the following five key areas: 1) students, 2) faculty, 3) club managers, 4) Club Managers Association of America (CMAA) chapters, and 5) industry at large. The 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.

Income tax status: The Foundation is exempt from payment of income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code.

Basis of accounting: The Foundation prepares its financial statements on the accrual basis of accounting. As such, revenue, other than contributions, is recognized when earned and expenses are recognized when the underlying obligations are incurred.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Cash and cash equivalents: Cash and cash equivalents include demand deposits with financial institutions and all highly liquid investments with a maturity of three months or less except those classified as a component of the investment portfolio.

Net assets: Net assets are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. A description of each net asset group is as follows:

> *Unrestricted:* Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation.
>
> *Temporarily Restricted:* Temporarily restricted net assets include those net assets whose use by the Foundation has been donor restricted by specified time or purpose limitations.
>
> *Permanently Restricted:* Represents contributions received from donors who have specified that the corpus of their original and certain subsequent gifts be maintained in perpetuity. The net earnings from the investment of the corpus is temporarily restricted.

Contributions: Contributions are recognized when unconditionally promised to or received by the Foundation. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets. Within temporarily restricted net assets, amounts are reclassified to unrestricted net assets when the restriction expires.

A. Organization and Summary of Significant Accounting Policies - Continued

Functional allocation of expense: The costs of providing various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Measure of operations: The Foundation considers net gain (loss) on investments in marketable securities and loss on investment in LLC to be items not included within the change in net assets from operations.

Subsequent events: Subsequent events have been evaluated through January 19, 2018, which was the date the financial statements were available to be issued.

B. Concentrations of Risk

Credit risk: The Foundation maintains demand deposits with commercial banks and cash funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portion of cash is backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Foundation.

Market value risk: The Foundation invests in various securities. These investments are exposed to various risks, such as fluctuations in market value and credit risk. It is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

C. Pledges Receivable

Unconditional 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 expense applied on an aging of pledges. Pledges are written off when deemed uncollectible.

Pledges receivable consisted of the following at October 31,:

	2017	2016
Amounts due in less than one year	$ 199,666	$ 599,762
Amounts due in one to five years	149,950	225,800
Total pledges receivable	349,616	825,562
Less unamortized discount to present value	(13,742)	(7,940)
Less allowance for uncollectible pledges	(39,000)	(39,000)
Net pledges receivable	**$ 296,874**	**$ 778,622**

Pledges receivable with due dates extending beyond one year are discounted using Treasury bill rates for similar term investments. The applicable rates were 2.4% and 1.6%, for the years ended October 31, 2017 and 2016, respectively.

D. Investments in Marketable Securities

The Foundation has implemented the accounting standards topic regarding fair value measurements which establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements. This standard uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

Investments recorded at fair value which are classified within Level 1 include common stocks and mutual funds, the fair values for which were based on quoted prices for identical assets in active markets.

Investments classified within Level 2 include the Dynamic asset allocation overlay portfolios, which were valued by the portfolio managers. In determining fair value of the investments, the portfolio managers' utilize the value of the underlying securities, which are mutual funds, common stocks, bonds, government securities, and other securities.

Management believes the estimated fair value of investments to be a reasonable approximation of the exit price for the assets.

Investments recorded at cost include cash held within the investment portfolio.

The following is a summary of the input levels used to determine the fair values of investments, which were measured on a recurring basis, at October 31,:

2017	Total	Level 1	Level 2	Level 3
Mutual funds - equity	$ 426,946	$ 426,946	$ -	$ -
Mutual funds - fixed income	957,033	957,033	-	-
Common stocks	627,082	627,082	-	-
Dynamic asset allocation overlay	871,007	-	871,007	-
Investments carried at fair value	2,882,068	**$ 2,011,061**	**$ 871,007**	**$ -**
Cash and cash equivalents*	4,140			
Total investments	**$ 2,886,208**			

D. Investments in Marketable Securities - Continued

2016	Total	Level 1	Level 2	Level 3
Mutual funds - equity	$ 342,639	$ 342,639	$ -	$ -
Mutual funds - fixed income	471,544	471,544	-	-
Common stocks	769,920	769,920	-	-
Dynamic asset allocation overlay	683,998	-	683,998	-
Investments carried at fair value	2,268,101	**$ 1,584,103**	**$ 683,998**	**$ -**
Cash and cash equivalents*	20,896			
Total investments	**$ 2,288,997**			

*Cash and cash equivalents included in the investment portfolio are not subject to the provisions of fair value measurements as they are recorded at cost.

