



**USA BASKETBALL**

**Financial Statements and Supplemental Schedule**

**For the Years Ended September 30, 2018 and 2017**

**And**

**Independent Auditors' Report**

# USA BASKETBALL

## TABLE OF CONTENTS

---

	<b>Page</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017</b>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	6
Notes to Financial Statements	7
<b>SUPPLEMENTAL SCHEDULE</b>	
Functional Expenses for the Year Ended September 30, 2018	13

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
USA Basketball

We have audited the accompanying financial statements of USA Basketball, which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditor considers 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 above present fairly, in all material respects, the financial position of USA Basketball as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information on page 14 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.

*Stockman Kast Ryan + Co. LLP*

February 6, 2019

## USA BASKETBALL

### STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2018 AND 2017

---

	2018	2017
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,516,097	\$ 1,542,476
Investments	30,295,813	26,293,198
Accounts receivable	341,085	5,778
Inventories	797,582	665,972
Other current assets	<u>188,351</u>	<u>41,048</u>
Total current assets	33,138,928	28,548,472
PLEDGE RECEIVABLE		1,000,000
PROPERTY AND EQUIPMENT, NET	3,944,086	504,027
EVENT DEPOSITS	1,518,879	
WEBSITE DEVELOPMENT COSTS, NET	<u>183,590</u>	<u>343,349</u>
TOTAL	<u>\$ 38,785,483</u>	<u>\$ 30,395,848</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,834,224	\$ 658,703
Deferred revenue	3,572,551	225,000
Current portion of note payable	<u>213,000</u>	<u></u>
Total current liabilities	5,619,775	883,703
NOTE PAYABLE	<u>426,000</u>	<u></u>
TOTAL LIABILITIES	<u>6,045,775</u>	<u>883,703</u>
NET ASSETS		
Unrestricted	32,739,708	28,512,145
Temporarily restricted	<u></u>	<u>1,000,000</u>
Total net assets	32,739,708	29,512,145
TOTAL	<u>\$ 38,785,483</u>	<u>\$ 30,395,848</u>

See notes to financial statements.

---

# USA BASKETBALL

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
UNRESTRICTED NET ASSETS		
REVENUE		
Licensing and marketing – national teams	\$ 5,021,167	\$ 3,135,392
Licensing and funding – youth division	4,086,610	3,610,777
Investment income	2,088,268	2,810,975
Support from United States Olympic Committee	1,017,203	793,215
In-kind contributions	927,030	690,555
Competition income	382,694	375,396
Sanctions and letters of clearance fees	178,254	179,443
Net assets released from restrictions	1,000,000	
Other	<u>1,575,441</u>	<u>340,712</u>
Total revenue	<u>16,276,667</u>	<u>11,936,465</u>
EXPENSES		
Program services:		
Events:		
Senior National Team - Women	2,247,596	636,211
World Cup Qualifying Teams - Men	1,793,495	
Senior National Team - Men	666,562	1,068,182
FIBA World Championship U17 – Men	505,870	
FIBA Americas U18 Championship – Men	466,450	
FIBA World Championship U17 – Women	390,796	
FIBA Americas U18 Championship – Women	373,646	
3X3 Championships	327,307	335,715
Hoop Summit – Men	294,791	298,221
FIBA World Championship U19 – Men		566,599
FIBA Americas U16 Qualifying – Men		414,510
FIBA World Championship U19 – Women		403,832
FIBA Americas U16 Championship – Women		362,839
FIBA World Championship U23 – Women		242,041
Youth Division	3,686,818	2,773,757
Other program services	<u>60,719</u>	<u>64,380</u>
Total program services	<u>10,814,050</u>	<u>7,166,287</u>
Supporting services:		
General and administrative	787,586	683,664
Fundraising	<u>447,468</u>	<u>383,128</u>
Total supporting services	<u>1,235,054</u>	<u>1,066,792</u>
Total expenses	<u>12,049,104</u>	<u>8,233,079</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>4,227,563</u>	<u>3,703,386</u>

(continued)

## USA BASKETBALL

### STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

---

	<b>2018</b>	<b>2017</b>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions		1,000,000
Net assets released from restrictions	<u>(1,000,000)</u>	<u>                    </u>
Change in temporarily restricted net assets	<u>(1,000,000)</u>	<u>1,000,000</u>
CHANGE IN NET ASSETS	3,227,563	4,703,386
NET ASSETS, Beginning of year	<u>29,512,145</u>	<u>24,808,759</u>
NET ASSETS, End of year	<u>\$ 32,739,708</u>	<u>\$ 29,512,145</u>

See notes to financial statements.

