

Finance Committee Motions

2102FC02 - The Finance Committee moves that the Board of Directors approve the Financial Statements ending August 31, 2020 as prepared by Cropper Accountancy.

**Report of Independent Accountants and
Financial Statements for**

PACIFIC SWIMMING, INC.
(A Not-for-Profit Corporation)

Year Ended August 31, 2020



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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
Pacific Swimming Inc.
Concord, California

We have reviewed the accompanying financial statements of Pacific Swimming, Inc. (a not-for-profit corporation), which comprise the statement of financial position as of August 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, California

January 8, 2020

PACIFIC SWIMMING
(A Not-for-Profit Corporation)
Statement of Financial Position
August 31, 2020

	2020 <u>(unaudited)</u>
ASSETS	
ASSETS:	
Cash and cash equivalents	\$ 748,505
Accounts receivable	1,553
Merchandise inventory	6,089
Investments	3,225,167
Prepaid expenses	<u>27,581</u>
 TOTAL ASSETS	 <u><u>\$ 4,008,895</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES:	
Accounts payable and other accrued expenses	\$ 53,666
Accrued vacation	7,157
Grants payable	101,400
Line of credit payable	475,043
Deferred revenue - PPP loan	<u>52,380</u>
Total liabilities	689,646
 NET ASSETS:	
Without donor restrictions	3,291,749
With donor restrictions	<u>27,500</u>
Total net assets	<u><u>3,319,249</u></u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 4,008,895</u></u>

See accompanying notes and independent accountants' review report

PACIFIC SWIMMING
(A Not-for-Profit Corporation)
Statement of Activities
Year Ended August 31, 2020

	2020 (unaudited)		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND SUPPORT:			
Member dues	\$ 203,801	\$ -	\$ 203,801
Meet revenue	389,606	-	389,606
Age group revenue	31,635	-	31,635
Camps and other programs	9,005	-	9,005
Contributions and sponsorships	35,718	27,500	63,218
Merchandise sales, net of cost of goods sold	(1,116)	-	(1,116)
Credit card incentives	3,530	-	3,530
Interest and dividends	93,681	-	93,681
Net realized and unrealized gains on investments	276,566	-	276,566
Miscellaneous	24,729	-	24,729
Net assets released from donor restrictions	-	-	-
Total revenues, gains, and support	<u>1,067,155</u>	<u>27,500</u>	<u>1,094,655</u>
EXPENSES:			
Program services	1,592,246	-	1,592,246
Supporting services:			
Management and general	190,203	-	190,203
Development	-	-	-
Total expenses	<u>1,782,448</u>	<u>-</u>	<u>1,782,448</u>
CHANGE IN NET ASSETS	(715,293)	27,500	(687,793)
NET ASSETS, BEGINNING OF YEAR	<u>4,007,042</u>	<u>-</u>	<u>4,007,042</u>
NET ASSETS, END OF YEAR	<u><u>\$ 3,291,749</u></u>	<u><u>\$ 27,500</u></u>	<u><u>\$ 3,319,249</u></u>

See accompanying notes and independent accountants' review report

PACIFIC SWIMMING
(A Not-for-Profit Organization)
Statement of Functional Expenses
Year Ended August 31, 2020

