

United States Masters Swimming, Inc.

Financial Statements,
Supplemental Information
and Independent Auditor's Report
December 31, 2017
(With Summarized Financial Information
as of December 31, 2016)

Contents

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position.....	2
Statement of Activities.....	3
Statement of Cash Flows.....	4
Notes to Financial Statements	5
Supplemental Information	
Schedule of Functional Expenses	15



Kerkering, Barberio & Co.
Certified Public Accountants

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, 2017, 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, 2017, 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 2016 financial statements of USMS, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 21, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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 that reads "Kerbering Barkenio & Co." in a cursive script.

Sarasota, Florida
July 20, 2018

United States Masters Swimming, Inc.

Statement of Financial Position

December 31, 2017

(With Summarized Comparative Totals For 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Assets					
Cash and cash equivalents	\$ 1,429,542	\$ 184,786	\$ -	\$ 1,614,328	\$ 2,273,366
Accounts receivable	14,760	-	-	14,760	22,169
Promises to give, net	-	3,850	-	3,850	-
Investments	3,146,623	208,436	-	3,355,059	2,476,143
Prepaid expenses	145,581	-	-	145,581	139,092
Property and equipment, net	288,101	-	-	288,101	77,578
Beneficial interest in assets held by Community Foundation	-	23,101	220,331	243,432	205,645
	<u>5,024,607</u>	<u>420,173</u>	<u>220,331</u>	<u>5,665,111</u>	<u>5,193,993</u>
Total Assets	\$ <u>5,024,607</u>	\$ <u>420,173</u>	\$ <u>220,331</u>	\$ <u>5,665,111</u>	\$ <u>5,193,993</u>
 Liabilities and Net Assets					
Accounts payable and accrued expenses	\$ 185,231	\$ -	\$ -	\$ 185,231	\$ 192,769
Due to LMSCs and clubs, net	201,697	-	-	201,697	226,003
Deferred revenue	1,570,407	1,440	-	1,571,847	1,658,981
Other liabilities	10,439	-	-	10,439	9,533
Total liabilities	<u>1,967,774</u>	<u>1,440</u>	<u>-</u>	<u>1,969,214</u>	<u>2,087,286</u>
 Net Assets:					
Unrestricted:					
Board designated - opportunity reserve	600,000	-	-	600,000	600,000
Board designated - general reserve	1,985,500	-	-	1,985,500	1,228,200
Undesignated net assets	471,333	-	-	471,333	747,304
Temporarily restricted	-	418,733	-	418,733	333,322
Permanently restricted	-	-	220,331	220,331	197,881
Total net assets	<u>3,056,833</u>	<u>418,733</u>	<u>220,331</u>	<u>3,695,897</u>	<u>3,106,707</u>
 Total Liabilities and Net Assets	\$ <u>5,024,607</u>	\$ <u>420,173</u>	\$ <u>220,331</u>	\$ <u>5,665,111</u>	\$ <u>5,193,993</u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Activities

Year Ended December 31, 2017

(With Summarized Comparative Totals For 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Revenues and Other Support:					
Membership dues	\$ 2,755,884	\$ -	\$ -	\$ 2,755,884	\$ 2,579,813
Sponsorships	405,651	-	-	405,651	381,304
Contributions	54	163,224	22,450	185,728	127,492
Championship meets and events	146,520	-	-	146,520	138,517
Publications	37,609	-	-	37,609	50,232
In-kind contributions	92,086	-	-	92,086	74,717
Continuing education	212,164	-	-	212,164	302,816
Total revenues and other support	3,649,968	163,224	22,450	3,835,642	3,654,891
Net assets released from restrictions	134,349	(134,349)	-	-	-
Total revenues, other support and releases	3,784,317	28,875	22,450	3,835,642	3,654,891
Functional Expenses:					
Program services:					
Member services	1,960,994	-	-	1,960,994	2,035,116
Education services	743,715	-	-	743,715	762,967
Events	435,416	-	-	435,416	466,492
College Club	94,805	-	-	94,805	-
Total program services	3,234,930	-	-	3,234,930	3,264,575
Supporting services:					
General and administrative:					
Volunteers	154,382	-	-	154,382	144,419
Staff	202,643	-	-	202,643	242,149
Fund raising and Swimming Saves Lives	95,376	-	-	95,376	72,644
Total supporting services	452,401	-	-	452,401	459,212
Total functional expenses	3,687,331	-	-	3,687,331	3,723,787
Non-Operating Activities:					
Interest and dividends	137,595	8,919	-	146,514	70,780
Net realized and unrealized gains on investments	246,318	19,924	-	266,242	107,248
Change in value of beneficial interest in assets held by Community Foundation	-	27,693	-	27,693	10,016
Other income	100	-	-	100	15,100
Gain (loss) on disposal of property, equipment and leasehold improvements	330	-	-	330	(208)
Total non-operating activities	384,343	56,536	-	440,879	202,936
Change in net assets	481,329	85,411	22,450	589,190	134,040
Net assets, beginning of year	2,575,504	333,322	197,881	3,106,707	2,972,667
Net assets, end of year	\$ 3,056,833	\$ 418,733	\$ 220,331	\$ 3,695,897	\$ 3,106,707

