

United States Masters Swimming, Inc.

Financial Statements and
Independent Auditor's Report
December 31, 2020

(With Summarized Financial Information
as of December 31, 2019)

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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 financial statements of United States Masters Swimming, Inc. ("USMS"), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United States Masters Swimming, Inc. as of December 31, 2020, and the change in its net assets, cash flows and functional expenses for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the 2019 financial statements of USMS, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 5, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Sarasota, Florida
August 30, 2021

United States Masters Swimming, Inc.

Statement of Financial Position

December 31, 2020

(With Summarized Comparative Totals For 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Assets				
Cash and cash equivalents	\$ 870,616	\$ 349,028	\$ 1,219,644	\$ 1,323,419
Accounts receivable	148,363	4,925	153,288	203,171
Investments	3,513,716	242,082	3,755,798	3,543,081
Prepaid expenses	136,994	-	136,994	207,683
Property and equipment, net	578,988	-	578,988	570,944
Beneficial interest in assets held by Endowment Fund	-	388,093	388,093	372,656
Total Assets	\$ 5,248,677	\$ 984,128	\$ 6,232,805	\$ 6,220,954
Liabilities and Net Assets				
Accounts payable and accrued expenses	\$ 133,744	\$ -	\$ 133,744	\$ 281,125
Due to LMSCs and clubs, net	213,134	-	213,134	225,192
Deferred revenue	1,226,392	-	1,226,392	1,555,634
Other liabilities	9,209	-	9,209	10,392
Total liabilities	1,582,479	-	1,582,479	2,072,343
Net Assets:				
Without donor restrictions:				
Board designated - General Reserve	2,135,100	-	2,135,100	2,053,900
Board designated - Opportunity Reserve	600,000	-	600,000	600,000
Undesignated net assets	931,098	-	931,098	667,921
Total net assets without donor restrictions	3,666,198	-	3,666,198	3,321,821
With donor restrictions:				
Purpose restriction - Swimming Saves Lives	-	637,991	637,991	480,653
Perpetual in nature - Endowment Fund	-	346,137	346,137	346,137
Total net assets with donor restrictions	-	984,128	984,128	826,790
Total net assets	3,666,198	984,128	4,650,326	4,148,611
Total Liabilities and Net Assets	\$ 5,248,677	\$ 984,128	\$ 6,232,805	\$ 6,220,954

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Activities

Year Ended December 31, 2020

(With Summarized Comparative Totals For 2019)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2020 Total</u>	<u>2019 Total</u>
Revenues and Other Support:				
Membership dues	\$ 2,302,710	\$ -	\$ 2,302,710	\$ 2,876,020
Sponsorships	359,081	-	359,081	495,400
Contributions	31,514	123,409	154,923	169,439
Championship meets and events	68,171	-	68,171	210,261
Publications	34,651	-	34,651	48,480
In-kind contributions	51,091	-	51,091	70,120
Continuing education	32,485	-	32,485	236,586
Government grant revenue	286,885	-	286,885	-
Total revenues and other support	<u>3,166,588</u>	<u>123,409</u>	<u>3,289,997</u>	<u>4,106,306</u>
Net assets released from restrictions	<u>22,378</u>	<u>(22,378)</u>	<u>-</u>	<u>-</u>
Total revenues, other support, and releases	<u>3,188,966</u>	<u>101,031</u>	<u>3,289,997</u>	<u>4,106,306</u>
Functional Expenses:				
Program services:				
Member services	1,842,020	-	1,842,020	2,167,418
Education services	407,857	-	407,857	814,853
Events	278,157	-	278,157	483,990
College Club	90,488	-	90,488	162,976
Total program services	<u>2,618,522</u>	<u>-</u>	<u>2,618,522</u>	<u>3,629,237</u>
Supporting services:				
General and administrative:				
Administrative Volunteers	237,975	-	237,975	217,795
Staff	177,624	-	177,624	209,123
Total general and administrative	<u>415,599</u>	<u>-</u>	<u>415,599</u>	<u>426,918</u>
Fundraising and Swimming Saves Lives	131,513	-	131,513	105,980
Total supporting services	<u>547,112</u>	<u>-</u>	<u>547,112</u>	<u>532,898</u>
Total functional expenses	<u>3,165,634</u>	<u>-</u>	<u>3,165,634</u>	<u>4,162,135</u>
Non-Operating Activities:				
Net investment return	318,545	19,408	337,953	602,185
Change in value of beneficial interest in assets held by Endowment Fund	-	36,899	36,899	44,619
Other income	2,500	-	2,500	8,533
Loss on disposal of property, equipment and leasehold improvements	-	-	-	(792)
Total non-operating activities	<u>321,045</u>	<u>56,307</u>	<u>377,352</u>	<u>654,545</u>
Change in net assets	344,377	157,338	501,715	598,716
Net assets, beginning of year	3,321,821	826,790	4,148,611	3,549,895
Net assets, end of year	<u>\$ 3,666,198</u>	<u>\$ 984,128</u>	<u>\$ 4,650,326</u>	<u>\$ 4,148,611</u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Cash Flows