	2020 (unaudited)									
	Program									
		Other LSC and	Banquets and	Age Group	National/	Camps and	Officials and	Total	Management	Total
	Zone Meets	Zone Related	Events	Meets	Senior	Diversity	Other Program	Program	and General	
Salaries and wages	\$ 6,161	\$ 36,963	\$ 55,445	\$ 12,321	\$ -	\$ 12,321	\$ 25,367	\$ 148,578	\$ 97,843	\$ 246,421
Payroll taxes	490	2,942	4,413	981	-	981	2,018	11,825	7,788	19,613
Workers' compensation insurance	34	203	304	68	-	68	137	814	537	1,351
Paid time off expense	102	614	922	205	-	205	422	2,470	1,626	4,096
Payroll service fees	40	242	363	81	-	81	165	972	641	1,613
Development, training, and education	-	-	-	73,576	19,639	25,450	-	118,665	-	118,665
Legal services	-	-	-	-	-	-	-	-	3,000	3,000
Accounting and related	-	-	-	-	-	-	-	-	37,903	37,903
Contractors and other professional services	10,375	-	7,800	-	-	-	-	18,175	300	18,475
Volunteers - background checks and per diems	-	-	-	-	-	-	5,871	5,871	-	5,871
Awards	7,565	-	18,480	-	-	-	2,681	28,726	-	28,726
Printing and copying	310	-	-	-	-	-	-	310	-	310
Rent	32,468	-	1,103	-	-	-	-	33,571	22,933	56,504
Food and venue	19,296	-	12,117	-	-	-	-	31,413	-	31,413
Equipment and related	150	10,951	-	-	-	-	1,054	12,155	4,150	16,305
Clinics	-	-	-	-	-	-	28,308	28,308	-	28,308
Depreciation	-	-	-	-	-	-	-	-	741	741
Supplies	1,555	-	-	-	-	-	4,451	6,006	3,821	9,827
Postage and delivery	-	-	-	-	-	-	-	-	580	580
Meetings and conferences	-	-	-	-	-	-	33,994	33,994	214	34,208
Travel and mileage	-	-	-	-	76,600	1,110	5,552	83,262	50	83,312
Information technology and telephone	-	-	-	-	-	-	-	-	5,375	5,375
Insurance	-	-	-	-	-	-	-	-	1,067	1,067
Bank fees	-	-	-	-	-	-	-	-	1,431	1,431
Grants, subsidies, and sponsorships	2,666	991,028	-	-	-	32,583	-	1,026,277	-	1,026,277
Interest and finance charges	-	-	-	-	-	-	-	-	43	43
Miscellaneous	854	-	-	-	-	-	-	854	160	1,014
	<u>\$ 82,066</u>	<u>\$ 1,042,943</u>	<u>\$ 100,947</u>	<u>\$ 87,232</u>	<u>\$ 96,239</u>	<u>\$ 72,799</u>	<u>\$ 110,020</u>	<u>\$ 1,592,246</u>	<u>\$ 190,203</u>	<u>\$ 1,782,448</u>
See accompanying notes and independent accountants' review report										

PACIFIC SWIMMING
(A Not-for-Profit Corporation)
Statement of Cash Flows
Year Ended August 31, 2020

	2020 <u>(unaudited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (687,793)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Net realized and unrealized gains on investments	(276,566)
Depreciation	741
Change in operating accounts:	
Receivables	15,829
Prepaid expenses and deposits	(3,640)
Deferred revenue	52,380
Inventory	4,930
Grants payable	101,400
Accounts payable and accrued expenses	<u>(87,985)</u>
Net cash used in operating activities	(880,704)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investment securities	(2,045,789)
Net sales and maturities of investment securities	<u>2,434,196</u>
Net cash provided by investing activities	388,407
CASH FLOWS FROM FINANCING ACTIVITIES -	
Proceeds from line of credit	<u>475,043</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(17,254)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>765,759</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 748,505</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid for:	
Interest	<u>\$ 21,952</u>
Income taxes	<u><u>\$ -</u></u>

See accompanying notes and independent accountants' review report

PACIFIC SWIMMING, INC.
(A Not-for-Profit Organization)
Notes to the Financial Statements (Unaudited)
Year Ended August 31, 2020

1. THE ORGANIZATION

Pacific Swimming, Inc. (the organization) was incorporated in California in 1980 as a 501(c)(3) public benefit corporation and organized to provide a coordinated program of instruction and advancement of competitive swimming in the Northern California area designated as the Local Swim Committee (LSC) of United States Swimming, Inc. and the U.S. Olympic Committee. In addition, the organization will sponsor certain local competitions and fundraising to provide travel funds for swimmers to regional and national competitions. The organization further provides the necessary administration to adequately represent local competitors' interests in the national and world organizations.

Pacific Swimming is primarily funded by membership dues, contributions, and meet revenue and includes approximately 110 swim clubs and more than 14,000 swimmers. Pacific Swimming is organized into five geographical zones covering Northern California and parts of Nevada. The annual meet schedule includes more than 82 meets, from interclub dual meets to major regional, national, and international competitions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Pacific Swimming, Inc. have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), which require the organization to report information regarding its financial position and activities according to the following net asset categories:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the organization's management and board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restrictions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

PACIFIC SWIMMING, INC.
(A Not-for-Profit Corporation)
Notes to Financial Statements
Year Ended August 31, 2020 (Unaudited)

Cash and Cash Equivalents

The organization's cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase.

