

**USA SWIMMING, INC.  
AND AFFILIATES**

**Financial Statements and  
Supplemental Schedules**

**For the Years Ended December 31, 2017 and 2016**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
USA Swimming, Inc.  
Colorado Springs, Colorado

We have audited the accompanying consolidated financial statements of USA Swimming, Inc. and Affiliates (collectively, the Organization), which comprise the consolidated statements of financial position as of December 31, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated 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 consolidated 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 consolidated 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 consolidating financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of USA Swimming, Inc. and Affiliates as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

The consolidated financial statements of USA Swimming, Inc. as of December 31, 2016, were audited by other auditors whose report dated June 29, 2017, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Report on Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information on pages 19 through 22 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Waugh & Goodwin, LLP*  
Colorado Springs, Colorado  
April 20, 2018

USA SWIMMING, INC.  
AND AFFILIATES  
Consolidated Statements of Financial Position  
December 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,979,133	\$ 12,031,813
Short-term investments	7,187,924	
Accounts receivable, net	1,059,232	1,416,814
Short-term pledges receivable	1,061,715	825,000
Prepaid expenses and deferred charges	<u>1,606,238</u>	<u>1,475,038</u>
Total current assets	13,894,242	15,748,665
<b>PROPERTY AND EQUIPMENT</b>		
Less accumulated depreciation	<u>(8,226,150)</u>	<u>(7,354,884)</u>
Property and equipment, net	4,041,554	3,968,387
<b>LONG-TERM INVESTMENTS</b>		
	52,630,178	45,637,091
<b>LONG-TERM PLEDGES RECEIVABLE, net</b>		
	2,680,625	2,864,395
<b>OTHER ASSETS:</b>		
Prepaid rent	2,334,832	2,487,647
Olympic trials joint venture	154,170	370,542
Swim-A-Thon	<u>120,000</u>	<u>120,000</u>
Total other assets	<u>2,609,002</u>	<u>2,978,189</u>
<b>TOTAL ASSETS</b>	<u>\$ 75,855,601</u>	<u>\$ 71,196,727</u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,196,931	\$ 1,393,196
Accrued expenses and other liabilities	2,544,039	2,999,339
Deferred revenue	<u>14,404,277</u>	<u>14,241,279</u>
Total current liabilities	18,145,247	18,633,814
<b>NET ASSETS:</b>		
Unrestricted	37,179,264	35,039,492
Board designated	13,457,745	11,190,508
Temporarily restricted	1,423,345	1,282,913
Permanently restricted	<u>5,650,000</u>	<u>5,050,000</u>
Total net assets	<u>57,710,354</u>	<u>52,562,913</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 75,855,601</u>	<u>\$ 71,196,727</u>

USA SWIMMING, INC.

AND AFFILIATES

Consolidated Statements of Activities and Changes in Net Assets

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUE:		
Membership	\$ 22,483,811	\$ 20,745,938
Investment income	6,553,803	1,499,674
Sponsorships	5,296,236	7,273,933
USOC grants	5,259,700	6,050,189
Events and registrations	1,496,751	5,496,409
Contributions	960,326	795,103
Swim-A-Thon	355,405	372,323
Other income	239,485	339,005
Publications and fulfillment	117,052	164,272
Trials VIP income		237,706
Satisfied program restrictions	<u>868,740</u>	<u>2,866,446</u>
Total revenue	43,631,309	45,840,998
EXPENSES:		
Program services:		
National Team	7,983,203	9,645,902
Promotion	6,086,604	8,098,803
Club development	4,379,177	4,099,984
Member services	4,214,842	3,544,236
Events	3,936,589	2,535,573
Risk Management	2,956,381	3,295,323
Foundation programs	1,549,840	1,605,563
Athlete protection and safety	411,754	345,470
Organizational relations	<u>252,632</u>	<u>285,190</u>
Total program services	31,771,022	33,456,044
Supporting services:		
Executive division	3,718,260	2,739,326
Financial affairs	1,327,518	1,157,746
Fundraising	1,293,661	1,325,763
Committees and governance	872,962	683,086
Sponsor relations	<u>240,877</u>	<u>673,387</u>
Total supporting services	<u>7,453,278</u>	<u>6,579,308</u>
Total expenses	<u>39,224,300</u>	<u>40,035,352</u>
CHANGE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	4,407,009	5,805,646