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 501,715	\$ 598,716
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	152,791	127,516
Loss on disposal of property, equipment and leasehold improvements	-	792
Net realized and unrealized gains on investments	(243,758)	(512,138)
Change in value of beneficial interest in assets held by Endowment Fund	(36,899)	(44,619)
Change in operating assets:		
Accounts receivable	49,883	(154,089)
Prepaid expenses	70,689	(56,915)
Change in operating liabilities:		
Accounts payable and accrued expenses	(147,381)	106,807
Due to LMSCs and clubs, net	(12,058)	8,105
Deferred revenue	(329,242)	(13,064)
Other liabilities	(1,183)	(1,732)
Net cash provided by operating activities	<u>4,557</u>	<u>59,379</u>
Cash Flows from Investing Activities:		
Transfers to/from Endowment Fund, net	21,462	(15,855)
Purchases of investments	(704,395)	(260,415)
Sales of investments	735,436	345,259
Purchases of property and equipment	(160,835)	(297,960)
Net cash used in investing activities	<u>(108,332)</u>	<u>(228,971)</u>
Net change in cash and cash equivalents	(103,775)	(169,592)
Cash and cash equivalents, beginning of the year	<u>1,323,419</u>	<u>1,493,011</u>
Cash and cash equivalents, end of the year	<u>\$ 1,219,644</u>	<u>\$ 1,323,419</u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Functional Expenses

Year Ended December 31, 2020

(With Summarized Comparative Totals For 2019)

	Program Services				Supporting Services				Fundraising and Swimming Saves Lives	2020 Total Functional Expenses	2019 Total Functional Expenses
	Member Services	Education Services	Events	College Club	Total Program Services	Administrative Volunteers	Staff	Total General and Administrative			
Advertising and promotion	\$ 36,105	\$ 10,958	\$ 11,397	\$ 2,324	\$ 60,784	\$ 5,453	\$ 4,881	\$ 10,334	\$ 9,826	\$ 80,944	\$ 157,899
Compensation	803,300	202,830	126,984	52,583	1,185,697	106,986	75,095	182,081	70,731	1,438,509	1,677,391
Convention	1,126	282	282	28	1,718	957	113	1,070	28	2,816	98,904
Depreciation and amortization	85,410	21,544	13,598	5,500	126,052	11,307	7,945	19,252	7,487	152,791	127,516
Grants and donations	94,591	-	-	-	94,591	-	-	-	-	94,591	127,328
Information technology	248,863	38,963	25,199	9,991	323,016	20,180	18,034	38,214	13,430	374,660	328,388
Insurance	171,439	35,820	22,602	9,538	239,399	18,483	14,059	32,542	11,931	283,872	360,849
Occupancy	60,262	15,200	9,594	3,881	88,937	7,978	5,606	13,584	5,282	107,803	166,797
Office	22,102	16,004	12,096	1,497	51,699	1,953	10,032	11,985	9,614	73,298	117,444
Outside services	3,557	23,136	29,674	3,861	60,228	2,935	852	3,787	1,560	65,575	189,223
Professional services and fees	4,864	3,473	959	172	9,468	38,711	36,764	75,475	925	85,868	99,097
Publications	233,867	-	-	-	233,867	-	-	-	-	233,867	242,070
Registration expenses	74,298	18,828	22,145	1,038	116,309	-	-	-	-	116,309	113,541
Travel	2,236	20,819	3,627	75	26,757	23,032	4,243	27,275	699	54,731	355,688
Total functional expenses	<u>\$ 1,842,020</u>	<u>\$ 407,857</u>	<u>\$ 278,157</u>	<u>\$ 90,488</u>	<u>\$ 2,618,522</u>	<u>\$ 237,975</u>	<u>\$ 177,624</u>	<u>\$ 415,599</u>	<u>\$ 131,513</u>	<u>\$ 3,165,634</u>	<u>\$ 4,162,135</u>
Percent of total	<u>58%</u>	<u>13%</u>	<u>9%</u>	<u>3%</u>	<u>83%</u>	<u>7%</u>	<u>6%</u>	<u>13%</u>	<u>4%</u>	<u>100%</u>	

See accompanying notes to financial statements

United States Masters Swimming, Inc.

Notes to Financial Statements

December 31, 2020

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.
- 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 SSL fundraisers.
- 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 SSL includes advertising and promotional campaigns to encourage giving and volunteers' involvement and allocations for processing and acknowledging donors' gifts, supporting volunteers' fundraising activities and staff compensation for grant support.