Investments and Fair Value Measurements

Investments in marketable securities are stated at fair value, using quoted market prices. Investment transactions are recorded on trade date. Realized gains and losses on sales of investments are determined on the specific identification basis. Investments have been pledged as collateral against the line of credit as further described in Note 3.

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Unadjusted quoted market prices for identified assets and liabilities in active markets as of the measurement date.

Level 2: Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted markets that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Concentrations of Credit Risk

Financial instruments, which potentially subject the organization to concentrations of credit risk, consist principally of cash, money market funds, and investments. As of August 31, 2020, Pacific Swimming's cash and equivalents were held by two high quality financial institutions and exceeded the \$250,000 FDIC insured limit by approximately \$480,000.

PACIFIC SWIMMING, INC.
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Notes to Financial Statements
Year Ended August 31, 2020 (Unaudited)

As of August 31, 2020, the organization's investment securities were held by a SIPC-member brokerage firm. SIPC protection extends to losses that may be incurred when a brokerage firm liquidates (up to \$500,000) and does not protect against the decline in value of securities.

Accounts Receivable

Accounts receivable is stated at estimated net realizable value.

Inventory

The organization's inventory consists to swim apparel and is valued at lower of cost or market on a first-in, first-out basis. Management believes all merchandise to be saleable and no allowance has been provided.

Equipment

Equipment is stated at cost at the date of purchase, or, for donated assets, at fair value as of the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets (five years). As of August 31, 2020, equipment of \$6,124 was fully depreciated but still in service.

Compensated absences

Vested accumulated vacation is recorded as an expense and liability as benefits accrue to employees. As of August 31, 2020, \$7,157 has been accrued related to compensated absences in the accompanying statement of financial position.

Grants Payable

The board of directors approved up to \$1 million in grants to local swim clubs due to the COVID-19 pandemic during the year ended August 31, 2020. As of August 31, 2020, \$986,550 in grants had been awarded to local swim clubs and \$885,150 had been paid. As such, \$101,400 in grant awards have been accrued in the accompanying financial statements. In addition, \$13,450 in grants have not yet been awarded and are reflected as board designated net assets as of August 31, 2020.

Revenue Recognition

Membership dues and fee for services revenue are recognized in accordance with ASU No. 2015-14 following a five-step process: (1) Identification of contracts with customers, (2) Identification of performance obligations in the contract, (3) Determination of contract price, (4) Allocation of contract price to performance obligations, and (5) Recognition of revenue when Pacific Swimming satisfies each performance obligation. In terms of membership dues, the membership year coincides with the organization's fiscal year and no performance obligations exist beyond the membership year. Membership dues paid in advance of the following membership year are recognized as deferred revenue at August 31, 2020, as applicable.

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Year Ended August 31, 2020 (Unaudited)

The organization collects and remits a portion of membership dues paid on behalf of USA Swimming. As the national portion of dues is considered an agency transaction, no revenues or expenses are recorded; the organization recognizes a payable to USA Swimming upon dues collection.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions of in-kind goods and services are recognized at estimated fair value when received based on information provided by third party providers. In-kind services are recognized as contributions per GAAP if the services (1) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. There were no contributed services meeting the above revenue recognition criteria during the years ended August 31, 2020.

Many volunteers have made significant contributions of their time in furtherance of the organization's mission. These services were not reflected in the accompanying statements of activities because they do not meet the necessary criteria described above for recognition under GAAP.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly expenses that support more than one function have been allocated among program services, management and general, and fundraising functions based on time and effort reporting and management judgments.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of amounts and disclosures. Actual results could differ from those estimates.

Income Taxes

Pacific Swimming is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. Tax years including the year ended December 31, 2019 and later are subject to examinations by tax authorities. The

PACIFIC SWIMMING, INC.
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Notes to Financial Statements
Year Ended August 31, 2020 (Unaudited)

organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Subsequent Events

Management has evaluated subsequent events through January 8, 2021, the date on which the financial statements were available to be issued, and determined that no additional adjustments to or disclosures in the financial statements is deemed necessary. The organization is not aware of any subsequent events other than the event disclosed in Note 6.