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Cash Flows

Year Ended December 31, 2017

(With Summarized Comparative Information For 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 589,190	\$ 134,040
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	36,046	41,670
(Gain)/loss on disposal of property, equipment and leasehold improvements	(330)	208
Net realized and unrealized gains on investments	(266,242)	(107,248)
Change in value of beneficial interest in assets held by Community Foundation	(27,693)	(10,016)
Change in operating assets:		
Accounts receivable	7,409	12,973
Promises to give, net	(3,850)	10,005
Prepaid expenses	(6,489)	59,397
Change in operating liabilities:		
Accounts payable and accrued expenses	(7,538)	(8,519)
Due to LMSCs and clubs, net	(24,306)	324
Deferred revenue	(87,134)	259,140
Other liabilities	906	881
Net cash provided by operating activities	<u>209,969</u>	<u>392,855</u>
Cash Flows from Investing Activities:		
Transfers to/from Community Foundation, net	(10,094)	12,442
Purchases of investments	(1,272,748)	(215,620)
Sales of investments	660,074	117,020
Purchases of property and equipment	(246,239)	(13,471)
Net cash used in investing activities	<u>(869,007)</u>	<u>(99,629)</u>
Net change in cash and cash equivalents	(659,038)	293,226
Cash and cash equivalents, beginning of the year	2,273,366	1,980,140
Cash and cash equivalents, end of the year	\$ <u><u>1,614,328</u></u>	\$ <u><u>2,273,366</u></u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Notes to Financial Statements

December 31, 2017

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 fulfills its mission with the following programs:

- Membership Services ("MS") includes exclusive fitness and health information and content via SWIMMER magazine, e-newsletters, and the website. MS also include supplemental insurance coverage during workouts, clinics, and competitions. Members are also eligible to receive discounts and benefits from sponsor partners.
- Education Services ("ES") includes club development and support to assist clubs and potential clubs in expanding or starting local programs. ES also trains 950 coaches and instructors annually by conducting courses for coaches and adult learn-to-swim instructors.
- USMS Swimming Saves Lives ("SSL") is the charitable arm of USMS and gives 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 1,000 adults with the opportunity to learn to swim.
- 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, fitness events, and virtual competitions.
- College Club Swimming ("CCS") provides the structure and support to unify 125 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.

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.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2017

2. 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 \$36,000 during the year ended December 31, 2017. Additionally, during the year ended December 31, 2017, USMS received merchandise with an estimated value of \$56,086 from sponsors to be given to clubs and members at events. The merchandise also supports educational programs and the organization's Swimming Saves Lives 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 supplemental schedule 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.

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").

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2017

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

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 Service 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, 2017, 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 the major taxing jurisdictions to which USMS is subject include the years ended December 31, 2014, through December 31, 2017.

Summarized 2016 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, 2016, 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 May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, *Disclosure for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which amends the disclosure requirements of Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, for reporting entities that measure the fair value of an investment using the net asset value (NAV) per share (or its equivalent) as a practical expedient. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy and make certain disclosure for all investments for which fair value is measured using the NAV per share practical expedient. The Organization elected to adopt ASU 2015-07 for its fiscal year ended December 31, 2017.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2017

2. Summary of Significant Accounting Policies (Continued)

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 and it is not expected to have a material impact.

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 ASU No. 2016-14 is expected to 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 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.

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.

