

United States Masters Swimming, Inc.

Financial Statements and
Independent Auditor's Report
December 31, 2018

(With Summarized Financial Information
as of December 31, 2017)

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Independent Auditor's Report

The Board of Directors
United States Masters Swimming, Inc.
Sarasota, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of United States Masters Swimming, Inc. ("USMS"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, cash flows and functional expenses 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 these 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United States Masters Swimming, Inc. as of December 31, 2018, and the change in its net assets, cash flows and functional expenses for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the 2017 financial statements of USMS, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Kerbering Barkenio & Co." The signature is written in a cursive, flowing style.

Sarasota, Florida
July 13, 2019

United States Masters Swimming, Inc.

Statement of Financial Position

December 31, 2018

(With Summarized Comparative Totals For 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Assets				
Cash and cash equivalents	\$ 1,300,254	\$ 192,757	\$ 1,493,011	\$ 1,614,328
Accounts receivable	49,082	-	49,082	14,760
Promises to give, net	-	-	-	3,850
Investments	2,925,197	190,590	3,115,787	3,355,059
Prepaid expenses	150,768	-	150,768	145,581
Property and equipment, net	401,292	-	401,292	288,101
Beneficial interest in assets held by Endowment Fund	-	312,182	312,182	243,432
	<u>4,826,593</u>	<u>695,529</u>	<u>5,522,122</u>	<u>5,665,111</u>
Total Assets	\$ <u>4,826,593</u>	\$ <u>695,529</u>	\$ <u>5,522,122</u>	\$ <u>5,665,111</u>
Liabilities and Net Assets				
Accounts payable and accrued expenses	\$ 174,318	\$ -	\$ 174,318	\$ 185,231
Due to LMSCs and clubs, net	217,087	-	217,087	201,697
Deferred revenue	1,568,698	-	1,568,698	1,571,847
Other liabilities	12,124	-	12,124	10,439
Total liabilities	<u>1,972,227</u>	<u>-</u>	<u>1,972,227</u>	<u>1,969,214</u>
Net Assets:				
Without donor restrictions:				
Board designated - opportunity reserve	600,000	-	600,000	600,000
Board designated - general reserve	1,958,100	-	1,958,100	1,985,500
Undesignated net assets	296,266	-	296,266	471,333
Total net assets without donor restrictions	<u>2,854,366</u>	<u>-</u>	<u>2,854,366</u>	<u>3,056,833</u>
With donor restrictions:				
Purpose restriction - Swimming Saves Lives	-	383,347	383,347	418,733
Perpetual in nature - Endowment Fund	-	312,182	312,182	220,331
Total net assets with donor restrictions	<u>-</u>	<u>695,529</u>	<u>695,529</u>	<u>639,064</u>
Total net assets	<u>2,854,366</u>	<u>695,529</u>	<u>3,549,895</u>	<u>3,695,897</u>
Total Liabilities and Net Assets	<u>\$ 4,826,593</u>	<u>\$ 695,529</u>	<u>\$ 5,522,122</u>	<u>\$ 5,665,111</u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Activities

Year Ended December 31, 2018

(With Summarized Comparative Totals For 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Revenues and Other Support:				
Membership dues	\$ 2,777,027	\$ -	\$ 2,777,027	\$ 2,755,884
Sponsorships	473,040	-	473,040	405,651
Contributions	7,598	225,639	233,237	185,728
Championship meets and events	182,352	-	182,352	146,520
Publications	36,886	-	36,886	37,609
In-kind contributions	97,757	-	97,757	92,086
Continuing education	194,242	-	194,242	212,164
Total revenues and other support	3,768,902	225,639	3,994,541	3,835,642
Net assets released from restrictions	146,534	(146,534)	-	-
Total revenues, other support, and releases	3,915,436	79,105	3,994,541	3,835,642
Functional Expenses:				
Program services:				
Member services	2,060,597	-	2,060,597	1,960,994
Education services	763,671	-	763,671	743,715
Events	439,892	-	439,892	435,416
College Club	145,424	-	145,424	94,805
Total program services	3,409,584	-	3,409,584	3,234,930
Supporting services:				
General and administrative:				
Volunteers	161,079	-	161,079	141,408
Staff	246,615	-	246,615	202,643
Fund raising and Swimming Saves Lives	92,592	-	92,592	94,385
Total supporting services	500,286	-	500,286	438,436
Total functional expenses	3,909,870	-	3,909,870	3,673,366
Non-Operating Activities:				
Net investment return (loss)	(213,961)	(12,276)	(226,237)	398,791
Change in value of beneficial interest in assets held by Endowment Fund	-	(10,364)	(10,364)	27,693
Other income	5,903	-	5,903	100
Gain on disposal of property, equipment and leasehold improvements	25	-	25	330
Total non-operating activities	(208,033)	(22,640)	(230,673)	426,914
Change in net assets	(202,467)	56,465	(146,002)	589,190
Net assets, beginning of year	3,056,833	639,064	3,695,897	3,106,707
Net assets, end of year	\$ 2,854,366	\$ 695,529	\$ 3,549,895	\$ 3,695,897

