

**Audited Consolidated Financial Statements  
and Other Financial Information**

**COMMUNITY ASSOCIATIONS  
INSTITUTE & SUBSIDIARY**

*June 30, 2009*

# Community Associations Institute & Subsidiary

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T A T E



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## Independent Auditor's Report on the Consolidated Financial Statements

To the Board of Trustees  
Community Associations Institute & Subsidiary

We have audited the accompanying consolidated statements of financial position of Community Associations Institute & Subsidiary (CAI) as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of CAI's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Associations Institute & Subsidiary as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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September 22, 2009

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# Community Associations Institute & Subsidiary

## Consolidated Statements of Financial Position

<b>June 30,</b>	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Cash and cash equivalents - Note B	\$ 284,010	\$ 491,447
Investments - Notes B & C	1,708,348	1,897,620
Accounts receivable - Notes D & E	159,062	158,678
Inventory	159,143	163,294
Prepaid expenses and other assets	224,447	182,497
Property and equipment - Note F	679,866	513,526
<b>Total assets</b>	<b>\$ 3,214,876</b>	<b>\$ 3,407,062</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses - Notes E & G	\$ 796,899	\$ 869,260
Deferred revenue - Note H	2,743,659	2,569,413
Security deposits - Note J	8,235	10,989
Total liabilities	3,548,793	3,449,662
Commitments - Note J	-	-
Unrestricted net assets		
Designated - Note K	278,055	352,989
Undesignated - Note L	(611,972)	(395,589)
Total net assets	(333,917)	(42,600)
<b>Total liabilities and net assets</b>	<b>\$ 3,214,876</b>	<b>\$ 3,407,062</b>

See notes to the consolidated financial statements.

# Community Associations Institute & Subsidiary

## Consolidated Statements of Activities

<b>Year Ended June 30,</b>	<b>2009</b>	<b>2008</b>
<b>Revenue</b>		
Membership	\$ 4,746,889	\$ 4,380,983
Education	2,355,376	2,605,899
Conferences and seminars	987,128	1,123,557
Advertising	440,522	399,354
Administrative fees - Note E	430,000	380,000
Publication sales	226,986	223,607
Strategic alliances	184,226	53,479
Rental income - Note J	168,888	168,228
Interest and dividends - Note C	60,202	147,002
Other	41,070	35,990
President's club - Note K	31,645	40,776
Royalties	18,708	135,609
Total revenue	<b>9,691,640</b>	9,694,484
<b>Expense</b>		
Program services		
Education	2,835,490	3,147,051
Chapter development and services	1,910,467	1,774,585
Communications	952,231	940,819
Membership	942,725	874,677
Government and public affairs	543,482	503,661
Marketing	456,072	442,709
President's club - Note K	5,846	25,757
Total program services	<b>7,646,313</b>	7,709,259
General and administrative	2,065,689	1,906,232
Total expense	<b>9,712,002</b>	9,615,491
Change in net assets before net loss on investments	<b>(20,362)</b>	78,993
Net loss on investments - Note C	<b>(270,955)</b>	(228,643)
<b>Change in net assets</b>	<b>(291,317)</b>	(149,650)
Net assets, beginning of year	<b>(42,600)</b>	107,050
<b>Net assets, end of year</b>	<b>\$ (333,917)</b>	<b>\$ (42,600)</b>

See notes to the consolidated financial statements.

# Community Associations Institute & Subsidiary

## Consolidated Statements of Cash Flows

<i>Year Ended June 30,</i>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (291,317)	\$ (149,650)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net loss on investments	270,955	228,643
Depreciation	225,863	194,518
Loss on disposal of property and equipment	1,555	-
Changes in assets and liabilities:		
Accounts receivable	(384)	1,960
Inventory	4,151	(18,105)
Prepaid expenses and other assets	(41,950)	(114,434)
Accounts payable and accrued expenses	(72,361)	(213,417)
Deferred revenue	174,246	126,594
Security deposits	(2,754)	(5,283)
Total adjustments	<b>559,321</b>	200,476
Net cash provided by operating activities	<b>268,004</b>	50,826
<b>Cash flows from investing activities</b>		
(Purchases) proceeds from sale of investments, net	(81,683)	96,087
Proceeds from sale of property and equipment	1,900	-
Purchases of property and equipment	(395,658)	(80,323)
Net cash (used in) provided by investing activities	<b>(475,441)</b>	15,764
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(207,437)</b>	66,590
Cash and cash equivalents, beginning of year	<b>491,447</b>	424,857
<b>Cash and cash equivalents, end of year</b>	<b>\$ 284,010</b>	<b>\$ 491,447</b>

See notes to the consolidated financial statements.

