

# **NOVA of Virginia Aquatics, Inc.**

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## **Financial Statements**

**Years Ended August 31, 2015 (Reviewed) and 2014 (Audited)**

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## **Independent Accountants' Review Report**

Board of Directors  
NOVA of Virginia Aquatics, Inc.  
Henrico, Virginia

We have reviewed the accompanying financial statements of NOVA of Virginia Aquatics, Inc. (a nonprofit organization) which comprise the statement of financial position as of August 31, 2015, and the related statements of activities and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The financial statements for the year ended August 31, 2014, were audited by us, and we expressed an unmodified opinion on them in our report dated June 24, 2015. We have not performed any auditing procedures since that date.

*Dixon Hughes Goodman LLP*

**Richmond, Virginia**  
**February 17, 2016**

**NOVA of Virginia Aquatics, Inc.**  
**Statements of Financial Position**  
**August 31, 2015 and 2014**

	<u>(Reviewed)</u>	<u>(Audited)</u>
	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,353,246	\$ 1,046,374
Accounts receivable, net	194,363	163,701
Current portion of contributions receivable - net	546,638	-
Inventories	245,463	257,867
Prepaid expenses	5,680	3,122
	<u>2,345,390</u>	<u>1,471,064</u>
Total current assets		
Noncurrent assets:		
Property and equipment, net	3,967,380	3,803,287
Contributions receivable - net, less current portion	848,383	-
Other assets	5,250	-
	<u>\$ 7,166,403</u>	<u>\$ 5,274,351</u>
Total noncurrent assets		
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 347,094	\$ 125,266
Accrued expenses	90,545	60,228
Deferred revenue	34,930	34,759
Interest rate swap contract liability	28,890	48,215
Current portion of long-term debt	164,962	157,872
	<u>666,421</u>	<u>426,340</u>
Total current liabilities		
Long-term debt, less current portion	<u>2,160,026</u>	<u>2,324,988</u>
	<u>2,826,447</u>	<u>2,751,328</u>
Total liabilities		
Net assets:		
Unrestricted	2,908,948	2,523,023
Temporarily restricted	1,431,008	-
	<u>4,339,956</u>	<u>2,523,023</u>
Total net assets		
	<u>\$ 7,166,403</u>	<u>\$ 5,274,351</u>
Total liabilities and net assets		

**NOVA of Virginia Aquatics, Inc.**  
**Statements of Activities**  
**Years Ended August 31, 2015 and 2014**

	(Reviewed) 2015	(Audited) 2014
Revenue and unrestricted support:		
Competitive fees	\$ 1,615,464	\$ 1,540,405
Swim lessons	433,203	393,599
Swim shop sale, net of related expenses of \$435,819 and \$406,901, respectively	178,785	191,701
Fundraising events, net of related expenses of \$203,818 and \$109,029, respectively	108,518	152,030
Meets, net of related expenses of \$253,974 and \$225,117, respectively	72,258	88,076
Clinics	43,209	35,110
Unrealized gain on swap contract	19,325	7,748
Pool rentals	10,505	7,475
Contributions	9,331	9,009
NOVAfit	8,630	7,370
Cell tower rent	7,590	7,920
Miscellaneous	7,394	10,548
Interest income	-	1,866
Release from restrictions	175,845	-
	<u>2,690,057</u>	<u>2,452,857</u>
Total revenue and unrestricted support		
Expenses:		
Salaries and wages	1,069,849	1,055,270
Depreciation	206,359	206,404
Occupancy and utilities	127,687	129,834
Interest	110,334	128,392
Equipment rental and maintenance	98,372	122,935
Professional fees	90,423	53,738
Bad debt expense	83,877	3,952
Land lease	81,188	75,996
Payroll taxes	80,852	80,532
Bank charges and credit card fees	65,435	59,230
Employee benefits and travel	63,409	54,176
Office expenses	62,645	49,184
Taxes and licenses	52,057	57,876
Retirement	32,113	9,746
Insurance	26,065	34,469
Travel	25,416	32,438
Awards	13,215	10,578
Marketing	6,980	11,773
Miscellaneous	5,616	5,684
Continuing education	2,240	1,544
Loss on disposal of property and equipment	-	13,538
Board compensation	-	300
	<u>2,304,132</u>	<u>2,197,589</u>
Total expenses		
Change in unrestricted net assets	<u>385,925</u>	<u>255,268</u>
Change in temporarily restricted net assets:		
Contributions, net	1,606,853	-
Release from restrictions	(175,845)	-
	<u>1,431,008</u>	<u>-</u>
Change in net assets	1,816,933	255,268
Net assets, beginning of year	<u>2,523,023</u>	<u>2,267,755</u>
Net assets, end of year	<u>\$ 4,339,956</u>	<u>\$ 2,523,023</u>

See accompanying notes and independent accountants' review report.

