

USA BASEBALL

December 31, 2017

**Combined Financial Statements
And
Supplementary Information**

With

Independent Auditor's Report



Table of Contents

	<u>Page</u>
Combined Financial Statements	
Independent Auditor's Report	1 – 2
Combined Statement of Financial Position	3
Combined Statement of Activities and Changes in Net Assets	4
Combined Statement of Functional Expenses	5
Combined Statement of Cash Flows	6
Notes to Combined Financial Statements	7 – 16
Supplementary Information	
Independent Auditor's Report on Supplementary Information	17
Combining Statement of Financial Position	18
Combining Statement of Activities and Changes in Net Assets	19



Independent Auditor's Report

Board of Directors
USA Baseball
Durham, North Carolina

We have audited the accompanying combined financial statements of the United States Baseball Federation, Inc. and the Baseball America Foundation, Inc. ("USA Baseball"), which comprise the combined statement of financial position as of December 31, 2017, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the fourteen months then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of USA Baseball as of December 31, 2017, and the results of its operations and its cash flows for the fourteen months then ended in accordance with accounting principles generally accepted in the United States of America.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
July 17, 2018

Combined Statement of Financial Position**December 31, 2017**Assets

Current assets	
Cash	\$ 794,084
Restricted cash	423,835
Investments	1,238,952
Inventories	461,111
Accounts receivable	1,316,257
Other current assets	<u>176,801</u>
Total current assets	4,411,040
Property and equipment, net	<u>337,453</u>
Total assets	<u>\$ 4,748,493</u>

Liabilities and Net Assets

Current liabilities	
Accounts payable and accrued expenses	\$ 456,877
Deferred revenue	239,585
Bat licensing program	<u>1,131,203</u>
Total current liabilities	1,827,665
Unrestricted net assets	<u>2,920,828</u>
Total liabilities and net assets	<u>\$ 4,748,493</u>

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

Combined Statement of Activities and Changes in Net Assets

For the Fourteen Months Ended December 31, 2017

Revenues and other support	
Major League Baseball funding	\$ 2,672,247
MLB Breakthrough Series/Elite Development Invitational	1,903,959
Prospective Development Pipeline	225,000
Value in-kind donations	670,391
Sponsorship, licensing and donations	796,806
Event registration and room rebates	2,176,461
Merchandise sales and memorabilia	1,962,987
Ticket sales	609,930
Bat licensing program	1,043,196
World Baseball Classic/P12 Tournament	2,700,000
Membership revenue	4,680
National Member Organization revenue	3,400
Dividends and interest	28,021
Net realized and unrealized gain on investments	239,942
Other income	<u>20,696</u>
Total revenues and other support	<u>15,057,716</u>
 Expenses and direct costs	
Expenses	
Program services	12,268,104
Management and general	<u>1,094,563</u>
Total expenses	<u>13,362,667</u>
 Direct costs	
Merchandise sales	1,015,342
Card sale fund-raiser	<u>45,219</u>
Total direct costs	<u>1,060,561</u>
 Total expenses and direct costs	<u>14,423,228</u>
 Changes in net assets	634,488
 Net assets - beginning of period	<u>2,286,340</u>
 Net assets - end of period	<u>\$ 2,920,828</u>

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

Combined Statement of Functional Expenses

For the Fourteen Months Ended December 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and employee related expenses			
Salaries	\$ 1,852,719	\$ 486,643	\$ 2,339,362
Employee related expenses	<u>594,569</u>	<u>96,284</u>	<u>690,853</u>
Total salaries and employee related expenses	<u>2,447,288</u>	<u>582,927</u>	<u>3,030,215</u>
Operating expenses			
Accounting	-	20,425	20,425
Professional services	1,056,172	122,813	1,178,985
Bank service charges	73,513	2,562	76,075
Meeting/directors expense	-	60,610	60,610
Consulting	-	3,000	3,000
Promotions/shows	108,383	5,134	113,517
Office supplies and utilities	62,693	7,413	70,106
Postage and shipping	194,567	7,403	201,970
Rent			
Playing facilities	679,985	-	679,985
Office facilities	151,264	39,731	190,995
Printing	72,114	10,260	82,374
Program supplies	668,553	9,824	678,377
Honorarium/umpire fees	1,193,679	-	1,193,679
Telephone	47,203	18,459	65,662
Medical and safety	8,785	-	8,785
Insurance	242,795	27,884	270,679
Travel	3,057,469	21,060	3,078,529
Depreciation	92,278	39,899	132,177
International relations (IBAF/COPABE)	4,305	8,282	12,587
MLB/USOC relations	273	45,886	46,159
Value in-kind donations	658,173	9,722	667,895
World Baseball Classic/P12 Tournament	1,350,000	-	1,350,000
BAF awards	41,935	14,742	56,677
Other	<u>56,677</u>	<u>36,527</u>	<u>93,204</u>
Total operating expenses	<u>9,820,816</u>	<u>511,636</u>	<u>10,332,452</u>
Total functional expenses	<u>\$ 12,268,104</u>	<u>\$ 1,094,563</u>	<u>\$ 13,362,667</u>