# Community Associations Institute & Subsidiary

## Notes to the Consolidated Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Community Associations Institute (the Institute) was formed in January 1973 as a national, nonprofit organization dedicated to fostering vibrant, responsive, competent community associations and helping them promote harmony, community and responsible leadership.

*CAI Services, Inc. (the Subsidiary)* was formed as wholly-owned subsidiary of the Institute in 2001 for the purpose of providing the Institute's members with business services.

Principles of consolidation: The consolidated financial statements include the accounts of the Institute and the Subsidiary (together referred to as CAI). Significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of accounting: CAI prepares its consolidated financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expense when the obligation is incurred.

Use of estimates: Preparation of consolidated financial statements in accordance 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. Actual results could differ from estimates.

Income tax status: The Institute is exempt from the payment of income taxes on its exempt activities under Section 501(c)(6) of the Internal Revenue Code. However, the Institute may be subject to tax on its unrelated business income such as advertising.

Financial Accounting Standards Board (FASB) Staff Position FIN 48-3 (FSP FIN 48-3), *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, grants nonpublic organizations the option to defer the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. As permitted by FSP FIN 48-3, CAI has elected to delay the implementation of FIN 48 until the year ending June 30, 2010.

Cash and cash equivalents: For financial statement purposes, CAI considers demand deposits and money market mutual funds not held in the investment portfolio to be cash and cash equivalents. Money market mutual funds and certificates of deposit held in the investment portfolio are included in investments.

Inventory: Inventory consists of publications and is stated at the lower of cost (first-in, first-out method) or market. No allowance for obsolete or slow moving items has been established.

Unrestricted net assets: 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. Unrestricted net assets consist of the following funds:

Designated: These funds have been designated by resolution of the Board of Trustees for certain programs (see Note K).

Undesignated: These funds are used to support the general operations of CAI (see Note L).

# Community Associations Institute & Subsidiary

## Notes to the Consolidated Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Subsequent events: Subsequent events have been evaluated through September 22, 2009.

### B. CONCENTRATIONS

Credit risk: CAI maintains demand deposits with commercial banks, money market funds, and certificates of deposit 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 and money market accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss.

Market value risk: CAI also invests funds in a professionally managed portfolio that contains various types of marketable securities. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Therefore, CAI's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying consolidated financial statements may not be reflective of the portfolio's value during subsequent periods.

### C. INVESTMENTS

CAI has implemented Statement of Financial Accounting Standards No. 157 (FAS 157), *Fair Value Measurements*. FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 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.

# Community Associations Institute & Subsidiary

## Notes to the Consolidated Financial Statements

### C. INVESTMENTS - CONTINUED

The following is a summary of input levels used to determine fair values, measured on a recurring basis, of the following assets at June 30,:

2009	Total	Level 1	Level 2	Level 3
Money market funds	\$ 108,178	\$ 108,178	\$ -	\$ -
Certificates of deposit	358,364		358,364	
Mutual funds - fixed	493,687	493,687		
Corporate bonds	103,207		103,207	
Mutual funds - equities	618,624	618,624		
Mortgage and asset backed securities	26,288		26,288	
	<b>\$ 1,708,348</b>	<b>\$ 1,220,489</b>	<b>\$ 487,859</b>	<b>\$ -</b>

2008	Total	Level 1	Level 2	Level 3
Money market funds	\$ 175,737	\$ 175,737	\$ -	\$ -
Certificates of deposit	355,506		355,506	
Mutual funds - fixed	522,783	522,783		
Mutual funds - equities	812,950	812,950		
Mortgage and asset backed securities	30,644		30,644	
	<b>\$ 1,897,620</b>	<b>\$ 1,511,470</b>	<b>\$ 386,150</b>	<b>\$ -</b>

