

United States Masters Swimming, Inc.

Financial Statements and
Independent Auditor's Report
December 31, 2021

(With Summarized Financial Information
as of December 31, 2020)

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of United States Masters Swimming, Inc. ("USMS"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of USMS as of December 31, 2021, and the change in its net assets, cash flows, and functional expenses, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of USMS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about USMS's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 USMS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about USMS's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the 2020 financial statements of USMS, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 30, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Sarasota, Florida
June 23, 2022

United States Masters Swimming, Inc.

Statement of Financial Position

December 31, 2021

(With Summarized Comparative Totals For 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
Assets				
Cash and cash equivalents	\$ 1,410,230	\$ 164,341	\$ 1,574,571	\$ 1,219,644
Accounts receivable	152,180	-	152,180	153,288
Investments	3,906,244	430,416	4,336,660	3,755,798
Prepaid expenses	180,399	-	180,399	136,994
Property and equipment, net	610,534	-	610,534	578,988
Beneficial interest in assets held by Endowment Fund	-	473,288	473,288	388,093
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 6,259,587</u>	<u>\$ 1,068,045</u>	<u>\$ 7,327,632</u>	<u>\$ 6,232,805</u>
Liabilities and Net Assets				
Accounts payable and accrued expenses	\$ 333,905	\$ -	\$ 333,905	\$ 133,744
Due to LMSCs and clubs, net	229,668	-	229,668	213,134
Deferred revenue	1,583,614	-	1,583,614	1,226,392
Other liabilities	68,361	-	68,361	9,209
Total liabilities	<u>2,215,548</u>	<u>-</u>	<u>2,215,548</u>	<u>1,582,479</u>
Net Assets:				
Without donor restrictions:				
Board designated - General Reserve	1,526,500	-	1,526,500	2,135,100
Board designated - Opportunity Reserve	600,000	-	600,000	600,000
Undesignated net assets	1,917,539	-	1,917,539	931,098
Total net assets without donor restrictions	<u>4,044,039</u>	<u>-</u>	<u>4,044,039</u>	<u>3,666,198</u>
With donor restrictions:				
Purpose restriction - Swimming Saves Lives	-	594,757	594,757	596,035
Purpose restriction - unappropriated endowment income	-	127,151	127,151	41,956
Perpetual in nature - Endowment Fund	-	346,137	346,137	346,137
Total net assets with donor restrictions	<u>-</u>	<u>1,068,045</u>	<u>1,068,045</u>	<u>984,128</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net assets	<u>4,044,039</u>	<u>1,068,045</u>	<u>5,112,084</u>	<u>4,650,326</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u>\$ 6,259,587</u>	<u>\$ 1,068,045</u>	<u>\$ 7,327,632</u>	<u>\$ 6,232,805</u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Activities

