

NOVA of Virginia Aquatics, Inc.

Financial Statements

Years Ended August 31, 2016 and 2015

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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 statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and cash flows for the years 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'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.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

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

Dixon Hughes Goodman LLP

Richmond, Virginia
February 15, 2017

NOVA of Virginia Aquatics, Inc.
Statements of Financial Position
August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,704,425	\$ 1,353,246
Accounts receivable, net	208,654	194,363
Current portion of contributions receivable, net	302,381	546,638
Inventories	299,105	245,463
Prepaid expenses	<u>5,570</u>	<u>5,680</u>
Total current assets	2,520,135	2,345,390
Noncurrent assets:		
Property and equipment, net	4,009,647	3,967,380
Contributions receivable, net, less current portion	815,433	848,383
Other assets	<u>5,250</u>	<u>5,250</u>
Total noncurrent assets	<u>\$ 7,350,465</u>	<u>\$ 7,166,403</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 212,499	\$ 347,094
Accrued expenses	52,870	90,545
Deferred revenue	65,894	34,930
Interest rate swap contract liability	3,922	28,890
Current portion of long-term debt	<u>97,827</u>	<u>164,962</u>
Total current liabilities	433,012	666,421
Long-term debt, less current portion	<u>2,062,199</u>	<u>2,160,026</u>
Total liabilities	<u>2,495,211</u>	<u>2,826,447</u>
Net assets:		
Unrestricted	3,616,893	2,908,948
Temporarily restricted	<u>1,238,361</u>	<u>1,431,008</u>
Total net assets	<u>4,855,254</u>	<u>4,339,956</u>
Total liabilities and net assets	<u>\$ 7,350,465</u>	<u>\$ 7,166,403</u>

See accompanying notes and independent accountants' review report.

NOVA of Virginia Aquatics, Inc.
Statements of Activities
Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenue and unrestricted support:		
Competitive fees	\$ 1,661,312	\$ 1,615,464
Swim lessons	469,617	433,203
Swim shop sale, net of related expenses of \$337,242 and \$435,819, respectively	328,648	178,785
Fundraising events, net of related expenses of \$207,709 and \$203,818, respectively	128,610	108,518
Meets, net of related expenses of \$276,987 and \$253,974, respectively	82,371	72,258
Clinics	40,160	43,209
Unrealized gain on swap contract	24,968	19,325
Cell tower rent	10,450	7,590
NOVAfit	7,243	8,630
Contributions	13,572	9,331
Pool rentals	4,770	10,505
Interest income	84	-
Miscellaneous	-	7,394
Release from restrictions	290,413	175,845
	<u>3,062,218</u>	<u>2,690,057</u>
Total revenue and unrestricted support		
Expenses:		
Salaries and wages	1,157,023	1,069,849
Depreciation	212,115	206,359
Occupancy and utilities	130,932	127,687
Interest	103,738	110,334
Equipment rental and maintenance	102,370	98,372
Payroll taxes	89,093	80,852
Office expenses	77,336	62,645
Employee benefits and travel	76,017	63,409
Land lease	75,996	81,188
Bank charges and credit card fees	60,115	65,435
Taxes and licenses	47,756	52,057
Insurance	35,438	26,065
Professional fees	30,576	90,423
Travel	26,672	25,416
Marketing	15,093	6,980
Retirement	14,670	32,113
Awards	12,340	13,215
Continuing education	2,879	2,240
Miscellaneous	-	5,616
Bad debt expense	84,114	83,877
	<u>2,354,273</u>	<u>2,304,132</u>
Total expenses		
Change in unrestricted net assets	<u>707,945</u>	<u>385,925</u>

See accompanying notes and independent accountants' review report.

NOVA of Virginia Aquatics, Inc.
Statements of Activities
Years Ended August 31, 2016 and 2015

(Continued)

	<u>2016</u>	<u>2015</u>
Change in temporarily restricted net assets:		
Contributions, net	97,766	1,606,853
Release from restrictions	<u>(290,413)</u>	<u>(175,845)</u>
Change in temporarily restricted net assets	<u>(192,647)</u>	<u>1,431,008</u>
Change in net assets	515,298	1,816,933
Net assets, beginning of year	<u>4,339,956</u>	<u>2,523,023</u>
Net assets, end of year	<u><u>\$ 4,855,254</u></u>	<u><u>\$ 4,339,956</u></u>

NOVA of Virginia Aquatics, Inc.
Statements of Cash Flows
Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 515,298	\$ 1,816,933
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	212,115	206,359
Unrealized gain on swap contract	(24,968)	(19,325)
Bad debt expense	84,114	83,877
Change in fair value of contributions receivable	(23,337)	82,895
Change in assets and liabilities:		
Accounts receivable	(15,639)	(36,754)
Contributions receivable	217,778	(1,555,701)
Inventories	(53,642)	12,404
Prepaid expenses	110	(2,558)
Other assets	-	(5,250)
Accounts payable and accrued expenses	(172,270)	252,145
Deferred revenue	30,964	171
	<u>770,523</u>	<u>835,196</u>
Net cash provided by operating activities	770,523	835,196
Cash flows from investing activities:		
Purchase of property and equipment	(254,382)	(370,452)
Cash flows from financing activities:		
Principal payments on long-term debt	(164,962)	(157,872)
	<u>351,179</u>	<u>306,872</u>
Net increase in cash and cash equivalents	351,179	306,872
Cash and cash equivalents, beginning of year	<u>1,353,246</u>	<u>1,046,374</u>
Cash and cash equivalents, end of year	<u>\$ 1,704,425</u>	<u>\$ 1,353,246</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 103,793</u>	<u>\$ 111,854</u>
Cash paid for unrelated business income taxes	<u>\$ 9,067</u>	<u>\$ 11,571</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 \$9,700 and \$15,000 at August 31, 2016 and 2015, respectively, based on experience and receivables collection history.