Investment loss consists of the following for the years ended June 30,:

	2009	2008
Interest and dividends	\$ 60,202	\$ 147,002
Net loss on investments	<u>(270,955)</u>	<u>(228,643)</u>
	<u>\$ (210,753)</u>	<u>\$ (81,641)</u>

# Community Associations Institute & Subsidiary

## Notes to the Consolidated Financial Statements

### D. ACCOUNTS RECEIVABLE

Accounts receivable are presented at the gross, or face, amount due to CAI. Management periodically reviews the status of all accounts receivable balances for collectibility. Each receivable balance is assessed based on management's knowledge of the customer, CAI's relationship with the customer, and the age of the receivable balance. As a result of these reviews, accounts receivable balances deemed to be uncollectible are charged directly to bad debt expense.

Although an allowance for bad debt has been established, management believes that the use of the direct write-off method approximates the results that would be presented if the allowance for bad debt was revalued on a periodic basis.

Accounts receivable consist of the following at June 30,:

	2009	2008
Trade accounts receivable	\$ 154,431	\$ 141,504
Due from NBC-CAM (see Note E)	9,019	15,242
Due from the Foundation (see Note E)	612	6,932
	<u>164,062</u>	<u>163,678</u>
Less allowance for doubtful accounts	<u>(5,000)</u>	<u>(5,000)</u>
	<u><b>\$ 159,062</b></u>	<u><b>\$ 158,678</b></u>

### E. RELATED PARTY TRANSACTIONS

*National Board of Certification for Community Association Managers (NBC-CAM)* was formed in 1995 to conduct a certification program for community association managers. NBC-CAM is exempt from the payment of income taxes on its exempt activities under Section 501(c)(6) of the Internal Revenue Code. CAI does not control the NBC-CAM because it does not have the ability to appoint a majority voting interest of NBC-CAM's Board of Directors. Therefore, NBC-CAM is not required to be consolidated with CAI under current accounting standards.

Administrative fees: CAI charges NBC-CAM an administrative fee for use of office facilities and property and equipment owned by CAI. NBC-CAM paid administrative fees of \$320,000 and \$275,000 during the years ended June 30, 2009 and 2008, respectively. Amounts due from NBC-CAM was \$9,019 and \$15,242 at June 30, 2009 and 2008, respectively.

Receipts: Amounts payable to NBC-CAM relate to receipts that CAI has collected on behalf of NBC-CAM and amounted to \$705 and \$1,041 at June 30, 2009 and 2008, respectively.

# Community Associations Institute & Subsidiary

## Notes to the Consolidated Financial Statements

### E. RELATED PARTY TRANSACTIONS - CONTINUED

*Foundation for Community Association Research (the Foundation)* was incorporated in 1975 under the laws of the District of Columbia as a not-for-profit corporation. The Foundation serves as the driving force for common interest community research, development and scholarship by illuminating future trends and opportunities, supporting and conducting research and mobilizing resources. Through these activities, the Foundation is the catalyst for positive change in the community association industry. The Foundation is exempt from the payment of income taxes on its exempt activities under 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)(2) of the Internal Revenue Code. CAI does not control the Foundation because it does not have the ability to appoint a majority voting interest of the Foundation's Board of Directors. Therefore, the Foundation is not required to be consolidated with CAI under current accounting standards.

Administrative fees: Under the terms of an agreement between the organizations, CAI charges the Foundation an administrative fee for use of office facilities and property and equipment owned by CAI. The Foundation paid administrative fees of \$110,000 and \$105,000 for the years ended June 30, 2009 and 2008, respectively. Amounts due from the Foundation were \$612 and \$6,932 at June 30, 2009 and 2008, respectively.

Contributions: Amounts payable to the Foundation relate to contributions that CAI has collected on behalf of the Foundation through membership renewals and amounted to \$14,791 and \$12,852 at June 30, 2009 and 2008, respectively. During the year ended June 30, 2008, CAI contributed \$20,000 to the Foundation out of its President's Club.

