

UNITED STATES MASTERS SWIMMING, INC.

INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

DECEMBER 31, 2015

(WITH SUMMARIZED FINANCIAL INFORMATION
AS OF DECEMBER 31, 2014)

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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 statement of financial position of United States Masters Swimming, Inc. ("USMS") as of December 31, 2015, 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 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 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USMS as of December 31, 2015 and the results of its operations and its cash flows 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 United States Masters Swimming, Inc.'s 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 21, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements of United States Masters Swimming, Inc. as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sarasota, Florida
July 29, 2016

Kerkering Perkins & Co.

UNITED STATES MASTERS SWIMMING, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	2014 Total
<u>Assets</u>					
Cash and cash equivalents	\$ 1,861,950	\$ 118,190	\$ -	\$ 1,980,140	\$ 2,171,765
Accounts receivable	35,142			35,142	17,947
Promises to give, net		10,005		10,005	15,005
Investments	2,122,502	147,793		2,270,295	2,128,119
Prepaid expenses	198,489			198,489	136,972
Property and equipment, net	105,985			105,985	155,700
Beneficial interest in assets held by Community Foundation		10,190	197,881	208,071	224,989
Total Assets	<u>\$ 4,324,068</u>	<u>\$ 286,178</u>	<u>\$ 197,881</u>	<u>\$ 4,808,127</u>	<u>\$ 4,850,497</u>
<u>Liabilities and Net Assets</u>					
Accounts payable and accrued expenses	\$ 201,288	\$ -	\$ -	\$ 201,288	\$ 175,585
Due to LMSCs and clubs, net	225,679			225,679	253,220
Deferred revenue	1,399,841			1,399,841	1,331,018
Other liabilities	8,652			8,652	7,832
Total liabilities	<u>1,835,460</u>	<u>-</u>	<u>-</u>	<u>1,835,460</u>	<u>1,767,655</u>
Net Assets					
Unrestricted					
Board designated - insurance reserve	120,000			120,000	120,000
Board designated - general reserve	1,146,400			1,146,400	981,200
Undesignated net assets	1,222,208			1,222,208	1,478,330
Temporarily restricted		286,178		286,178	305,431
Permanently restricted			197,881	197,881	197,881
Total net assets	<u>2,488,608</u>	<u>286,178</u>	<u>197,881</u>	<u>2,972,667</u>	<u>3,082,842</u>
Total Liabilities and Net Assets	<u>\$ 4,324,068</u>	<u>\$ 286,178</u>	<u>\$ 197,881</u>	<u>\$ 4,808,127</u>	<u>\$ 4,850,497</u>

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

UNITED STATES MASTERS SWIMMING, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	2014 Total
Revenues and Other Support					
Membership dues	\$ 2,426,090	\$ -	\$ -	\$ 2,426,090	\$ 2,246,545
Sponsorships	361,500			361,500	436,500
Contributions	1,500	92,333		93,833	88,837
Championship meets and events	72,452			72,452	81,360
Publications	48,331			48,331	48,104
Royalties	4,091			4,091	3,200
In-kind contributions	58,066			58,066	83,300
Continuing education	173,334			173,334	118,621
Total revenues and other support	3,145,364	92,333	-	3,237,697	3,106,467
Net assets released from restrictions	108,463	(108,463)		-	-
Total revenues, other support and releases	3,253,827	(16,130)	-	3,237,697	3,106,467
Functional Expenses					
Program services					
Member services	1,783,634			1,783,634	1,705,643
Education services	667,217			667,217	604,534
Events	421,771			421,771	366,222
Total program services	2,872,622	-	-	2,872,622	2,676,399
Supporting services					
General and administrative					
Volunteers	148,604			148,604	95,608
Staff	208,833			208,833	192,342
Fund raising	69,207			69,207	78,078
Total supporting services	426,644	-	-	426,644	366,028
Total functional expenses	3,299,266	-	-	3,299,266	3,042,427
Non-Operating Activities					
Interest and dividends	105,792	332		106,124	63,787
Net realized and unrealized gains (losses) on investments	(123,950)			(123,950)	72,515
Increase (decrease) in value of beneficial interest in assets held by Community Foundation		(3,455)		(3,455)	14,437
Increase in value of promises to give, net				-	714
Other income	200			200	-
Loss on disposal of property, equipment and leasehold improvements	(27,525)			(27,525)	-
Total non-operating activities	(45,483)	(3,123)	-	(48,606)	151,453
Increase (decrease) in net assets	(90,922)	(19,253)	-	(110,175)	215,493
Net assets, beginning of year	2,579,530	305,431	197,881	3,082,842	2,867,349
Net assets, end of year	\$ 2,488,608	\$ 286,178	\$ 197,881	\$ 2,972,667	\$ 3,082,842