4. Property and Equipment, Net

Property and equipment consists of the following as of December 31, 2017:

Furniture and equipment	\$ 99,212
Software	366,530
Leasehold improvements	24,694
	<u>490,436</u>
Less: Accumulated depreciation and amortization	(202,335)
Property and equipment, net	<u>\$ 288,101</u>

Depreciation expense for the year ended December 31, 2017 totals \$11,482. Amortization expense for the year ended December 31, 2017 totals \$24,564.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2017

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, 2017 was \$1,985,500. The purpose of the reserve is to ensure the stability of the mission, programs, staffing and ongoing operations of the organization. The policy calls for two funds: the general reserve and the opportunity reserve. The general reserve is a flexible dollar amount sufficient to maintain ongoing operations and programs for a set period of time.

The opportunity reserve provides funds to meet special targets of opportunity or needs 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 initial amount of the opportunity reserve established by the Board was \$600,000.

6. Investments

Investments as of December 31, 2017 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Accumulated Unrealized Gain (Loss)</u>
Mutual funds – equity:			
Small-cap blend	\$ 59,601	\$ 85,138	\$ 25,537
Mid-cap blend	96,362	135,008	38,646
Large-cap blend	656,778	1,085,057	428,279
Emerging markets	213,024	223,615	10,591
Foreign developed	470,683	529,095	58,412
Real estate funds	3,675	4,215	540
Mutual funds - fixed income:			
Intermediate-term bond	1,021,073	1,016,336	(4,737)
Total Mutual funds	<u>2,521,196</u>	<u>3,078,464</u>	<u>557,268</u>
ETFs:			
Equities	41,343	56,296	14,953
Infrastructure	117,486	122,094	4,608
Fixed income	83,792	82,660	(1,132)
Alternatives	12,577	15,545	2,968
Total ETFs	<u>255,198</u>	<u>276,595</u>	<u>21,397</u>
Total investments	<u>\$ 2,776,394</u>	<u>\$ 3,355,059</u>	<u>\$ 578,665</u>

The Board approved and transferred \$500,000 to the organization's investment portfolio in 2017.

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.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2017

6. Investments (Continued)

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.

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, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Fund				
Beginning balance at December 31, 2016	\$ —	\$ 7,764	\$ 197,881	\$ 205,645
Investment return, net of fees	—	27,693	—	27,693
Appropriation for expenditure	—	(12,356)	—	(12,356)
Contributions	—	—	22,450	22,450
Ending balance at December 31, 2017	\$ —	\$ 23,101	\$ 220,331	\$ 243,432

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 the Community Foundation's 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.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2017

7. Endowment Fund (Continued)

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, 2017:

Swimming Saves Lives	\$ 395,632
Endowment Fund	23,101
Total	<u>\$ 418,733</u>

9. Permanently Restricted Net Assets

Permanently restricted net assets consist of the beneficial interest in assets held by the Community Foundation totaling \$220,331 as of December 31, 2017.

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	\$ 121,993
Swimming Saves Lives Operating Support (from CICF)	10,282
CICF Administration Fees	2,074
Net Assets Released from Restrictions	<u>\$ 134,349</u>

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 \$46,190 for the year ended December 31, 2017.

12. 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, 2017, consists of the following:

Due to LMSCs, net	\$ 186,959
Due to Clubs, net	14,738
Total	<u>\$ 201,697</u>

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2017

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.

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, 2017. The fair value hierarchy as of December 31, 2017 is allocated based on the percentage of the investments in the respective levels reported on the December 31, 2016 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, 2017

13. 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	\$ 85,138	\$ —	\$ —	\$ —	\$ 85,138
Mid-cap blend	135,008	—	—	—	135,008
Large-cap blend	1,085,057	—	—	—	1,085,057
Emerging markets	223,615	—	—	—	223,615
Foreign developed	529,095	—	—	—	529,095
Real estate funds	4,215	—	—	—	4,215
Total Mutual Funds - Equity	<u>2,062,128</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,062,128</u>
Mutual Funds - Fixed Income:					
Intermediate-term bond	1,016,336	—	—	—	1,016,336
Total Mutual Funds - Fixed Income	<u>1,016,336</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,016,336</u>
ETFs:					
Equities	56,296	—	—	—	56,296
Infrastructure	122,094	—	—	—	122,094
Fixed income	82,660	—	—	—	82,660
Alternatives	15,545	—	—	—	15,545
Total ETFs	<u>276,595</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>276,595</u>
Total Available For Sale Securities	<u>3,355,059</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,355,059</u>
Beneficial Interest in Assets Held by Community Foundation					
	<u>73,030</u>	<u>—</u>	<u>—</u>	<u>170,402</u>	<u>243,432</u>
Total Assets at Fair Value	<u>\$ 3,428,089</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 170,402</u>	<u>\$ 3,598,491</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. On January 10, 2018, USMS signed an addendum to the lease to rent additional office space in 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.