Year Ended December 31, 2021

(With Summarized Comparative Totals For 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
Revenues and Other Support:				
Membership dues	\$ 2,463,512	\$ -	\$ 2,463,512	\$ 2,302,710
Sponsorships	342,515	-	342,515	359,081
Contributions	1,667	4,465	6,132	154,923
Championship meets and events	117,478	-	117,478	68,171
Publications	13,320	-	13,320	34,651
In-kind contributions	52,384	-	52,384	51,091
Continuing education	69,465	-	69,465	32,485
Government grant revenue	275,631	-	275,631	286,885
Total revenues and other support	<u>3,335,972</u>	<u>4,465</u>	<u>3,340,437</u>	<u>3,289,997</u>
Net assets released from restrictions	61,883	(61,883)	-	-
Total revenues, other support, and releases	<u>3,397,855</u>	<u>(57,418)</u>	<u>3,340,437</u>	<u>3,289,997</u>
Functional Expenses:				
Program services:				
Member services	2,012,019	-	2,012,019	1,842,020
Education services	121,887	-	121,887	407,857
Events	521,502	-	521,502	278,157
College Club	264,639	-	264,639	90,488
Total program services	<u>2,920,047</u>	<u>-</u>	<u>2,920,047</u>	<u>2,618,522</u>
Supporting services:				
General and administrative:				
Administrative volunteers	261,550	-	261,550	237,975
Staff	187,414	-	187,414	177,624
Total general and administrative	<u>448,964</u>	<u>-</u>	<u>448,964</u>	<u>415,599</u>
Fundraising and USA Swimming	37,368	-	37,368	131,513
Total supporting services	<u>486,332</u>	<u>-</u>	<u>486,332</u>	<u>547,112</u>
Total functional expenses	<u>3,406,379</u>	<u>-</u>	<u>3,406,379</u>	<u>3,165,634</u>
Change in net assets from operations	<u>(8,524)</u>	<u>(57,418)</u>	<u>(65,942)</u>	<u>124,363</u>
Non-Operating Activities:				
Net investment return	381,365	33,349	414,714	337,953
Change in value of beneficial interest in assets held by Endowment Fund	-	107,986	107,986	36,899
Other income	5,000	-	5,000	2,500
Total non-operating activities	<u>386,365</u>	<u>141,335</u>	<u>527,700</u>	<u>377,352</u>
Change in net assets	377,841	83,917	461,758	501,715
Net assets, beginning of year	3,666,198	984,128	4,650,326	4,148,611
Net assets, end of year	<u>\$ 4,044,039</u>	<u>\$ 1,068,045</u>	<u>\$ 5,112,084</u>	<u>\$ 4,650,326</u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ <u>461,758</u>	\$ <u>501,715</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	165,633	152,791
Net realized and unrealized gains on investments	(296,003)	(243,758)
Change in value of beneficial interest in assets held by Endowment Fund	(107,986)	(36,899)
Change in operating assets:		
Accounts receivable	1,108	49,883
Prepaid expenses	(43,405)	70,689
Change in operating liabilities:		
Accounts payable and accrued expenses	200,161	(147,381)
Due to LMSCs and clubs, net	16,534	(12,058)
Deferred revenue	357,222	(329,242)
Other liabilities	<u>59,152</u>	<u>(1,183)</u>
Net cash provided by operating activities	<u>814,174</u>	<u>4,557</u>
Cash Flows from Investing Activities:		
Transfers to/from Endowment Fund, net	22,791	21,462
Purchases of investments	(670,034)	(704,395)
Sales of investments	385,175	735,436
Purchases of property and equipment	<u>(197,179)</u>	<u>(160,835)</u>
Net cash used in investing activities	<u>(459,247)</u>	<u>(108,332)</u>
Net change in cash and cash equivalents	354,927	(103,775)
Cash and cash equivalents, beginning of the year	<u>1,219,644</u>	<u>1,323,419</u>
Cash and cash equivalents, end of the year	\$ <u><u>1,574,571</u></u>	\$ <u><u>1,219,644</u></u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Functional Expenses

Year Ended December 31, 2021

(With Summarized Comparative Totals For 2020)