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

UNITED STATES MASTERS SWIMMING, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2014)

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ (110,175)	\$ 215,493
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	52,545	56,813
Loss on disposal of property, equipment and leasehold improvements	27,525	-
Net realized and unrealized (gains) losses on investments	121,229	(72,515)
(Increase) in value of promises to give, net	-	(714)
(Increase) decrease in value of beneficial interest in assets held by Community Foundation	3,455	(14,437)
(Increase) decrease in operating assets		
Accounts receivable	(17,195)	33,966
Promises to give, net	5,000	15,003
Prepaid expenses	(61,517)	(65,319)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	25,703	(10,818)
Due to LMSCs and clubs, net	(27,541)	27,848
Deferred revenue	68,823	170,418
Other liabilities	820	2,313
Net cash provided by operating activities	<u>88,672</u>	<u>358,051</u>
Cash Flows from Investing Activities		
Transfers from Community Foundation, net	13,463	13,443
Purchases of investments	(387,240)	(59,839)
Sales of investments	123,835	15,690
Purchases of property and equipment	(30,355)	(8,656)
Net cash used in investing activities	<u>(280,297)</u>	<u>(39,362)</u>
Net increase (decrease) in cash and cash equivalents	(191,625)	318,689
Cash and cash equivalents, beginning of the year	2,171,765	1,853,076
Cash and cash equivalents, end of the year	\$ <u><u>1,980,140</u></u>	\$ <u><u>2,171,765</u></u>

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

UNITED STATES MASTERS SWIMMING, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

Note I - Summary of Significant Accounting Policies

Organization

United States Masters Swimming, Inc. ("USMS") is a private non-profit corporation, organized under the laws of the State of Ohio, to promote health, wellness, fitness and competition for adults through swimming. USMS incorporated in the State of Florida as of October 4, 2015. USMS is administered locally by affiliated Local Masters Swimming Committees ("LMSCs"). Member swimmers and clubs join USMS through their LMSC.

Use of Estimates and Assumptions

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.

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.

Promises to Give, Net

Promises to give are recorded in the year the promise is made and discounted to the present value of estimated cash flows and evaluated for collectability each year. Management has evaluated the promises to give commitments, and determined no allowances for uncollectible promises are required as of December 31, 2015.

Investments

USMS records investments at fair value, which represents the value on the date of purchase plus reinvested earnings and unrealized appreciation or depreciation. Realized and unrealized gains and losses are reported in the statement of activities. Interest and dividends are recognized as revenue in the period they are earned and gains and losses are recognized in the period in which they occur.

UNITED STATES MASTERS SWIMMING, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

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 7 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.

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, totaling \$30,250 during the year ended December 31, 2015. Additionally, during the year ended December 31, 2015, USMS received merchandise with an estimated value of \$27,816 from sponsors to be given to clubs and members at events.

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 generally accepted accounting principles.

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 supplemental schedule of functional expenses. Costs are allocated between the appropriate activities within program and supporting services. Management and general expenses include expenses that are not directly identifiable with any specific function but provide for the overall support and direction of USMS.

Revenue Recognition

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, temporarily restricted net assets are released from temporarily restricted net assets and recognized as unrestricted net assets 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:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

UNITED STATES MASTERS SWIMMING, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

Temporarily restricted net assets - 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 Swimming Saves Lives 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 temporarily restricted until appropriated by the Board of Directors.

Permanently restricted net assets - Net assets 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. Examples include the assets held at the Central Indiana Community Foundation, Inc. ("Community Foundation" or "CICF").

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

USMS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and is classified as an organization which is not a private foundation. 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, 2015, USMS did not incur any income tax expense.