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

2018	\$ 96,075
2019	100,091
2020	103,094
Total	<u>\$ 299,260</u>

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2017

14. Commitments and Contingencies (Continued)

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

Certain amounts from the 2016 financial statements have been reclassified to conform to the 2017 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, 2017 through the date these financial statements were available for issuance, July 20, 2018, and have determined that there are no subsequent events that require disclosure under FASB Accounting Standards Codification.

Supplemental Information

United States Masters Swimming, Inc.

Schedule of Functional Expenses

Year Ended December 31, 2017

(With Summarized Comparative Totals For 2016)

	Program Services					Supporting Services					2017 Total Functional Expenses	2016 Total Functional Expenses
	Member Services	Education Services	Events	College Club	Total Program Services	Administrative Volunteers	Staff	Total General and Administrative	Fund Raising and Swimming Saves Lives			
Advertising and promotion	\$ 52,343	\$ 11,246	\$ 16,002	\$ 17,299	\$ 96,890	\$ 2,952	\$ 4,547	\$ 7,499	\$ 16,078	\$ 120,467	\$ 125,411	
Annual meeting	48,689	9,017	9,017	902	67,625	18,031	3,607	21,638	902	90,165	92,782	
Depreciation and amortization	27,252	4,821	2,561	241	34,875	172	666	838	333	36,046	41,670	
Donations	21,500	-	-	-	21,500	-	-	-	-	21,500	21,500	
Dues and subscriptions	7,635	17,604	917	914	27,070	485	13,379	13,864	319	41,253	40,494	
Grants	118,943	-	-	-	118,943	-	-	-	-	118,943	86,740	
Insurance	226,578	10,700	106,199	2,675	346,152	2,675	13,229	15,904	-	362,056	382,946	
Occupancy	67,855	50,934	13,662	2,902	135,353	4,239	6,072	10,311	3,207	148,871	155,991	
Office	14,557	13,220	1,809	383	29,969	538	1,124	1,662	1,116	32,747	44,787	
Outside services	62,806	99,367	44,607	12,200	218,980	5,271	10,211	15,482	14,792	249,254	214,730	
Postage	6,974	8,398	2,206	1,199	18,777	217	2,540	2,757	1,794	23,328	28,079	
Printing	9,985	16,422	997	35	27,439	335	380	715	4,932	33,086	31,335	
Professional services	19,980	7,416	4,176	756	32,328	13,514	34,488	48,002	2,035	82,365	71,393	
Publications	286,416	-	7,537	-	293,953	-	-	-	-	293,953	350,137	
Recognition and awards	619	735	2,299	-	3,653	-	-	-	-	3,653	5,985	
Registration expenses	79,226	2,855	7,774	1,153	91,008	-	-	-	-	91,008	104,826	
Salaries, taxes and benefits	892,186	331,180	184,558	33,750	1,441,674	23,916	92,718	116,634	48,865	1,607,173	1,609,317	
Telephone	5,758	4,614	1,252	227	11,851	162	881	1,043	314	13,208	14,560	
Travel	11,692	155,186	29,843	20,169	216,890	81,875	18,801	100,676	689	318,255	301,104	
Total functional expenses	<u>\$ 1,960,994</u>	<u>\$ 743,715</u>	<u>\$ 435,416</u>	<u>\$ 94,805</u>	<u>\$ 3,234,930</u>	<u>\$ 154,382</u>	<u>\$ 202,643</u>	<u>\$ 357,025</u>	<u>\$ 95,376</u>	<u>\$ 3,687,331</u>	<u>\$ 3,723,787</u>	
Percent of total	<u>53%</u>	<u>20%</u>	<u>12%</u>	<u>3%</u>	<u>88%</u>	<u>4%</u>	<u>5%</u>	<u>9%</u>	<u>3%</u>	<u>100.00%</u>		