Investment income consisted of the following for the year ended October 31,:

	2017	2016
Interest and dividends	$ 43,647	$ 34,824
Realized gains	105,865	73,628
	149,512	108,452
Unrealized gain (loss)	206,894	(94,796)
Gross investment earnings	356,406	13,656
Investment management fees	(9,408)	(12,136)
Investment income, net	**$ 346,998**	**$ 1,520**

Investments in marketable securities are stated at market value and consisted of the following at October 31,:

	2017	2016
Mutual Funds		
Mutual funds - equities	$ 426,946	$ 342,639
Mutual funds - fixed income	957,033	471,544
Common Stock		
Consumer	216,659	266,678
Financial	146,002	153,448
Technology	143,220	162,525
Capital equipment	46,212	69,004
Utilities	29,850	51,056
Energy	25,223	50,229
Services	11,962	8,813
Industrial commodities	7,954	5,474
Non-financial	-	2,693
Dynamic asset allocation overlay	871,007	683,998
Cash and cash equivalents	4,140	20,896
	$ 2,886,208	**$ 2,288,997**

E. Equity Interest in 1733 CMAA, LLC

CMAA established 1733 CMAA, LLC (the LLC) in January 2008 as a condition of refinancing the mortgage on its current headquarters and transferred the related building to the LLC. The Foundation owns a 30% membership interest in the LLC. The investment is accounted for on the equity method whereby the Foundation recognizes its 30% share of the annual earnings or losses in the LLC as an adjustment to its investment balance.

Condensed financial information follows for the LLC as of October 31,:

	2017	2016
Assets	$ 2,694,659	$ 2,838,253
Liabilities	(2,508,254)	(2,631,304)
Equity	**$ 186,405**	**$ 206,949**
Revenue	$ 506,928	$ 490,932
Expenses	(527,472)	(528,112)
Net loss	**$ (20,544)**	**$ (37,180)**

F. Related Parties

Operating transactions with CMAA: CMAA receives and disburses funds on behalf of the Foundation. CMAA owed the Foundation $111,201 at October 31, 2017, and the Foundation owed CMAA and $135,823 at October 31, 2016.

The Foundation paid a management fee of $120,000 and $60,000 to CMAA during the years ended October 31, 2017 and 2016, respectively. The fee is to reimburse CMAA for staff time dedicated to support of the Club Foundation.

Contributed services: CMAA provides in-kind management services to the Foundation. In accordance with FASB Accounting Standards Update (ASU) No. 2013-06, *Services Received from Personnel of an Affiliate*, the Foundation recorded $59,581 and $67,249 of in-kind management services during the years ended October 31, 2017 and 2016, respectively. The corresponding expense is allocated among the various expense functions in the Statement of Activities. Because the contributed services are recorded as revenue and expense, there is no effect on net asset balances.

Transactions with 1733 CMAA, LLC: As discussed in Note E, the Foundation has a 30% investment in the LLC. The LLC rents office space to the Foundation under a twelve-year lease which expires in January 2020. Rent expense was $45,465 and $44,576 for the years ended October 31, 2017 and 2016, respectively.

G. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at October 31,:

	2017	2016
Scholarship funds	$ 172,720	$ 170,519
Endowment	133,061	-
	$ 305,781	**$ 170,519**

Net assets released from restriction due to program satisfaction and other events are as follows for the years ended October 31,:

	2017	2016
Scholarship funds	$ 11,571	$ 4,552
Endowment	5,428	5,428
	$ 16,999	**$ 9,980**

H. Endowment Funds

At October 31, 2017 and 2016, 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.

H. Endowment Funds - Continued

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.

The changes in endowment funds for the years ended October 31, 2017 and 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at November 1, 2015	$ -	$ 1,376,796	$ 1,376,796
Interest and dividends	13,842	-	13,842
Net loss on investments in marketable securities	(8,414)	-	(8,414)
Net assets released from restrictions	(5,428)	-	(5,428)
Endowment net assets at October 31, 2016	-	1,376,796	1,376,796
Interest and dividends	16,960	-	16,960
Net gain on investments in marketable securities	121,529	-	121,529
Net assets released from restrictions	(5,428)	-	(5,428)
Endowment net assets at October 31, 2017	**$ 133,061**	**$ 1,376,796**	**$ 1,509,857**

I. Commitments

<u>Lease:</u> As discussed in Note F, the Foundation leases office space under an agreement which expires in January 2020. Future minimum lease payments under this agreement are as follows:

Year Ending October 31,	
2018	$ 46,829
2019	48,234
2020	12,237
	$ 107,300