**NOVA of Virginia Aquatics, Inc.**  
**Statements of Cash Flows**  
**Years Ended August 31, 2015 and 2014**

	<u>(Reviewed)</u>	<u>(Audited)</u>
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,816,933	\$ 255,268
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	206,359	206,404
Unrealized gain on swap contract	(19,325)	(7,748)
Loss on disposal of property and equipment	-	13,538
Bad debt expense	83,877	3,952
Change in fair value of contributions receivable	82,895	-
Change in assets and liabilities:		
Accounts receivable	(36,754)	(99,987)
Contributions receivable	(1,555,701)	-
Inventories	12,404	(14,786)
Prepaid expenses	(2,558)	(3,122)
Other assets	(5,250)	-
Accounts payable and accrued expenses	252,145	125,727
Deferred revenue	171	4,296
	<u>835,196</u>	<u>483,542</u>
Net cash provided by operating activities	835,196	483,542
Cash flows from investing activities:		
Purchase of property and equipment	(370,452)	(40,949)
Cash flows from financing activities:		
Principal payments on long-term debt	<u>(157,872)</u>	<u>(151,084)</u>
Net increase in cash and cash equivalents	306,872	291,509
Cash and cash equivalents, beginning of year	<u>1,046,374</u>	<u>754,865</u>
Cash and cash equivalents, end of year	<u>\$ 1,353,246</u>	<u>\$ 1,046,374</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 111,854</u>	<u>\$ 118,350</u>
Cash paid for unrelated business income taxes	<u>\$ 11,571</u>	<u>\$ 2,961</u>

## Notes to Financial Statements

### 1. Organization and Nature of Activities

NOVA of Virginia Aquatics, Inc. (NOVA) is a not-for-profit corporation in Richmond, Virginia whose purpose is to provide structured aquatic training for young people in order to develop their swimming skills to their fullest potential and to provide health and fitness opportunities for adults and senior citizens to allow them to lead healthy and productive lives.

### 2. Summary of Significant Accounting Policies

#### *Basis of presentation*

The financial statements of NOVA have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

#### *Class of net assets*

NOVA is required to report information regarding its financial position and activities according to three classes of net assets as follows:

**Unrestricted** amounts are those currently available at the discretion of NOVA for use in NOVA's operations and those resources invested in property or equipment.

**Temporarily restricted** amounts are those which are stipulated by donors for specific operating purposes. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Permanently restricted** amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation. NOVA has no permanently restricted net assets.

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restrictions.

#### *Cash equivalents*

Cash equivalents consist of highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

#### *Accounts receivable*

Accounts receivable are the amounts due from families for registration, swimming membership, and state and federal dues charged for the swim season which corresponds to NOVA's fiscal year. Accounts receivable are reported net of the estimated uncollectible accounts. Accounts are reviewed periodically and those deemed uncollectible are written off against the allowance account. Management has established an allowance of \$15,000 and \$9,700 at August 31, 2015 and 2014, respectively, based on experience and receivables collection history.

**NOVA of Virginia Aquatics, Inc.**  
**Notes to Financial Statements**

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**Contributions**

Unconditional contributions are recognized as revenues when donors' commitments are received. Unconditional contributions are recognized at fair value and are classified in the appropriate net asset class based on donor stipulations. Conditional contributions are recognized as revenues when the conditions are substantially met.

Contributions of assets other than cash are liquidated upon receipt and contribution revenues are recorded based on the net proceeds from liquidation.

**Inventories**

Inventories of swim apparel and supplies are valued at the lower of cost or market. Cost is determined on a first-in, first-out method and market is based on the net realizable value.

**Property and equipment**

Acquisitions of property and equipment are recorded at cost. Improvements and replacements of property and equipment over \$2,000 are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in current year operations. Depreciation is based on the estimated useful lives as follows and is computed using the straight-line method.

Building and improvements	39 years
Site improvements	15 years
Equipment, furniture and fixtures	5 - 7 years

**Derivatives and hedging activities**

NOVA utilizes an interest rate swap contract to reduce interest rate risk which is accounted for in accordance with accounting standards. The fair value of the contract is recorded on the statement of financial position and changes in the fair value of the contract are recorded in the statement of activities. NOVA does not hold or issue derivative financial instruments for trading purposes.

