

POTOMAC VALLEY SWIMMING, INC.
AUGUST 31, 2015 AND 2014

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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, 2015, 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 of 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, 2015, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of revenue and expense on page 10 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, 2014 financial statements were reviewed by us, and our report thereon, dated December 5, 2014, 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.

Narfino and Rhoads, LLP

December 14, 2015

POTOMAC VALLEY SWIMMING, INC.
STATEMENTS OF FINANCIAL POSITION

	AUGUST 31,	
	2015 <u>(Audited)</u>	2014 <u>(Unaudited)</u>
ASSETS		
Cash and cash equivalents (Notes 1 and 2)	\$ 672,786	\$ 662,089
Receivables (Note 1)	79,588	33,910
Prepaid expenses and other	3,945	8,131
Investments (Notes 1, 3 and 4)	201,959	205,347
Equipment, net of accumulated depreciation of \$102,972 and \$92,093 for 2015 and 2014, respectively (Note 1)	<u>16,821</u>	<u>14,302</u>
TOTAL ASSETS	<u>\$ 975,099</u>	<u>\$ 923,779</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 159,044	\$ 127,020
NET ASSETS, UNRESTRICTED (Note 1)	<u>816,055</u>	<u>796,759</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 975,099</u>	<u>\$ 923,779</u>

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

POTOMAC VALLEY SWIMMING, INC.
STATEMENTS OF ACTIVITIES

	FOR THE YEARS ENDED AUGUST 31,	
	2015 (Audited)	2014 (Unaudited)
REVENUE:		
Membership registration	\$ 947,772	\$ 944,936
Less, Amounts transferred to USA Swimming	<u>654,894</u>	<u>644,444</u>
Net membership registration	\$ 292,878	\$ 300,492
Meet fees	757,889	752,624
Investment income (Notes 1 and 3)	(10,910)	26,649
Miscellaneous income	<u>2,528</u>	<u>173</u>
TOTAL REVENUE	<u>\$ 1,042,385</u>	<u>\$ 1,079,938</u>
EXPENSES:		
Programs:		
Swim meets	\$ 911,614	\$ 887,837
Travel assistance	<u>30,050</u>	<u>23,900</u>
Total program expenses	\$ 941,664	\$ 911,737
General and administrative	<u>81,425</u>	<u>78,134</u>
TOTAL EXPENSES	<u>\$ 1,023,089</u>	<u>\$ 989,871</u>
CHANGE IN UNRESTRICTED NET ASSETS	\$ 19,296	\$ 90,067
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>796,759</u>	<u>706,692</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u><u>\$ 816,055</u></u>	<u><u>\$ 796,759</u></u>

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,	
	2015	2014
	<u>(Audited)</u>	<u>(Unaudited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members, clubs and other	\$ 1,007,617	\$ 1,028,944
Cash paid to suppliers and USA Swimming	(976,000)	(871,299)
Interest and dividends received	6,879	8,836
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 38,496</u>	<u>\$ 166,481</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	\$ (13,398)	\$ -
Sales of investments	5,366	-
Purchases of investments	(19,767)	(47,040)
NET CASH USED IN INVESTING ACTIVITIES	<u>\$ (27,799)</u>	<u>\$ (47,040)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ 10,697	\$ 119,441
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>662,089</u>	<u>542,648</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 672,786</u>	<u>\$ 662,089</u>
RECONCILIATION OF CHANGE IN NET ASSETS		
TO NET CASH PROVIDED BY OPERATING		
ACTIVITIES:		
Change in net assets	\$ 19,296	\$ 90,067
Reconciliation adjustments:		
Depreciation	10,879	13,090
Net realized and unrealized loss (gain)		
on investments	17,789	(17,813)
Changes in assets and liabilities:		
Increase in receivables	(45,678)	(24,345)
Decrease (increase) in prepaid expenses and other	4,186	(260)
Increase in accounts payable	32,024	105,742
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 38,496</u>	<u>\$ 166,481</u>

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

POTOMAC VALLEY SWIMMING, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015 AND 2014

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, 2015 and 2014.

Revenue Recognition - Membership dues are recognized as revenue when earned. A portion of membership dues 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 with a maturity of three months or less to be cash equivalents. Money market accounts held with investment advisors are considered to be 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. PVS does not require collateral from its members.

Investments - Investments are composed of 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 - Purchased equipment exceeding \$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, 2015 AND 2014

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

Income Tax Status - PVS is exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). PVS had no unrelated business taxable income for the years ended August 31, 2015 and 2014. PVS' federal information returns (Form 990, *Return of Organization Exempt from Income Tax*) generally are not subject to examination by the IRS for the years ended August 31, 2011 and prior.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. 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 concentrations of 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.