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

Combined Statement of Cash Flows

For the Fourteen Months Ended December 31, 2017

Cash flows from operating activities	
Changes in net assets	\$ 634,488
Adjustment to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	132,177
Net realized and unrealized gain on investments	(239,942)
Changes in operating assets and liabilities	
Inventories	124,436
Accounts receivable	(1,030,146)
Other current assets	(120,775)
Accounts payable and accrued expenses	1,141,559
Deferred revenue	<u>97,531</u>
Net cash provided by operating activities	<u>739,328</u>
Cash flows from investing activities	
Purchases of property and equipment	(104,525)
Purchases of investments	(1,055,421)
Proceeds from sale of investments	<u>1,170,859</u>
Net cash provided by investing activities	<u>10,913</u>
Net increase in cash and restricted cash	750,241
Cash and restricted cash - beginning of period	<u>467,678</u>
Cash and restricted cash - end of period	<u>\$ 1,217,919</u>

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

Notes to Combined Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies

- a. **Nature of operations** – The United States Baseball Federation, Inc. (the “Federation”) was incorporated in the state of Michigan in 1965 and acts as the national governing body for the sport of baseball in compliance with the Amateur Sports Act of 1978 and the Constitution and Bylaws of the United States Olympic Committee. The Federation is supported primarily through sponsorships, donations, ticket and merchandise sales, event registrations and Major League Baseball. The Baseball America Foundation, Inc. (the “Foundation”) was established in 1985 in the state of New Jersey for the purpose of managing and administering the funds given by the Los Angeles Olympic Organizing Committee to the Federation.

The Federation and the Foundation are collectively referred to herein as USA Baseball (“USAB”).

- b. **Financial statement presentation** – USAB reports information regarding its financial position and activities according to three classes of net assets: permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. Permanently restricted net assets represent net assets resulting from contributions where use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of USAB. Temporarily restricted net assets represent net assets resulting from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of USAB. All other net assets are considered to be unrestricted. At December 31, 2017, there were no permanently or temporarily restricted net assets.

The combined financial statements include the accounts of the Federation and the Foundation. All significant interagency accounts and transactions have been eliminated in combination.

- c. **Use of estimates** – The preparation of combined 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 combined statement of financial position and the reported amounts of revenues and expenses in the combined statement of activities and changes in net assets. Actual results could differ from those estimates.
- d. **Contributions and other revenue** – Annual contributions and grants are generally available for unrestricted use in the related year unless specifically restricted by the donor. Unconditional promises to give are recorded as revenues or gains in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, USAB reports the support as unrestricted. Contributions are recognized as revenue in the period the commitment is received.

Notes to Combined Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities and changes in net assets as net assets released from restrictions.

Gifts of land, buildings and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, USAB reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.

Revenue from usage fees and other income are recognized as revenue when the service is provided.

- e. **Cash and cash equivalents** – For the purposes of the combined statement of cash flows, USAB considers cash and highly liquid cash investments with an original maturity of three months or less to be cash equivalents. USAB had no cash equivalents at December 31, 2017. Restricted cash represents funds that have been designated for a specific purpose and time. All restricted cash is held in escrow for the Youth Baseball Bat Licensing Program (see Note 11).

Reconciliation of cash and restricted cash as shown in the accompanying combined statement of cash flows is as follows:

Current assets	
Cash	\$ 794,084
Restricted cash	423,835
	<hr/>
	\$ 1,217,919

Notes to Combined Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

- f. **Promises to give** – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met. At December 31, 2017, there were no unconditional promises to give.
- g. **Investments** – Investments in marketable securities with readily determinable fair values are reported at their estimated fair values in the accompanying combined statement of financial position. Unrealized gains are included in the changes in net assets in the accompanying combined statement of activities and changes in net assets. Investment return included dividend, interest and other investment income, and realized and unrealized gains on investments carried at fair value. Realized gains on securities sold are based on the specific identification method.
- h. **Inventories** – Inventories are stated at the lower of cost or net realizable value and are accounted for on a first in, first out basis. All donated inventories are recorded at fair market value.
- i. **Accounts receivable** – Accounts receivable results primarily from the accrual of sponsorships and licensing revenue. A provision for doubtful accounts has not been established as management considers all accounts receivable at period-end to be collectable.
- j. **Property and equipment** – Property and equipment is stated at cost or fair market value of donated assets. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 15 years. Acquisition of property and equipment in excess of \$1,000 and a useful life over one year are capitalized.
- k. **Impairment of long-lived assets** – USAB reviews the carrying value of long-lived assets for impairment whenever certain triggering events or changes in circumstances indicate that the carrying amounts of any asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the excess of the carrying amount over the fair value of the assets. Based on management's assessment of long-lived assets, there was no impairment for the fourteen months ended December 31, 2017.
- l. **Agency transaction** – USAB serves as the escrow agent for the Youth Baseball Bat Licensing Program (see Note 11). In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 985-605, "Revenue Recognition," donor designated contributions are reflected as cash and liability at the time the contributions are made. The subsequent donor distribution to the specific organization is a reduction of the corresponding liability. This liability is included on the accompanying combined statement of financial position as bat licensing program. These donor restricted contributions are not included in USAB's combined statement of activities and changes in net assets.

Notes to Combined Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

- m. **Advertising** – USAB follows the policy of charging the costs of advertising to expense as incurred. Advertising costs were \$113,517 for the fourteen months ended December 31, 2017 and are recorded as a part of promotions/shows expense.
- n. **Functional expenses** – Expenses are charged to programs based on direct expenditures incurred. Any expenditure not directly chargeable is allocated to programs based on management's estimate.
- o. **Income taxes** – The Federation and the Foundation have been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Income from certain activities not directly related to their tax-exempt purpose is subject to taxation as unrelated business income. In addition, USAB qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2) for the Federation and Section 509(a)(1) for the Foundation.

USAB's policy with respect to evaluating uncertain tax positions is based upon whether management believes it is more likely than not the uncertain tax positions will be sustained upon review by the taxing authorities, then USAB shall initially and subsequently measure the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The tax positions must meet the more-likely-than-not recognition threshold with consideration given to the amounts and probabilities of the outcomes that could be realized upon settlement using the facts, circumstances and information at the reporting date. USAB will reflect only the portion of the tax benefit that will be sustained upon resolution of the position and applicable interest on the portion of the tax benefit not recognized. Based upon management's assessment, there are no uncertain tax positions expected to have a material impact on USAB's combined financial statements.

USAB is no longer subject to U.S. federal state examinations by tax authorities for years before 2014. USAB's federal and state tax returns are not currently under examination. USAB recognizes interest and penalties related to unrecognized tax benefits in income tax expense. During the fourteen months ended December 31, 2017, USAB did not recognize any interest or penalties. USAB did not have any interest or penalties accrued at December 31, 2017.

- p. **Recent accounting pronouncements** – In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 is the product of a joint project between the FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue. ASU 2014-09 amends the ASC and creates a new Topic 606, "Revenue from Contracts with Customers." This new topic describes a step by step process to achieve the FASB's core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new topic also adds improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," issued in August 2015, defers the implementation of ASU 2014-09 for nonpublic entities to

Notes to Combined Financial Statements

December 31, 2017

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

annual reporting periods beginning after December 15, 2018. Early adoption is permitted for reporting periods beginning after December 15, 2016. ASU 2014-09 may be applied either retrospectively or through the use of a modified-retrospective method. The adoption of ASU 2014-09 is not expected to have a material effect on USAB's financial position or the results of its operations.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." Accounting by lessors is largely unchanged from existing standards. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. The guidance requires all leases to be recorded as assets and liabilities on the financial statements of the lessee. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Under this standard, leases are considered to either be finance leases or operating leases. This consideration determines the financial statement classification of payments on lease liabilities during the lease term but assets and liabilities are required to be recorded for both. For nonpublic entities, this guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. ASU 2016-02 is to be applied using a modified retrospective approach. USAB is currently evaluating the impact of ASU 2016-02 on its combined financial statements.