USA SWIMMING, INC.  
AND AFFILIATES  
Consolidated Statements of Cash Flows  
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 5,147,441	\$ 852,293
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	984,142	707,585
Net realized and unrealized gains on investments	(5,679,912)	(1,718,305)
Loss on sale of assets		1,216,671
Loss on sale of affiliate		3,640,814
Change in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	357,582	440,608
Pledges receivable	(52,945)	300,293
Prepaid expenses and deferred charges	(131,200)	(136,046)
Olympic trials joint venture	216,372	
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and other liabilities	(651,577)	290,919
Deferred revenue	162,998	(67,071)
Contributions restricted for long-term investments	(400,000)	
Provision for losses and loss expenses		(169,808)
Total adjustments	<u>(5,194,540)</u>	<u>4,505,660</u>
Net cash provided (used) by operating activities	(47,099)	5,357,953
CASH FLOWS FROM INVESTING ACTIVITIES:		
Short-term investments, net	(7,187,924)	
Change in restricted cash equivalents		93,618
Proceeds from sale of long-term investments	27,455,174	90,186,250
Purchase of long-term investments	(28,768,337)	(95,229,152)
Decrease in prepaid rent	152,815	136,809
Proceeds from sale of affiliate, net		1,954,914
Acquisition of property and equipment	<u>(1,057,309)</u>	<u>(2,198,142)</u>
Net cash used by investing activities	(9,405,581)	(5,055,703)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collection of pledges receivable restricted for endowment	<u>400,000</u>	<u>250,000</u>
Net cash provided by financing activities	<u>400,000</u>	<u>250,000</u>
NET INCREASE (DECREASE) IN CASH	(9,052,680)	552,250
CASH AND CASH EQUIVALENTS, beginning of year	<u>12,031,813</u>	<u>11,479,563</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,979,133</u>	<u>\$ 12,031,813</u>

See Notes to Consolidated Financial Statements



USA SWIMMING, INC.,  
AND AFFILIATES  
Notes to Consolidated Financial Statements  
For the Year Ended December 31, 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The accompanying financial statements include USA Swimming, Inc., USA Swimming Foundation, Inc., and its once wholly owned subsidiary, United States Sports Insurance Company, Incorporated (USSIC).

USA Swimming, Inc. is a Colorado non-profit corporation. USA Swimming is the national governing body for amateur swimming, making it responsible for the conduct and administration of amateur swimming in the United States.

The USA Swimming Foundation, Inc. (the Foundation), is a Colorado non profit corporation. The purpose of the Foundation is to operate for charitable and educational purposes, to foster national or international amateur sports competition, and to serve as a supporting organization for USA Swimming, Inc.

United States Sports Insurance Company, Inc. (USSIC) was a wholly owned captive insurer of USA Swimming, Inc. USSIC provided insurance protection on a run off basis to USA Swimming, Inc. and its committees and clubs located throughout the United States of America. Effective September 22, 2016, USA Swimming, Inc. entered into an Equity Purchase Agreement, selling all of the issued and outstanding equity membership interest in USSIC (See Note J).

Basis of Presentation

The financial statements of USA Swimming, Inc. are presented on a consolidated basis with USA Swimming Foundation, Inc. and United States Sports Insurance Company, Incorporated (the Organization) in order to conform to the requirements of Financial Accounting Standards Board ASC 958.

Transactions between the entities are shown as eliminating entries and removed in order to properly reflect consolidated totals.

## Notes to Consolidated Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Income Taxes

USA Swimming, Inc. and USA Swimming Foundation, Inc. are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, these entities qualify for the charitable contribution deduction and have been classified as organizations that are not private foundations.

USA Swimming, Inc. and USA Swimming Foundation, Inc.'s Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by various taxing authorities, generally for three years after the date they were filed.

USSIC was organized as a limited liability company (LLC), and Federal tax law provides an election for single member LLCs to be taxed as either associations or disregarded entities. USSIC chose to be treated as a disregarded entity. As such, USSIC's revenues and expenses were reported as part of USA Swimming, Inc.

Management of the Organization believes that it does not have any uncertain tax positions that are material to the financial statements.

#### Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less, and which are not held for long-term investment purposes, to be cash equivalents. Cash and highly liquid financial instruments held for long-term investment purposes, regardless of original length to maturity, are reported as investments and excluded from this definition. In the unlikely event of a bank or brokerage firm failure, USA Swimming, Inc. might only be able to recover the amounts insured.

#### Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that no allowance for doubtful accounts was necessary at December 31, 2017 and 2016.

The delinquency and collectability of receivables is determined on a case by case basis and receivables are charged to bad debt expense when determined to be uncollectible.