2. Summary of Significant Accounting Policies

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2020

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Accounts Receivable

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

Investments

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

Property and Equipment, Net

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

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

Net Assets

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

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

Net assets with donor restrictions - Net assets subject to explicit or implicit donor-imposed stipulations that may or will be met either by actions of USMS or the passage of time. In accordance with the passage of the Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA"), all or part of the income earned on related endowment investments are considered net assets with donor restrictions until appropriated by the Board of Directors ("Board").

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

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2020

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

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

Government Grant Revenue

In April 2020, USMS was granted a loan under the Paycheck Protection Program (“First Draw PPP Loan”), administered by a U.S. Small Business Administration (“SBA”) approved partner. The First Draw PPP Loan was uncollateralized and fully guaranteed by the federal government. USMS initially recorded the federal First Draw PPP Loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the First Draw PPP Loan no longer existed. USMS recognized the full amount of the First Draw PPP Loan of \$276,885 as revenue for the year ended December 31, 2020, as all conditions were determined to be met at year end. In April 2021, USMS received notice that the SBA has forgiven the First Draw PPP Loan in full.

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.

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 \$37,800 during the year ended December 31, 2020. Additionally, during the year ended December 31, 2020, USMS received merchandise with an estimated value of \$13,291 from sponsors to be given to clubs and members at events. The merchandise also supports educational programs and the organization’s SSL initiative.

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

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Costs are allocated between the appropriate activities within program and supporting services. General and administrative expenses include expenses that are not directly identifiable with any specific function but provide for the overall support and direction of USMS. The expenses that are allocated include depreciation, compensation, and other expenses for services which are allocated on the basis of estimated time and effort. The total program allocation decrease in functional expenses from 87% to 83% and an increase in support of 4% resulted directly from the organization's COVID-19 response.

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.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2020

2. Summary of Significant Accounting Policies (Continued)

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, 2020, 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, 2017, through December 31, 2020.

Summarized 2019 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, 2019, 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.

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

Recently Issued Pronouncements

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.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2020

2. Summary of Significant Accounting Policies (Continued)

Recently Issued Pronouncements (Continued)

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 is currently evaluating the impact of ASU No. 2020-07 on the financial statements.

3. Liquidity and Availability

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

	<u>2020</u>
Cash and cash equivalents	\$ 1,219,644
Accounts receivable	153,288
Investments	3,755,798
Beneficial interest in assets held by Endowment Fund	<u>388,093</u>
Total financial assets available	<u>5,516,823</u>
Less: Amounts unavailable for general expenditures within one year due to:	
Restricted by donors with purpose restrictions	(637,991)
Restricted by donors in perpetuity	<u>(346,137)</u>
Total amounts unavailable for general expenditures within one year	<u>(984,128)</u>
Amounts unavailable to management without Board approval:	
Board designated – General Reserve	(2,135,100)
Board designated – Opportunity Reserve	<u>(600,000)</u>
Total amounts unavailable without Board approval	<u>(2,735,100)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 1,797,595</u>

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

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

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.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2020

4. Beneficial Interest in Assets Held by Endowment Fund

USMS entered into 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 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' Board. See Note 9.

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 generally used for Swimming Save Lives operating expenses. In 2020, the funds were distributed to LMSCs for COVID-19 relief grants.

5. Investments

Investments as of December 31, 2020, are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Accumulated Unrealized Gain</u>
Equity Mutual Funds	\$ 1,254,312	\$ 1,973,558	\$ 719,246
Fixed Income Mutual Funds	1,588,722	1,655,399	66,677
Equity ETFs	31,005	77,888	46,883
Fixed Income ETFs	39,117	43,942	4,825
Alternative ETFs	3,805	5,011	1,206
Total investments	<u>\$ 2,916,961</u>	<u>\$ 3,755,798</u>	<u>\$ 838,837</u>

Net investment return is comprised of the following for the year ended December 31, 2020:

Interest and dividend income	\$ 206,564
Realized and unrealized gains, net	150,647
Investment advisory fees	(19,258)
Total	<u>\$ 337,953</u>

6. Property and Equipment, Net

Property and equipment consist of the following as of December 31, 2020:

Furniture and equipment	\$ 55,286
Software	988,839
Leasehold improvements	23,072
	<u>1,067,197</u>
Less: Accumulated depreciation and amortization	(488,209)
Property and equipment, net	<u>\$ 578,988</u>

Depreciation and amortization expense for the year ended December 31, 2020, totaled \$152,791.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2020

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, 2020, 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, 2020.

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 policy established two funds: the General Reserve and the Opportunity Reserve.