Under the *Income Taxes* Topic of the FASB Accounting Standards Codification, USMS has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with accounting principles generally accepted in the United States of America 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 income tax returns in the U.S. Federal and the State of Florida jurisdictions. The tax periods open to examination by the major taxing jurisdictions to which USMS is subject include the years ended December 31, 2012, through December 31, 2015.

Summarized 2014 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with USMS's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

UNITED STATES MASTERS SWIMMING, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

Note 2 - Promises to Give, Net

Promises to give are expected to be collected during the year ending December 31:

2016	\$	10,005
Promises to Give, net	\$	<u>10,005</u>

Note 3 - Beneficial Interest in Assets Held by Community Foundation

In September 1997, 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 U.S. Masters Swimming 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 Fund are irrevocable. Distributions of annual earnings (including net income and net appreciation, both realized and unrealized) are allocated to the Fund and are available for distribution in accordance with the spending policy established by USMS's Board of Directors ("Board").

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

Note 4 - Property and Equipment, Net

Property and equipment consists of the following as of December 31, 2015:

Furniture and equipment	\$	131,727
Software		122,792
Leasehold improvements		8,392
		<u>262,911</u>
Less: Accumulated depreciation and amortization		(156,926)
Property and equipment, net	\$	<u>105,985</u>

UNITED STATES MASTERS SWIMMING, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

Note 4 - Property and Equipment, Net (Continued)

Depreciation expense for the year ended December 31, 2015 totals \$27,987. Amortization expense for the year ended December 31, 2015 totals \$24,558.

Note 5 - Board Designated Net Assets

USMS, in accordance with their financial operating guidelines, maintains an insurance reserve of \$120,000 for insurance liability deductible and a general reserve totaling four months of their current year budgeted expenses. The general reserve for the year ended December 31, 2015 was \$1,146,400. The Board designated net assets are classified as unrestricted net assets based on the absence of donor-imposed restrictions.

Note 6 - Investments

Investments as of December 31, 2015, are as follows:

	Cost	Fair Value	Accumulated Unrealized Gain (Loss)
Mutual funds - equity			
Small-cap blend	\$ 54,043	\$ 65,028	\$ 10,985
Mid-cap blend	83,480	99,601	16,121
Large-cap blend	591,698	837,687	245,989
Emerging markets	154,189	110,011	(44,178)
Foreign developed	345,561	334,780	(10,781)
Mutual funds - fixed income			
Intermediate-term bond	786,283	775,311	(10,972)
Inflation protected bond	41,119	39,388	(1,731)
Total Mutual funds	2,056,373	2,261,806	205,433
Real Estate			
Real estate funds	4,372	4,531	159
Total Real Estate	4,372	4,531	159
Commodities			
Commodities	4,391	3,958	(433)
Total Commodities	4,391	3,958	(433)
Total investments	\$ 2,065,136	\$ 2,270,295	\$ 205,159

Return Objectives and Strategies

These 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.

UNITED STATES MASTERS SWIMMING, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

Note 6 - Investments (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

USMS has a policy to annually appropriate distributions totaling 4% of the combined average market value of the investment portfolio as of June 30 of the two previous years, but in no event to exceed 5.5% 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.

Note 7 - Endowment Fund

USMS's endowment consists of funds established for the purpose of providing support to USMS to carry out its role and mission as described in their governing documents (see Note 3) and includes donor-restricted funds. As required by accounting principles generally accepted in the United States of America, 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 permanently restricted net assets, is to be classified as temporarily restricted net assets until it is appropriated for expenditure.

In accordance with FUPMIFA, USMS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund;
2. The purposes of USMS and the endowment fund;
3. General economic conditions;
4. The possible effect of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of USMS; and
7. The investment guidelines of USMS.

UNITED STATES MASTERS SWIMMING, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

Note 7 - Endowment Fund (Continued)

Interpretation of Relevant Law (Continued)

Endowment Fund Net Asset Composition by Type of Fund at December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Endowment Fund</u>				
Beginning balance at December 31, 2014	\$ —	\$ 27,108	\$ 197,881	\$ 224,989
Investment return, net of fees		(3,455)		(3,455)
Appropriation for expenditure		(13,463)		(13,463)
Ending balance at December 31, 2015	\$ —	\$ 10,190	\$ 197,881	\$ 208,071

Return Objectives and Risk Parameters

The Endowment Fund's assets are pooled with the investments of the Community Foundation as described above in Note 3 and are invested in accordance with their investment policy. The Community Foundation has adopted the following investment policies for pooled investments: 1) Attempt to provide a predictable stream of funding to programs while seeking to maintain the purchasing power of the fund; 2) 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; 3) 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 4) 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 from this amount.