## Notes to Consolidated Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Pledges Receivable

Pledges receivable consist of unconditional promises to give that are expected to be collected in current and future periods. Pledges expected to be collected within one year are recorded at their estimated net realizable values. Pledges receivable expected to be collected in more than one year are recorded at the present value of their estimated future cash flows, computed using risk-adjusted interest rates. Amortization of the discount is included in contribution revenue. Pledges receivable are reported as either temporarily restricted or permanently restricted support unless the donor stipulations or circumstances surrounding the pledge make clear the donor intended it to be used to support activities in the current period. Pledges receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

#### Revenue Recognition

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of donated assets. When a restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as satisfied program restrictions. Temporarily restricted contributions and grants are reported as unrestricted support and revenues if the restriction is met in the same year that the gift is received.

Sponsorship and other related revenues are recognized in the period in which they are earned.

#### Contributed Services

USA Swimming, Inc. and USA Swimming Foundation, Inc. receive a substantial amount of donated services in carrying out their programs. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under FASB ASC 605.

#### Donated Materials

Donated materials are recorded as both a revenue and expenditure in the accompanying statements of activities at their estimated values.

## Notes to Consolidated Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, 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 these estimates.

#### Prior-Year Comparisons

The financial statements include certain prior-year summarized comparative information in total but not by net asset or functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with USA Swimming, Inc.'s financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Certain reclassifications have been made to the prior-year amounts in order to conform to the current year financial statement format.

#### Supplemental Cash Flow Disclosure

The Organization paid no interest or income taxes during either of the years ended December 31, 2017 and 2016.

#### Date of Management's Review

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 20, 2018, the date that the financial statements were available to be issued.

## Notes to Consolidated Financial Statements

### B. FAIR VALUE MEASUREMENTS

The Organization applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables present assets that are measured at fair value on a recurring basis at December 31, 2017 and 2016:

Notes to Consolidated Financial Statements

B. FAIR VALUE MEASUREMENTS - Continued

Assets at Fair Value as of December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income securities:				
Corporate and other notes	\$	\$ 20,022,536	\$	\$ 20,022,536
US Treasury and agencies	6,804,777			6,804,777
Exchange traded funds	19,658,878			19,658,878
Mutual funds	12,806,755			12,806,755
Money market	<u>525,161</u>			<u>525,161</u>
	<u>\$ 39,795,556</u>	<u>\$ 20,022,536</u>	<u>\$</u>	<u>\$ 59,818,102</u>

Assets at Fair Value as of December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income securities:				
Corporate and other notes	\$	\$ 15,553,560		\$ 15,553,560
US Treasury and agencies	1,606,849			1,606,849
Exchange traded funds	15,377,296			15,377,296
Mutual funds	11,882,215			11,882,215
Money market	<u>1,217,171</u>			<u>1,217,171</u>
	<u>\$ 30,083,531</u>	<u>\$ 15,553,560</u>	<u>\$</u>	<u>\$ 45,637,091</u>

Investments are included in the consolidated statement of financial position under the following categories as of December 31:

	<u>2017</u>	<u>2016</u>
Short-term investments	\$ 7,187,924	\$
Long-term investments	<u>52,630,178</u>	<u>45,637,091</u>
Total	<u>\$ 59,818,102</u>	<u>\$ 45,637,091</u>

Investment income included in the consolidated statement of activities for the years ended December 31, 2017 and 2016 consists of the following:

Notes to Consolidated Financial Statements

B. FAIR VALUE MEASUREMENTS - Continued

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 1,412,827	\$ 1,195,837
Less investment fees	(124,119)	(123,544)
Net realized and unrealized gains	<u>5,679,912</u>	<u>1,718,305</u>
Total investment income	<u>\$ 6,968,620</u>	<u>\$ 2,790,598</u>

USA Swimming, Inc. and USA Swimming Foundation, Inc. record realized gains and losses in their financial statements based on historical cost basis.

C. PLEDGES RECEIVABLE

As of December 31, 2017 and 2016, the Foundation had pledges receivable of \$3,742,340 and \$3,689,395, respectively, representing unconditional promises to give made during the current and prior years. The pledges will be received by the Foundation during future years and have been discounted using the risk-free rate for the year in which they were received ranging from .11% to 2.69%.

Total pledges receivable at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Short-term pledges receivable	\$ <u>1,061,715</u>	\$ <u>825,000</u>
Pledges receivable in future years	\$ 2,680,625	\$ 2,875,000
Less discount to net present value	<u>                    </u>	<u>(10,605)</u>
Long-term pledges receivable	<u>\$ 2,680,625</u>	<u>\$ 2,864,395</u>

At December 31, 2017 and 2016, three and two donors account for 82% and 89% of the pledges receivable, respectively.

D. PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and deferred charges consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Prepaid insurance	\$ 1,023,618	\$ 1,014,401
Deferred charges	<u>582,620</u>	<u>460,637</u>
	<u>\$ 1,606,238</u>	<u>\$ 1,475,038</u>

## Notes to Consolidated Financial Statements

### D. PREPAID EXPENSES AND DEFERRED CHARGES - Continued

Expenses incurred in connection with events are recognized in the year the events take place. Membership expenses incurred in connection with the subsequent membership year are deferred.