	Program Services					Supporting Services					2021 Total Functional Expenses	2020 Total Functional Expenses
	Member Services	Education Services	Events	College Club	Total Program Services	Administrative Volunteers	Staff	Total General and Administrative	Fundraising and USA Swimming			
Advertising and promotion	\$ 75,023	\$ 4,848	\$ 22,393	\$ 13,515	\$ 115,779	\$ 11,841	\$ 6,163	\$ 18,004	\$ 1,874	\$ 135,657	\$ 80,944	
Compensation	916,395	39,295	234,682	165,755	1,356,127	123,228	80,007	203,235	25,174	1,584,536	1,438,509	
Annual Meeting	-	-	-	-	-	2,275	-	2,275	-	2,275	2,816	
Depreciation and amortization	92,092	4,094	24,595	17,297	138,078	16,398	8,452	24,850	2,705	165,633	152,791	
Grants and donations	49,092	-	15,231	-	64,323	-	-	-	-	64,323	94,591	
Information technology	277,928	16,892	38,449	4,271	337,540	26,056	17,571	43,627	47	381,214	374,660	
Insurance	193,009	8,508	43,396	30,336	275,249	28,554	15,904	44,458	4,538	324,245	283,872	
Occupancy	42,072	3,660	10,732	7,738	64,202	7,195	3,769	10,964	1,179	76,345	107,803	
Office	23,917	10,405	10,988	1,355	46,665	2,514	4,327	6,841	1,665	55,171	73,298	
Outside services	4,315	12,631	61,456	19,379	97,781	3,571	1,017	4,588	45	102,414	65,575	
Professional services and fees	5,808	5,801	1,639	263	13,511	36,458	41,643	78,101	32	91,644	85,868	
Publications	212,520	-	-	-	212,520	-	-	-	-	212,520	233,867	
Registration expenses	108,886	1,087	24,521	3,618	138,112	-	-	-	-	138,112	116,309	
Travel	10,962	14,666	33,420	1,112	60,160	3,460	8,561	12,021	109	72,290	54,731	
Total functional expenses	<u>\$ 2,012,019</u>	<u>\$ 121,887</u>	<u>\$ 521,502</u>	<u>\$ 264,639</u>	<u>\$ 2,920,047</u>	<u>\$ 261,550</u>	<u>\$ 187,414</u>	<u>\$ 448,964</u>	<u>\$ 37,368</u>	<u>\$ 3,406,379</u>	<u>\$ 3,165,634</u>	
Percent of total	<u>59%</u>	<u>4%</u>	<u>15%</u>	<u>8%</u>	<u>86%</u>	<u>7%</u>	<u>6%</u>	<u>13%</u>	<u>1%</u>	<u>100%</u>		

See accompanying notes to financial statements

United States Masters Swimming, Inc.

Notes to Financial Statements

December 31, 2021

I. Description of Organization and Nature of Activities

United States Masters Swimming, Inc. (“USMS”) is a 501(c)(3) 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”).

USMS serves its members with the following programs:

- Member Services (“MS”) includes exclusive fitness and health information and content via SWIMMER magazine, e-newsletters, and the website. MS provides supplemental insurance coverage during workouts, clinics, and competitions. Members are also eligible to receive discounts and benefits from sponsor partners. The charitable arm of USMS, USMS Swimming Saves Lives (“SSL”), allows members an opportunity to give back to the community through donations and teaching adults how to swim. Annually, grants are awarded to SSL programs that provide adults with the opportunity to learn to swim. During 2021, USMS transitioned its fundraising and related grant issuance process and administrative activities to the USA Swimming Foundation, Inc. (the “Foundation”), a 501(c)3 with a mission broadly consistent with that of USMS. This transition has allowed USMS to streamline its processes and reduce costs while still allowing its members and other donors to continue to support the initiative of teaching adults to learn to swim.
- Education Services (“ES”) includes club development and support to assist clubs and potential clubs in expanding or starting local programs. ES also trains coaches and instructors by conducting courses for coaches and adult learn-to-swim instructors.
- Events include providing structure and support, recognition, and communication services for swimming competitions and events. This includes Spring and Summer Nationals, open water swims, long-distance pool swims, virtual competitions, and fitness events, some of which also serve as the fundraisers for the Foundation.
- College Club Swimming (“CCS”) provides the structure and support to unify college club swim programs across the country. CCS provides the rules, calendar of events, results database, and communications to registered clubs. CCS is run by an advisory board made up of CCS swimmers and is supported by USMS.

USMS supports its Programs with the following:

- Administrative Volunteers includes administrative expenses incurred by volunteers and allocations of USMS national office expenses for overhead and staff compensation related to volunteer activities.
- Staff includes allocations of administrative expenses incurred by the USMS national office for overhead and staff compensation.
- Fundraising and the Foundation includes advertising and promotional campaigns to encourage giving and volunteers' involvement and allocations for processing and acknowledging donors' gifts, supporting volunteers' fundraising activities and staff compensation for grant support.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2021

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 consists primarily of sponsorships. Management believes all balances are collectible; accordingly, no allowance for doubtful accounts has been established. Receivables are unsecured and non-interest-bearing.