### F. PROPERTY AND EQUIPMENT

Property and equipment is stated at cost and acquisitions greater than \$1,000 are capitalized and depreciated using the straight-line method over the following useful lives: furniture and equipment – 5 to 10 years; computer software – 5 years; leasehold improvements – over the lesser of the remaining life of the office lease or the estimated useful life of the improvements.

Property and equipment consists of the following at June 30,:

	<b>2009</b>	<b>2008</b>
Furniture and equipment	\$ 359,401	\$ 535,922
Computer software	969,451	665,988
Leasehold improvements	181,830	181,830
	<u>1,510,682</u>	<u>1,383,740</u>
Less accumulated depreciation	(830,816)	(870,214)
	<u><b>\$ 679,866</b></u>	<u><b>\$ 513,526</b></u>

# Community Associations Institute & Subsidiary

## Notes to the Consolidated Financial Statements

### G. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30,:

	<b>2009</b>	<b>2008</b>
Trade accounts payable	\$ 442,600	\$ 500,414
Accrued expenses	146,980	165,229
Due to Chapters	159,360	158,059
Due to Legislative Action Committees	32,463	31,665
Due to the Foundation (see Note E)	14,791	12,852
Due to NBC-CAM (see Note E)	705	1,041
	<u>796,899</u>	<u>869,260</u>
	<b>\$ 796,899</b>	<b>\$ 869,260</b>

### H. DEFERRED REVENUE

Deferred revenue consists of the following at June 30,:

	<b>2009</b>	<b>2008</b>
Member dues	\$ 2,305,504	\$ 2,236,769
Education	384,850	274,205
Advertising	43,105	45,447
Other	10,200	12,992
	<u>2,743,659</u>	<u>2,569,413</u>
	<b>\$ 2,743,659</b>	<b>\$ 2,569,413</b>

### I. RETIREMENT PLAN

CAI maintains a 401(k) defined contribution retirement plan, which covers all eligible employees who meet age and length of service requirements. Under the plan, CAI contributes an amount based on a percentage of each participant's contribution. CAI's contribution to the plan for the years ended June 30, 2009 and 2008 was \$98,217 and \$75,712, respectively.

# Community Associations Institute & Subsidiary

## Notes to the Consolidated Financial Statements

### J. COMMITMENTS

Office lease: CAI has entered into a non-cancelable operating lease for office space in Alexandria, VA which expires February 2011. Rent expense amounted to \$777,652 and \$762,155 for the years ended June 30, 2009 and 2008, respectively. CAI has an irrevocable letter of credit with a bank in the amount of \$139,062 which serves as a security deposit for the office lease.

Office subleases: CAI leases office space to two unrelated tenants. The subleases both expire in 2011, co-terminus with CAI's office lease. Rent income amounted to \$168,888 and \$168,228 for the years ended June 30, 2009 and 2008, respectively. CAI has received security deposits from the tenants which amount to \$8,235 and \$10,989 at June 30, 2009 and 2008, respectively.

Future minimum lease payments subject to certain annual increases as stipulated in the lease, net of sublease receipts, are as follows:

Year Ending June 30,	Lease	Subleases	Net Payments
2010	\$ 733,000	\$ (173,400)	\$ 559,600
2011	498,400	(140,000)	358,400
	<u>\$ 1,231,400</u>	<u>\$ (313,400)</u>	<u>\$ 918,000</u>

Employment agreement: CAI has an employment agreement with its Chief Executive Officer. Under the terms of the agreement, should CAI terminate his employment without cause, CAI would be obligated to pay severance in accordance with the terms outlined in the agreement.

### K. DESIGNATED NET ASSETS

President's Club - The President's Club was created in 1984 as a special fundraising group of dedicated volunteer leaders within CAI. The mission of the President's Club is to provide initial funding for CAI's related projects and to promote or advance enterprises and ideas which enhance or expand the objectives of CAI.

During the year ended June 30, 2009, the President's Club provided a \$100,000 grant to fund certain operating activities of CAI. The 2009 grant has been treated as a transfer from designated to undesignated net assets within CAI. During the year ended June 30, 2008, the President's Club provided a \$20,000 grant to the Foundation (see Note E).

