

**USA BASEBALL**

**October 31, 2016 and 2015**

**Combined Financial Statements  
And  
Supplementary Information**

**With**

**Independent Auditor's Report**



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## **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 statements of financial position as of October 31, 2016 and 2015, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 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 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 October 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Frost, PLLC*

Certified Public Accountants

Little Rock, Arkansas  
February 27, 2017

## Combined Statements of Financial Position

October 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets		
Cash	\$ 449,120	\$ 671,105
Cash bat licensing program	18,558	44,925
Investments	1,114,448	1,482,754
Inventories	585,547	414,179
Accounts receivable	286,111	475,981
Other current assets	56,026	66,952
Total current assets	<u>2,509,810</u>	<u>3,155,896</u>
Property and equipment, net	<u>365,105</u>	<u>152,878</u>
Other assets	<u>-</u>	<u>13,241</u>
Total assets	<u>\$ 2,874,915</u>	<u>\$ 3,322,015</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable and accrued expenses	\$ 427,963	\$ 618,885
Deferred revenue	142,054	14,375
Bat licensing program	18,558	44,925
Total current liabilities	<u>588,575</u>	<u>678,185</u>
Unrestricted net assets	<u>2,286,340</u>	<u>2,643,830</u>
Total liabilities and net assets	<u>\$ 2,874,915</u>	<u>\$ 3,322,015</u>

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

**Combined Statements of Activities and Changes in Net Assets**

**For the Years Ended October 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Revenues and other support		
Major League Baseball		
Funding	\$ 2,174,496	\$ 1,801,542
Pro-Teams	150,880	507,953
MLB Breakthrough Series/Elite Development Invitational	1,500,120	904,983
Tournament of Stars	75,000	75,000
Value in-kind donations	615,419	891,383
Sponsorship, licensing and donations	701,254	848,234
Event registration and room rebates	2,003,628	1,876,729
Merchandise sales and memorabilia	1,514,354	1,355,797
Ticket sales	464,055	483,714
Bat licensing program	125,000	125,000
World Baseball Classic/P12 Tournament	600,000	-
Membership revenue	5,317	5,700
National Member Organization revenue	3,200	3,600
Dividends and interest	24,535	28,526
Net realized and unrealized gain (loss) on investments	(54,649)	2,677
Other income	<u>1,632</u>	<u>1,944</u>
Total revenues and other support	<u>9,904,241</u>	<u>8,912,782</u>
Expenses and direct costs		
Expenses		
Program services	8,712,728	7,613,367
Management and general	<u>753,306</u>	<u>756,534</u>
Total expenses	<u>9,466,034</u>	<u>8,369,901</u>
Direct costs		
Merchandise sales	756,004	602,066
Card sale fund-raiser	<u>39,693</u>	<u>21,179</u>
Total direct costs	<u>795,697</u>	<u>623,245</u>
Total expenses and direct costs	<u>10,261,731</u>	<u>8,993,146</u>
Changes in net assets	(357,490)	(80,364)
Net assets - beginning of year	<u>2,643,830</u>	<u>2,724,194</u>
Net assets - end of year	<u>\$ 2,286,340</u>	<u>\$ 2,643,830</u>