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

	2015		2014	
	(Audited)		(Unaudited)	
	Fair Value	Cost	Fair Value	Cost
Money market fund	\$ 699	\$ 699	\$ 737	\$ 737
Mutual funds:				
Equity	87,534	76,596	86,844	66,208
Fixed income	57,131	62,076	59,193	57,922
Mixed asset	56,595	58,301	58,573	53,074
Totals	<u>\$ 201,959</u>	<u>\$ 197,672</u>	<u>\$ 205,347</u>	<u>\$ 177,941</u>

POTOMAC VALLEY SWIMMING, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015 AND 2014

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

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

	<u>2015</u>	<u>2014</u>
	<u>(Audited)</u>	<u>(Unaudited)</u>
Interest and dividends	\$ 6,879	\$ 8,836
Net realized and unrealized gains (losses)	<u>(17,789)</u>	<u>17,813</u>
Totals	<u>\$ (10,910)</u>	<u>\$ 26,649</u>

Note 4. **Fair Value of Financial Instruments** - The following methods and assumptions were used by PVS in estimating its fair value disclosures for financial instruments:

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

Mutual funds - The fair value of mutual funds are based on the net asset value on the last business day of the year.

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

	<u>2015</u>	<u>2014</u>
	Quoted Prices In Active Markets For Identical Assets (Level 1) (Audited)	Quoted Prices In Active Markets For Identical Assets (Level 1) (Unaudited)
Money market fund	\$ 699	\$ 737
Mutual funds:		
Equity	87,534	86,844
Fixed income	57,131	59,193
Mixed asset	<u>56,595</u>	<u>58,573</u>
Totals	<u>\$ 201,959</u>	<u>\$ 205,347</u>

POTOMAC VALLEY SWIMMING, INC.
NOTES TO FINANCIAL STATEMENTS
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- Note 5. **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 FASB Accounting Standards Codification.
- Note 6. **Related Party Transactions** - Every year, a number of clubs who are members of PVS are retained to host PVS sponsored meets. These clubs are paid meet management fees for hosting the meets. In many cases, owners or leaders of these clubs also occupy positions on PVS's Board of Directors or sit 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. No single individual or club is in a position to unilaterally award a meet. For the years ended August 31, 2015 and 2014, fees paid to related clubs totaled \$125,520 and \$108,441, respectively.
- Note 7. **Subsequent Events** - In preparation of these financial statements, PVS has evaluated events and transactions for potential recognition or disclosure through December 14, 2015, which is the date the financial statements were available to be issued.

POTOMAC VALLEY SWIMMING, INC.

SCHEDULES OF REVENUE AND EXPENSES

	FOR THE YEARS ENDED	
	AUGUST 31,	
	2015	2014
	<u>(Audited)</u>	<u>(Unaudited)</u>
REVENUE:		
Membership registration	\$ 947,772	\$ 944,936
Less, Amounts transferred to USA Swimming	<u>654,894</u>	<u>644,444</u>
Net membership registration	\$ 292,878	\$ 300,492
PVS meet fees	408,570	454,776
Zone team fees	195,500	181,366
Club meet fees	128,069	116,482
EZ Diversity Summit	25,750	-
Miscellaneous income	2,528	173
Investment income	<u>(10,910)</u>	<u>26,649</u>
Totals	<u>\$ 1,042,385</u>	<u>\$ 1,079,938</u>
EXPENSES:		
PROGRAMS:		
PVS and club meets	\$ 419,112	\$ 437,886
LC and SC Zone teams and camps	248,050	247,184
Compensation and contract services	116,865	118,135
EZ Diversity Summit	31,054	-
Travel assistance	30,050	23,900
Officials' support	23,100	20,122
Meetings and conferences	17,529	19,998
Equipment parts and supplies	13,138	11,264
Other program support	12,687	12,467
Swimposium	10,706	-
Depreciation	10,669	12,880
Payroll taxes	7,787	7,701
Website and internet	917	200
Totals	<u>\$ 941,664</u>	<u>\$ 911,737</u>
GENERAL AND ADMINISTRATIVE:		
Compensation	\$ 47,253	\$ 47,215
Meetings and conferences	13,634	13,346
Professional services	8,900	8,600
Office and other administrative	5,974	3,628
Payroll taxes	3,641	3,612
Investment and banking fees	1,813	1,523
Depreciation	<u>210</u>	<u>210</u>
Totals	<u>\$ 81,425</u>	<u>\$ 78,134</u>