

SIDEBURN RUN RECREATION ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

KOSITZKA, WICKS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS



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KOSITZKA, WICKS & COMPANY
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors of
Sideburn Run Recreation Association, Inc.

We have audited the accompanying financial statements of the **Sideburn Run Recreation Association, Inc.** (a not-for-profit corporation) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Sideburn Run Recreation Association, Inc.** as of December 31, 2012 and 2011 and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kositzka, Wicks and Company

Alexandria, Virginia
January 14, 2014

Sideburn Run Recreation Association, Inc.

Statements of Financial Position December 31,

2012

2011

Assets

Current assets

Cash and cash equivalents

\$ 95,040

\$ 56,572

Prepaid expenses

3,931

3,789

98,971

60,361

Certificates of deposit

46,000

46,376

Property and equipment

Land

91,064

91,064

Building, swimming pool and facilities

475,053

475,053

Furniture and equipment

69,022

69,022

Less: Accumulated depreciation

(453,167)

(438,938)

181,972

196,201

Total assets

\$ 326,943

\$ 302,938

Liabilities and net assets

Current liabilities

Accrued expenses

\$ -

\$ 115

Long-term membership certificates

202,030

193,910

Total liabilities

202,030

194,025

Net assets

Capital renewal and renovation fund

46,000

46,376

Unrestricted

78,913

62,537

Total net assets

124,913

108,913

Total liabilities and net assets

\$ 326,943

\$ 302,938

See accompanying notes and independent auditor's report.

Sideburn Run Recreation Association, Inc.

Statements of Activities

for the years ended December 31,

2012

2011

Revenue

Membership dues	\$ 141,541	\$ 132,195
Guest fees	6,568	3,720
Concessions, net	6,672	2,223
Other fees	926	630
Swim and dive team, net	(118)	(1,633)
Interest	68	110
Advertising	1,187	-
Net transfers from (to) capital renewal and renovation fund	376	(36,376)
	<u>157,220</u>	<u>100,869</u>

Expenses

Accounting	2,995	2,350
Administrative expense	901	865
Depreciation	14,229	18,558
Insurance	10,287	10,990
Lifeguard expenses	100	1,100
Maintenance and repair, net of restitution for vandalism	19,249	13,198
Management fee	73,826	69,608
Membership incentives	900	575
Miscellaneous	613	1,267
Social	2,227	1,553
Supplies	3,761	3,769
Taxes and licenses	4,080	3,894
Utilities	7,676	7,901
	<u>140,844</u>	<u>135,628</u>

Increase (decrease) in unrestricted net assets

16,376 (34,759)

Unrestricted net assets, beginning of year

62,537 97,296

Unrestricted net assets, end of year

\$ 78,913 \$ 62,537

Capital renewal and renovation fund, beginning of year

\$ 46,376 \$ 10,000

Net transfers to (from) capital renewal and renovation fund

(376) 36,376

Capital renewal and renovation fund, end of year

\$ 46,000 \$ 46,376

See accompanying notes and independent auditor's report.

Sideburn Run Recreation Association, Inc.

Statements of Cash Flows for the years ended December 31,

2012

2011

Cash flows from operating activities

Increase in net assets	\$	16,000	\$	1,617
Adjustments to reconcile increase in net assets to net cash provided by operating activities-				
Depreciation		14,229		18,558
Increase in operating assets				
Prepaid expenses		(142)		(378)
Increase (decrease) in operating liabilities				
Accrued expenses		(115)		(1,665)
Membership certificates		8,120		(3,205)
Net cash provided by operating activities		<u>38,092</u>		<u>14,927</u>

Cash flows from investing activities

Reinvested interest income, net of expenses		<u>376</u>		<u>(70)</u>
Net cash provided (used) by investing activities		<u>376</u>		<u>(70)</u>

Net increase in cash and cash equivalents

38,468 14,857

Cash and cash equivalents, beginning of year

56,572 41,715

Cash and cash equivalents, end of year

\$ 95,040 \$ 56,572

Supplemental disclosure of cash flow information

Cash paid for interest	\$	<u>-</u>	\$	<u>-</u>
Income taxes paid	\$	<u>-</u>	\$	<u>-</u>

See accompanying notes and independent auditor's report.