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Cash Flows

Year Ended December 31, 2018

(With Summarized Comparative Information For 2017)

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (146,002)	\$ 589,190
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	77,689	36,046
Gain on disposal of property, equipment and leasehold improvements	(25)	(330)
Net realized and unrealized (gains) losses on investments	398,211	(266,242)
Change in value of beneficial interest in assets held by Endowment Fund	10,364	(27,693)
Change in operating assets:		
Accounts receivable	(34,322)	7,409
Promises to give, net	3,850	(3,850)
Prepaid expenses	(5,187)	(6,489)
Change in operating liabilities:		
Accounts payable and accrued expenses	(10,913)	(7,538)
Due to LMSCs and clubs, net	15,390	(24,306)
Deferred revenue	(3,149)	(87,134)
Other liabilities	1,685	906
Net cash provided by operating activities	<u>307,591</u>	<u>209,969</u>
Cash Flows from Investing Activities:		
Transfers to/from Endowment Fund, net	(75,729)	(10,094)
Purchases of investments	(330,430)	(1,272,748)
Sales of investments	168,106	660,074
Purchases of property and equipment	(190,855)	(246,239)
Net cash used in investing activities	<u>(428,908)</u>	<u>(869,007)</u>
Net change in cash and cash equivalents	(121,317)	(659,038)
Cash and cash equivalents, beginning of the year	1,614,328	2,273,366
Cash and cash equivalents, end of the year	<u>\$ 1,493,011</u>	<u>\$ 1,614,328</u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Functional Expenses

Year Ended December 31, 2018

(With Summarized Comparative Totals For 2017)

	Program Services					Supporting Services					Fund Raising and Swimming Saves Lives	2018 Total Functional Expenses	2017 Total Functional Expenses
	Member Services	Education Services	Events	College Club	Total Program Services	Administrative Volunteers	Staff	Total General and Administrative					
Advertising and promotion	\$ 54,858	\$ 11,086	\$ 21,859	\$ 8,206	\$ 96,009	\$ 3,405	\$ 3,795	\$ 7,200	\$ 13,254	\$ 116,463	\$ 120,467		
Annual meeting	38,324	9,581	9,581	958	58,444	32,548	3,832	36,380	958	95,782	90,165		
Depreciation and amortization	60,107	4,602	2,485	2,964	70,158	1,186	4,448	5,634	1,897	77,689	36,046		
Donations	21,500	-	-	-	21,500	-	-	-	-	21,500	21,500		
Dues and subscriptions	5,311	15,745	1,163	948	23,167	3,377	10,999	14,376	436	37,979	33,194		
Grants	140,000	-	-	-	140,000	-	-	-	-	140,000	118,943		
Information technology	55,618	236	9,739	200	65,793	430	4,319	4,749	63	70,605	16,337		
Insurance	185,418	40,056	108,693	10,119	344,286	6,393	14,178	20,571	-	364,857	362,056		
Occupancy	65,204	49,509	23,016	3,591	141,320	2,245	5,724	7,969	3,591	152,880	144,425		
Office	14,554	6,540	2,895	1,003	24,992	514	1,365	1,879	647	27,518	28,915		
Outside services	173,776	137,136	49,303	40,121	400,336	8,382	15,052	23,434	10,687	434,457	249,254		
Postage	6,307	7,046	14,921	1,377	29,651	215	1,304	1,519	2,597	33,767	23,328		
Printing	6,024	13,583	3,752	1,233	24,592	52	212	264	2,581	27,437	33,086		
Professional services	20,916	7,164	3,060	1,152	32,292	720	33,185	33,905	1,154	67,351	68,400		
Publications	229,804	-	9,992	-	239,796	-	-	-	-	239,796	293,953		
Recognition and awards	952	799	3,513	-	5,264	-	-	-	-	5,264	3,653		
Registration expenses	79,759	7,012	6,122	1,315	94,208	-	-	-	2,241	96,449	91,008		
Salaries, taxes and benefits	883,263	319,581	136,902	51,510	1,391,256	32,115	130,646	162,761	51,726	1,605,743	1,607,173		
Telephone	7,369	4,573	1,078	406	13,426	254	646	900	406	14,732	13,208		
Travel	11,533	129,422	31,818	20,321	193,094	69,243	16,910	86,153	354	279,601	318,255		
Total functional expenses	\$ 2,060,597	\$ 763,671	\$ 439,892	\$ 145,424	\$ 3,409,584	\$ 161,079	\$ 246,615	\$ 407,694	\$ 92,592	\$ 3,909,870	\$ 3,673,366		
Percent of total	53%	20%	11%	4%	88%	4%	6%	10%	2%	100.00%			