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 preceeding the calendar year in which the distribution is planned. The purpose of the distribution is to fund its operating budget and special projects.

UNITED STATES MASTERS SWIMMING, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets are generated from donor contributions and are restricted as to use with the following programs as of December 31, 2015:

Swimming Saves Lives	\$ 275,988
Endowment Fund	10,190
Total	<u>\$ 286,178</u>

Note 9 - Permanently Restricted Net Assets

Permanently restricted net assets consisted of the beneficial interest in assets held by the Community Foundation totaling \$197,881 as of December 31, 2015.

Note 10 - Net Assets Released from 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:

Swimming Saves Lives Grants	\$ 95,000
Swimming Saves Lives Operating Support (from CICF)	11,249
CICF Administration Fees	2,214
Net Assets Released from Restrictions	<u>\$ 108,463</u>

Note 11 - Retirement Plan

In January 2014, USMS established 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. Contributions to the retirement plan totaled \$41,106 for the year ended December 31, 2015.

Note 12 - Related Party Transactions

Due to LMSCs and Clubs

USMS and the various LMSCs collect money on each other's behalf from their common members and one check is either received from or written 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, 2015, consists of the following:

Due to LMSCs, net	\$ 209,930
Due to Clubs, net	15,749
Total	<u>\$ 225,679</u>

UNITED STATES MASTERS SWIMMING, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

Note 13 - 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 are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities 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.

UNITED STATES MASTERS SWIMMING, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

Note 13 - Fair Value of Financial Assets (Continued)

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

Mutual Funds - The fair value is the market value based on quoted market prices. All mutual funds 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, 2015. The fair value hierarchy as of December 31, 2015, is allocated based on the percentage of the investments in the respective levels reported on the December 31, 2014, audited financial statements of the Community Foundation. The beneficial interest cannot be redeemed from the Community Foundation.

Description	Assets and Liabilities Measured at Fair Value on a Recurring Basis at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
Available For Sale Securities				
Mutual Funds - Equity				
Small-cap blend	\$ 65,028	\$	\$	\$ 65,028
Mid-cap blend	99,601			99,601
Large-cap blend	837,687			837,687
Emerging markets	110,011			110,011
Foreign developed	334,780			334,780
Total Mutual Funds - Equity	1,447,107	—	—	1,447,107
Mutual Funds - Fixed Income				
Intermediate-term bond	775,311			775,311
Inflation protected bond	39,388			39,388
Total Mutual Funds - Fixed Income	814,699	—	—	814,699
Real Estate				
Real estate funds	4,531			4,531
Total Real Estate	4,531	—	—	4,531
Commodities				
Commodities	3,958			3,958
Total Commodities	3,958	—	—	3,958
Total Available For Sale Securities	2,270,295	—	—	2,270,295

UNITED STATES MASTERS SWIMMING, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

Note 13 - Fair Value of Financial Assets (Continued)

Description	Assets and Liabilities Measured at Fair Value on a Recurring Basis at Reporting Date Using			Total
	Level 1	Level 2	Level 3	
Beneficial Interest in Assets Held by Community Foundation	47,857	120,681	39,533	208,071
Total Assets at Fair Value	\$ 2,318,152	\$ 120,681	\$ 39,533	\$ 2,478,366

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2015:

	Beneficial interest in assets held by Community Foundation
Beginning balance - December 31, 2014	\$ 58,497
Realized and unrealized gains and losses on investments, net of expenses	(18,964)
Ending balance - December 31, 2015	\$ 39,533

The following method and assumption was used by USMS in estimating the fair value of its financial instruments on a non-recurring basis:

Promises to Give, Net - The fair value is estimated by discounting future cash flows using the five year treasury rate. Collectability of these receivables is based on USMS's assumptions using the best information available in the circumstance. Asset balance of \$10,005 is considered Level 3.

