

POTOMAC VALLEY SWIMMING, INC.
AUGUST 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

To the House of Delegates
Potomac Valley Swimming, Inc.
McLean, Virginia

We have audited the accompanying financial statements of Potomac Valley Swimming, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Potomac Valley Swimming, Inc. as of August 31, 2018, 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 Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of revenues and expenses is presented for purposes of additional analysis and is not a required part of the 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 financial statements as a whole.

Prior Period Financial Statements

The August 31, 2017 financial statements were reviewed by us, and our report thereon, dated November 10, 2017, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Darwin and Rhodes, LLP

April 16, 2019

POTOMAC VALLEY SWIMMING, INC.
STATEMENTS OF FINANCIAL POSITION

	AUGUST 31,	
	2018	2017
	(Audited)	(Unaudited)
ASSETS		
Cash and cash equivalents (Notes 1 and 2)	\$ 637,498	\$ 644,214
Receivables (Note 1)	26,518	17,064
Investments (Notes 1, 3 and 4)	257,686	239,044
Prepaid expenses and other	3,639	8,633
Equipment, net (Notes 1 and 5)	8,059	11,578
TOTAL ASSETS	\$ 933,400	\$ 920,533
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 100,915	\$ 113,959
NET ASSETS, UNRESTRICTED (Note 1)	832,485	806,574
TOTAL LIABILITIES AND NET ASSETS	\$ 933,400	\$ 920,533

The accompanying notes are an integral part of these financial statements.

POTOMAC VALLEY SWIMMING, INC.
STATEMENTS OF ACTIVITIES

	FOR THE YEARS ENDED AUGUST 31,	
	2018	2017
	(Audited)	(Unaudited)
REVENUE (Note 1):		
Membership registration	\$ 1,108,356	\$ 1,092,802
Less, Amounts transferred to USA Swimming	795,009	775,003
Net membership registration	\$ 313,347	\$ 317,799
Meet fees	656,008	722,717
Investment income (Notes 1 and 3)	21,051	25,990
USA Swimming Leap 3 Award	5,000	-
Miscellaneous income	958	458
Loss on disposal of equipment	(213)	-
TOTAL REVENUE	\$ 996,151	\$ 1,066,964
EXPENSES:		
Programs:		
Swim meets	\$ 836,551	\$ 921,696
Travel assistance	39,600	34,450
Total program expenses	\$ 876,151	\$ 956,146
General and administrative	94,089	86,257
TOTAL EXPENSES	\$ 970,240	\$ 1,042,403
CHANGE IN UNRESTRICTED NET ASSETS	\$ 25,911	\$ 24,561
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	806,574	782,013
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 832,485	\$ 806,574

The accompanying notes are an integral part of these financial statements.

POTOMAC VALLEY SWIMMING, INC.
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED AUGUST 31,	
	2018	2017
	(Audited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members, clubs and other	\$ 965,646	\$ 1,035,434
Cash paid to employees, contractors, suppliers and USA Swimming	(971,334)	(1,045,280)
Interest and dividends received	12,968	13,008
NET CASH PROVIDED BY		
OPERATING ACTIVITIES	\$ 7,280	\$ 3,162
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	\$ (3,438)	\$ (8,688)
Sales of investments	-	1,100
Purchases of investments	(10,558)	(11,852)
NET CASH USED IN INVESTING ACTIVITIES	\$ (13,996)	\$ (19,440)
 NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ (6,716)	\$ (16,278)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	644,214	660,492
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 637,498	\$ 644,214
 RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ 25,911	\$ 24,561
Reconciliation adjustments:		
Depreciation	6,743	5,305
Net realized and unrealized gain on investments	(8,083)	(12,982)
Loss on disposal of equipment	213	-
Changes in assets and liabilities:		
Increase in receivables	(9,454)	(5,540)
Decrease (increase) in prepaid expenses and other	4,994	(1,611)
Decrease in accounts payable	(13,044)	(6,571)
NET CASH PROVIDED BY		
OPERATING ACTIVITIES	\$ 7,280	\$ 3,162

The accompanying notes are an integral part of these financial statements.