(concluded)

## USA BASKETBALL

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

---

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	\$ 3,227,563	\$ 4,703,386
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gains on investments	(1,493,476)	(2,339,658)
Gain on disposal of building	(1,231,585)	
Pledge receivable restricted for long term purposes		(1,000,000)
Depreciation and amortization	248,188	273,255
Changes in operating assets and liabilities:		
Accounts receivable	(335,307)	5,834,641
Inventories	(131,610)	(20,204)
Other current assets and deposits	(1,666,182)	55,559
Accounts payable and accrued liabilities	1,175,521	(1,628,097)
Deferred revenue	<u>2,947,551</u>	<u>(73,639)</u>
Net cash provided by operating activities	<u>2,740,663</u>	<u>5,805,243</u>
INVESTING ACTIVITIES		
Purchases of investments	(6,959,139)	(8,151,282)
Proceeds from sales of investments	4,450,000	3,699,999
Website development costs		(184,675)
Purchases of property and equipment	<u>(257,903)</u>	<u>(21,628)</u>
Net cash used in investing activities	<u>(2,767,042)</u>	<u>(4,657,586)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(26,379)	1,147,657
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,542,476</u>	<u>394,819</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,516,097</u>	<u>\$ 1,542,476</u>
SUPPLEMENTAL INFORMATION		
Property and equipment acquired through prior year pledge	<u>\$ 1,000,000</u>	
Property and equipment acquired through promissory note	<u>\$ 639,000</u>	

See notes to financial statements.

---



# USA BASKETBALL

## NOTES TO FINANCIAL STATEMENTS

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** — USA Basketball is the national governing body for the sport of basketball and was established for the development of amateur basketball and international competition in the United States. USA Basketball is the United States member of Federation Internationale de Basketball (FIBA), the international governing body for basketball.

**Basis of Presentation** — USA Basketball reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets; temporarily restricted net assets; and permanently restricted net assets. As of September 30, 2018 and 2017, USA Basketball had no permanently restricted net assets.

**Cash Equivalents** — All highly liquid temporary investments maturing within three months of their acquisition are considered to be cash equivalents.

**Investments** — USA Basketball records its investments at fair value in the statement of financial position with gains and losses included in the statement of activities. See Note 3 for more information on the fair values of investments.

**Accounts Receivable** — Accounts receivable are stated at the invoiced or contract amount. Accounts receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

**Inventories** — Inventories are stated at the lower of cost (if contributed, fair value on the date of the contribution) or net realizable value, principally on a first-in, first-out basis. Inventories consist primarily of equipment and apparel.

**Property and Equipment** — All acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Depreciation is provided on property and equipment over their estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Building	39 years
Office furniture and equipment	3 - 10 years

USA Basketball measures its property and equipment for impairment when certain indicators arise.

**Licensing Fees** — Licensing fees under USA Basketball's licensing and marketing agreements (see Note 2) are receivable in installments and are recorded as revenue during the period in which the installment is due. The related expenses are recorded as incurred.

**Contributions** — Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. In-kind contributions consist primarily of apparel and are recognized at the fair value of the goods received.

**Website Development Costs** — During the years ended September 30, 2017, 2016 and 2014, respectively, USA Basketball capitalized \$859,275 of website development costs. The website development costs are being amortized over three year periods. Amortization expense was \$159,758 and \$214,560 for the years ended September 30, 2018 and 2017, respectively. Estimated future amortization expense is as follows for the years ending September 30:

2020	\$ 143,391
2021	<u>40,199</u>
Total	<u>\$ 183,590</u>

**Functional Allocation of Expenses** — USA Basketball maintains its accounting records on the basis of natural expense classifications and accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Use of Estimates** — The preparation of USA Basketball's financial statements in conformity with accounting principles generally accepted in the United States of America 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 income and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes** — For Federal income tax purposes, USA Basketball qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to Federal income taxes. USA Basketball believes that it does not have any uncertain tax positions that are material to the financial statements.