In August 2016, the FASB issued ASU 2016-14, "Not-for-Profit Entities (Topic 958)." ASU 2016-14 is a project of the FASB to improve the current net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. ASU 2016-14 amends ASC Topic 958. The amendments in this update make several improvements to current reporting requirements that address the following: complexities about the use of the currently required three classes of net assets that focus on the absence or presence of donor-imposed restrictions and whether those restrictions are temporary or permanent; deficiencies in the transparency and utility of information useful in assessing an entity's liquidity caused by potential misunderstandings and confusion about the term *unrestricted net assets* and how restrictions or limits imposed by donors, grantors, laws, contracts, and governing boards affect an entity's liquidity, classes of net assets, and financial performance; inconsistencies in the type of information provided about expenses of the period; and impediment of preparing the indirect method reconciliation if a not-for-profit chooses to use the direct method of presenting operating cash flows. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application is permitted. USAB is evaluating the application of ASU 2016-14 and the effect it will have on its future combined financial statements.

Notes to Combined Financial Statements

December 31, 2017

1. **Nature of Operations and Summary of Significant Accounting Policies (cont.)**

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230)." ASU 2016-18 was issued to reduce diversity in practice in the presentation of changes in restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 requires that restricted cash and restricted cash equivalents be included along with cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. For nonpublic entities, this guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. USAB early adopted ASU 2016-18, which did not have a material effect on its financial position.

2. **Donated Goods**

Donated goods are valued at fair market value. The Federation received \$670,391 of noncash contributions of goods during the fourteen months ended December 31, 2017.

3. **Property and Equipment**

Property and equipment consist of the following:

Furniture and equipment	\$ 731,916
Accumulated depreciation	<u>(394,463)</u>
Property and equipment, net	<u>\$ 337,453</u>

4. **Line of Credit**

The Federation has available for its use a \$100,000 line of credit collateralized by all inventory, chattel paper, accounts receivable, equipment and general intangibles. Interest on advances is payable at the London Interbank Offered Rate plus 2.5% and is due and payable monthly. The principal and any accrued unpaid interest are due and payable upon demand. The principal balance of this loan must be reduced to a zero balance for a period of at least 30 consecutive days during the period. At December 31, 2017, there was no amount owed under this line of credit.

Notes to Combined Financial Statements

December 31, 2017

5. Investments

Investments consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
Bonds		
Intermediate cap - government and corporate	\$ 368,154	\$ 369,415
Stocks		
Large cap	329,150	419,084
Mid cap	67,998	86,577
Small cap	69,969	89,087
International	165,561	210,797
Emerging and frontier	<u>50,260</u>	<u>63,992</u>
	<u>\$ 1,051,092</u>	<u>\$ 1,238,952</u>

6. Fair Value

USAB measures certain of its financial assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the financial asset or liability. Additionally, fair value is used either annually or on a nonrecurring basis to evaluate certain financial assets and liabilities for impairment or for disclosure purposes.

Hierarchical levels defined by ASC 820, "Fair Value Measurements and Disclosures," and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are as follows:

- **Level I** – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level I fair value generally are G-7 government and agency securities, equities listed in active markets and investments in publicly traded mutual funds with quoted market prices.
- **Level II** – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life. Fair valued assets and liabilities that are generally included in this category are non-G-7 government securities, municipal bonds, certain hybrid financial instruments, certain mortgage and asset-backed securities, and certain corporate debt.
- **Level III** – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Generally, assets and liabilities carried at fair value and included in this category are certain mortgage and asset-backed securities, certain corporate debt, certain municipal debt and certain private equity investments.

Notes to Combined Financial Statements

December 31, 2017

6. **Fair Value** (cont.)

The following table sets forth USAB's financial assets that are accounted for at fair value on a recurring basis.

	Quoted Prices in Active Markets for Identical Assets (Level I)	Other Observable Inputs (Level II)	Unobservable Inputs (Level III)	<u>Total</u>
Assets				
Bonds				
Intermediate cap - government and corporate	\$ 369,415	\$ -	\$ -	\$ 369,415
Stocks				
Large cap	419,084	-	-	419,084
Mid cap	86,577	-	-	86,577
Small cap	89,087	-	-	89,087
International	210,797	-	-	210,797
Emerging and frontier	<u>63,992</u>	<u>-</u>	<u>-</u>	<u>63,992</u>
	<u>\$ 1,238,952</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,238,952</u>

7. **Leases**

USAB leases certain equipment. Equipment lease expense was \$12,307 for the fourteen months ended December 31, 2017 and is included in printing expense.

During 2017, USAB entered into a lease for the USAB Fulfillment Center warehouse. The remaining lease term is 29 months. Lease expense was \$54,218 during the fourteen months ended December 31, 2017. Future lease expense is projected to be as follows: 2018 – \$44,827, 2019 – \$46,181 and 2020 – \$19,481.

