

United States Masters Swimming, Inc.

Financial Statements and
Independent Auditor's Report
December 31, 2022

(With Summarized Financial Information
as of December 31, 2021)

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of United States Masters Swimming, Inc. ("USMS"), which comprise the statement of financial position as of December 31, 2022, 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, 2022, and the change in its net assets, cash flows, and functional expenses for the year ended, 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 audit. 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 2021 financial statements of USMS, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 23, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Sarasota, Florida
August 2, 2023

United States Masters Swimming, Inc.

Statement of Financial Position

December 31, 2022

(With Summarized Comparative Totals For 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2022 Total</u>	<u>2021 Total</u>
Assets				
Cash and cash equivalents	\$ 1,351,324	\$ 184,908	\$ 1,536,232	\$ 1,574,571
Accounts receivable	105,515	-	105,515	152,180
Investments	3,044,224	349,113	3,393,337	4,336,660
Prepaid expenses	203,754	-	203,754	180,399
Property and equipment, net	780,935	-	780,935	610,534
Right-of-use lease asset	148,350	-	148,350	-
Beneficial interest in assets held by Endowment Fund	-	396,940	396,940	473,288
Total Assets	<u>\$ 5,634,102</u>	<u>\$ 930,961</u>	<u>\$ 6,565,063</u>	<u>\$ 7,327,632</u>
Liabilities and Net Assets				
Accounts payable and accrued expenses	\$ 393,267	\$ -	\$ 393,267	\$ 333,905
Due to LMSCs and clubs, net	284,605	-	284,605	229,668
Deferred revenue	1,785,467	-	1,785,467	1,583,614
Other liabilities	37,849	-	37,849	68,361
Lease liability	150,662	-	150,662	-
Total liabilities	<u>2,651,850</u>	<u>-</u>	<u>2,651,850</u>	<u>2,215,548</u>
Net Assets:				
Without donor restrictions:				
Board designated - General Reserve	2,044,200	-	2,044,200	1,526,500
Board designated - Opportunity Reserve	600,000	-	600,000	600,000
Undesignated net assets	338,052	-	338,052	1,917,539
Total net assets without donor restrictions	<u>2,982,252</u>	<u>-</u>	<u>2,982,252</u>	<u>4,044,039</u>
With donor restrictions:				
Purpose restriction - Swimming Saves Lives	-	534,021	534,021	594,757
Purpose restriction - unappropriated endowment income	-	50,803	50,803	127,151
Perpetual in nature - Endowment Fund	-	346,137	346,137	346,137
Total net assets with donor restrictions	<u>-</u>	<u>930,961</u>	<u>930,961</u>	<u>1,068,045</u>
Total net assets	<u>2,982,252</u>	<u>930,961</u>	<u>3,913,213</u>	<u>5,112,084</u>
Total Liabilities and Net Assets	<u>\$ 5,634,102</u>	<u>\$ 930,961</u>	<u>\$ 6,565,063</u>	<u>\$ 7,327,632</u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Activities