Investments

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

Property and Equipment, Net

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

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

Net Assets

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

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

Net assets with donor restrictions - Net assets subject to explicit or implicit donor-imposed stipulations that may or will be met either by actions of USMS or the passage of time. 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 Fund investments are considered net assets with donor restrictions until appropriated by the Board of Directors ("Board").

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2021

2. Summary of Significant Accounting Policies (Continued)

Net Assets (Continued)

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

Revenue Recognition

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

Government Grant Revenue

During 2021 and 2020, USMS was granted two loans under the Paycheck Protection Program (“PPP Loan”), administered by a U.S. Small Business Administration (“SBA”) approved partner. Both PPP Loans were uncollateralized, fully guaranteed by the federal government and recognized as grant revenue in the year issued in accordance with the appropriate guidance for conditional contributions. As such, USMS recognized the full amount of the PPP Loan granted in 2020 totaling \$276,885 as revenue in the year ended December 31, 2020, as all conditions for forgiveness were determined to be met at year end. The loan was formally forgiven by the SBA in April of 2021. Further, the loan granted USMS in 2021 totaling \$275,631 was also recognized as revenue in the year ended December 31, 2021, as all conditions for forgiveness were determined to be met and the loan was forgiven by the SBA prior to year end.

USMS was also granted \$10,000 from the SBA, pursuant to the Economic Injury Disaster Loan (“EIDL”) under Division A, Title I of the CARES Act. The First Draw PPP Loan and the EIDL are classified as government grant revenue in the accompanying Statement of Activities for the year ended December 31, 2020.

In-Kind Contributions

Donated goods and services are recorded at their estimated or actual fair market value at the date of the gift. USMS received donated legal services performed by Legal Counsel, a non-voting director, approximating \$33,750 during the year ended December 31, 2021. Additionally, during the year ended December 31, 2021, USMS received merchandise with an estimated value of \$18,634 from sponsors to be given to clubs and members at events. The merchandise also supports educational programs and the organization’s Foundation 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.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2021

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 Statement of Functional Expenses. Costs are allocated between the appropriate activities within program and supporting services. General and administrative expenses include expenses that are not directly identifiable with any specific function but provide for the overall support and direction of USMS. Expenses that are not identifiable to a specific activity are allocated based upon estimated time and effort and include compensation, depreciation, and other services expenses.

Deferred Revenue

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

Income Taxes

The Internal Revenue Service has determined that USMS is exempt from taxation and is 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, 2021, USMS did not incur any income tax expense.

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

USMS files federal and Florida income tax returns. The tax periods open to examination by these taxing jurisdictions to which USMS is subject include the years ended December 31, 2018, through December 31, 2021.

Summarized 2020 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' financial statements for the year ended December 31, 2020, 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, amounts due to LMSCs and clubs, deferred revenue and other liabilities.

Concentration of Credit Risk and Economic Risk

Financial instruments that potentially subject USMS to credit risk include cash and various investments. USMS places its cash and investments with high credit quality financial institutions. During the year, USMS had deposits with financial institutions which exceeded FDIC insurance limits. USMS has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk from cash and cash equivalents.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2021

2. Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk and Economic Risk (Continued)

Investment securities are exposed to interest rate, market, credit and other risks depending on the nature of the specific investment.

Recently Issued Pronouncement

ASU No. 2016-02, Leases (Topic 842)

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, Leases (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, 2022. USMS is currently evaluating the impact of ASU No. 2016-02 on the financial statements.

ASU No. 2020-07, Not-for-Profit Entities (Topic 958)

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 requires additional disclosures of in-kind gifts received by a not-for-profit organization. The new standard does not affect the amount or timing of revenue from in-kind donations. This update is effective for the fiscal years beginning after June 15, 2021 and must be reported retrospectively. USMS has evaluated the impact of ASU No. 2020-07 and it is not expected to have a material impact on the financial statements.