See accompanying notes to financial statements

United States Masters Swimming, Inc.

Notes to Financial Statements

December 31, 2018

I. Description of Organization and Nature of Activities

United States Masters Swimming, Inc. ("USMS") is a private not-for-profit corporation organized to promote health, wellness, fitness and competition for adults through swimming. USMS is incorporated in the State of Florida. USMS is administered locally by affiliated Local Masters Swimming Committees ("LMSCs"). Member swimmers and clubs primarily join USMS through their LMSC.

USMS serves its members with the following programs:

- Membership Services ("MS") includes exclusive fitness and health information and content via SWIMMER magazine, e-newsletters, and the website. MS provides supplemental insurance coverage during workouts, clinics, and competitions. Members are also eligible to receive discounts and benefits from sponsor partners. The charitable arm of USMS, USMS Swimming Saves Lives ("SSL"), allows members an opportunity to give back to the community through donations and teaching adults how to swim. Annually, grants are awarded to SSL programs that provide more than 2,300 adults with the opportunity to learn to swim.
- Education Services ("ES") includes club development and support to assist clubs and potential clubs in expanding or starting local programs. ES also trains 695 coaches and instructors annually by conducting courses for coaches and adult learn-to-swim instructors.
- Events include providing structure and support, recognition, and communication services for swimming competitions and events. This includes Spring and Summer Nationals, open water swims, long-distance pool swims, virtual competitions, and fitness events, some of which also serve as SSL fund raisers.
- College Club Swimming ("CCS") provides the structure and support to unify college club swim programs across the country. CCS provides the rules, calendar of events, results database, and communications to registered clubs. CCS is run by an advisory board made up of CCS swimmers and is backed by USMS.

USMS supports its Program Services with the following:

- Administrative Volunteers includes administrative expenses incurred by volunteers and allocations of USMS national office expenses for overhead and staff (Staff) compensation related to volunteer activities.
- Staff includes allocations of administrative expenses incurred by the USMS national office for overhead and Staff compensation.
- Fund Raising and Swimming Saves Lives includes advertising and promotional campaigns to encourage giving and volunteers' involvement; and allocations for: processing and acknowledging donors' gifts, supporting volunteers' fundraising activities and Staff compensation for grant support.

2. Summary of Significant Accounting Policies

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2018

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

USMS considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable consist of sponsorships and other unpaid balances. Management believes all balances are collectible; accordingly, no allowance for doubtful accounts has been established. Receivables are unsecured and non-interest-bearing.

Investments

USMS records investments at fair value, which represents the value on the date of purchase plus reinvested earnings and unrealized appreciation or depreciation. Net investment return (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses. Realized and unrealized gains and losses are reported in the period in which they occur. Interest and dividends are recognized as revenue in the period they are earned.