**Revenue recognition**

Competitive fee revenue represents the estimated net realizable amounts from families for registration and state and federal dues charged for the swim season which corresponds to NOVA's fiscal year. Registration and fees collected for the following swim season are deferred and reflected as deferred revenue. When the following season begins, these items are transferred to the appropriate revenue accounts.

Income for current activities, meets, lessons, rentals and clinics is recognized in the fiscal year when the activity is completed. Revenues collected in a period prior to when such revenues relate are reported as deferred revenues.

Numerous volunteers have donated significant amounts of time to NOVA for its program services. Those donated services have not been reflected in the accompanying financial statements because they did not meet the criteria for recognition.

**Concentration of credit Risk**

Financial instruments which subject NOVA to concentration of credit risk, consist principally of cash held in checking and money market accounts. At times, NOVA may have cash and cash equivalents at financial institutions in excess of FDIC insured limits. At August 31, 2015 and 2014, cash deposits exceeded FDIC limits by \$998,496 and \$810,205, respectively. NOVA maintains its cash accounts with high credit quality financial institutions.



***Advertising costs***

Advertising costs are expensed as incurred and are reported as marketing expense on the statements of activities.

***Presentation of sales tax***

NOVA's swim shop sales are subject to sales tax imposed by various jurisdictions. NOVA collects that sales tax from customers and remits it to the applicable jurisdiction. NOVA's accounting policy is to exclude the tax collected and remitted from revenues and cost of sales.

***Income taxes***

NOVA is exempt from income taxes under Sections 501(c)(3) of the Internal Revenue Code and under the tax statutes of the Commonwealth of Virginia; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

There are certain activities conducted by NOVA that are considered unrelated business activities which are not exempt from federal and state income tax. NOVA files timely federal and state returns for these activities and makes the necessary tax payments, if applicable.

***Compensated absences***

Employees of NOVA are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. NOVA's policy is to recognize the costs of compensated absences when actually paid to employees.

***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 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.

***Reclassifications***

Certain prior year amounts were reclassified to conform to current year presentation. Net assets was unaffected by these reclassification.

***Subsequent events***

In preparing these financial statements, NOVA has evaluated events and transactions for potential recognition or disclosure through February 17, 2016, the date the financial statements were available to be issued.

**3. Contributions Receivable**

In order to simplify their accounting process for contributions receivable, NOVA has elected to record all pledges receivable at fair value. The process utilizes the income approach with discounted cash flows, providing a single discounted value for all pledges. The fair value adjustment for 2015 was \$(82,895) and is included in contributions in the statements of activities. The discount rate for 2015 was 3.2%. No changes in the fair value measurement were attributable to instrument specific credit risk. There were no contributions receivable at August 31, 2014.

**NOVA of Virginia Aquatics, Inc.**  
**Notes to Financial Statements**

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Contributions receivable are summarized as follows as of August 31, 2015:

Unconditional promises expected to be collected in:	
Less than one year	\$ 575,409
One year to five years	980,292
	<hr/>
	1,555,701
Less:	
Allowance for uncollectible accounts	(77,785)
Discount	(82,895)
	<hr/>
	\$ 1,395,021

#### 4. Fair Value Measurements

Accounting standards establish 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 unadjusted quoted prices for identical assets or liabilities in active markets that NOVA has the ability to access.

**Level 2** Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

*Interest rate swap agreements* – Value determined based on an estimation of the net present value of the fixed and floating components of the interest rate swap. NOVA does not believe the fair value of these arrangements differ significantly from the amounts that could be realized upon settlement or maturity.

*Contributions receivable* – Contributions receivables are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Contributions receivable that are expected to be collected in more than one year are reported at fair value initially and in subsequent periods. Fair value is calculated as the present value of the expected future contributions to be received using a risk adjusted discount rate and expected cash flows.