3. Liquidity and Availability

Financial assets available within one year of the Statement of Financial Position date for general expenditures can be derived from the financial statements as follows:

	2021
Cash and cash equivalents	\$ 1,574,571
Accounts receivable	152,180
Investments	4,336,660
Beneficial interest in assets held by Endowment Fund	473,288
Total financial assets available	<u>6,536,699</u>
Less: Amounts unavailable for general expenditures within one year due to:	
Restricted by donors with purpose restrictions	(721,908)
Restricted by donors in perpetuity	(346,137)
Total amounts unavailable for general expenditures within one year	<u>(1,068,045)</u>
Amounts unavailable to management without Board approval:	
Board designated – General Reserve	(1,526,500)
Board designated – Opportunity Reserve	(600,000)
Total amounts unavailable without Board approval	<u>(2,126,500)</u>
Total financial assets available to management for general expenditure within one year	\$ <u>3,342,154</u>

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

The Endowment Fund consists of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2021

3. Liquidity and Availability (Continued)

The Board designated net assets are classified as net assets without donor restrictions. The Board has established two reserves, the General Reserve and the Opportunity Reserve. Although USMS does not intend to spend from these reserves, except for the stated purposes, these amounts could be made available if necessary.

To further supplement liquidity, USMS has a \$500,000 line of credit with a commercial bank which it can draw upon if conditions dictate. See Note 7.

4. Beneficial Interest in Assets Held by Endowment Fund

USMS entered into an agreement with the Central Indiana Community Foundation (the "CICF"), whereby USMS transferred assets to the CICF in the establishment of an endowment fund known as the USMS Endowment Fund ("Endowment Fund"). The aforementioned agreement grants power to the CICF, 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 the Board. See Note 9.

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

5. Investments

Investments as of December 31, 2021, are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Accumulated Unrealized Gain</u>
Equity Mutual Funds	\$ 1,484,443	\$ 2,485,624	\$ 1,001,181
Fixed Income Mutual Funds	1,538,907	1,560,008	21,101
Equity ETFs	119,544	222,057	102,513
Fixed Income ETFs	36,844	41,920	5,076
Alternative ETFs	23,790	27,051	3,261
Total investments	<u>\$ 3,203,528</u>	<u>\$ 4,336,660</u>	<u>\$ 1,133,132</u>

Net investment return is comprised of the following for the year ended December 31, 2021:

Interest and dividend income	\$ 142,966
Realized and unrealized gains, net	294,263
Investment advisory fees	(22,515)
Total	<u>\$ 414,714</u>

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2021

6. Property and Equipment, Net

Property and equipment consist of the following as of December 31, 2021:

Furniture and equipment	\$ 55,285
Software	1,186,019
Leasehold improvements	23,072
	<u>1,264,376</u>
Less: Accumulated depreciation and amortization	(653,842)
Property and equipment, net	<u>\$ 610,534</u>

Depreciation and amortization expense for the year ended December 31, 2021, totaled \$165,633.

7. Line of Credit

In November 2020, USMS opened a \$500,000 revolving line of credit with a commercial bank that matures on November 3, 2022. A variable interest rate equal to the Wall Street Journal prime rate plus 1.0% is charged on all outstanding borrowings. The interest rate as of December 31, 2021, was 4.25%. The line of credit is collateralized by the assets of USMS. There was no outstanding balance on the line of credit as of December 31, 2021.

8. Board Designated Net Assets

Board designated net assets are classified as net assets without donor restrictions based on the absence of donor-imposed restrictions. The Board established two funds: the General Reserve and the Opportunity Reserve.

The General Reserve provides funds to ensure the stability of the mission, programs, staffing and ongoing operations of the organization. It is a flexible dollar amount sufficient to maintain ongoing operations and programs for a set period of time. For the year ended December 31, 2021, the General Reserve was \$1,526,500.

The Opportunity Reserve provides funds to meet special targets of opportunity or needs that further the mission of the organization. It is also intended as a source of internal funds for organizational capacity such as staff development, research and development, or investment in infrastructure that will build long-term capacity. As of December 31, 2021, the Opportunity Reserve was \$600,000, which is the initial amount established by the Board.