Property and Equipment, Net

Furniture and equipment are recorded at cost. Software developed or obtained for internal use is capitalized. The estimated useful lives of assets range from 3 to 5 years and are being depreciated or amortized using the straight-line method. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the remaining term of the lease.

Expenditures for major renewals and betterments that exceed \$5,000 and extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Net Assets

Net assets, revenue, and gains are classified based on the existence or absence of donor-imposed restrictions. When the purpose of the restriction is accomplished, net assets with donor restrictions are released from net assets with donor restrictions and recognized as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Accordingly, net assets of USMS and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to explicit or implicit donor-imposed stipulations that may or will be met either by actions of USMS or the passage of time. Examples include promises to give, net, and SSL contributions received for future program expenditures that have not been incurred by USMS. In accordance with the passage of the Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA"), all or part of the income earned on related endowment investments are considered net assets with donor restrictions until appropriated by the Board of Directors ("Board").

Other net assets are perpetual in nature. These net assets are subject to donor-imposed stipulations that will be maintained permanently by USMS. Generally, the donors of these assets permit USMS to use all or part of the income earned on related investments for general or specific purposes.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2018

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Contributions, including unconditional promises to give, are recorded as revenue when a commitment is received. Membership dues are recognized on a pro rata basis in the calendar year(s) for which the membership applies. College Club Swimming fees are recognized on a pro rata basis over the period covered by the billing period. Amounts received pursuant to sponsorship agreements and championship meets and events are recognized as revenue when earned.

Donated Goods and Services

Donated goods and services are recorded at their estimated or actual fair market value at the date of the gift. USMS received donated legal services performed by Legal Counsel, a non-voting director, approximating \$36,000 during the year ended December 31, 2018. Additionally, during the year ended December 31, 2018, USMS received merchandise with an estimated value of \$61,757 from sponsors to be given to clubs and members at events. The merchandise also supports educational programs and the organization's SSL initiative.

A substantial number of volunteers made significant contributions of their time to support the programs of USMS. The estimated value of these donated services has not been recorded in the accompanying financial statements since these services do not meet the criteria for recognition as donated revenue under GAAP.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Costs are allocated between the appropriate activities within program and supporting services. General and administrative expenses include expenses that are not directly identifiable with any specific function but provide for the overall support and direction of USMS. The expenses that are allocated include depreciation, salaries and wages, benefits, payroll taxes, and other expenses for services which are allocated on the basis of estimated time and effort.

Deferred Revenue

Advances from member payments, club dues, and sponsorships are deferred and recognized as revenue in the year benefits and services are provided to members.

Income Taxes

The Internal Revenue Service has determined that USMS is exempt from taxation and not a private foundation pursuant to sections 501(c)(3) and 509(a) of the Internal Revenue Code. Therefore, USMS is generally exempt from federal and state income taxes. Unrelated business income, such as advertising and sponsorships, may be subject to federal and state taxes. For the year ended December 31, 2018, USMS did not incur any income tax expense.

Under the *Income Taxes* Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification, USMS has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with GAAP for accounting for uncertainty in income taxes, and determined that there are no uncertain tax positions that would have a material impact on the financial statements.

USMS files federal and Florida income tax returns. The tax periods open to examination by these taxing jurisdictions to which USMS is subject include the years ended December 31, 2015, through December 31, 2018.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2018

2. Summary of Significant Accounting Policies (Continued)

Summarized 2017 Financial Information

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with USMS's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Financial Instruments Not Measured at Fair Value

Certain financial instruments are not measured at fair value on a recurring basis but are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued expenses, due to LMSCs and clubs, deferred revenue, and other liabilities.

Recently Adopted Pronouncements

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958), which was adopted by USMS for the year ended December 31, 2018. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets with donor restrictions" and "net assets without donor restrictions", (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) presenting investment return net of external and direct internal investment expenses, and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

Recently Issued Pronouncements

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606). This update provides guidance on determining the amount and timing of revenue to be recognized from customers. The update is effective for fiscal years beginning after December 15, 2018. USMS is currently evaluating the impact of ASU No. 2015-14 on the financial statements and it is not expected to have a material impact.