Other non-current assets include prepaid rent of \$2,334,832 and \$2,487,647 at December 31, 2017 and 2016, respectively.

In 1996 and 1997 USA Swimming, Inc. paid approximately \$3,400,000 to construct a headquarters office building at the Olympic Training Center. The building is owned by the United States Olympic Committee (USOC). In consideration for USA Swimming, Inc.'s payment of the construction costs, the USOC agreed that USA Swimming, Inc. would be allowed to occupy the building free of any obligation to pay rent or operating costs for a 30-year period commencing March 1, 1997.

The building construction costs were recorded as prepaid rent, which are being amortized over the 30-year life of the agreement. USA Swimming, Inc. has recorded rent at fair market rates and interest income to reflect the discount received from the prepayment.

Rent expense recorded in 2017 and 2016 amounted to \$327,197 and \$320,781 and interest income recorded in 2017 and 2016 amounted to \$174,382 and \$183,972, respectively.

### E. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and depreciation is recorded using the straight-line method over the estimated useful lives of three to 10 years. Acquisitions with an initial cost over \$1,000 and a useful life of over one year are capitalized. Expenditures for repairs and maintenance which do not materially prolong the useful lives of the assets are charged to expense as incurred.

Property and equipment consists of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Software and website	\$ 8,481,531	\$ 7,294,141
Building and leasehold improvements	2,334,855	2,334,855
Furniture and equipment	1,423,625	1,666,582
Vehicles	<u>27,693</u>	<u>27,693</u>
	12,267,704	11,323,271
Less accumulated depreciation	<u>(8,226,150)</u>	<u>(7,354,884)</u>
Property and equipment - net	<u>\$ 4,041,554</u>	<u>\$ 3,968,387</u>



Notes to Consolidated Financial Statements

E. PROPERTY AND EQUIPMENT - Continued

Depreciation expense for the years ended December 31, 2017 and 2016 was \$984,142 and \$707,585, respectively.

F. DEFERRED REVENUE

Deferred revenue consists of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Membership	\$ 14,260,035	\$ 14,177,060
Other	93,417	32,809
Corporate sponsorships	<u>50,825</u>	<u>31,410</u>
	<u>\$ 14,404,277</u>	<u>\$ 14,241,279</u>

Membership revenue is recognized on a calendar year basis. Corporate sponsorships are recognized over the term of the related agreement.

G. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Purpose restrictions	\$ 848,345	\$ 707,913
Time restrictions	<u>575,000</u>	<u>575,000</u>
Total	<u>\$ 1,423,345</u>	<u>\$ 1,128,913</u>

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the year ended December 31, 2017, net assets were released from temporary restrictions by satisfying the following restricted purposes:

	<u>2017</u>	<u>2016</u>
Time restrictions	\$ 556,399	\$ 350,000
Make A Splash program	181,716	202,800
National team	80,625	2,263,646
Golden Goggles	<u>50,000</u>	<u>50,000</u>
Total	<u>\$ 868,740</u>	<u>\$ 2,866,446</u>

## Notes to Consolidated Financial Statements

### H. PERMANENTLY RESTRICTED NET ASSETS

During the year ended December 31, 2008, the Foundation received a permanently restricted pledge of \$5,000,000. This pledge was recorded at the present value of \$4,967,466, net of a discount in the amount of \$32,534. Funds collected under the pledge are recognized as endowment funds. During the year ended December 31, 2017 and 2016, the Foundation received permanently restricted contributions of \$600,000 and \$50,000, respectively. The contributions were recognized as endowment funds.

Permanently restricted net assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Endowment funds	\$ 2,950,000	\$ 2,550,000
Pledge receivable	<u>2,700,000</u>	<u>2,500,000</u>
Total	<u>\$ 5,650,000</u>	<u>\$ 5,050,000</u>

### I. ENDOWMENTS

The Foundation's endowment funds consist of unrestricted funds functioning as endowments through designations by the Board and donor restricted endowment funds. The earnings of the Board designated endowment are designated for athlete support. The earnings of the permanently restricted endowment support Make a Splash and the USA Swimming Dirks/Gould Coaches Incentive Program.

The Foundation has adopted investment and spending policies based on the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. Each year, the Foundation is required to spend no less than 3% and no more than 5% of the donor restricted endowment funds for specific purposes.