9. Endowment Fund

USMS' 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 in perpetuity. Any portion of the endowment, including investment income, which is not classified as net assets with donor restrictions-perpetual in nature, is to be classified as net assets with donor restrictions-purpose restricted until it is appropriated for expenditure.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2021

9. Endowment Fund (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level classified as net assets with donor restrictions that are perpetual in nature. These deficiencies result from unfavorable market fluctuations. There were no deficiencies of this nature reported in net assets without donor restrictions as of December 31, 2021.

Endowment Net Asset Composition

As of December 31, 2021, endowment net assets consisted of the following:

	With Donor Restrictions
Donor-restricted endowment balance	\$ 346,137
Unappropriated income with purpose restrictions	127,151
Total endowment funds	<u>\$ 473,288</u>

Change in Endowment Net Assets

Changes in endowment net assets for the year ended December 31, 2021, are as follows:

	With Donor Restrictions
Endowment Fund	
Beginning balance at December 31, 2020	\$ 388,093
Investment return, net of fees	107,986
Appropriations for expenditure	(22,791)
Ending balance at December 31, 2021	<u>\$ 473,288</u>

Return Objectives and Risk Parameters

The Endowment Fund's assets are pooled with the investments of the CICF as described above in Note 4 and are invested in accordance with the CICF's investment policy. The CICF has adopted an investment policy for pooled investments that attempts to provide a predictable stream of funding to programs; invest in a manner that is intended to produce results that exceed each investment strategy's respective index; achieve an annualized total return (net of fees and expenses); and manage the assets in a manner that will meet the primary investment objective. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, USMS relies on a total return strategy of the CICF 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 CICF, currently 5% of the fair value of the fund at year-end preceding the calendar year in which the distribution is planned.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2021

10. Net Assets Released from Donor Restrictions

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

Swimming Saves Lives	\$ 39,092
Endowment Fund	22,791
Net Assets Released from Donor Restrictions	<u>\$ 61,883</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 \$43,574 for the year ended December 31, 2021.

12. Related Party Transactions

Due to LMSCs

USMS and the 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 as of December 31, 2021, totaled \$229,668.

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' assumptions based on the best information available in the circumstance.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2021

13. Fair Value of Financial Assets (Continued)

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 the CICF - The fair value of beneficial interest in the assets of the CICF are derived from the fair value of the CICF's investments as of December 31, 2021. The fair value hierarchy as of December 31, 2021, is allocated based on the percentage of the investments in the respective levels reported on the December 31, 2020, audited financial statements of the CICF. These include certain investments that are measured at fair value using the Net Asset Value ("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 CICF.

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:					
Equity Mutual Funds	\$ 2,485,624	\$ —	\$ —	\$ —	\$ 2,485,624
Fixed Income Mutual Funds	1,560,008	—	—	—	1,560,008
Equity ETFs	222,057	—	—	—	222,057
Fixed Income ETFs	41,920	—	—	—	41,920
Alternative ETFs	27,051	—	—	—	27,051
Total Available for Sale Securities	<u>4,336,660</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,336,660</u>
Beneficial Interest in Assets Held by Endowment Fund	<u>118,322</u>	<u>—</u>	<u>—</u>	<u>354,966</u>	<u>473,288</u>
Total Assets at Fair Value	<u>\$ 4,454,982</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 354,966</u>	<u>\$ 4,809,948</u>

14. Commitments and Contingencies

Operating Lease

For the year ended December 31, 2021, USMS recorded rental expense of \$76,345 which is reflected in occupancy on the accompanying Statement of Functional Expenses. Effective July 1, 2021, the office lease agreement base rent was reduced to \$4,074 per month with a 3% annual increase each January 1st until its expiration on December 31, 2025. Beginning January 1, 2025, USMS has the right to terminate the lease with six months advance written notice.

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

2022	\$ 50,350
2023	52,524
2024	54,763
2025	57,069
Total	<u>\$ 214,706</u>

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2021

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. Subsequent Events

USMS has evaluated all events subsequent to the Statement of Financial Position date as of December 31, 2021, through the date these financial statements were issued, June 23, 2022, and have determined that, there are no subsequent events that require disclosure under FASB Accounting Standards Codification.