In December 2015, USAB signed a new lease for office facilities for 36 months, to conclude in November 2018. Lease expense was \$190,955 for the fourteen months ended December 31, 2017. The remaining lease term is 11 months. Future lease expense is projected to be as follows: 2018 – \$154,481.

Notes to Combined Financial Statements**December 31, 2017****8. Retirement Plan**

The Federation maintains a 401(k) plan in which eligible employees are able to enter the deferral portion of the plan immediately upon electing to participate. Employees who have attained the age of 21 are eligible to participate. Under the plan, the Federation will make matching contributions equal to 100% of the employee's elective deferral contributions, up to 3% of the employee's compensation, and 50% of the elective deferral contributions over 3% of the employee's compensation, but not to exceed 5% of compensation. The Federation made matching contributions of \$80,749 for the fourteen months ended December 31, 2017.

9. Major League Baseball Agreement

The Federation granted exclusively to Major League Baseball Properties, Inc. and MLB Advanced Media, LLC, the rights, to use, license and sublicense, on a worldwide, nonroyalty bearing basis all commercial and editorial rights and interests and other rights to generate revenue for the term beginning January 2016 and concluding December 2021. The Federation will receive funding for its operations from the Office of the Commissioner of Baseball, with the minimum amounts as follows: 2018 – \$2,600,000, 2019 – \$2,704,000, 2020 – \$2,812,160 and 2021 – \$2,925,646. There is also revenue sharing between the entities in this agreement.

10. USAB National Training Complex Agreement

On October 9, 2008, the Federation entered into a 10-year license agreement with the town of Cary, North Carolina to use the baseball complex at Thomas Brook Park in Cary, North Carolina. The Federation will annually, over the term of this license agreement, pay a base license fee of \$20,000 per year. The Federation will also pay an additional license fee, a portion of all sponsorship and signage revenue, and a portion of retail merchandise sales. The Town of Cary is guaranteed a minimum payment of sponsorship and signage revenue of \$125,000 for the first year, \$150,000 for years two through five, and \$150,000 with a consumer price index adjustment for years six through ten. Under this license agreement, USAB incurred fees of \$357,696 for the fourteen months ended December 31, 2017, which are included in rent-paying facilities in the accompanying combined statement of functional expenses. The contract expired during 2017. USAB is currently negotiating a new contract with the town of Cary, North Carolina.

11. Youth Baseball Bat Licensing Program

During June 2017, USAB entered into USA Baseball Youth Bat Performance Standard Trademark License Agreements with 12 bat manufacturers in which the licensees pay USAB a licensing royalty of 5% of net sales of approved bats bearing the trademark, paid on a quarterly basis. This agreement runs through December 31, 2022.

Notes to Combined Financial Statements

December 31, 2017

11. **Youth Baseball Bat Licensing Program (cont.)**

During June 2017, USAB entered into Youth Bat Licensing Royalty Agreements with five youth baseball organizations in which USAB distributes 2.75% of the 5% royalties received from the bat manufacturer's agreements. Distributions are made on a quarterly basis. The monies are kept in a separate bank account from USAB's general funds, and are included in restricted cash on the accompanying combined statement of financial position. USAB has payables to youth baseball organizations of approximately \$1,131,000 included in bat licensing program on the accompanying combined statement of financial position.

USAB retains 2.25% of the 5% of royalties received from the bat manufacturer's agreements. USAB earned bat licensing program income of approximately \$1,043,000 included on the accompanying combined statement of activities and changes in net assets.

12. **Unrestricted Net Assets**

Unrestricted net assets are comprised of the following:

Unrestricted	\$ 1,289,021
Board designated - Foundation	<u>1,631,807</u>
	<u>\$ 2,920,828</u>

13. **Concentrations of Credit Risk**

At December 31, 2017 and at various times throughout the fourteen months ended December 31, 2017, USAB maintained cash balances with financial institutions in excess of Federal Deposit Insurance Corporation insured limits. Uninsured funds were approximately \$1,098,000 at December 31, 2017.

14. **Subsequent Events Evaluation Date**

USAB evaluated the events and transactions subsequent to its December 31, 2017 combined statement of financial position date and determined there were no significant events to report through July 17, 2018, which is the date USAB issued its combined financial statements.