**Reclassifications** — Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

**Subsequent Events** — USA Basketball has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

## 2. LICENSING AND MARKETING AGREEMENTS WITH NBA PROPERTIES, INC.

USA Basketball has licensing and marketing agreements with NBA Properties, Inc. (NBAP), whereunder NBAP engages in marketing and promotional activities on behalf of USA Basketball. NBAP is an affiliated entity of the National Basketball Association (NBA), an active member of USA Basketball. Also, certain employees of the NBA serve on the Board of Directors of USA Basketball. The contracts arranged by NBAP under the agreements permit the use by the licensees of USA Basketball's name and marks and the likenesses of certain basketball players

who participate on USA Basketball's teams. USA Basketball records the income under these contracts as licensing and marketing – national teams revenue in the accompanying statements of activities. During year ended September 30, 2017, USA Basketball and NBAP entered into a new licensing and marketing agreement which expires on December 31, 2024, and is cancellable in four years. During the years ended September 30, 2018 and 2017, revenue from NBAP totaled \$5,021,167 and \$3,135,392, respectively. As of September 30, 2018, USA Basketball had \$300,000 in accounts receivable due from NBAP. No such amounts were due as of September 30, 2017.

### **3. INVESTMENTS AND FAIR VALUE MEASUREMENTS**

USA Basketball has placed funds with the United States Olympic Endowment (the USOE) and with an investment management company. USA Basketball invests in investment securities which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the recorded amount of investments in USA Basketball's financial statements.

USA Basketball is required to use 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: Unadjusted quoted prices in active markets for identical assets or liabilities that USA Basketball has the ability to access.

Level 2: Prices determined using significant other observable inputs. 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 other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

The investment'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.

Investments in equity and fixed income mutual funds and exchange traded funds (ETF) are priced at quoted prices in active markets.

USA Basketball's investment in the USOE portfolio is valued at fair value using the net asset value of the portfolio provided by the USOE. Certain alternative investments within the USOE portfolio are stated at the estimated fair values of the underlying investments, based on quoted market prices and fair values as estimated by the managers of the related investments.

USA Basketball may terminate its investment agreement with the USOE effective at the end of any calendar month upon the giving of at least 90 days written notice or upon shorter notice acceptable to the USOE if the USOE determines that adequate liquidity exists in the portfolio to permit early termination.

The following table sets forth by level, within the fair value hierarchy, USA Basketball's investments at fair value as of September 30:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>2018:</b>				
U.S. Olympic Endowment portfolio	\$ 8,072,241		\$ 8,072,241	
Fixed income mutual funds	5,781,007	\$ 5,781,007		
International equity mutual fund	3,223,593	3,223,593		
Domestic equity mutual fund	6,311,827	6,311,827		
Equity ETF	<u>6,907,145</u>	<u>6,907,145</u>		
Total	<u>\$ 30,295,813</u>	<u>\$ 22,223,572</u>	<u>\$ 8,072,241</u>	<u>\$ —</u>
<b>2017:</b>				
U.S. Olympic Endowment portfolio	\$ 7,394,798		\$ 7,394,798	
Fixed income mutual funds	5,104,296	\$ 5,104,296		
International equity mutual fund	6,500,565	6,500,565		
Domestic equity mutual fund	2,490,697	2,490,697		
Equity ETF	<u>4,802,842</u>	<u>4,802,842</u>		
Total	<u>\$ 26,293,198</u>	<u>\$ 18,898,400</u>	<u>\$ 7,394,798</u>	<u>\$ —</u>

As of September 30, 2018, the USOE portfolio consists of the following investments:

Alternative investments	37%
Domestic equities	32%
International equities	19%
Domestic bonds	6%
International bonds	3%
Cash and other	<u>3%</u>
Total	<u>100%</u>

The USOE alternative investments consist of hedge equity funds, limited partnerships, real estate funds, private equity funds, bond fund trusts, and funds of funds. As a group, the alternative investments invest in a variety of securities including, but not limited to, foreign and domestic publicly traded equity and debt securities, foreign and domestic fixed income investments, domestic commercial and residential real estate, options, warrants, derivatives and contracts.

USA Basketball's investment income consists of the following for the years ended September 30:

	<b>2018</b>	<b>2017</b>
Dividend and interest income	\$ 594,792	\$ 471,317
Net realized gains	272,753	326,696
Net unrealized gains	<u>1,220,723</u>	<u>2,012,962</u>
Investment income	<u>\$ 2,088,268</u>	<u>\$ 2,810,975</u>

#### **4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at September 30:

	<b>2018</b>	<b>2017</b>
Buildings and improvements	\$ 3,972,049	\$ 1,238,471
Office furniture and equipment	<u>83,307</u>	<u>198,186</u>
Total	4,055,356	1,436,657
Less accumulated depreciation	<u>111,270</u>	<u>932,630</u>
Property and equipment, net	<u>\$ 3,944,086</u>	<u>\$ 504,027</u>

Depreciation expense was \$88,430 and \$58,695 for the years ended September 30, 2018 and 2017.