Year Ended December 31, 2022

(With Summarized Comparative Totals For 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2022 Total</u>	<u>2021 Total</u>
Revenues and Other Support:				
Membership dues	\$ 2,862,499	\$ -	\$ 2,862,499	\$ 2,463,512
Sponsorships	289,146	-	289,146	342,515
Contributions	-	12	12	6,132
Championship meets and events	219,084	-	219,084	117,478
Publications	28,762	-	28,762	13,320
In-kind contributions	82,994	-	82,994	52,384
Continuing education	122,933	-	122,933	69,465
Government grant revenue	-	-	-	275,631
Total revenues and other support	<u>3,605,418</u>	<u>12</u>	<u>3,605,430</u>	<u>3,340,437</u>
Net assets released from restrictions	<u>27,156</u>	<u>(27,156)</u>	<u>-</u>	<u>-</u>
Total revenues, other support, and releases	<u>3,632,574</u>	<u>(27,144)</u>	<u>3,605,430</u>	<u>3,340,437</u>
Functional Expenses:				
Program services:				
Member services	2,170,999	-	2,170,999	2,012,019
Education services	194,398	-	194,398	121,887
Events	561,872	-	561,872	521,502
College Club	301,298	-	301,298	264,639
Total program services	<u>3,228,567</u>	<u>-</u>	<u>3,228,567</u>	<u>2,920,047</u>
Supporting services:				
General and administrative:				
Administrative volunteers	565,467	-	565,467	261,550
Staff	240,974	-	240,974	187,414
Total general and administrative	<u>806,441</u>	<u>-</u>	<u>806,441</u>	<u>448,964</u>
Fundraising/USA Swimming Foundation	39,767	-	39,767	37,368
Total supporting services	<u>846,208</u>	<u>-</u>	<u>846,208</u>	<u>486,332</u>
Total functional expenses	<u>4,074,775</u>	<u>-</u>	<u>4,074,775</u>	<u>3,406,379</u>
Change in net assets from operations	<u>(442,201)</u>	<u>(27,144)</u>	<u>(469,345)</u>	<u>(65,942)</u>
Non-Operating Activities:				
Net investment return (loss)	(623,086)	(60,748)	(683,834)	414,714
Change in value of beneficial interest in assets held by Endowment Fund	-	(49,192)	(49,192)	107,986
Other income	3,500	-	3,500	5,000
Total non-operating activities	<u>(619,586)</u>	<u>(109,940)</u>	<u>(729,526)</u>	<u>527,700</u>
Change in net assets	(1,061,787)	(137,084)	(1,198,871)	461,758
Net assets, beginning of year	4,044,039	1,068,045	5,112,084	4,650,326
Net assets, end of year	<u>\$ 2,982,252</u>	<u>\$ 930,961</u>	<u>\$ 3,913,213</u>	<u>\$ 5,112,084</u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities:		
Change in net assets	\$ <u>(1,198,871)</u>	\$ <u>461,758</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	169,671	165,633
Net realized and unrealized (gains) losses on investments	801,578	(296,003)
Change in value of beneficial interest in assets held by Endowment Fund	49,192	(107,986)
Non-cash lease expense	2,312	-
Change in operating assets:		
Accounts receivable	46,665	1,108
Prepaid expenses	(23,355)	(43,405)
Change in operating liabilities:		
Accounts payable and accrued expenses	59,362	200,161
Due to LMSCs and clubs, net	54,937	16,534
Deferred revenue	201,853	357,222
Other liabilities	(30,512)	59,152
Net cash provided by operating activities	<u>132,832</u>	<u>814,174</u>
Cash Flows from Investing Activities:		
Transfers to/from Endowment Fund, net	27,156	22,791
Purchases of investments	(313,417)	(670,034)
Sales of investments	455,162	385,175
Purchases of property and equipment	(340,072)	(197,179)
Net cash used in investing activities	<u>(171,171)</u>	<u>(459,247)</u>
Net change in cash and cash equivalents	(38,339)	354,927
Cash and cash equivalents, beginning of the year	<u>1,574,571</u>	<u>1,219,644</u>
Cash and cash equivalents, end of the year	<u>\$ <u>1,536,232</u></u>	<u>\$ <u>1,574,571</u></u>

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Statement of Functional Expenses

Year Ended December 31, 2022

(With Summarized Comparative Totals For 2021)

	Program Services					Supporting Services					2022 Total Functional Expenses	2021 Total Functional Expenses
	Member Services	Education Services	Events	College Club	Total Program Services	Administrative Volunteers	Staff	Total General and Administrative	Fundraising/ USA Swimming Foundation			
Advertising and promotion	\$ 103,540	\$ 9,886	\$ 22,737	\$ 21,020	\$ 157,183	\$ 18,885	\$ 5,901	\$ 24,786	\$ 1,765	\$ 183,734	\$ 135,657	
Annual meeting	-	-	-	-	-	149,946	-	149,946	-	149,946	2,275	
Compensation	1,025,410	43,683	262,434	185,419	1,516,946	137,444	90,002	227,446	27,814	1,772,206	1,584,536	
Depreciation and amortization	94,507	4,242	25,111	17,646	141,506	16,797	8,653	25,450	2,715	169,671	165,633	
Grants and donations	10,000	-	3,450	-	13,450	-	-	-	-	13,450	64,323	
Information technology	220,360	8,460	19,318	2,341	250,479	12,774	13,021	25,795	38	276,312	381,214	
Insurance	202,074	9,871	50,704	35,201	297,850	32,954	42,777	75,731	5,326	378,907	324,245	
Occupancy	50,225	1,996	11,870	8,668	72,759	7,999	4,214	12,213	1,313	86,285	76,345	
Office	119,747	9,955	12,140	3,765	145,607	2,136	9,162	11,298	378	157,283	55,171	
Outside services	4,628	21,945	82,500	15,288	124,361	3,691	901	4,592	46	128,999	102,414	
Professional services and fees	22,570	6,843	1,687	1,393	32,493	53,167	45,287	98,454	164	131,111	91,644	
Publications	194,989	-	-	-	194,989	-	-	-	-	194,989	212,520	
Registration expenses	101,794	3,241	14,553	2,089	121,677	-	-	-	-	121,677	138,112	
Travel	21,155	74,276	55,368	8,468	159,267	129,674	21,056	150,730	208	310,205	72,290	
Total functional expenses	<u>\$ 2,170,999</u>	<u>\$ 194,398</u>	<u>\$ 561,872</u>	<u>\$ 301,298</u>	<u>\$ 3,228,567</u>	<u>\$ 565,467</u>	<u>\$ 240,974</u>	<u>\$ 806,441</u>	<u>\$ 39,767</u>	<u>\$ 4,074,775</u>	<u>\$ 3,406,379</u>	
Percent of total	<u>53%</u>	<u>5%</u>	<u>14%</u>	<u>7%</u>	<u>79%</u>	<u>14%</u>	<u>6%</u>	<u>20%</u>	<u>1%</u>	<u>100%</u>		

See accompanying notes to financial statements.