3. LINE OF CREDIT PAYABLE

As of August 31, 2020, Pacific Swimming has a priority line of credit with a bank with an outstanding balance of \$475,043 and an available credit balance of \$1,441,912. The maximum amount of credit that may be extended on the line of credit is based on loanable values of Pacific Swimming's investment securities maintained at the bank. The loan can be called upon demand. The line carries an interest rate based on the WSJ Prime Rate (3.25% as of August 31, 2020).

4. AVAILABILITY AND LIQUIDITY

The following represents Pacific Swimming's financial assets at August 31, 2020:

	<u>2020</u>
Financial assets at year end:	
Cash and cash equivalents	\$ 748,505
Investments	3,225,167
Accounts receivable	1,553
Merchandise inventory	<u>6,089</u>
Total financial assets	3,981,314
Less amounts not available to be used within one year:	
Loanable value of collateral account pledged on line of credit	<u>(2,000,000)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,981,314</u>

The organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures, including program expenses, management and general expenses, and any fundraising expenses (as applicable).

The organization manages its cash available to meet general expenditures following three guiding principles:

PACIFIC SWIMMING, INC.
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Notes to Financial Statements
Year Ended August 31, 2020 (Unaudited)

- Operating within a prudent range of financial soundness and stability
- Maintaining adequate liquid assets
- Maintaining sufficient reserves to provide reasonable assurance that mission fulfillment will continue to be met, ensuring the sustainability of the organization

The above table reflects the organization's financial assets as of August 31, 2020, reduced by contractual restrictions.

5. INVESTMENTS

The following table reflects fair value measurements of investment assets at August 31, 2020, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and sweep balances	\$ 151,270	\$ -	\$ -	\$ 151,270
Common stocks and ETFs	2,231,709	-	-	2,231,709
Mutual funds	707,626	-	-	707,626
Preferred stocks	<u>134,553</u>	<u>-</u>	<u>-</u>	<u>134,553</u>
Total investments	<u>\$ 3,225,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,225,167</u>

Pacific Swimming has adopted investment and spending policies for investments that attempt to provide a predictable stream of funding to programs while working to maintain the purchasing power of the portfolio.

Under this policy, the portfolio assets are invested in a manner that is intended to produce results that exceed the price and yield results of various market benchmarks appropriate to the investment classes utilized, while assuming a moderate level of risk. The organization expects its investment portfolio, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from the amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the organization 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 organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy

Pacific Swimming has a policy of appropriating for distribution each year 4% of its net assets without donor restrictions at the end of the preceding year. In establishing this policy, the

PACIFIC SWIMMING, INC.
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Notes to Financial Statements
Year Ended August 31, 2020 (Unaudited)

organization considered the long-term expected return on its investments. Accordingly, over the long-term, the organization expects the current spending policy to allow its investment portfolio to grow at an average of 3% annually. This is consistent with the organization's objective to maintain the purchasing power of the portfolio, as well as to provide real growth through investment return.

6. SUBSEQUENT EVENTS

In December 2019, COVID-19 emerged and has subsequently spread worldwide. The World Health Organization has declared COVID-19 a pandemic resulting in federal, state and local governments and private entities mandating various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories and quarantining of people who may have been exposed to the virus.

After close monitoring and guidance from federal, state and local governments and in an effort to mitigate the spread of COVID- 19, swim meets were cancelled and organization employees began working remotely effective March 11, 2020. As of the date of this report, the organization has cancelled swim meets and other events and travel for the foreseeable future. The office lease has been terminated effective December 31, 2020. Where possible, remote alternatives are made to ensure business operations continue.

During the year ended August 31, 2020, Pacific Swimming applied for and received government-funded loans of \$52,380 under the Paycheck Protection Program. Loan forgiveness is subject to certain spending conditions. If loan forgiveness is granted, the entire loan amount will be recognized as revenue.

As the COVID-19 pandemic is complex and rapidly evolving, the organization's plans as described above may change. At this point, we cannot reasonably estimate the duration and severity of this pandemic, which could have a material adverse impact on our business, results of operations, financial position and cash flows.