**NOVA of Virginia Aquatics, Inc.**  
**Notes to Financial Statements**

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although NOVA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables sets forth by level, within the fair value hierarchy, NOVA's assets and (liabilities) at fair value as of August 31, 2015 and 2014:

	Fair Value at August 31, 2015			Total
	Level 1	Level 2	Level 3	
Interest rate swap agreement	\$ -	\$ (28,890)	\$ -	\$ -
Contributions receivable	-	-	1,395,021	1,395,021
	<u>\$ -</u>	<u>\$ (28,890)</u>	<u>\$ 1,395,021</u>	<u>\$ 1,421,716</u>

  

	Fair Value at August 31, 2014			Total
	Level 1	Level 2	Level 3	
Interest rate swap agreement	\$ -	\$ (48,215)	\$ -	\$ -

The table below sets forth a summary of changes in the fair value of NOVA's level 3 assets:

	Contributions Receivable
<b>Balance, August 31, 2014</b>	\$ -
Pledges received	1,689,748
Pledge payments received	(134,047)
Bad debt losses	(77,785)
Discount	(82,895)
<b>Balance, August 31, 2015</b>	<u>\$ 1,395,021</u>

**5. Property and Equipment**

Major classes of property and equipment consist of the following at August 31:

	2015	2014
Facility building	\$ 4,672,454	\$ 4,672,454
Site improvements	952,341	952,341
Facility equipment	515,573	239,780
Computer equipment	34,371	34,371
Furniture and fixtures	18,406	18,406
Construction in process	98,060	3,400
	<u>6,291,205</u>	<u>5,920,752</u>
Accumulated depreciation	<u>(2,323,825)</u>	<u>(2,117,465)</u>
	<u>\$ 3,967,380</u>	<u>\$ 3,803,287</u>

## 6. Long-Term Debt

NOVA has a promissory note with a bank dated September 30, 2011 for a principal amount of \$2,894,694. The term of the note is 5 years with all unpaid principal due on October 1, 2016. Payments of principal and interest are due on the first of each month. Interest is charged at one-month LIBOR plus 3% (3.2% and 3.18% at August 31, 2015 and 2014, respectively). The loan is collateralized by the building, building improvements, site improvements, and personal property.

Maturities under the promissory note for future years ending August 31 are as follows:

2016	\$ 164,962
2017	<u>2,160,026</u>
	<u>\$ 2,324,988</u>

## 7. Interest Rate Swap Agreement

NOVA entered into an interest rate swap agreement to reduce the potential impact of increases in the variable interest rate of the promissory note. This agreement requires fixed rate payments of 4.55% on an initial notional amount of \$2,894,694. The agreement expires on October 1, 2016, covering the life of the note. The agreement is recorded at fair value, which was a liability of \$28,890 and \$48,215 at August 31, 2015 and 2014, respectively. The swap is revalued each year and the change in value is reported in the statements of activities as unrealized gain (loss) on swap contract.

## 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2015 are available for the following purposes:

Program restriction – building and pool capital campaign	\$ 35,987
Time restriction on contributions receivable	<u>1,395,021</u>
	<u>\$ 1,431,008</u>

There were no temporarily restricted net assets at August 31, 2014.

## 9. Employee Benefit Plan

NOVA maintains a SIMPLE retirement plan which covers all full-time employees. Total retirement plan expense for 2015 and 2014 was \$32,113 and \$9,746, respectively.

**10. Commitments**

NOVA leases 2.2 acres of land located in Henrico County, Virginia under an operating lease agreement that expires in 2020 with available renewal options for an additional twenty-five years. The monthly lease payments are \$2,058 for base years 1 through 5; \$2,445 for base years 6 through 10; \$2,905 for base years 11 through 15; \$3,451 for base years 16 through 20; and \$4,100 for base years 21 through 25.

NOVA also leases an adjoining 4.323 acres of land under an operating lease that expires in 2030 with available renewal options for an additional twenty-five years. The monthly lease payment is \$2,882 for the entire initial term.

Both leases require that NOVA pay the associated real estate taxes. Rent expense under these leases for 2015 and 2014 was \$81,188 and \$75,996, respectively.

Future minimum rental payments for subsequent years ending August 31 are as follows:

2016	\$	81,188
2017		83,784
2018		83,784
2019		83,784
2020		83,784
Thereafter		<u>362,240</u>
	\$	<u>778,564</u>

During 2015, NOVA entered into contracts for a new 50-meter pool and facility expansion and HVAC replacement. The estimated cost of the pool and facility expansion is approximately \$7,800,000; a substantial completion date is to be determined as the project progresses. The estimated cost of the HVAC replacement is approximately \$290,000 with substantial completion in October 2015.

**11. Functional Classification of Expenses**

Functional classification of expenses is as follows for the years ended August 31:

	<u>2015</u>	<u>2014</u>
Program services	\$ 1,955,568	\$ 1,985,854
Management and general	304,363	198,948
Fundraising	<u>44,201</u>	<u>12,787</u>
	<u>\$ 2,304,132</u>	<u>\$ 2,197,589</u>