Notes to Consolidated Financial Statements

I. ENDOWMENTS - Continued

The Foundation does not include uncollected pledges receivable, that are permanently restricted, as part of endowment net assets. Amounts are included with endowment net assets as the pledges receivable are collected. As of December 31, 2017 and 2016, permanently restricted uncollected pledges were \$2,700,000 and \$2,500,000, respectively.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, January 1, 2016	\$ 5,655,342	\$	\$ 2,250,000
Investment return:			
Investment income	191,349	28,426	
Net appreciation (net realized and unrealized)	<u>330,176</u>	<u>90,175</u>	
Total investment return	521,525	118,601	
Contributions	4,112,091		300,000
Expenditures	<u>(300,000)</u>	<u>(118,601)</u>	
Endowment net assets, December 31, 2016	9,988,958		2,550,000
Investment return:			
Investment income	241,596	63,226	
Net appreciation (net realized and unrealized)	<u>1,312,631</u>	<u>345,192</u>	
Total investment return	1,554,227	408,418	
Contributions	1,264,310		400,000
Expenditures	<u>(430,000)</u>	<u>(146,250)</u>	
Endowment net assets, December 31, 2017	<u>\$ 12,377,495</u>	<u>\$ 262,168</u>	<u>\$ 2,950,000</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, a deficiency of this nature is reported in unrestricted net assets of \$0 and \$6,399 as of December 31, 2017 and 2016.

## Notes to Consolidated Financial Statements

### I. ENDOWMENTS - Continued

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy the endowment assets are invested in a manner that is intended to produce maximum results while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide a rate of return sufficient to keep pace with the rate of inflation. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

### J. USSIC PROVISION FOR LOSSES

The USSIC provision for insurance losses and loss expenses was based on circumstances reported and a review of individual cases for each respective policy year and an actuarial study which takes into account the past loss experience and the potential of significant losses which might arise.

As these provisions are necessarily based on estimates, the ultimate liability may be significantly in excess of or less than the amounts provided. The methods of making such estimates and for establishing the resulting provisions are continually reviewed and any adjustments resulting therefrom are reflected in current earnings. The reserve for losses was transferred as part of the sale of USSIC on September 22, 2016.

In accordance with the Equity Purchase Agreement, USA Swimming obtained a letter of credit (the LOC) for benefit of the buyer in the amount of \$5,000,000. The LOC collateralizes indemnity reserves and allows the buyer to draw against the LOC once per quarter for the payment of claims that exceed \$3,265,599, which is the referenced loss reserves as defined in the agreement. If on the fifth anniversary of the date of sale the estimated ultimate losses of USSIC are equal to or greater than \$5,000,000 USA Swimming may, but is not obligated to, release the entire LOC to the buyer. If on the fifth anniversary of the date of sale

Notes to Consolidated Financial Statements

J. USSIC PROVISION FOR LOSSES - Continued

the estimated ultimate losses of USSIC are less the \$5,000,000 USA Swimming may release a portion of the LOC to the buyer or reduce the LOC amount. The LOC will be terminated on the tenth anniversary of the date of sale.

K. RELATED PARTY TRANSACTIONS

The United States Olympic Committee (USOC) provides grants to USA Swimming, Inc. for sports development, international competition, and team preparation. In addition, the USOC designates a portion of their funding for athlete support, and this amount is paid directly to eligible athletes.

Total grants from the USOC for the years ended December 31, 2017 and 2016 consist of the following project categories:

	<u>2017</u>	<u>2016</u>
NGB Funding	\$ 3,082,200	\$ 2,832,624
Direct athlete support	1,997,500	1,997,500
International relations	130,000	11,000
Other USOC support	50,000	49,065
Olympic trials support	<u>                    </u>	<u>1,160,000</u>
	<u>\$ 5,259,700</u>	<u>\$ 6,050,189</u>

During the years ended December 31, 2017 and 2016, NGB funding provided as value-in-kind was \$60,000 and \$60,424, respectively. At December 31, 2017 and 2016, payables to the USOC amounted to \$324,478 and \$1,172,106, respectively.

L. PENSION PLAN

USA Swimming, Inc. and USA Swimming Foundation, Inc.'s 401(k) retirement plan covers all employees over 18 years of age with one year of service. During the years ended December 31, 2017 and 2016, contributions to the plan were \$668,133 and \$688,851, respectively.

Effective January 1, 2004, USA Swimming, Inc. entered into a deferred compensation agreement under Section 457 of the Internal Revenue Code with its former Chief Executive Officer. The purpose of the plan is to provide retirement benefits for this individual. This plan contains two components, a Qualified Deferred Compensation account, and a Nonqualified account. All amounts credited to the Qualified Deferred Compensation account are fully vested. In January 2013, all funds held in the non-qualified account were distributed to the former Chief Executive Officer.