#### **5. RETIREMENT PLAN**

USA Basketball has a defined contribution pension plan covering substantially all employees. Contributions to the plan are equal to 16% of eligible salaries. Employees may also make after-tax voluntary contributions which, along with USA Basketball's contributions, are 100% vested. USA Basketball's contributions for the years ended September 30, 2018 and 2017 were \$354,418 and \$311,455, respectively.

#### **6. CONCENTRATIONS**

Certain financial instruments potentially subject USA Basketball to concentrations of credit risk. These financial instruments consist primarily of cash balances that periodically exceed FDIC limits.

During 2018 and 2017, revenue generated from sponsorship agreements negotiated by NBA Properties, Inc. (NBAP) accounted for 31% and 26%, respectively, of USA Basketball's total revenue (see Notes 2). As of September 30, 2017, USA Basketball's pledge receivable was due from a private foundation in the form of a promise to give. See also Note 8 regarding the promise to give made. As of September 30, 2018, 88% of USA Basketball's accounts receivable was due from NBAP.

**7. PROMISE TO GIVE**

USA Basketball entered into an agreement with a Foundation in the prior year, under which USA Basketball will receive a donation with a fair value of at least \$1,000,000 as an incentive to maintain its corporate headquarters in Colorado Springs, Colorado. USA Basketball recognized a pledge receivable and revenue of \$1,000,000 during the year ended September 30, 2017. As a result of the uncertainty regarding the ultimate form and timing of the contribution the pledge receivable was recognized as a non-current asset.

During the year ended September 30, 2018, the Foundation fulfilled its promise to give through the partial donation of a building valued at \$3,956,956. In connection with USA Basketball acquiring the building, USA Basketball exchanged the following: (1) a building valued at \$1,700,000 which had a book value of \$468,415; (2) a promissory note of \$639,000 (see Note 9); (3) assignment of rental rights to the seller to receive future rental income of \$400,000; and (4) cash payments of \$217,956.

**8. NOTE PAYABLE**

During 2018, the Organization entered into a \$639,000 promissory note payable to an outside organization in connection with the acquisition of a building (see Note 7). The note is unsecured and is interest free. The note is payable in annual payments of principal of \$213,000 through 2021.

As of September 30, 2018, future minimum payments under the note are as follows:

2019	\$ 213,000
2020	213,000
2021	<u>213,000</u>
Total	<u>\$ 639,000</u>

# **USA BASKETBALL**

## **SUPPLEMENTAL SCHEDULE**

## USA BASKETBALL

### SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2018 (with comparative totals for 2017)

	2018				2017 Total
	Program Services	General and Administrative	Fundraising	Total	
EXPENSES					
Events	\$ 6,366,640			\$ 6,366,640	\$ 3,393,934
Salaries and benefits	2,918,977	\$ 578,194	\$ 53,435	3,550,606	3,146,015
Professional fees	682,741	23,381	2,161	708,283	428,439
Commissions			382,065	382,065	323,938
Depreciation and amortization	201,855	42,414	3,919	248,188	273,255
Travel expense	211,464	9,720	899	222,083	219,624
Insurance	136,429	28,666	2,649	167,744	141,913
Building expense	119,193	15,324	1,417	135,934	76,816
Office expense	90,146	9,990	923	101,059	80,785
Meetings		56,095		56,095	28,580
Dues	41,457			41,457	11,056
Research and development	11,707	21,322		33,029	30,436
Publications	7,019			7,019	21,459
Other	26,422	2,480		28,902	56,829
TOTAL	<u>\$ 10,814,050</u>	<u>\$ 787,586</u>	<u>\$ 447,468</u>	<u>\$ 12,049,104</u>	
PERCENTAGE OF TOTAL	<u>90%</u>	<u>6%</u>	<u>4%</u>	<u>100%</u>	
COMPARATIVE TOTALS					
— 2017	<u>\$ 7,166,287</u>	<u>\$ 683,664</u>	<u>\$ 383,128</u>		<u>\$ 8,233,079</u>
PERCENTAGE OF TOTAL					
— 2017	<u>87%</u>	<u>8%</u>	<u>5%</u>		<u>100%</u>