United States Masters Swimming, Inc.

Notes to Financial Statements

December 31, 2022

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 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.

The support for USMS Programs can be categorized into the following areas:

- Administrative Volunteers: This area includes administrative expenses incurred by volunteers and allocations of USMS national office expenses for overhead and staff compensation related to volunteer activities.
- Staff: This includes allocations of administrative expenses incurred by the USMS national office for overhead and staff compensation.
- Fundraising and the Foundation: This 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, 2022

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 as non-operational activities 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 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, 2022

2. Summary of Significant Accounting Policies (Continued)

Net Assets (Continued)

Other net assets with donor restrictions 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

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

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 \$52,450 during the year ended December 31, 2022. Additionally, during the year ended December 31, 2022, USMS received merchandise with an estimated value of \$30,544 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.

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, 2022, USMS did not incur any income tax expense.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2022

2. Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

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, 2019, through December 31, 2022.

Summarized 2021 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, 2021, 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 that 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.

Adoption of New Accounting Pronouncements

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

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the Statement of Activities. USMS adopted Topic 842 on January 1, 2022, using the optional transitional method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2022

2. Summary of Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncements (Continued)

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

USMS elected the “package of practical expedients” under the transition guidance within Topic 842, in which USMS does not reassess (i) the historical lease classification, (ii) whether any existing contracts at transition are or contain leases, or (iii) the initial direct costs for any existing leases. USMS has not elected to adopt the “hindsight” practical expedient and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of Topic 842 on January 1, 2022.

USMS determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) USMS obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. USMS also considers whether its service arrangements include the right to control the use of an asset.

USMS made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. USMS’s lease agreements do not provide a readily determinable implicit rate. Therefore, USMS estimated its incremental borrowing rate based on information available at lease commencement in order to discount lease payments to present value.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to USMS’s operating leases of approximately \$193,790 and \$193,790, respectively, at January 1, 2022. The adoption of the new lease standard did not materially impact change in net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

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

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which was adopted by USMS for the year ended December 31, 2022. Topic 958 requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets and requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. The adoption of this update did not have a material impact on the financial statements of USMS.

3. Liquidity and Availability

Financial assets total \$1,856,863 available within one year of the Statement of Financial Position date for general expenditures can be derived from the financial statements as follows:

	2022
Cash and cash equivalents	\$ 1,536,232
Accounts receivable	105,515
Investments	3,393,337
Beneficial interest in assets held by Endowment Fund	396,940
Total financial assets available	<u>5,432,024</u>

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2022

3. Liquidity and Availability (Continued)

Less: Amounts unavailable for general expenditures within one year due to:

Restricted by donors with purpose restrictions	(584,824)
Restricted by donors in perpetuity	(346,137)
Total amounts unavailable for general expenditures within one year	<u>(930,961)</u>

Amounts unavailable to management without Board approval:

Board designated – General Reserve	(2,044,200)
Board designated – Opportunity Reserve	(600,000)
Total amounts unavailable without Board approval	<u>(2,644,200)</u>

Total financial assets available to management for general expenditure within one year \$ 1,856,863

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.

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.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2022

5. Investments

Investments as of December 31, 2022, are as follows:

	<u>Cost</u>		<u>Fair Value</u>		<u>Accumulated Unrealized Gain (Loss)</u>
Equity Mutual Funds	\$ 1,269,140	\$	1,815,868	\$	546,728
Fixed Income Mutual Funds	1,434,176		1,249,245		(184,931)
Equity ETFs	181,302		231,686		50,384
Fixed Income ETFs	81,876		74,238		(7,638)
Alternative ETFs	18,299		22,300		4,001
Total investments	<u>\$ 2,984,793</u>	<u>\$</u>	<u>3,393,337</u>	<u>\$</u>	<u>408,544</u>

Net investment return (loss) is composed of the following for the year ended December 31, 2022:

Interest and dividend income	\$ 61,660
Realized and unrealized losses, net	(723,793)
Investment advisory fees	(21,701)
Total	<u>\$ (683,834)</u>

6. Property and Equipment, Net

Property and equipment consist of the following as of December 31, 2022:

Furniture and equipment	\$ 55,286
Software	1,526,090
Leasehold improvements	23,072
	<u>1,604,448</u>
Less: Accumulated depreciation and amortization	(823,513)
Property and equipment, net	<u>\$ 780,935</u>

Depreciation and amortization expense for the year ended December 31, 2022, totaled \$169,671.