Notes to Consolidated Financial Statements

L. PENSION PLAN - Continued

As of December 31, 2012, the deferred compensation plan was fully funded, and no additional contributions have been made. However, earnings of 8% are added to the fund annually. At December 31, 2017 and 2016, the vested balance in the Qualified Deferred Compensation account was \$305,923 and \$339,944, respectively.

M. INVESTMENT IN JOINT VENTURE

USA Swimming, Inc. is a party to a joint venture agreement with Omaha Sports Commission (OSC) for the purpose of operating, promoting, and managing the US Olympic Team Trials (the Trials). The two parties agree to share equally the difference between the Trials revenues and the Trials expenses from the operation of the Trials. The joint venture agreement states that any amounts received from the USOC and certain sponsors will accrue solely to the benefit of USA Swimming, Inc. and likewise any amounts paid to OSC from various Nebraska municipalities will accrue to the benefit of OSC.

The following is an unaudited condensed balance sheet of the joint venture as of December 31:

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash	\$ 86,412	\$ 404,837
Accounts receivable		9,156
Property and equipment, net	<u>221,929</u>	<u>327,091</u>
Total assets	<u>\$ 308,341</u>	<u>\$ 741,084</u>
<u>LIABILITIES AND EQUITY</u>		
Liabilities	\$	\$
Equity	<u>308,341</u>	<u>741,084</u>
Total liabilities and equity	<u>\$ 308,341</u>	<u>\$ 741,084</u>

N. COMMITMENT

During the year ended December 31, 2017, the former Chief Executive Officer's contract was amended, and the updated contract included a severance provision. Upon his passing during 2017, this provision was activated and the related expense was realized in the financial statements. The related liability was fully satisfied subsequent to December 31, 2017.

USA SWIMMING, INC.  
USA SWIMMING FOUNDATION, INC.  
Consolidating Statement of Financial Position  
December 31, 2017  
(With Consolidated Totals for 2016)

ASSETS

	<u>USAS</u>	<u>USASF</u>	<u>Eliminations</u>	<u>Consolidated Totals 2017</u>	<u>Consolidated Totals 2016</u>
CURRENT ASSETS:					
Cash and cash equivalents	\$ 2,312,498	\$ 666,635	\$	\$ 2,979,133	\$ 12,031,813
Short-term investments	5,987,818	1,200,106		7,187,924	
Accounts receivable, net	947,381	111,851		1,059,232	1,416,814
Due from USA Swimming, Inc.		31,437	(31,437)		
Short-term pledges receivable		1,061,715		1,061,715	825,000
Prepaid expenses and deferred charges	<u>1,584,398</u>	<u>21,840</u>		<u>1,606,238</u>	<u>1,475,038</u>
 Total current assets	 10,832,095	 3,093,584	 (31,437)	 13,894,242	 15,748,665
PROPERTY AND EQUIPMENT					
Less accumulated depreciation	<u>12,037,741</u>	<u>229,963</u>		<u>12,267,704</u>	<u>11,323,271</u>
	<u>(8,054,463)</u>	<u>(171,687)</u>		<u>(8,226,150)</u>	<u>(7,354,884)</u>
 Property and equipment - net	 3,983,278	 58,276		 4,041,554	 3,968,387
LONG-TERM INVESTMENTS	37,079,340	15,550,838		52,630,178	45,637,091
LONG-TERM PLEDGES & OTHER RECEIVABLES		2,680,625		2,680,625	2,864,395
OTHER ASSETS:					
Prepaid rent	2,334,832			2,334,832	2,487,647
Olympic trials joint venture	154,170			154,170	370,542
Swim-A-Thon		120,000		120,000	120,000
 Total other assets	 <u>2,489,002</u>	 <u>120,000</u>		 <u>2,609,002</u>	 <u>2,978,189</u>
 TOTAL ASSETS	 <u>\$ 54,383,715</u>	 <u>\$ 21,503,323</u>	 <u>\$ (31,437)</u>	 <u>\$ 75,855,601</u>	 <u>\$ 71,196,727</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 1,166,573	\$ 30,358	\$	\$ 1,196,931	\$ 1,393,196
Due to USA Swimming, Inc.	31,437		(31,437)		
Accrued expenses and other liabilities	2,484,458	59,581		2,544,039	2,999,339
Deferred revenue	<u>14,391,860</u>	<u>12,417</u>		<u>14,404,277</u>	<u>14,241,279</u>
Total current liabilities	18,074,328	102,356	(31,437)	18,145,247	18,633,814
NET ASSETS:					
Unrestricted	36,309,387	869,877		37,179,264	35,039,492
Board designated		13,457,745		13,457,745	11,190,508
Temporarily restricted		1,423,345		1,423,345	1,282,913
Permanently restricted		<u>5,650,000</u>		<u>5,650,000</u>	<u>5,050,000</u>
Total net assets	<u>36,309,387</u>	<u>21,400,967</u>		<u>57,710,354</u>	<u>52,562,913</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 54,383,715</u>	<u>\$ 21,503,323</u>	<u>\$ (31,437)</u>	<u>\$ 75,855,601</u>	<u>\$ 71,196,727</u>