Note 14 - Commitments and Contingencies

Operating Leases

On June 1, 2009, USMS signed a 10 year operating lease agreement for office space in Sarasota, Florida expiring on May 31, 2019. Base rent is \$14,832 annually subject to a 3% annual increase.

UNITED STATES MASTERS SWIMMING, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

Note 14 - Commitments and Contingencies (Continued)

Operating Leases (Continued)

Total rent expense for the year ended December 31, 2015, was \$26,298. USMS negotiated to terminate this lease agreement as of December 31, 2015, with an effective date of January 31, 2016. As a result of this termination, USMS recorded a loss of \$27,205 of the remaining leasehold. An accrued termination payment of \$6,835 is included in accrued expenses and is shown in the table of future minimum lease payments.

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.

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

2016	\$ 93,484
2017	87,937
2018	90,575
2019	93,293
2020	96,091
Total	\$ <u>461,380</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.

Note 15 - Subsequent Event

USMS has evaluated all events subsequent to the statement of financial position date of December 31, 2015, through the date these financial statements were available for issuance, July 29, 2016, and have determined that there are no subsequent events that require disclosure under the FASB Accounting Standards Codification.

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. The effect of this update cannot be determined at this time.

UNITED STATES MASTERS SWIMMING, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

Note 15 - Subsequent Event (Continued)

In February 2016, the Financial Accounting Standards Board (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. The effect of this update cannot be determined at this time.

SUPPLEMENTAL INFORMATION

UNITED STATES MASTERS SWIMMING, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2014)

	Program Services				Supporting Services				2015 Total Functional Expenses	2014 Total Functional Expenses
	Member Services	Education Services	Events	Total Program Services	Administrative Volunteers	Staff	Total General and Administrative	Fund Raising		
Salaries, taxes and benefits	\$ 768,496	\$ 336,206	\$ 163,716	\$ 1,268,418	\$ 2,109	\$ 110,216	\$ 112,325	\$ 27,502	\$ 1,408,245	\$ 1,214,234
Advertising and promotion	28,906	26,982	24,881	80,769	3,559	3,231	6,790	17,232	104,791	166,379
Convention	47,192	11,804	11,804	70,800	23,608		23,608		94,408	80,120
Depreciation and amortization	36,128	9,145	4,501	49,774	56	2,183	2,239	532	52,545	56,813
Donations	21,474			21,474	5,000		5,000		26,474	21,414
Dues and subscriptions	4,981	12,514	823	18,318	249	10,196	10,445	75	28,838	35,546
Grants	95,000			95,000			-		95,000	58,000
Insurance	233,723		102,154	335,877		7,590	7,590		343,467	335,618
Occupancy	38,463	31,076	8,534	78,073	3,140	4,742	7,882	1,082	87,037	55,017
Office	27,986	9,737	4,224	41,947	399	1,537	1,936	301	44,184	28,377
Outside services	7,924	75,479	23,409	106,812	23,829	9,165	32,994	18,000	157,806	139,360
Postage	6,739	6,509	3,043	16,291	111	3,677	3,788	3,131	23,210	32,996
Printing	6,599	12,443	1,057	20,099	8	1,326	1,334		21,433	39,466
Professional services	21,671	9,943	4,867	36,481	1,085	31,308	32,393	1,106	69,980	65,706
Publications	333,923		11,057	344,980			-		344,980	380,381
Recognition and awards	324	184	7,168	7,676			-		7,676	8,459
Registration expenses	82,323		8,430	90,753			-		90,753	91,815
Telephone	8,182	5,493	1,512	15,187	26	1,008	1,034	246	16,467	15,986
Travel	13,600	119,702	40,591	173,893	85,425	22,654	108,079		281,972	216,740
Total functional expenses	<u>\$ 1,783,634</u>	<u>\$ 667,217</u>	<u>\$ 421,771</u>	<u>\$ 2,872,622</u>	<u>\$ 148,604</u>	<u>\$ 208,833</u>	<u>\$ 357,437</u>	<u>\$ 69,207</u>	<u>\$ 3,299,266</u>	<u>\$ 3,042,427</u>
Percent of total	<u>54%</u>	<u>20%</u>	<u>13%</u>	<u>87%</u>	<u>5%</u>	<u>6%</u>	<u>11%</u>	<u>2%</u>	<u>100.00%</u>	