NOVA of Virginia Aquatics, Inc.

Financial Statements as of and for the
Year Ended August 31, 2014 and
Independent Auditors' Report

DIXON HUGHES GOODMAN LLP

NOVA of Virginia Aquatics, Inc.

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of NOVA of Virginia Aquatics, Inc. (a nonprofit organization) which comprise the statement of financial position as of August 31, 2014, and the related statements of activities, and cash flows for the year 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 the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

DIXON HUGHES GOODMAN LLP

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NOVA of Virginia Aquatics, Inc. as of August 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 10 to the financial statements, certain errors were discovered by management which resulted in an overstatement of previously reported accounts receivables and revenues and understatement of previously reported deferred revenues as of August 31, 2013. Our opinion is not modified with respect to this matter.

Dixon Hughes Goodman LLP

Richmond, Virginia
June 24, 2015

NOVA of Virginia Aquatics, Inc.

Statement of Financial Position

August 31,	**2014**
Assets	
Current assets	
Cash and cash equivalents	$ 1,046,374
Accounts receivable - net	163,701
Inventories	257,867
Prepaid expenses	3,122
Total current assets	1,471,064
Property and equipment - net	3,803,287
	$ 5,274,351
Liabilities and Net Assets	
Current liabilities	
Accounts payable	$ 125,266
Accrued expenses	60,228
Deferred revenue	34,759
Interest rate swap contract liability	48,215
Current portion of long-term debt	157,872
Total current liabilities	426,340
Long-term debt - less current portion	2,324,988
Total liabilities	2,751,328
Net assets - unrestricted	2,523,023
	$ 5,274,351

The accompanying notes are an integral part of these financial statements.

NOVA of Virginia Aquatics, Inc.

Statement of Activities

Year Ended August 31,	**2014**
Revenue and unrestricted support	
Competitive fees	$ 1,526,800
Swim lessons	393,599
Swim shop sales - net of related expenses of $406,901	191,701
Fundraising events - net of related expenses of $109,029	152,030
Meets - net of related expenses of $212,574	100,619
Clinics	35,110
Membership dues	13,605
Miscellaneous	10,548
Contributions	9,009
Cell tower rent	7,920
Unrealized gain on swap contract	7,748
Pool rentals	7,475
NOVAfit	7,370
Interest income	1,866
Total revenue and unrestricted support	2,465,400
Expenses	
Salaries and wages	1,046,663
Depreciation	206,404
Occupancy and utilities	129,834
Interest	128,392
Equipment rental and maintenance	122,935
Payroll taxes	80,532
Land lease	75,996
Bank charges and credit card fees	59,230
Taxes and licenses	57,876
Employee benefits and travel	54,176
Professional fees	53,738
Office supplies	45,985
Insurance	34,469
Travel	32,438
Awards	23,121
Retirement	18,353
Loss on disposal of property and equipment	13,538
Marketing	11,773
Miscellaneous	5,684
Bad debt expense	3,952
Telephone	3,199
Continuing education	1,544
Board compensation	300
Total expenses	2,210,132
Change in net assets	255,268
Net assets - beginning of year, as previously reported	2,370,968
Prior period adjustments	(103,213)
Net assets - beginning of year, as restated	2,267,755
Net assets - end of year	$ 2,523,023

The accompanying notes are an integral part of these financial statements.

NOVA of Virginia Aquatics, Inc.

Statement of Cash Flows

Year Ended August 31,	2014
Cash flows from operating activities	
Change in net assets	$ 255,268
Adjustments to reconcile to net cash from operating activities:	
Depreciation	206,404
Unrealized gain on swap contract	(7,748)
Loss on disposal of property and equipment	13,538
Bad debt expense	3,952
Change in:	
Accounts receivable	(99,987)
Inventories	(14,786)
Prepaid expenses	(3,122)
Accounts payable and accrued expenses	125,727
Deferred revenue	4,296
Net cash from operating activities	483,542
Cash flows from investing activities	
Purchase of property and equipment	(40,949)
Cash flows from financing activities	
Principal payments on long-term debt	(151,084)
Net change in cash and cash equivalents	291,509
Cash and cash equivalents - beginning of year	754,865
Cash and cash equivalents - end of year	$ 1,046,374
Supplemental disclosure of cash flow information	
Cash paid for interest	$ 118,350
Cash paid for unrelated business income taxes	$ 2,961

The accompanying notes are an integral part of these 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. Restricted revenue whose restrictions are met in the same year is reflected as unrestricted revenue. NOVA has no temporarily restricted net assets.
>
> **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 at August 31, 2014, based on experience and receivables collection history.

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 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, 2014, cash deposits exceeded FDIC limits by $810,205. 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 statement 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. NOVA has determined that there are no material unrecognized tax benefits or obligations as of August 31, 2014. Fiscal years ending on or after August 31, 2011 remain subject to examination by federal and state tax authorities.

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 June 24, 2015, the date the financial statements were available to be issued.

3. 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 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. 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, 2014:

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

4. Property and Equipment

Major classes of property and equipment consist of the following at August 31, 2014:

Facility building	$	4,672,454
Site improvements		952,341
Facility equipment		239,780
Computer equipment		34,371
Furniture and fixtures		18,406
Construction in process		3,400
		5,920,752
Less – accumulated depreciation		(2,117,465)
	$	3,803,287

5. 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% (3.18% at August 31, 2014). The loan is collateralized by the building, building improvements, site improvements, and personal property.

Maturities under the promissory note are as follows:

2015		157,872
2016		164,962
2017		2,160,026
	$	2,482,860

6. 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 $48,215 at August 31, 2014. The swap is revalued each year and the change in value is reported in the statement of activities as unrealized gain (loss) on swap contract.

7. Employee Benefit Plan

NOVA maintains a SIMPLE retirement plan which covers all full-time employees. Total retirement plan expense for the fiscal year 2014 was $18,353.

8. 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 fiscal year 2014 was $75,996.

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

2015	$ 75,996
2016	81,188
2017	83,784
2018	83,784
2019	83,784
Thereafter	446,024
	$ 854,560

Subsequent to August 31, 2014, 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 $6,750,000; 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 by September 2015.

9. Functional Classification of Expenses

Functional classification of expenses is as follows for the year ended August 31, 2014:

Program services	$ 1,998,397
Management and general	198,948
Fundraising	12,787
	$ 2,210,132

10. Prior Period Adjustments

Previously issued financial statements as of and for the year ended August 31, 2013 included accounts receivable and revenues for dues and registration fees that related to the year ended August 31, 2014. The 2013 financial statements also overstated revenue which should have been deferred for dues received during 2013 that were for 2014. The cumulative effect of these errors caused accounts receivable to be overstated by $72,750 and deferred revenues to be understated by $30,463 at August 31, 2013 and increase in net assets to be overstated by $103,213 for the year ended August 31, 2013.

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