Issues Advancement Fund - The Issues Advancement Fund is a discretionary fund whereby chapters or legislative action committees can petition for monetary support to assist in their legislative or regulatory efforts.

# Community Associations Institute & Subsidiary

## Notes to the Consolidated Financial Statements

### K. DESIGNATED NET ASSETS - CONTINUED

Designated net assets consists of the following at June 30,:

	2009	2008
President's Club	\$ 221,259	\$ 295,460
Issues Advancement Fund	<u>56,796</u>	<u>57,529</u>
	<u>\$ 278,055</u>	<u>\$ 352,989</u>

### L. ACCUMULATED DEFICIT

As indicated in the accompanying statement of financial position, CAI has reported recurring losses which have generated a deficit in undesignated net assets of \$611,972 and \$395,589 as of June 30, 2009 and 2008, respectively. Continued deficits threaten to undermine CAI's ability to continue its current level of operations in the future. The consolidated financial statements do not include any adjustments that might be necessary in the event that CAI is unable to continue its current operations.

Management's plan to alleviate the deficit includes supporting and advancing manager licensing legislation in more states; expanding and creating new international partnerships; developing a new virtual membership category; and reducing personnel and overhead costs. In accordance with the approved three year financial plan, the Board of Directors has approved a budget for the year ending June 30, 2010, which projects net income of approximately \$42,000. However, there can be no assurance of the success of these efforts.

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## Independent Auditor's Report on the Other Financial Information

To the Board of Trustees  
Community Associations Institute & Subsidiary

Our report on our audits of the basic consolidated financial statements of Community Associations Institute & Subsidiary (CAI) as of and for the years ended June 30, 2009 and 2008 appears on page one. The audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The other financial information presented on page the following pages is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Washington, DC  
September 22, 2009

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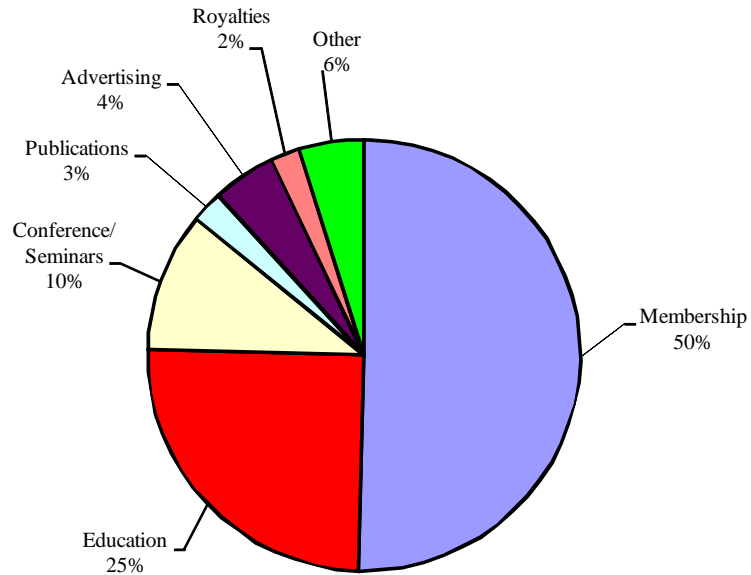
# Community Associations Institute & Subsidiary