NOVA of Virginia Aquatics, Inc.
Notes to Financial Statements

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, 2016 and 2015, cash deposits exceeded FDIC limits by \$1,467,601 and \$998,496, 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.

Subsequent events

In preparing these financial statements, NOVA has evaluated events and transactions for potential recognition or disclosure through February 15, 2017, 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 2016 and 2015 was \$23,337 and \$(82,895), respectively, and is included in contributions in the statements of activities. The discount rate for 2016 and 2015 was 3.6% and 3.2%, respectively. No changes in the fair value measurement were attributable to instrument specific credit risk.

NOVA of Virginia Aquatics, Inc.
Notes to Financial Statements

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

	<u>2016</u>	<u>2015</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 343,615	\$ 575,409
One to five years	<u>994,308</u>	<u>980,292</u>
	1,337,923	1,555,701
Allowance for uncollectable accounts	(160,551)	(77,785)
Discount	<u>(59,558)</u>	<u>(82,895)</u>
Contributions receivable, net	<u>\$ 1,117,814</u>	<u>\$ 1,395,021</u>

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

NOVA of Virginia Aquatics, Inc.
Notes to Financial Statements

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.

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, 2016 and 2015:

	Fair Value at August 31, 2016			
	Level 1	Level 2	Level 3	Total
Interest rate swap agreement	\$ -	\$ (3,922)	\$ -	\$ (3,922)
Contributions receivable	-	-	1,117,814	1,117,814
	<u>\$ -</u>	<u>\$ (3,922)</u>	<u>\$ 1,117,814</u>	<u>\$ 1,113,892</u>

	Fair Value at August 31, 2015			
	Level 1	Level 2	Level 3	Total
Interest rate swap agreement	\$ -	\$ (28,890)	\$ -	\$ (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>

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

	Contributions Receivable
Balance, August 31, 2014	\$ -
Pledges received	1,689,748
Pledge payments received	(134,047)
Bad debt losses	(77,785)
Discount	<u>(82,895)</u>
Balance, August 31, 2015	1,395,021
Pledges received	31,300
Pledge payments received	(249,078)
Bad debt losses	(82,766)
Change in discount	<u>23,337</u>
Balance, August 31, 2016	<u>\$ 1,117,814</u>

5. Property and Equipment

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

	<u>2016</u>	<u>2015</u>
Facility building	\$ 4,672,454	\$ 4,672,454
Site improvements	952,341	952,341
Facility equipment	562,307	515,573
Computer equipment	33,272	34,371
Furniture and fixtures	16,678	18,406
Construction in process	<u>305,707</u>	<u>98,060</u>
	6,542,759	6,291,205
Accumulated depreciation	<u>(2,533,112)</u>	<u>(2,323,825)</u>
Property and equipment, net	<u>\$ 4,009,647</u>	<u>\$ 3,967,380</u>

6. Long-Term Debt

NOVA entered into a promissory note on September 30, 2011 with a principal amount of \$2,894,694. The term of the note was 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% (3.6% and 3.2% at August 31, 2016 and 2015, respectively). The loan is collateralized by the building, building improvements, site improvements, and personal property.

Subsequent to year-end, NOVA refinanced their existing debt of \$2,160,026 and borrowed an additional \$39,974 by entering into a promissory note for \$2,200,000 dated October 2, 2016. This note requires monthly payments of \$15,694 with interest accruing at a fixed rate of 3.42%. The maturity date is October 3, 2019. This agreement is secured by inventory, equipment and pledges receivable and is subject to certain financial covenants that are in effect for the year ended August 31, 2016. NOVA was in compliance with these covenants at August 31, 2016.

Maturities due under this promissory note for future years ending August 31 are noted below and classified as such on the statement of financial position.

2017	\$ 95,461
2018	118,198
2019	122,304
2020	<u>1,864,037</u>
	<u>\$ 2,200,000</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 September 2011 promissory note. This agreement required fixed rate payments of 4.55% on an initial notional amount of \$2,894,694 and expired on October 1, 2016. The agreement is recorded at fair value, which was a liability of \$3,922 and \$28,890 at August 31, 2016 and 2015, respectively. The swap is revalued each year and the change in value is reported in the statements of activities as unrealized gain on swap contract.

NOVA of Virginia Aquatics, Inc.
Notes to Financial Statements

8. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2016 and August 31, 2015 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Program restriction, building and pool capital campaign	\$ 120,547	\$ 35,987
Time restriction on contributions receivable	<u>1,117,814</u>	<u>1,395,021</u>
	<u>\$ 1,238,361</u>	<u>\$ 1,431,008</u>

9. Employee Benefit Plan

NOVA maintains a SIMPLE retirement plan which covers all full-time employees. Total retirement plan expense for 2016 and 2015 was \$14,670 and \$32,113, 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 2016 and 2015 was \$75,996 and \$81,188, respectively.

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

2017	\$ 83,784
2018	83,784
2019	83,784
2020	83,784
2021	50,984
Thereafter	<u>311,256</u>
	<u>\$ 697,376</u>

11. Functional Classification of Expenses

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

	<u>2016</u>	<u>2015</u>
Program services	\$ 2,077,987	\$ 1,955,568
Management and general	255,394	304,363
Fundraising	<u>20,892</u>	<u>44,201</u>
	<u>\$ 2,354,273</u>	<u>\$ 2,304,132</u>