

United States Masters Swimming, Inc.

Financial Statements,
Supplemental Information
and Independent Auditor's Report
December 31, 2016
(With Summarized Financial Information
as of December 31, 2015)

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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, 2016, 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.

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, 2016, and the change in its net assets and 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 the 2015 financial statements of USMS, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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 USMS 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.

A handwritten signature in black ink, reading "Kerbering Barheis & Co." in a cursive script.

Sarasota, Florida
July 21, 2017

United States Masters Swimming, Inc.

Statement of Financial Position

December 31, 2016

(With Summarized Comparative Totals For 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Assets					
Cash and cash equivalents	\$ 2,123,194	\$ 150,172	\$ -	\$ 2,273,366	\$ 1,980,140
Accounts receivable	22,169	-	-	22,169	35,142
Promises to give, net	-	-	-	-	10,005
Investments	2,300,757	175,386	-	2,476,143	2,270,295
Prepaid expenses	139,092	-	-	139,092	198,489
Property and equipment, net	77,578	-	-	77,578	105,985
Beneficial interest in assets held by Community Foundation	-	7,764	197,881	205,645	208,071
	<u>-</u>	<u>7,764</u>	<u>197,881</u>	<u>205,645</u>	<u>208,071</u>
Total Assets	\$ <u>4,662,790</u>	\$ <u>333,322</u>	\$ <u>197,881</u>	\$ <u>5,193,993</u>	\$ <u>4,808,127</u>
Liabilities and Net Assets					
Accounts payable and accrued expenses	\$ 192,769	\$ -	\$ -	\$ 192,769	\$ 201,288
Due to LMSCs and clubs, net	226,003	-	-	226,003	225,679
Deferred revenue	1,658,981	-	-	1,658,981	1,399,841
Other liabilities	9,533	-	-	9,533	8,652
Total liabilities	<u>2,087,286</u>	<u>-</u>	<u>-</u>	<u>2,087,286</u>	<u>1,835,460</u>
Net Assets:					
Unrestricted:					
Board designated - insurance reserve	-	-	-	-	120,000
Board designated - opportunity reserve	600,000	-	-	600,000	-
Board designated - general reserve	1,228,200	-	-	1,228,200	1,146,400
Undesignated net assets	747,304	-	-	747,304	1,222,208
Temporarily restricted	-	333,322	-	333,322	286,178
Permanently restricted	-	-	197,881	197,881	197,881
Total net assets	<u>2,575,504</u>	<u>333,322</u>	<u>197,881</u>	<u>3,106,707</u>	<u>2,972,667</u>
Total Liabilities and Net Assets	\$ <u>4,662,790</u>	\$ <u>333,322</u>	\$ <u>197,881</u>	\$ <u>5,193,993</u>	\$ <u>4,808,127</u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Activities

Year Ended December 31, 2016

(With Summarized Comparative Totals For 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Revenues and Other Support:					
Membership dues	\$ 2,579,813	\$ -	\$ -	\$ 2,579,813	\$ 2,422,655
Sponsorships	381,304	-	-	381,304	365,591
Contributions	69	127,423	-	127,492	93,833
Championship meets and events	138,517	-	-	138,517	72,452
Publications	50,232	-	-	50,232	48,331
In-kind contributions	74,717	-	-	74,717	58,066
Continuing education	302,816	-	-	302,816	176,769
Total revenues and other support	3,527,468	127,423	-	3,654,891	3,237,697
Net assets released from restrictions	104,271	(104,271)	-	-	-
Total revenues, other support and releases	3,631,739	23,152	-	3,654,891	3,237,697
Functional Expenses:					
Program services:					
Member services	2,035,116	-	-	2,035,116	1,783,634
Education services	762,967	-	-	762,967	667,217
Events	466,492	-	-	466,492	421,771
Total program services	3,264,575	-	-	3,264,575	2,872,622
Supporting services:					
General and administrative:					
Volunteers	144,419	-	-	144,419	148,604
Staff	242,149	-	-	242,149	208,833
Fund raising	72,644	-	-	72,644	69,207
Total supporting services	459,212	-	-	459,212	426,644
Total functional expenses	3,723,787	-	-	3,723,787	3,299,266
Non-Operating Activities:					
Interest and dividends	65,620	5,160	-	70,780	106,124
Net realized and unrealized gains (losses) on investments	98,432	8,816	-	107,248	(123,950)
Change in value of beneficial interest in assets held by Community Foundation	-	10,016	-	10,016	(3,455)
Other income	15,100	-	-	15,100	200
Loss on disposal of property, equipment and leasehold improvements	(208)	-	-	(208)	(27,525)
Total non-operating activities	178,944	23,992	-	202,936	(48,606)
Change in net assets	86,896	47,144	-	134,040	(110,175)
Net assets, beginning of year	2,488,608	286,178	197,881	2,972,667	3,082,842
Net assets, end of year	\$ 2,575,504	\$ 333,322	\$ 197,881	\$ 3,106,707	\$ 2,972,667