## Revenue and Expense Composition Analyses

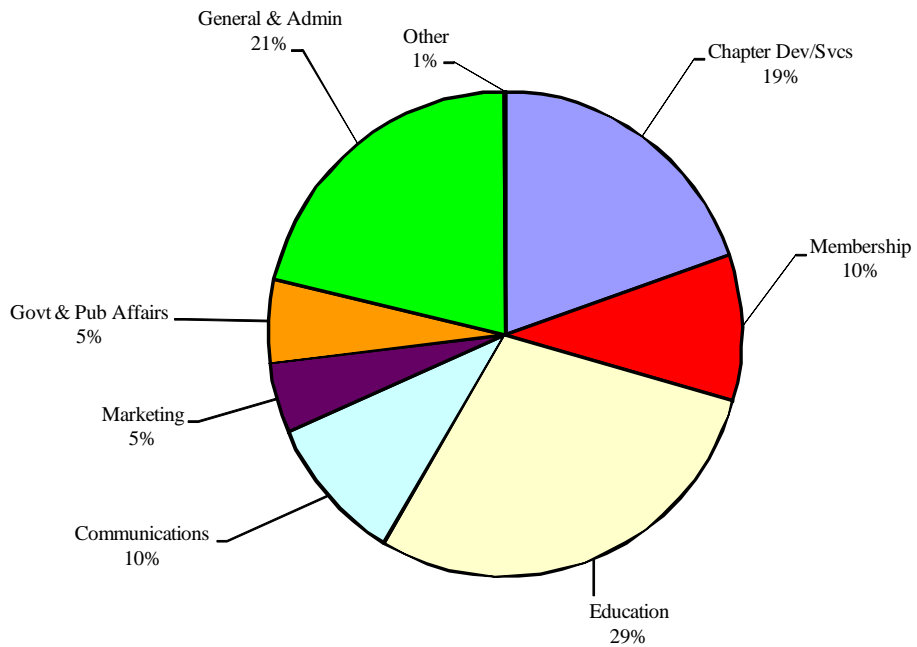
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### Revenue Composition Analysis



### Expense Composition Analysis

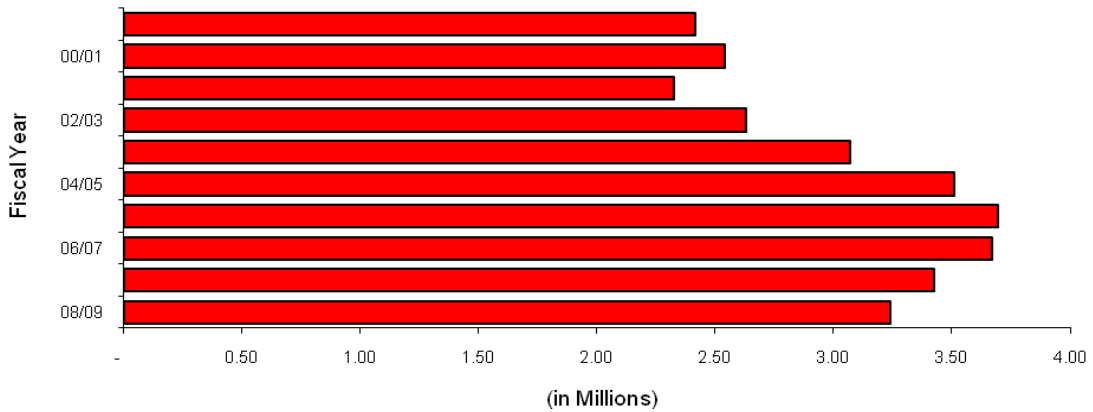


# Community Associations Institute & Subsidiary

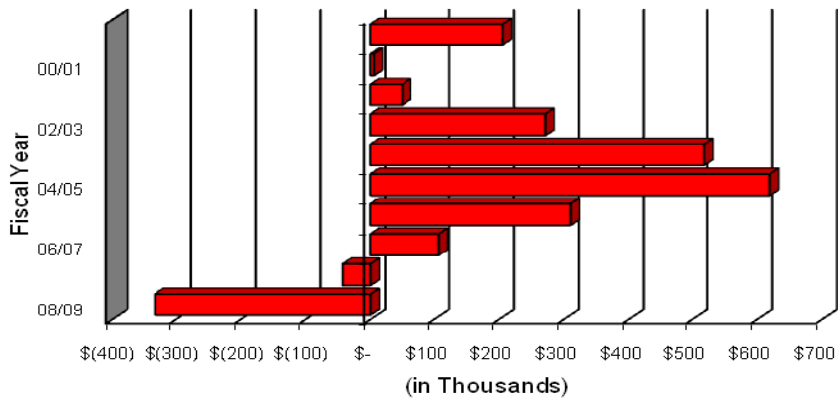
## Trend Analyses

Years Ended June 30, 2000 through 2009

### Total Asset Trend Analysis



### Total Net Asset Trend Analysis



### Revenue, Expense, and Net Income Analysis