POTOMAC VALLEY SWIMMING, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

Note 1. **Organization and Summary of Significant Accounting Policies**

Organization - Potomac Valley Swimming, Inc. (PVS) is a not-for-profit corporation organized to provide education, instruction and training of individuals to develop and improve their capabilities in the sport of competitive swimming. PVS' geographic area of operation includes parts of Maryland, Virginia, and the District of Columbia.

Basis of Accounting - The financial statements of PVS have been prepared on the accrual basis of accounting. Revenue and expenses are recognized and recorded when earned or incurred.

Financial Statement Presentation - Net assets are presented on the basis of unrestricted, temporarily restricted, or permanently restricted. Temporarily restricted net assets are those that are restricted by donors until the passage of time or the occurrence of certain events. Permanently restricted net assets are those that are restricted in perpetuity by donors. PVS had no temporarily or permanently restricted net assets as of August 31, 2018 and 2017.

Revenue Recognition - Membership registrations are recognized as revenue in the period received. The membership period aligns with PVS' fiscal year and dues are neither prorated for partial periods or available to be paid in advance. A portion of membership dues collected are payable to USA Swimming (USAS) and are remitted to USAS on a regular basis.

Cash and Cash Equivalents - For financial statement purposes, PVS considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents. Money market accounts held with investment advisors are considered investments.

Receivables - Receivables are stated at the amount management expects to collect from balances outstanding at year-end. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to bad debt expense and a credit to accounts receivable. Based on history, management has concluded that realization losses will be immaterial. Receivables are uncollateralized.

Investments - Investments are composed of a money market fund and mutual funds and are stated at fair value at the statement of financial position date and are subject to change thereafter due to market conditions. Realized and unrealized gains and losses are included with investment income in the statements of activities.

Equipment - Equipment which costs in excess of \$2,500 is capitalized at cost. Depreciation is computed using the straight-line method over an estimated useful life of three years. When equipment is retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts with any resulting gain or loss reflected in income. Maintenance and repairs are expensed in the period incurred.

POTOMAC VALLEY SWIMMING, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

Note 1. **Organization and Summary of Significant Accounting Policies** - (Continued)

Income Tax Status - PVS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Income from certain activities not directly related to the Organization's exempt purpose is subject to taxation as unrelated business income. PVS had no unrelated business income for the years ended August 31, 2018 and 2017.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and allocated based on management's estimates.

Note 2. **Concentration of Credit Risk** - Financial instruments that potentially subject PVS to concentrations of credit risk include cash deposits with commercial banks and investment brokers. PVS' cash management policies limit its exposure to credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC), though balances may exceed the limits specified by the FDIC at times throughout the year. The money market fund held in a brokerage account is not insured by the FDIC. At August 31, 2018, PVS held cash in excess of FDIC limits of \$426,867.

Note 3. **Investments** - The following summarizes investments as of August 31:

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Money market fund	\$ 2,033	\$ 2,033	\$ 79	\$ 79
Mutual funds:				
Equity	125,016	91,020	106,335	86,635
Fixed income	61,753	67,867	63,447	67,590
Mixed asset	68,884	66,282	69,183	65,340
Totals	<u>\$ 257,686</u>	<u>\$ 227,202</u>	<u>\$ 239,044</u>	<u>\$ 219,644</u>

POTOMAC VALLEY SWIMMING, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

Note 3. **Investments** - (Continued)

Investment income consisted of the following for the years ended August 31:

	2018	2017
Interest and dividends	\$ 12,968	\$ 13,008
Net realized and unrealized gains on investments	8,083	12,982
Totals	\$ 21,051	\$ 25,990

Note 4. **Fair Value Measurement** - Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides 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 unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below.

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

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

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for investments measured at fair value:

Money market fund - The carrying value of the money market fund reported in the statements of financial position approximates the fair values of the underlying assets.

POTOMAC VALLEY SWIMMING, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

Note 4. **Fair Value Measurement** - (Continued)

Mutual funds - Valued at the daily closing price as reported by the mutual fund. Mutual funds held by the organization are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by PVS are actively traded.