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Cash Flows

Year Ended December 31, 2016

(With Summarized Comparative Information For 2015)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 134,040	\$ (110,175)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	41,670	52,545
Loss on disposal of property, equipment and leasehold improvements	208	27,525
Net realized and unrealized (gains) losses on investments	(107,248)	121,229
Change in value of beneficial interest in assets held by Community Foundation	(10,016)	3,455
Change in operating assets:		
Accounts receivable	12,973	(17,195)
Promises to give, net	10,005	5,000
Prepaid expenses	59,397	(61,517)
Change in operating liabilities:		
Accounts payable and accrued expenses	(8,519)	25,703
Due to LMSCs and clubs, net	324	(27,541)
Deferred revenue	259,140	68,823
Other liabilities	881	820
Net cash provided by operating activities	<u>392,855</u>	<u>88,672</u>
Cash Flows from Investing Activities:		
Transfers from Community Foundation, net	12,442	13,463
Purchases of investments	(215,620)	(387,240)
Sales of investments	117,020	123,835
Purchases of property and equipment	(13,471)	(30,355)
Net cash used in investing activities	<u>(99,629)</u>	<u>(280,297)</u>
Net change in cash and cash equivalents	293,226	(191,625)
Cash and cash equivalents, beginning of the year	1,980,140	2,171,765
Cash and cash equivalents, end of the year	\$ <u><u>2,273,366</u></u>	\$ <u><u>1,980,140</u></u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Notes to Financial Statements

December 31, 2016

1. Organization

United States Masters Swimming, Inc. ("USMS") is a private non-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 join USMS through their LMSC.

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.

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. Realized and unrealized gains and losses are reported in the statement of activities 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 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 \$36,000 during the year ended December 31, 2016. Additionally, during the year ended December 31, 2016, USMS received merchandise with an estimated value of \$38,717 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 GAAP.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2016

2. Summary of Significant Accounting Policies (Continued)

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.

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 ("Board").

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 has been determined by the Internal Revenue Services to be 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, 2016, 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 federal and Florida income tax returns. The tax periods open to examination by the major taxing jurisdictions to which USMS is subject include the years ended December 31, 2013, through December 31, 2016.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2016

2. Summary of Significant Accounting Policies (Continued)

Summarized 2015 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, 2015, 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.

Upcoming Standards

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.

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.

Also, in August 2016, the Financial Accounting Standards Board issued its new not-for-profit accounting guidance in Accounting Standards Update (ASU) No. 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. The update is effective for fiscal years beginning after December 15, 2017. Adoption of the standard will result in significant changes to reporting and disclosures for all not-for-profit entities.

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 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 Fund and are available for distribution in accordance with the spending policy established by USMS's Board.

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, 2016

4. Property and Equipment, Net

Property and equipment consists of the following as of December 31, 2016:

Furniture and equipment	\$ 119,128
Software	122,792
Leasehold improvements	21,863
	<u>263,783</u>
Less: Accumulated depreciation and amortization	(186,205)
Property and equipment, net	<u>\$ 77,578</u>

Depreciation expense for the year ended December 31, 2016 totals \$17,106. Amortization expense for the year ended December 31, 2016 totals \$24,564.