The General Reserve provides funds to ensure the stability of the mission, programs, staffing and ongoing operations of the organization. It is a flexible dollar amount sufficient to maintain ongoing operations and programs for a set period of time. For the year ended December 31, 2020, the General Reserve was \$2,135,100.

The Opportunity Reserve provides funds to meet special targets of opportunity or needs that further the mission of the organization. It is also intended as a source of internal funds for organizational capacity such as staff development, research, and development or investment in infrastructure that will build long-term capacity. As of December 31, 2020, 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.

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, 2020.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2020

9. Endowment Fund (Continued)

Endowment Net Asset Composition

As of December 31, 2020, endowment net assets consisted of the following:

	With Donor Restrictions
Donor-restricted endowment balance	\$ 346,137
Unappropriated income with purpose restrictions	41,956
Total endowment funds	<u>\$ 388,093</u>

Change in Endowment Net Assets

Changes in endowment net assets for the year ended December 31, 2020, are as follows:

	With Donor Restrictions
Endowment Fund	
Beginning balance at December 31, 2019	\$ 372,656
Investment return, net of fees	36,899
Appropriations for expenditure	<u>(21,462)</u>
Ending balance at December 31, 2020	<u>\$ 388,093</u>

Return Objectives and Risk Parameters

The Endowment Fund's assets are pooled with the investments of the Community Foundation as described above in Note 4 and are invested in accordance with the Community Foundation's investment policy. The Community Foundation has adopted 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 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. In 2020, the funds were distributed to LMSCs for COVID-19 relief grants.

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	\$ 916
Endowment Fund	<u>21,462</u>
Net Assets Released from Donor Restrictions	<u>\$ 22,378</u>

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2020

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 \$44,302 for the year ended December 31, 2020.

12. Related Party Transactions

Due to LMSCs and Clubs

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 net amount due to LMSCs and clubs, as of December 31, 2020, consists of the following:

Due to LMSCs, net	\$ 207,944
Due to clubs, net	5,190
Total	<u>\$ 213,134</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' 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:

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2020

13. Fair Value of Financial Assets (Continued)

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, 2020. The fair value hierarchy as of December 31, 2020, is allocated based on the percentage of the investments in the respective levels reported on the December 31, 2019, audited financial statements of the Community Foundation. 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 Community Foundation.

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	\$ 1,973,558	\$ —	\$ —	\$ —	\$ 1,973,558
Fixed Income Mutual Funds	1,655,399	—	—	—	1,655,399
Equity ETFs	77,888	—	—	—	77,888
Fixed Income ETFs	43,942	—	—	—	43,942
Alternative ETFs	5,011	—	—	—	5,011
Total Available for Sale Securities	<u>3,755,798</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,755,798</u>
Beneficial Interest in Assets Held by Endowment Fund	100,904	—	—	287,189	388,093
Total Assets at Fair Value	<u>\$ 3,856,702</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 287,189</u>	<u>\$ 4,143,891</u>

14. Commitments and Contingencies

Operating Lease

For the year ended December 31, 2020, USMS recorded rental expense of \$82,189 which is reflected in occupancy on the accompanying statement of functional expenses. On July 30, 2020, USMS signed an addendum to its existing office lease agreement expiring December 31, 2025, that reduces the total square footage and reduces its annual base rent expense to \$68,299 with a 3% annual increase on the anniversary of the start date (January 1st). Effective July 1, 2021 and for the life of the lease, the base rent will be reduced to \$4,074 monthly with a 3% annual increase on the anniversary of the start date (January 1st) per the amended lease agreement dated July 30, 2020. 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:

2021	\$ 59,614
2022	50,350
2023	52,524
2024	54,763
2025	57,069
Total	<u>\$ 274,320</u>

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2020

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 of December 31, 2020, through the date these financial statements were issued, August 30, 2021, and have determined that, except as set forth below and in Notes 2 and 14, there are no subsequent events that require disclosure under FASB Accounting Standards Codification.

On January 19, 2021 USMS qualified for and received a loan pursuant to the Paycheck Protection Program Second Draw Loan, a program implemented by the SBA under the Coronavirus Aid, Relief, and Economic Security Act for an aggregate principal amount of \$275,631 ("Second Draw PPP Loan"). The Second Draw PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first ten months of payments deferred, has a term of five years, and is unsecured and guaranteed by the SBA. The principal amount of the Second Draw PPP Loan is subject to forgiveness under the PPP upon USMS' request to the extent that the second draw PPP Loan proceeds are used to pay expenses permitted by the PPP. USMS intends to apply for forgiveness of the Second Draw PPP Loan with respect to these covered expenses. To the extent that all or part of the Second Draw PPP Loan is not forgiven, USMS will be required to pay interest on the Second Draw PPP Loan at a rate of 1.0% per annum, and commencing on June 19, 2022, principal and interest payments will be required through the maturity date of January 19, 2026.