USA SWIMMING, INC.  
USA SWIMMING FOUNDATION, INC.  
Consolidating Statements of Activities and Changes in Net Assets  
For the Year Ended December 31, 2017  
(With Consolidated Totals for 2016)

	<u>USAS</u>	<u>USASF</u>	<u>Eliminations</u>	Consolidated Totals <u>2017</u>	Consolidated Totals <u>2016</u>
CHANGES IN UNRESTRICTED NET ASSETS:					
REVENUE:					
Membership	\$ 22,483,811	\$	\$	\$ 22,483,811	\$ 20,745,938
Investment income	4,992,488	1,561,315		6,553,803	1,499,674
Sponsorships	4,775,147	521,089		5,296,236	7,273,933
USOC grants	5,259,700			5,259,700	6,050,189
Events and registrations	1,496,751			1,496,751	5,496,409
Contributions	612,500	1,060,326	(712,500)	960,326	795,103
Swim-A-Thon	120,000	355,405	(120,000)	355,405	372,323
Other income	217,368	82,117	(60,000)	239,485	339,005
Publications and fulfillment	117,052			117,052	164,272
USA Swimming support		1,525,371	(1,525,371)		
Trials VIP income					237,706
Satisfied program restrictions		<u>868,740</u>		<u>868,740</u>	<u>2,866,446</u>
Total revenue	40,074,817	5,974,363	(2,417,871)	43,631,309	45,840,998
EXPENSES:					
Program services:					
National Team	7,983,203			7,983,203	9,645,902
Promotion	6,086,604			6,086,604	8,098,803
Club development	4,379,177			4,379,177	4,099,984
Member services	4,214,842			4,214,842	3,544,236
Events	4,036,589		(100,000)	3,936,589	2,535,573
Risk Management	2,956,381			2,956,381	3,295,323
Foundation programs	1,525,371	2,282,340	(2,257,871)	1,549,840	1,605,563
Athlete protection and safety	411,754			411,754	345,470
Organizational relations	<u>252,632</u>			<u>252,632</u>	<u>285,190</u>
Total program services	31,846,553	2,282,340	(2,357,871)	31,771,022	33,456,044

Supporting services:					
Executive division	3,718,260			3,718,260	2,739,326
Financial affairs	1,327,518			1,327,518	1,157,746
Fundraising		1,353,661	(60,000)	1,293,661	1,325,763
Committees and governance	872,962			872,962	683,086
Sponsor relations	240,877			240,877	673,387
Total supporting services	<u>6,159,617</u>	<u>1,353,661</u>	<u>(60,000)</u>	<u>7,453,278</u>	<u>6,579,308</u>
Total expenses	<u>38,006,170</u>	<u>3,636,001</u>	<u>(2,417,871)</u>	<u>39,224,300</u>	<u>40,035,352</u>
CHANGE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	2,068,647	2,338,362		4,407,009	5,805,646
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:					
Contributions		594,355		594,355	345,929
Investment income		414,817		414,817	236,979
Satisfied program restrictions		<u>(868,740)</u>		<u>(868,740)</u>	<u>(2,866,446)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		140,432		140,432	(2,283,538)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS:					
Contributions		<u>600,000</u>		<u>600,000</u>	<u>53,778</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		<u>600,000</u>		<u>600,000</u>	<u>53,778</u>
CHANGE IN NET ASSETS, FROM CONTINUING OPERATIONS	2,068,647	3,078,794		5,147,441	3,575,886
LOSS FROM DISCONTINUED OPERATIONS, INCLUDING LOSS ON SALE OF \$3,640,814					<u>(2,723,593)</u>
CHANGE IN NET ASSETS	2,068,647	3,078,794		5,147,441	852,293
NET ASSETS, beginning of year	<u>34,240,740</u>	<u>18,322,173</u>		<u>52,562,913</u>	<u>51,710,620</u>
NET ASSETS, end of year	<u>\$ 36,309,387</u>	<u>\$ 21,400,967</u>	<u>\$</u>	<u>\$ 57,710,354</u>	<u>\$ 52,562,913</u>

USA SWIMMING, INC.  
USA SWIMMING FOUNDATION, INC.  
Schedule of Program Services  
For the Year Ended December 31, 2017