5. Board Designated Net Assets

The Board designated net assets are classified as unrestricted net assets based on the absence of donor-imposed restrictions. The general reserve for the year ended December 31, 2016 was \$1,228,200. In July of 2016, USMS approved a new reserve funds policy. The purpose of the new policy is to ensure the stability of the mission, programs, employment and ongoing operations of the organization. The policy calls for two funds: the operating reserve and the opportunity reserve. The operating reserve is a flexible dollar amount sufficient to maintain ongoing operations and programs for a set period of time.

The opportunity reserve was created to provide funds to meet special targets of opportunity or need that further the mission of the organization. The opportunity reserve 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. The amount of the opportunity reserve was established by the Board at \$600,000.

6. Investments

Investments as of December 31, 2016, are as follows:

	Cost	Fair Value	Accumulated Unrealized Gain (Loss)
Mutual funds – equity:			
Small-cap blend	\$ 54,435	\$ 78,858	\$ 24,423
Mid-cap blend	84,185	113,720	29,535
Large-cap blend	595,027	916,005	320,978
Emerging markets	159,735	125,140	(34,595)
Foreign developed	346,954	330,202	(16,752)
Real estate funds	4,674	4,869	195
Mutual funds - fixed income:			
Intermediate-term bond	865,124	853,124	(12,000)
Inflation protected bond	42,061	41,442	(619)
Total Mutual funds	<u>2,152,195</u>	<u>2,463,360</u>	<u>311,165</u>
ETF - Commodities:			
Commodities	11,532	12,783	1,251
Total ETFs	<u>11,532</u>	<u>12,783</u>	<u>1,251</u>
Total investments	<u>\$ 2,163,727</u>	<u>\$ 2,476,143</u>	<u>\$ 312,416</u>

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2016

6. Investments (Continued)

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.

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. No amounts were transferred during 2016.

7. 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 permanently restricted net assets, is to be classified as temporarily restricted net assets until it is appropriated for expenditure.

Endowment Fund Net Asset Composition by Type of Fund at December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund				
Beginning balance at December 31, 2015	\$ —	\$ 10,190	\$ 197,881	\$ 208,071
Investment return, net of fees	—	10,016	—	10,016
Appropriation for expenditure	—	(12,442)	—	(12,442)
Ending balance at December 31, 2016	\$ —	\$ 7,764	\$ 197,881	\$ 205,645

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2016

7. 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 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 preceding the calendar year in which the distribution is planned. The purpose of the distribution is to fund its Swimming Saves Lives operating expenses.

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, 2016:

Swimming Saves Lives	\$ 325,558
Endowment Fund	7,764
Total	<u>\$ 333,322</u>

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, 2016.

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	\$ 91,829
Swimming Saves Lives Operating Support (from CICF)	10,404
CICF Administration Fees	2,038
Net Assets Released from Restrictions	<u>\$ 104,271</u>

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2016

11. 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 \$42,852 for the year ended December 31, 2016.

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, 2016, consists of the following:

Due to LMSCs, net	\$ 209,035
Due to Clubs, net	16,968
Total	<u>\$ 226,003</u>

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 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.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2016

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, 2016. The fair value hierarchy as of December 31, 2016, is allocated based on the percentage of the investments in the respective levels reported on the December 31, 2015, audited financial statements of the Community Foundation. The beneficial interest cannot be redeemed from the Community Foundation.

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

Description	Level 1	Level 2	Level 3	Total
Available For Sale Securities:				
Mutual Funds – Equity:				
Small-cap blend	\$ 78,858	\$ —	\$ —	\$ 78,858
Mid-cap blend	113,720	—	—	113,720
Large-cap blend	916,005	—	—	916,005
Emerging markets	125,140	—	—	125,140
Foreign developed	330,202	—	—	330,202
Real estate funds	4,869	—	—	4,869
Total Mutual Funds - Equity	1,568,794	—	—	1,568,794
Mutual Funds - Fixed Income:				
Intermediate-term bond	853,124	—	—	853,124
Inflation protected bond	41,442	—	—	41,442
Total Mutual Funds - Fixed Income	894,566	—	—	894,566
ETF - Commodities:				
Commodities	12,783	—	—	12,783
Total ETFs	12,783	—	—	12,783
Total Available For Sale Securities	2,476,143	—	—	2,476,143
Beneficial Interest in Assets Held by Community Foundation	47,298	104,879	53,468	205,645
Total Assets at Fair Value	\$ 2,523,441	\$ 104,879	\$ 53,468	\$ 2,681,788

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2016

13. Fair Value of Financial Assets (Continued)

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, 2016:

	Beneficial interest in assets held by Community Foundation
Beginning balance - December 31, 2015	\$ 39,533
Realized and unrealized gains and losses on investments, net of expenses	13,935
Ending balance - December 31, 2016	<u>\$ 53,468</u>

14. 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.

