



USA BASKETBALL

Financial Statements

For the Years Ended September 30, 2019 and 2018

And

Independent Auditors' Report

USA BASKETBALL

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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, 2019 and 2018, and the related statements of activities, functional expenses 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019 USA Basketball adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended September 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited USA Basketball's 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated February 6, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stockman Kast Ryan + Co. LLP

February 28, 2020

USA BASKETBALL

STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,067,320	\$ 1,516,097
Investments	28,867,759	30,295,813
Accounts receivable	732,401	341,085
Inventories	834,091	797,582
Other current assets	<u>4,450,800</u>	<u>188,351</u>
Total current assets	36,952,371	33,138,928
PROPERTY AND EQUIPMENT, NET	3,839,597	3,944,086
EVENT DEPOSITS		1,518,879
WEBSITE DEVELOPMENT COSTS, NET	<u>40,199</u>	<u>183,590</u>
TOTAL	<u>\$ 40,832,167</u>	<u>\$ 38,785,483</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,328,619	\$ 1,834,224
Deferred revenue	6,290,603	3,572,551
Current portion of note payable	<u>213,000</u>	<u>213,000</u>
Total current liabilities	8,832,222	5,619,775
NOTE PAYABLE	<u>213,000</u>	<u>426,000</u>
TOTAL LIABILITIES	<u>9,045,222</u>	<u>6,045,775</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>31,786,945</u>	<u>32,739,708</u>
TOTAL	<u>\$ 40,832,167</u>	<u>\$ 38,785,483</u>

See notes to financial statements.

USA BASKETBALL

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
WITHOUT DONOR RESTRICTION		
REVENUE		
Licensing and marketing – national teams	\$ 6,905,056	\$ 5,021,167
Licensing and funding – youth division	3,435,694	4,086,610
Men's Junior National Teams Program Funding	1,230,088	
Support from United States Olympic Committee	1,217,150	1,017,203
In-kind contributions	673,046	927,030
Investment income	595,963	2,088,268
Competition income	372,867	382,694
Sanctions and letters of clearance fees	179,548	178,254
Net assets released from restrictions		1,000,000
Other	<u>364,403</u>	<u>1,575,441</u>
Total revenue	<u>14,973,815</u>	<u>16,276,667</u>
EXPENSES		
Program services:		
Events:		
Senior National Team – Men	4,940,503	666,562
Junior National Teams – Men	1,328,580	
3X3 Championships	1,165,283	327,307
World Cup Qualifying Teams – Men	839,898	1,793,495
Senior National Team – Women	730,231	2,247,596
FIBA World Championship U19 – Men	499,283	
FIBA Americas U16 Championship – Men	431,032	
FIBA World Championship U19 – Women	401,190	
FIBA Americas U16 Championship – Women	376,365	
Hoop Summit – Men	294,050	294,791
Pan Am Women	221,412	
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
Youth Division	3,309,834	3,686,818
Other program services	<u>49,401</u>	<u>60,719</u>
Total program services	<u>14,587,062</u>	<u>10,814,050</u>

(Continued)

USA BASKETBALL

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Supporting services:		
General and administrative	812,143	787,586
Fundraising	<u>527,373</u>	<u>447,468</u>
Total supporting services	<u>1,339,516</u>	<u>1,235,054</u>
Total expenses	<u>15,926,578</u>	<u>12,049,104</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION	(952,763)	4,227,563
WITH DONOR RESTRICTION		
Net assets released from restriction	<u> </u>	<u>(1,000,000)</u>
CHANGE IN NET ASSETS	(952,763)	3,227,563
NET ASSETS, Beginning of year	<u>32,739,708</u>	<u>29,512,145</u>
NET ASSETS, End of year	<u>\$ 31,786,945</u>	<u>\$ 32,739,708</u>

(Concluded)

See notes to financial statements.

USA BASKETBALL

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2019 (with comparative totals for 2018)

	2019			2018 Total	
	Program Services	General and Administrative	Fundraising		Total
EXPENSES					
Events and programs	\$ 10,113,943			\$ 10,113,943	\$ 6,366,640
Salaries and benefits	3,074,425	\$ 611,386	\$ 116,293	3,802,104	3,550,606
Professional fees	622,051	16,041	3,051	641,143	708,283
Commissions			387,786	387,786	382,065
Depreciation and amortization	203,873	43,123	8,203	255,199	248,188
Insurance	139,775	29,565	5,624	174,964	167,744
Travel expense	157,702	10,545	2,006	170,253	222,083
Building expense	108,976	13,450	2,558	124,984	135,934
Office expense	73,870	9,739	1,852	85,461	101,059
Meetings		48,895		48,895	56,095
Dues	43,318			43,318	41,457
Research and development	4,358	25,129		29,487	33,029
Publications	19,167			19,167	7,019
Other	25,604	4,270		29,874	28,902
TOTAL	<u>\$ 14,587,062</u>	<u>\$ 812,143</u>	<u>\$ 527,373</u>	<u>\$ 15,926,578</u>	
PERCENTAGE OF TOTAL	<u>92%</u>	<u>5%</u>	<u>3%</u>	<u>100%</u>	
COMPARATIVE TOTALS - 2018	<u>\$ 10,814,050</u>	<u>\$ 787,586</u>	<u>\$ 447,468</u>		<u>\$ 12,049,104</u>
PERCENTAGE OF TOTAL - 2018	<u>90%</u>	<u>6%</u>	<u>4%</u>		<u>100%</u>

See notes to financial statements.