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, Lease (Topic 842). This update establishes the accounting and reporting by lessees and lessors for all types of leases. The update is effective for fiscal years beginning after December 15, 2019. USMS is currently evaluating the impact of ASU No. 2016-02 on the financial statements.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2018

3. Liquidity and Availability

Financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	\$ 1,493,011
Accounts receivable	49,082
Investments	3,119,172
Total financial assets available within one year	<u>4,661,265</u>
Less: Amounts unavailable for general expenditures within one year due to:	
Restricted by donors with purpose restrictions	(383,347)
Restricted by donors in perpetuity	(312,182)
Total amounts unavailable for general expenditures within one year	<u>(695,529)</u>
Less: Amounts unavailable to management without Board approval:	
Board designated - opportunity reserve	(600,000)
Board designated - general reserve	(1,985,100)
	<u>(2,558,100)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 1,407,636</u>

USMS manages its liquid assets in accordance with regular budgeting processes developed through the coordinated efforts of management and the Board. Monthly reporting by management to those charged with governance ensures the results from operating activities are monitored closely.

Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Board designated net assets are classified as net assets without donor restrictions. The Board has established two reserves, the general reserve and the opportunity reserve, totaling \$2,558,100. Although USMS does not intend to spend from these reserves, except for the stated purposes, these amounts could be made available if necessary.

4. Beneficial Interest in Assets Held by Endowment Fund

USMS entered in to an agreement with the Community Foundation, whereby USMS transferred assets to the Community Foundation in the establishment of an endowment fund known as the USMS Endowment Fund ("Endowment Fund"). The aforementioned agreement grants variance power to the Community Foundation, the terms of which include presumption of donor's intent, variance from donor's direction and amendments. Transfers and contributions to the Endowment Fund are irrevocable. Distributions of annual earnings (including net income and net appreciation, both realized and unrealized) are allocated to the Endowment Fund and are available for distribution in accordance with the spending policy established by USMS's Board. See Note 8.

The Endowment Fund is a component part of the Community Foundation, and, as such, all assets of the Endowment Fund are held in the general assets of the Community Foundation. In the event USMS ceases to exist or the Endowment Fund is terminated, the Community Foundation shall devote any remaining assets of the Endowment Fund exclusively for charitable or other exempt purposes.

Income received from the Endowment Fund is used for Swimming Save Lives operating expenses.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2018

5. Investments

Investments as of December 31, 2018 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Accumulated Unrealized Gain (Loss)</u>
Equity Mutual Funds	\$ 1,506,881	\$ 1,734,019	\$ 227,138
Fixed Income Mutual Funds	1,153,547	1,107,877	(45,670)
Equity ETFs	41,343	54,720	13,377
Infrastructure ETFs	117,486	106,326	(11,160)
Fixed income ETFs	107,735	103,593	(4,142)
Alternatives ETFs	8,321	9,252	931
Total investments	<u>\$ 2,935,313</u>	<u>\$ 3,115,787</u>	<u>\$ 180,474</u>

Net investment return (loss) is comprised of the following for the year ended December 31, 2018:

Interest and dividend income	\$ 188,603
Net realized and unrealized losses, net	(398,211)
Investment advisory fees	(16,629)
Total	<u>\$ (226,237)</u>

Return Objectives and Strategies

Investment assets are managed in a diversified portfolio of asset classes to ensure a total return (income plus market appreciation) necessary to preserve and enhance the principal of the funds and at the same time, provide a dependable source of support for current operations and programs. The specific objective for these investments is to attain an average annual nominal return (net of investment fees) of approximately 5-7%. Actual returns in any given year may vary from this target range.

Spending Policy and How the Investment Objectives Relate to Spending Policy

USMS has a policy permitting an annual distribution totaling 4% of the combined average market value of the unrestricted investment portfolio as of June 30 of the two previous years, but in no event to exceed 5% of the prior year-end market value of the investments. The purpose of the distribution is to fund its operating budget and special projects. USMS expects this spending policy to allow its investments to grow at an average rate of 2% annually.

6. Property and Equipment, Net

Property and equipment consists of the following as of December 31, 2018:

Furniture and equipment	\$ 101,093
Software	540,649
Leasehold improvements	26,930
	<u>668,672</u>
Less: Accumulated depreciation and amortization	(267,380)
Property and equipment, net	<u>\$ 401,292</u>

Depreciation expense for the year ended December 31, 2018 totals \$59,282. Amortization expense for the year ended December 31, 2018 totals \$18,407.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2018

7. Board Designated Net Assets

Board designated net assets are classified as net assets without donor restrictions based on the absence of donor-imposed restrictions. The policy established two funds: the general reserve and the opportunity reserve.

