

REQUIRED COMMUNICATIONS

To the Board of Directors of

PACIFIC SWIMMING

FEBRUARY 7, 2022

Board of Directors
Pacific Swimming, Inc.

This report summarizes certain matters required by professional auditing standards to be communicated to you in your oversight responsibility Pacific Swimming's financial reporting process. We are pleased to present this report related to our audit of the financial statements for the year ended August 31, 2021.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to be of service to Pacific Swimming.

Cropper Accountancy Corporation

Cropper Accountancy Corporation
February 7, 2022

TABLE OF CONTENTS

	<u>Page</u>
Required Communications	3-6
Summary of Accounting Estimates	7-8
Summary of Recorded Audit Adjustments	9
Summary of Passed Audit Adjustments	10
Internal Control Recommendations	11-12

Required Communications

Statement on Auditing Standard No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications.

Area	Comments
Auditors' Responsibility Under Professional Standards	<p>Our responsibility has been described to you in our arrangement letter dated June 14, 2021. That responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.</p>
Accounting Practices	<p>Adoption of, or Change in, Accounting Policies</p> <p>Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies set forth by Pacific Swimming are described in Note 1 to the financial statements.</p> <p>There were no changes in any accounting policies (or the application of existing policies) during the year ended August 31, 2021.</p> <p>Significant or Unusual Transactions</p> <p>We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.</p>

Alternative Treatments Discussed with Management

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.

Recently Issued Accounting Pronouncements and Developments

FASB has issued ASU 2016-2, *Leases* (Topic 842). Under this new guidance, lessees will be required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the income statement. Implementation of the new standard was delayed by ASU 2020-05, making the provisions of this standard effective for annual reporting periods beginning after December 15, 2021. Currently, Pacific Swimming does not believe the provisions of this standard will effect financial reporting as the organization does not have any leases with terms greater than 12 months.

In September 2020, FASB issued ASU No. 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This new standard requires that a nonprofit present contributed nonfinancial assets as a separate line item in the financial statements and disclose the following: (1) a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activity by category, and (2) for each category of contributed nonfinancial assets recognized, qualitative information about whether such nonfinancial assets were monetized or utilized; the policy about monetizing rather than utilizing contributed nonfinancial assets; donor-imposed restrictions associated with contributed nonfinancial assets; and valuation techniques, inputs, and the principal market used for determining fair value. The provisions of this standard are effective for financial reporting periods beginning after June 15, 2021, though early implementation is allowed.

Management's Judgments and Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles generally requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Summary information about the process used by management in formulating particularly sensitive accounting estimates is in the attached "Summary of Accounting Estimates".

Financial Statement Disclosures

We have no significant observations regarding the neutrality, consistency, and clarity of the disclosures in the financial statements.

Audit Adjustments

The audit adjustments recorded by Pacific Swimming are shown on the attached "Summary of Recorded Audit Adjustments".

Uncorrected Misstatements

Audit adjustments passed by Pacific Swimming are shown on the attached "Summary of Uncorrected Misstatements".

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

There were no significant issues discussed with management during the current year.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management during the audit.

Certain Written Communications Between Management and Our Firm

Management has provided an audit representation letter dated February 7, 2022.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and transparent. Certain financial statement disclosures are particularly sensitive to financial statement users.

Management determines Pacific Swimming's exposure for commitments or contingent liabilities based upon their knowledge of the issues and consultation with outside attorneys and other professionals. Pacific Swimming then determines if any such items meet the requirements if any such items meet the requirements of ASC Topic, *Contingencies*.

Pacific Swimming

Summary of Accounting Estimates

Year Ended August 31, 2021

Area	Accounting Policy	Estimation Process
Accounts Receivable	Receivables are recorded at estimated net realizable value.	We review subsequent collections to assess net realizable value and compare our assessment to the books and records.
Accrued Vacation	An accrual is made to estimate vacation time earned by employees but still not taken or compensated at fiscal year end based on management policy and employee time records.	We test management's calculation of accrued vacation by agreeing pay rates to payroll and personnel records, vacation hours earned to management's policy, and, on a haphazard basis, agree vacation time taken during the year for select employees to respective records. We recalculate the extrapolated balances by employee.
Revenue Recognition	<p>Management estimates that the value of membership benefits provided equal or exceed the value of dues paid and are, therefore, an exchange transaction.</p> <p>In addition, management estimates when performance obligations inherent in the contracts with customers are provided and recognizes revenue accordingly by allocating revenues to each performance obligation.</p> <p>Management estimates the fair value of in-kind goods and services provided.</p>	<p>We have examined the estimated fair value of benefits provided and when the performance obligations are satisfied, noting management's estimate appears reasonable.</p> <p>In addition, we test management's calculation of revenue by haphazardly selecting memberships and meet fees for testing. We agree membership period and dues rates and fee schedules to supporting documentation and recalculate accordingly.</p>

Depreciation

The current policy is to capitalize all fixed assets greater than \$4,000 and that assets by depreciated on a straight-line basis (generally 5 years).

Management calculates depreciation in an Excel spreadsheet on a straight-line basis with estimated useful lives per policy.

We recalculate the depreciation calculation and mechanical accuracy of the Excel spreadsheet on a test basis, in addition to ensuring that the estimated useful lives used are consistent per policy.

Fair Values

Investments in marketable securities are stated at estimated fair values.

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.

We assess investment fair values provided by the third party custodian and whether the method used, based on the fair value hierarchy, is appropriate in the circumstances, based on investment type.

**Pacific Swimming
Summary of Recorded Audit Adjustments
August 31, 2021**

No material audit adjustments made.

**Pacific Swimming
Summary of Uncorrected Misstatements
Year Ended August 31, 2021**

No audit adjustments passed greater than \$500.

Pacific Swimming

Internal Control Recommendations

Year Ended August 31, 2021

Note: We consider other matters noted below to be control deficiencies¹ as defined below, and/or value-added comments for management.

Area	Recommendation
SERVICE AUDITORS' REPORTS	<p>Pacific Swimming outsources its payroll and investment custodial functions to third parties.</p> <p><i>To ensure that those outsourced financial functions are operating with good financial controls, the organization should obtain the service auditors' reports (SOC 1 or SOC 2 reports issued under AICPA's SSAE 16) and review those reports. If those reports describe complementary user controls expected by the servicer, Pacific Swimming should ensure such controls are included in accounting policies and procedures and operating as designed.</i></p>

¹ A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the engagement letter and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

FINANCIAL POLICIES AND PROCEDURES

Pacific Swimming has a comprehensive accounting policies and procedures manual. Such a manual is an ever-evolving document. We recommend that Pacific Swimming consider refining its financial policies and procedures (and related internal controls) by also addressing the following:

- *Revenue recognition policy including fundraising (auction) events*
- *Fraud policy*
- *Management of risk concentrations of bank and institutional deposits in excess of Federally insured limits*
- *Gift acceptance policy*
- *General computer controls policy including:*
 - *Access controls*
 - *Data backup and recovery*
 - *Third party vendor management*
 - *Physical security*
 - *Computer operations*
 - *End-user Computing (including spreadsheets and other user-developed programs)*
 - *Application Controls*