7. Line of Credit

In November 2020, USMS opened a \$500,000 revolving line of credit with a commercial bank that matured on November 3, 2022. This line of credit was renewed on November 3, 2022, with a maturity date of November 3, 2023, and any borrowings are due on demand. 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, 2022, was 8.50%. 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, 2022.

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, 2022, the General Reserve was \$2,044,200.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2022

8. Board Designated Net Assets (Continued)

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, 2022, 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 is 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, 2022.

Endowment Net Asset Composition

As of December 31, 2022, endowment net assets consisted of the following:

	With Donor Restrictions
Donor-restricted endowment balance	\$ 346,137
Unappropriated income with purpose restrictions	50,803
Total endowment funds	<u>\$ 396,940</u>

Change in Endowment Net Assets

Changes in endowment net assets for the year ended December 31, 2022, are as follows:

	With Donor Restrictions
Endowment Fund	
Beginning balance at December 31, 2021	\$ 473,288
Investment return, net of fees	(49,192)
Appropriations for expenditure	(27,156)
Ending balance at December 31, 2022	<u>\$ 396,940</u>

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2022

9. Endowment Fund (Continued)

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.

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	\$ -
Endowment Fund	27,156
Net Assets Released from Donor Restrictions	<u>\$ 27,156</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 \$54,368 for the year ended December 31, 2022.

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, 2022, totaled \$284,605.

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.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2022

13. Fair Value of Financial Assets (Continued)

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:

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, 2022. The fair value hierarchy as of December 31, 2022, is allocated based on the percentage of the investments in the respective levels reported on the December 31, 2021, 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.

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2022

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:					
Equity Mutual Funds	\$ 1,815,868	\$ —	\$ —	\$ —	\$ 1,815,868
Fixed Income Mutual Funds	1,249,245	—	—	—	1,249,245
Equity ETFs	231,686	—	—	—	231,686
Fixed Income ETFs	74,238	—	—	—	74,238
Alternative ETFs	22,300	—	—	—	22,300
Total Available for Sale Securities	<u>3,393,337</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,393,337</u>
Beneficial Interest in Assets Held by Endowment Fund	150,837	—	—	246,103	396,940
Total Assets at Fair Value	<u>\$ 3,544,174</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 246,103</u>	<u>\$ 3,790,277</u>

14. Leases

USMS leases office space in Sarasota, FL under an operating lease agreement. 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.

Operating lease expense is recognized on a straight-line basis over the lease term. The components of lease expense are as follows for the year ended December 31, 2022:

Lease Expense:

Finance lease expense:	
Amortization of ROU assets	\$ -
Interest on lease liabilities	-
Operating lease expense	52,644
Short-term lease expense	-
Variable lease expense	-
Sublease income	-
Total	<u>\$ 52,644</u>

Other Information:

(Gains) losses on sale-leaseback transactions, net	\$ -
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases (i.e. interest)	-
Financing cash flows from finance leases (i.e. principal portion)	-
Operating cash flows from operating leases	50,352
ROU assets obtained in exchange for new finance lease liabilities	-
ROU assets obtained in exchange for new operating lease liabilities	193,790
Weighted-average remaining lease term in years for finance leases	-
Weighted-average remaining lease term in years for operating leases	3.00
Weighted-average discount rate for finance leases	-
Weighted-average discount rate for operating leases	4.25%

United States Masters Swimming, Inc.

Notes to Financial Statements (Continued)

December 31, 2022

14. Leases (Continued)

Maturity Analysis

Years Ended December 31

	<u>Finance Lease</u>	<u>Operating Lease</u>
2023	\$ -	\$ 51,863
2024	-	53,419
2025	-	55,022
Total undiscounted cash flows	-	160,304
Less: present value discount	-	(9,642)
Total lease liabilities	<u>\$ -</u>	<u>\$ 150,662</u>

15. Commitments and Contingencies

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.

16. Subsequent Events

USMS has evaluated all events subsequent to the Statement of Financial Position date as of December 31, 2022, through the date these financial statements were issued, August 2, 2023, and have determined that, except as set forth below, there are no subsequent events that require disclosure under FASB Accounting Standards Codification.

During 2023 USMS filed amended quarterly payroll tax forms to claim the Employee Retention Credit for approximately \$335,000. The Employee Retention Credit will be recognized as grant revenue in accordance with the appropriate guidance for conditional contributions. As of the date these financial statements were issued, USMS has not received any of the \$335,000 Employee Retention Credit claim.

During 2023 USMS identified a replacement tenant for their leased office space in Sarasota, FL. USMS will be vacating the office space and terminating the lease agreement on June 30, 2023, and will incur approximately \$40,000 of costs related to the lease termination.