The general reserve provides funds to ensure the stability of the mission, programs, staffing and ongoing operations of the organization. It is a flexible dollar amount sufficient to maintain ongoing operations and programs for a set period of time. For the year ended December 31, 2018, the general reserve was \$1,985,100.

The opportunity reserve provides funds to meet special targets of opportunity or needs that further the mission of the organization. It is also intended as a source of internal funds for organizational capacity such as staff development, research, and development or investment in infrastructure that will build long-term capacity. As of December 31, 2018, the opportunity reserve was \$600,000, which is the initial amount established by the Board.

8. Endowment Fund

USMS's endowment consists of funds established for the purpose of providing support to the organization. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board has interpreted FUPMIFA as requiring the corpus to be maintained at the fair value of the original gift as of the gift date and the original value of subsequent gifts where the donor indicated that a portion of the fund be retained permanently. Any portion of the endowment, including investment income, which is not classified as net assets with donor restrictions - perpetual in nature, is to be classified as net assets with donor restrictions - purpose restricted until it is appropriated for expenditure.

Endowment Fund Net Asset Composition by Type of Fund at December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Fund			
Beginning balance at December 31, 2017	\$ —	\$ 243,432	\$ 243,432
Contributions	—	93,869	93,869
Investment return, net of fees	—	(10,364)	(10,364)
Appropriation for expenditure	—	(14,755)	(14,755)
Ending balance at December 31, 2018	\$ —	\$ 312,182	\$ 312,182

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2018

8. Endowment Fund (Continued)

Return Objectives and Risk Parameters

The Endowment Fund's assets are pooled with the investments of the Community Foundation as described above in Note 4 and are invested in accordance with the Community Foundation's investment policy. The Community Foundation has adopted the following investment policies for pooled investments: a) Attempt to provide a predictable stream of funding to programs while seeking to maintain the purchasing power of the fund; b) Invest in a manner that is intended to produce results that exceed each investment strategy's respective index while assuming a moderate level of investment risk; c) Achieve an annualized total return (net of fees and expenses), equal to or greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any spending and administrative expenses thus, at a minimum maintaining the purchasing power of the investment pools; and d) Manage the assets in a manner that will meet the primary investment objective, while at the same time attempting to limit volatility in year-to-year spending. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, USMS relies on a total return strategy of the Community Foundation in which investment returns are achieved through both market appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy

USMS has a policy to annually appropriate distributions of the maximum amount allowed by the Community Foundation, currently 5% of the fair value of the fund at year-end preceding the calendar year in which the distribution is planned. The purpose of the distribution is to fund its SSL operating expenses.

9. Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrences of other events specified by donors as follows:

SSL Grants	\$ 131,779
SSL Operating Support (from Endowment Fund)	12,171
Endowment Fund Administration Fees	2,584
Net Assets Released from Donor Restrictions	<u>\$ 146,534</u>

10. Retirement Plan

USMS provides a 401(k) plan allowing employees to elect to defer compensation up to the maximum allowed under IRS regulations. USMS matches employee contributions up to 4% of gross wages. Employer contributions to the retirement plan totaled \$42,981 for the year ended December 31, 2018.

11. Related Party Transactions

Due to LMSCs and Clubs

USMS and the various LMSCs collect money on each other's behalf from their members and the net amount is either received from or paid to USMS at the end of each month. The amount due to LMSCs net of amounts due from LMSCs, and due to clubs, as of December 31, 2018, consists of the following:

Due to LMSCs, net	\$ 201,955
Due to clubs, net	15,132
Total	<u>\$ 217,087</u>

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2018

12. Fair Value of Financial Assets

USMS follows guidance with respect to accounting and reporting for the fair value of its financial assets and liabilities. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between participants on the measurement date. Fair value requires an organization to determine the unit of account, the mechanism of hypothetical transfer, and the appropriate markets for the asset or liability being measured.

This guidance also establishes a hierarchy of valuation inputs that are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities, such as publicly traded equity securities.