The following table presents PVS' fair value hierarchy for the financial assets measured at fair value on August 31:

	<u>2018</u>	<u>2017</u>
	<u>Level 1</u>	<u>Level 1</u>
Money market fund	\$ 2,033	\$ 79
Mutual funds:		
Equity	125,016	106,335
Mixed asset	68,884	69,183
Fixed income	<u>61,753</u>	<u>63,447</u>
Totals	<u>\$ 257,686</u>	<u>\$ 239,044</u>

Note 5. **Equipment** - Equipment consisted of the following as of August 31:

	<u>2018</u>	<u>2017</u>
Meet Equipment	\$ 103,767	\$ 121,119
Office Equipment	<u>592</u>	<u>2,744</u>
Subtotals	\$ 104,359	\$ 123,863
Less, Accumulated depreciation	<u>96,300</u>	<u>112,285</u>
Totals	<u>\$ 8,059</u>	<u>\$ 11,578</u>

Depreciation expense for the years ended August 31, 2018 and 2017 was \$6,743 and \$5,305, respectively.

Note 6. **Donated Services** - PVS receives a significant amount of donated services from unpaid volunteers. These services are not included in the statements of activities because they do not meet the criteria for recognition as required by the Donated Services Topic of the Accounting Standards Codification.

POTOMAC VALLEY SWIMMING, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017

- Note 7. **Related Party Transactions** - PVS pays member clubs meet management fees for hosting PVS sponsored meets. In many cases, member clubs' management may also occupy positions on PVS's Board of Directors or serve in leadership positions on PVS Committees. PVS's method of awarding meets to clubs requires a majority vote by PVS's full Board of Directors. PVS also awards member clubs travel reimbursements for athlete travel to meets where the athlete represents PVS. No single individual or club has the ability to unilaterally award a meet or approve travel reimbursements. For the years ended August 31, 2018 and 2017, fees paid to related clubs totaled \$223,268 and \$159,229, respectively.
- Note 8. **Subsequent Events** - In preparation of these financial statements, PVS has evaluated events and transactions for potential recognition or disclosure through April 16, 2019, which is the date the financial statements were available to be issued.

POTOMAC VALLEY SWIMMING, INC.
SCHEDULES OF REVENUES AND EXPENSES

	FOR THE YEARS ENDED	
	AUGUST 31,	
	2018	2017
	(Audited)	(Unaudited)
REVENUE:		
Membership registration	\$ 1,108,356	\$ 1,092,802
Less, Amounts transferred to USA Swimming	795,009	775,003
Net membership registration	\$ 313,347	\$ 317,799
PVS meet fees	424,949	417,828
Club meet fees	136,620	138,843
Zone team fees	94,439	166,046
Investment income	21,051	25,990
USA Swimming Leap 3 Award	5,000	-
Miscellaneous income	958	458
Loss on disposal of equipment	(213)	-
Totals	\$ 996,151	\$ 1,066,964
EXPENSES:		
PROGRAMS:		
PVS and club meets	\$ 476,322	\$ 455,769
LC and SC Zone teams and camps	156,958	239,725
Compensation and contract services	89,871	117,110
Officials' support	40,850	37,985
Travel assistance	39,600	34,450
Meetings and conferences	32,486	17,353
Other program support	13,512	29,862
Equipment parts and supplies	10,884	10,228
Depreciation	6,673	5,094
Payroll taxes	5,538	7,933
Website and internet	3,457	637
Totals	\$ 876,151	\$ 956,146
GENERAL AND ADMINISTRATIVE:		
Professional services	\$ 38,833	\$ 9,530
Compensation	36,757	48,674
Office and other administrative	6,676	6,835
Meetings and conferences	6,489	14,683
Payroll taxes	2,812	3,721
Investment and banking fees	1,737	2,603
Advertising	715	-
Depreciation	70	211
Totals	\$ 94,089	\$ 86,257

The accompanying notes are an integral part of these financial statements.