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

2017	\$ 87,937
2018	90,575
2019	93,293
2020	96,091
Total	<u>\$ 367,896</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.

15. Reclassifications

To facilitate comparison of financial data, certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 reporting presentation. Such reclassifications had no effect on the change in net assets previously reported.

16. Subsequent Events

USMS has evaluated all events subsequent to the statement of financial position date of December 31, 2016, through the date these financial statements were available for issuance, July 21, 2017, and have determined that there are no subsequent events that require disclosure under the FASB Accounting Standards Codification.

Supplemental Information

United States Masters Swimming, Inc.

Schedule of Functional Expenses

Year Ended December 31, 2016

(With Summarized Comparative Totals For 2015)

	Program Services				Supporting Services				2016 Total Functional Expenses	2015 Total Functional Expenses
	Member Services	Education Services	Events	Total Program Services	Administrative Volunteers	Staff	Total General and Administrative	Fund Raising		
Salaries, taxes and benefits	\$ 928,584	\$ 332,290	\$ 204,981	\$ 1,465,855	\$ 7,118	\$ 93,830	\$ 100,948	\$ 42,514	\$ 1,609,317	\$ 1,408,245
Advertising and promotion	58,743	17,581	19,993	96,317	10,558	5,487	16,045	13,049	125,411	104,791
Convention	49,501	9,443	9,443	68,387	19,673	4,722	24,395	-	92,782	94,408
Depreciation and amortization	30,835	6,082	3,453	40,370	103	804	907	393	41,670	52,545
Donations	21,500	-	-	21,500	-	-	-	-	21,500	26,474
Dues and subscriptions	8,121	18,346	1,280	27,747	504	12,084	12,588	159	40,494	28,838
Grants	86,740	-	-	86,740	-	-	-	-	86,740	95,000
Insurance	238,797	10,700	118,306	367,803	2,675	12,468	15,143	-	382,946	343,467
Occupancy	61,259	49,922	13,864	125,045	958	27,212	28,170	2,776	155,991	87,037
Office	26,017	14,210	2,505	42,732	532	1,022	1,554	501	44,787	44,184
Outside services	29,993	88,579	32,030	150,602	37,601	23,748	61,349	2,779	214,730	157,806
Postage	8,999	8,305	2,357	19,661	393	2,768	3,161	5,257	28,079	23,210
Printing	7,205	19,752	856	27,813	374	639	1,013	2,509	31,335	21,433
Professional services	20,772	7,416	4,572	32,760	144	36,600	36,744	1,889	71,393	69,980
Publications	341,159	-	8,978	350,137	-	-	-	-	350,137	344,980
Recognition and awards	470	1,741	3,774	5,985	-	-	-	-	5,985	7,676
Registration expenses	91,439	6,844	6,543	104,826	-	-	-	-	104,826	90,753
Telephone	7,728	4,556	1,332	13,616	42	619	661	283	14,560	16,467
Travel	17,254	167,200	32,225	216,679	63,744	20,146	83,890	535	301,104	281,972
Total functional expenses	<u>\$ 2,035,116</u>	<u>\$ 762,967</u>	<u>\$ 466,492</u>	<u>\$ 3,264,575</u>	<u>\$ 144,419</u>	<u>\$ 242,149</u>	<u>\$ 386,568</u>	<u>\$ 72,644</u>	<u>\$ 3,723,787</u>	<u>\$ 3,299,266</u>
Percent of total	<u>55%</u>	<u>20%</u>	<u>13%</u>	<u>88%</u>	<u>4%</u>	<u>6%</u>	<u>10%</u>	<u>2%</u>	<u>100.00%</u>	