USA BASKETBALL

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	\$ (952,763)	\$ 3,227,563
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized gains on investments	27,946	(1,493,476)
Gain on disposal of building		(1,231,585)
Depreciation and amortization	255,199	248,188
Changes in operating assets and liabilities:		
Accounts receivable	(391,316)	(335,307)
Inventories	(36,509)	(131,610)
Other current assets and deposits	(2,743,570)	(1,666,182)
Accounts payable and accrued liabilities	494,395	1,175,521
Deferred revenue	<u>2,718,052</u>	<u>2,947,551</u>
Net cash provided by (used in) operating activities	<u>(628,566)</u>	<u>2,740,663</u>
INVESTING ACTIVITIES		
Purchases of investments	(1,999,441)	(6,959,139)
Proceeds from sales of investments	3,399,549	4,450,000
Purchases of property and equipment	<u>(7,319)</u>	<u>(257,903)</u>
Net cash provided by (used in) investing activities	<u>1,392,789</u>	<u>(2,767,042)</u>
FINANCING ACTIVITIES		
Net cash used in financing activities—		
Principal payments on note payable	<u>(213,000)</u>	<u> </u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	551,223	(26,379)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,516,097</u>	<u>1,542,476</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 2,067,320</u>	<u>\$ 1,516,097</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 two classes of net assets: net assets without donor restrictions, which represent the expendable resources that are available for operations at management's discretion; and net assets with donor restrictions, which represent resources restricted by donors as to purpose or by the passage of time and resources for which use by USA Basketball is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of USA Basketball.

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 5 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 4) 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 with or without donor restriction 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 a three year period. Amortization expense was \$143,392 and \$159,758 for the years ended September 30, 2019 and 2018, respectively. Estimated future amortization expense for the year ending September 30, 2020 is \$40,199.

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.

Change in Accounting Principle — On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958)- Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. During 2019, management implemented ASU 2016-14 and adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

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. LIQUIDITY AND AVAILABILITY

The following table reflects USA Basketball's financial assets as of September 30, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the balance sheet date because of contractual restrictions. Amounts not available include net assets with donor restrictions.

	2019	2018
Cash and cash equivalents	\$ 2,067,320	\$ 1,516,097
Investments	28,867,759	30,295,813
Accounts receivable	<u>732,401</u>	<u>341,085</u>
Total	<u>\$ 31,667,480</u>	<u>\$ 32,152,995</u>

As part of USA Basketball's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. USA Basketball manages their cash flow through monthly analysis of budgeted expenses compared to cash and cash equivalents.

3. FUNCTIONAL EXPENSES ALLOCATION METHODS

USA Basketball maintains its accounting records on the basis of natural expense classifications and accordingly, certain categories of expenses that are attributable to one or more program or supporting services. Therefore, expenses that are allocated include wages and related benefits, occupancy costs, insurance and other expenses which are allocated on the basis of estimates of time and effort spent by personnel in the various program and supporting services.

4. 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, 2019 and 2018, revenue from NBAP totaled \$6,905,056 and \$5,021,167, respectively. As of September 30, 2019 and 2018, USA Basketball had \$39,595 and \$300,000 in accounts receivable due from NBAP, respectively.

5. 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)
2019:				
U.S. Olympic Endowment portfolio	\$ 8,401,897		\$ 8,401,897	
Fixed income mutual funds	5,819,427	\$ 5,819,427		
International equity mutual fund	6,045,760	6,045,760		
Domestic equity mutual fund	5,962,949	5,962,949		
Equity ETF	<u>2,637,726</u>	<u>2,637,726</u>		
Total	<u>\$ 28,867,759</u>	<u>\$ 20,465,862</u>	<u>\$ 8,401,897</u>	<u>\$ —</u>
2018:				
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>

As of September 30, 2019, the USOE portfolio consists of the following investments:

Domestic equities	31%
Alternative investments	19%
International equities	18%
Real assets	11%
Private equity	8%
Domestic bonds	7%
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:

	2019	2018
Dividend and interest income	\$ 623,909	\$ 594,792
Net realized gains	357,590	272,753
Net unrealized losses	<u>(385,536)</u>	<u>1,220,723</u>
Investment income	<u>\$ 595,963</u>	<u>\$ 2,088,268</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	2019	2018
Buildings and improvements	\$ 3,979,366	\$ 3,972,049
Office furniture and equipment	<u>74,492</u>	<u>83,307</u>
Total	4,053,858	4,055,356
Less accumulated depreciation	<u>214,261</u>	<u>111,270</u>
Property and equipment, net	<u>\$ 3,839,597</u>	<u>\$ 3,944,086</u>

Depreciation expense was \$111,807 and \$88,430 for the years ended September 30, 2019 and 2018.

7. 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, 2019 and 2018 were \$382,851 and \$354,418, respectively.

8. PROMISE TO GIVE

During the year ended September 30, 2018, a Foundation fulfilled an outstanding \$1,000,000 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 10); (3) assignment of rental rights to the seller to receive future rental income of \$400,000; and (4) cash payments of \$217,956.

9. 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 2019 and 2018, revenue generated from sponsorship agreements negotiated by NBAP accounted for 46% and 31%, respectively, of USA Basketball's total revenue (see Note 4).

10. NOTE PAYABLE

During 2018, USA Basketball entered into a \$639,000 promissory note payable to an outside organization in connection with the acquisition of a building (see Note 8). 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, 2019, future minimum payments under the note are as follows:

2020	\$ 213,000
2021	<u>213,000</u>
Total	<u>\$ 426,000</u>