Independent Auditor's Report on Supplementary Information

Board of Directors
USA Baseball
Durham, North Carolina

We have audited the combined financial statements of USA Baseball as of and for the fourteen months ended December 31, 2017, and have issued our report thereon dated July 17, 2018, which contained an unmodified opinion on those combined financial statements. Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole.

The supplementary information is presented for the purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.



Certified Public Accountants

Little Rock, Arkansas
July 17, 2018

Combining Statement of Financial Position

December 31, 2017

<u>Assets</u>	United States Baseball Federation, <u>Inc.</u>	Baseball America Foundation, <u>Inc.</u>	<u>Eliminations</u>	<u>Total</u>
Current assets				
Cash	\$ 763,533	\$ 30,551	\$ -	\$ 794,084
Restricted cash	423,835	-	-	423,835
Investments	-	1,238,952	-	1,238,952
Inventories	461,111	-	-	461,111
Accounts receivable	1,316,257	360,000	(360,000)	1,316,257
Other current assets	<u>174,497</u>	<u>2,304</u>	-	<u>176,801</u>
Total current assets	3,139,233	1,631,807	(360,000)	4,411,040
Property and equipment, net	<u>337,453</u>	-	-	<u>337,453</u>
Total assets	<u>\$ 3,476,686</u>	<u>\$ 1,631,807</u>	<u>\$ (360,000)</u>	<u>\$ 4,748,493</u>
<u>Liabilities and Net Assets</u>				
Current liabilities				
Accounts payable and accrued expenses	\$ 816,877	\$ -	\$ (360,000)	\$ 456,877
Deferred revenue	239,585	-	-	239,585
Bat licensing program	<u>1,131,203</u>	-	-	<u>1,131,203</u>
Total current liabilities	2,187,665	-	(360,000)	1,827,665
Unrestricted net assets	<u>1,289,021</u>	<u>1,631,807</u>	-	<u>2,920,828</u>
Total liabilities and net assets	<u>\$ 3,476,686</u>	<u>\$ 1,631,807</u>	<u>\$ (360,000)</u>	<u>\$ 4,748,493</u>

See independent auditor's report on supplementary information.

Combining Statement of Activities and Changes in Net Assets

For the Fourteen Months Ended December 31, 2017

	United States Baseball Federation, <u>Inc.</u>	Baseball America Foundation, <u>Inc.</u>	<u>Eliminations</u>	<u>Total</u>
Revenues and other support				
Major League Baseball funding	\$ 2,672,247	\$ -	\$ -	\$ 2,672,247
MLB Breakthrough Series/Elite Development				
Invitational	1,903,959	-	-	1,903,959
Prospective Development Pipeline	225,000	-	-	225,000
Value in-kind donations	670,391	-	-	670,391
Sponsorships, licensing and donations	796,806	-	-	796,806
Event registration and room rebates	2,176,461	-	-	2,176,461
Merchandise sales and memorabilia	1,962,987	-	-	1,962,987
Ticket sales	609,930	-	-	609,930
Bat licensing program	1,043,196	-	-	1,043,196
World Baseball Classic/P12 Tournament	2,700,000	-	-	2,700,000
Membership revenue	4,680	-	-	4,680
National Member Organization revenue	3,400	-	-	3,400
Dividends and interest	1,922	26,099	-	28,021
Net realized and unrealized gain on investments	-	239,942	-	239,942
Other income	77,373	-	(56,677)	20,696
Total revenues and other support	<u>14,848,352</u>	<u>266,041</u>	<u>(56,677)</u>	<u>15,057,716</u>
Expenses and direct costs				
Expenses				
Program services	12,268,104	-	-	12,268,104
Management and general	1,075,438	75,802	(56,677)	1,094,563
Total expenses	<u>13,343,542</u>	<u>75,802</u>	<u>(56,677)</u>	<u>13,362,667</u>
Direct costs				
Merchandise sales	1,015,342	-	-	1,015,342
Card sale fund-raiser	45,219	-	-	45,219
Total direct costs	<u>1,060,561</u>	<u>-</u>	<u>-</u>	<u>1,060,561</u>
Total expenses and direct costs	<u>14,404,103</u>	<u>75,802</u>	<u>(56,677)</u>	<u>14,423,228</u>
Changes in net assets	444,249	190,239	-	634,488
Net assets - beginning of period	<u>844,772</u>	<u>1,441,568</u>	<u>-</u>	<u>2,286,340</u>
Net assets - end of period	<u>\$ 1,289,021</u>	<u>\$ 1,631,807</u>	<u>\$ -</u>	<u>\$ 2,920,828</u>

See independent auditor's report on supplementary information.