	National Team	Promotion	Club Development	Member Services	Events	Risk Management	Foundation Programs	Athlete Protection and Safety	Organizational Relations	Total
Salaries	\$ 1,339,438	\$ 1,189,282	\$ 1,515,024	\$ 1,672,883	\$	\$	\$ 458,532	\$	\$	\$ 6,175,159
Travel and hospitality	1,872,667	264,243	931,961	977,995	900,964	1,724	96,093	66,381	50,889	5,162,917
Professional fees and honoraria	130,602	823,292	146,305	121,066	1,292,230	21,600	368,002	167,740	2,700	3,073,537
Insurance	34,222			-	11,090	2,909,865				2,955,177
Direct athlete support	2,897,000	49,500		41,000	5,000					2,992,500
Television and production	9,769	1,334,200	39,150	(71)	199,746		17,794			1,600,588
Employee benefits	284,473	383,349	389,950	417,357						1,475,129
Grants	135,408		467,447		50,000		494,737		120,000	1,267,592
Dues, fees and tickets	25,268	212,806	89,310	31,251	651,482	975	2,101	48,696	21,935	1,083,824
Software, gear and equipment	86,154	228,577	49,548	106,449	425,600			5,710		902,038
Depreciation and amortization	71,810	347,313	232,638	150,515			5,247	34,722		842,245
Office supplies and exper	134,242	458,193	67,302	79,714	56,973	5,591	23,408	2,940	1,422	829,785
Printing and duplication	7,822	454,525	28,028	87,859	48,580	2,666	3,903	3,939	27	637,349
Awards and gifts	407,795	1,305	63,408	8,081	74,714		21,426			576,729
Rent and lease expense	83,259	90,995	143,713	77,747	123,975		10,788	4,278	442	535,197
Apparel	339,008	28,459	58,422	5,077	36,775	10,220	2,465	3,501		483,927
Payroll taxes	90,987	83,739	108,672	101,899						385,297
Repairs and maintenance	330	765	421	178,134			9,257	60,000		248,907
Telephone and internet service	22,166	21,167	27,510	133,282	9,471	1,299	2,750	2,375	2,917	222,937
Protocol	7,219	17,807	16,191	20,901	49,489	2,441		11,122	52,300	177,470
Advertising		82,280	100				32,463			114,843
Miscellaneous expenses	3,564	14,807	4,077	3,703	500		874	350		27,875
	<u>\$ 7,983,203</u>	<u>\$ 6,086,604</u>	<u>\$ 4,379,177</u>	<u>\$ 4,214,842</u>	<u>\$ 3,936,589</u>	<u>\$ 2,956,381</u>	<u>\$ 1,549,840</u>	<u>\$ 411,754</u>	<u>\$ 252,632</u>	<u>\$ 31,771,022</u>

USA SWIMMING, INC.  
USA SWIMMING FOUNDATION, INC.  
Schedule of Supporting Services  
For the Year Ended December 31, 2017

	Executive Division	Financial Affairs	Fundraising	Committees & Governance	Sponsor Relations	Total
Salaries and employee benefits	\$ 2,639,982	\$ 815,754	\$ 719,364	\$	\$	\$ 4,175,100
Travel and hospitality	72,771	1,498	120,935	607,805	88,691	891,700
Professional fees and honoraria	475,231	47,995	109,942	132,885	61,770	827,823
Other employee benefits	265,422	255,682				521,104
Rent and lease expense	37,282	39,833	6,185	71,829	27,495	182,624
Payroll taxes	78,775	53,624	34,024			166,423
Depreciation and amortization	43,082	47,000	51,816			141,898
Printing and duplication	6,200	6,982	92,624	11,518	2,111	119,435
Office supplies and expense	14,347	12,062	54,154	15,578	4,233	100,374
Dues, fees and tickets	59,278	4,828		24,213	2,616	90,935
Apparel	214		43,007			43,221
Miscellaneous expenses	4,070	26,565	1,665	735	6,609	39,644
Recognition and fulfillment			29,116			29,116
Software, gear and equipment	434	6,477	4,705	3,720	12,334	27,670
Telephone and internet service	9,695	4,731	5,475	3,492	383	23,776
Protocol	11,155	208			11,112	22,475
Awards and gifts	120		18,136	1,187	123	19,566
Direct athlete support					16,000	16,000
Television and production					7,400	7,400
Advertising		2,270	1,550			3,820
Repairs and maintenance	202	2,009	963			3,174
	<u>\$ 3,718,260</u>	<u>\$ 1,327,518</u>	<u>\$ 1,293,661</u>	<u>\$ 872,962</u>	<u>\$ 240,877</u>	<u>\$ 7,453,278</u>