Sideburn Run Recreation Association, Inc.

Notes to Financial Statements December 31, 2012 and 2011

1. Organization

Sideburn Run Recreation Association, Inc. (the Association) is a membership organization. The Association is responsible for the operation and maintenance of the neighborhood swimming pool. The Association shall have no more than 500 members. The Association's main source of revenue is dues collected from members.

2. Summary of significant accounting policies

Basis of accounting

The financial statements of the Association are prepared using the accrual method of accounting, with the exception of membership dues, which are recorded as described below under Revenue Recognition. In accordance with this method of accounting, expenses are recognized in the period in which they are incurred. All expenses which are applicable to future periods have been presented as prepaid expenses on the accompanying statements of financial position.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Revenue recognition

In recognition of the voluntary nature of the membership, the Association does not accrue membership dues and record related receivables but rather recognizes such revenue as received, following a practice prevalent among voluntary membership organizations. The Association bills annual membership fees on the first day of the member's anniversary month. This policy, which also accommodates changes in dues after invoicing, recognizes dues revenue on a cash basis, which closely approximates the accrual basis.

Cash and cash equivalents

The Association considers all cash and unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Certificates of deposit with original maturities of over 90 days are classified as short term investments and are stated at cost.

Concentration of credit risk

FDIC insurance on interest-bearing accounts is \$250,000 per depositor, per insured bank. At December 31, 2012, all of the Association's cash deposits were insured by the Federal Deposit Insurance Corporation.

See independent auditor's report.

Sideburn Run Recreation Association, Inc.

Notes to Financial Statements December 31, 2012 and 2011

2. Summary of significant accounting policies (continued)

Income taxes

The Association is exempt from income taxes on its exempt purpose activities under the provisions of Section 501(c)(7) of the Internal Revenue Code. The Association is subject to income taxes, at the corporate tax rates, on activities deemed not to be within the scope of its exempt purpose function. Unrelated business income was \$1,255 and \$110 for the years ended December 31, 2012 and 2011, respectively.

The material jurisdictions subject to potential examination by taxing authorities are the U.S. and Virginia. Management does not believe that the ultimate outcome of any future examinations of tax years will have a material impact on the Association's results of operations. Tax years that remain subject to examination by the IRS are 2009 through 2012.

Other financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, prepaid expenses and certificates of deposit. Financial liabilities with carrying values approximating fair value include accrued expenses and long-term membership certificates. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and any associated interest rates approximate current market rates.

3. Certificates of deposit

Certificates of deposit at cost, which approximates fair market value, were as follows as of December 31,

	<u>2012</u>	<u>2011</u>
Certificate of deposit, interest at 0.10% matured on September 20, 2011, renewed through August 20, 2012	\$ -	\$ 46,376
Certificate of deposit, interest rate linked to S&P 500 index, matures on September 21, 2017	<u>46,000</u>	<u>-</u>
	<u>\$ 46,000</u>	<u>\$ 46,376</u>

See independent auditor's report.

Sideburn Run Recreation Association, Inc.

Notes to Financial Statements December 31, 2012 and 2011

4. Property

It is the Association's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Property and equipment are depreciated using the straight-line method over the estimated useful life of the asset, generally between 5 and 20 years.

A summary of information relative to property depreciation as of December 31, 2012 and 2011 is as follows:

	Depreciation expense		Accumulated depreciation	
	2012	2011	2012	2011
Building	\$ 1,956	\$ 2,544	\$ 118,444	\$ 116,488
Facilities	5,159	5,374	98,193	93,034
Swimming pool	2,516	5,063	183,170	180,654
Furniture and equipment	4,598	5,577	53,360	48,762
	<u>\$ 14,229</u>	<u>\$ 18,558</u>	<u>\$ 453,167</u>	<u>\$ 438,938</u>

5. Membership certificates

Membership certificates represent the right to use the Association's facilities upon payment of dues which are determined annually by the Board. A member also has the right to vote and is eligible to serve on the Board. Membership certificates are redeemable and transferable.

6. Subsequent events

The Association assessed events occurring subsequent to December 31, 2012 through January 14, 2014, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to or disclosure in the financial statements.

See independent auditor's report.