Level 2 - inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs other than quoted prices (interest rates, yield curves, etc.), or inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The inputs reflect USMS's assumptions based on the best information available in the circumstance.

While USMS 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 estimate of fair value at the reporting date.

The following methods and assumptions were used by USMS in estimating the fair value of its financial instruments on a recurring basis:

Mutual Funds and ETFs - The fair value is the market value based on quoted market prices. All mutual funds and ETFs are considered Level 1.

Beneficial Interest in Assets Held by Community Foundation - The fair value of beneficial interest in the assets of the Community Foundation are derived from the fair value of the Community Foundation's investments as of December 31, 2018. The fair value hierarchy as of December 31, 2018 is allocated based on the percentage of the investments in the respective levels reported on the December 31, 2017 audited financial statements of the Community Foundation. These include certain investments that are measured at fair value using the NAV as a practical expedient. The fair value amounts included below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. The beneficial interest cannot be redeemed from the Community Foundation.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2018

12. Fair Value of Financial Assets (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at Reporting Date Using:

Description	Level 1	Level 2	Level 3	NAV	Total
Available For Sale Securities:					
Mutual Funds – Equity:					
Small-cap blend	\$ 69,409	\$ —	\$ —	\$ —	\$ 69,409
Mid-cap blend	109,138	—	—	—	109,138
Large-cap blend	857,285	—	—	—	857,285
Emerging markets	203,707	—	—	—	203,707
Foreign developed	491,719	—	—	—	491,719
Real estate funds	2,761	—	—	—	2,761
Total Mutual Funds - Equity	<u>1,734,019</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,734,019</u>
Mutual Funds - Fixed Income:					
Intermediate-term bond	1,107,877	—	—	—	1,107,877
Total Mutual Funds - Fixed Income	<u>1,107,877</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,107,877</u>
ETFs:					
Equities	54,720	—	—	—	54,720
Infrastructure	106,326	—	—	—	106,326
Fixed income	103,593	—	—	—	103,593
Alternatives	9,252	—	—	—	9,252
Total ETFs	<u>273,891</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>273,891</u>
Total Available For Sale Securities	<u>3,115,787</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,115,787</u>
Beneficial Interest in Assets Held by Endowment Fund	<u>74,111</u>	<u>—</u>	<u>—</u>	<u>234,686</u>	<u>308,797</u>
Total Assets at Fair Value	<u>\$ 3,189,898</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 234,686</u>	<u>\$ 3,424,584</u>

13. Commitments and Contingencies

Operating Lease

On July 8, 2015, USMS signed a 5 year operating lease agreement for office space in Sarasota, Florida commencing January 1, 2016 and expiring December 31, 2020. Base rent is \$85,376 annually with a 3% increase each year on the anniversary of the start date. On January 10, 2018, USMS signed an addendum to the lease to rent additional office space commencing April 1, 2018 and expiring December 31, 2020 for an additional base rent of \$6,600 annually with a 3% increase each year on the anniversary of the start date.

In June 2019, the Board approved a new lease agreement for the office space, which ultimately terminates the original lease and addendum. The new lease commences January 1, 2020 and expires December 31, 2025. The base rent is \$88,176 annually with a 3% increase each year on the anniversary of the start date.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2018

13. Commitments and Contingencies (Continued)

Future minimum lease payments associated with the operating leases are as follows as of December 31:

2019	\$ 100,091
2020	88,176
2021	90,821
2022	93,546
2023	96,352
Thereafter	201,463
Total	<u>\$ 670,449</u>

Legal Matters

USMS is subject to claims and legal proceedings covering a range of matters that arise in the ordinary course of its activities. Management and their legal counsel believe that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of USMS.

14. Reclassifications

Certain amounts from the 2017 financial statements have been reclassified to conform to the 2018 reporting presentation. Such reclassifications had no effect on the change in net assets previously reported.

15. Subsequent Events

USMS has evaluated all events subsequent to the statement of financial position date of December 31, 2018 through the date these financial statements were available for issuance, July 13, 2019, and have determined that, except as set forth below, there are no subsequent events that require disclosure under FASB Accounting Standards Codification.

In June 2019, the Board approved a new lease agreement for the office space located in Sarasota, Florida. See Note 13.