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

**Combined Statements of Functional Expenses**  
**For the Years Ended October 31, 2016 and 2015**

	Program <u>Services</u>	Management <u>and General</u>	<u>Total</u>	
			<u>2016</u>	<u>2015</u>
Salaries and employee related expenses				
Salaries	\$ 1,163,537	\$ 362,764	\$ 1,526,301	\$ 1,192,266
Employee related expenses	<u>338,857</u>	<u>79,668</u>	<u>418,525</u>	<u>344,605</u>
Total salaries and employee related expenses	<u>1,502,394</u>	<u>442,432</u>	<u>1,944,826</u>	<u>1,536,871</u>
Operating expenses				
Accounting	-	15,080	15,080	14,850
Professional services	941,763	65,296	1,007,059	1,090,371
Bank service charges	59,350	915	60,265	67,352
Meeting/directors expense	-	30,689	30,689	12,644
Consulting	-	2,400	2,400	2,400
Promotions/shows	55,829	4,586	60,415	43,008
Office supplies and utilities	44,606	27,888	72,494	50,567
Postage and shipping	112,010	2,133	114,143	86,754
Rent-playing facilities	589,114	-	589,114	580,718
Rent-office facilities	145,654	-	145,654	-
Printing	58,975	9,050	68,025	63,664
Program supplies	465,686	21,216	486,902	587,331
Honorarium/umpire fees	890,582	-	890,582	744,604
Telephone	39,290	16,959	56,249	60,071
Medical and safety	-	-	-	12,995
Insurance	225,885	40,772	266,657	184,470
Travel	2,497,065	5,785	2,502,850	2,217,775
Depreciation	70,960	11,874	82,834	50,097
International relations (IBAF/COPABE)	1,481	2,932	4,413	12,111
MLB/USOC relations	5,100	10,605	15,705	12,799
Value in-kind donations	598,000	17,419	615,419	891,385
World Baseball Classic/P12 Tournament	300,000	-	300,000	-
BAF awards	88,020	-	88,020	-
Other	<u>20,964</u>	<u>25,275</u>	<u>46,239</u>	<u>47,064</u>
Total operating expenses	<u>7,210,334</u>	<u>310,874</u>	<u>7,521,208</u>	<u>6,833,030</u>
Total functional expenses	<u>\$ 8,712,728</u>	<u>\$ 753,306</u>	<u>\$ 9,466,034</u>	<u>\$ 8,369,901</u>

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

**Combined Statements of Cash Flows**

**For the Years Ended October 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Changes in net assets	\$ (357,490)	\$ (80,364)
Adjustment to reconcile changes in net assets to net cash provided (used) by operating activities		
Depreciation	82,834	50,097
Net realized and unrealized (gain) loss on investments	54,649	(2,677)
Changes in operating assets and liabilities		
Inventories	(171,368)	(91,333)
Accounts receivable	189,870	89,487
Other current assets	10,926	(19,693)
Other assets	13,241	(13,241)
Accounts payable and accrued expenses	(190,922)	266,203
Deferred revenue	<u>127,679</u>	<u>12,294</u>
Net cash provided (used) by operating activities	<u>(240,581)</u>	<u>210,773</u>
Cash flows from investing activities		
Purchases of property and equipment	(295,061)	(106,064)
Purchases of investments	(360,797)	(576,093)
Proceeds from sale of investments	<u>674,454</u>	<u>586,437</u>
Net cash provided (used) by investing activities	<u>18,596</u>	<u>(95,720)</u>
Net increase (decrease) in cash	(221,985)	115,053
Cash - beginning of year	<u>671,105</u>	<u>556,052</u>
Cash - end of year	<u>\$ 449,120</u>	<u>\$ 671,105</u>

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



## Notes to Combined Financial Statements

October 31, 2016 and 2015

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 October 31, 2016 and 2015, 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 statements of financial position and the reported amounts of revenues and expenses in the combined statements 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.

## Notes to Combined Financial Statements

October 31, 2016 and 2015

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

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.

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 statements 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 statements 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 October 31, 2016 or 2015.
- 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 October 31, 2016 and 2015, there were no unconditional promises to give.

## Notes to Combined Financial Statements

October 31, 2016 and 2015

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

- g. **Investments** – Investments, all of which have been designated as trading, are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Unrealized gains and losses are included in the changes in net assets in the accompanying combined statements of activities and changes in net assets.
- h. **Inventories** – Inventories are stated at the lower of cost or market and are accounted for on a first in, first out basis. All donated inventories are recorded at their 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 year-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 years ended October 31, 2016 or 2015.
- l. **Agency transaction** – USAB serves as the escrow agent for the Youth Baseball Bat Licensing Program. Approximately 15 bat manufacturers participate in the bat licensing program. USAB collects these royalties and then distributes them to 5 youth baseball organizations on a quarterly basis. The monies are kept in separate bank accounts from USAB's general funds. 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 statements of financial position as bat licensing program. These donor restricted contributions are not included in USAB's combined statements of activities and changes in net assets. USAB received \$297,255 and \$410,565 during the years ended October 31, 2016 and 2015, respectively, in royalties in connection with the bat licensing program.
- m. **Advertising** – USAB follows the policy of charging the costs of advertising to expense as incurred. Advertising costs were \$55,351 and \$41,183 for the years ended October 31, 2016 and 2015, respectively, and are recorded as a part of promotions/shows expense.

## Notes to Combined Financial Statements

October 31, 2016 and 2015

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

- 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 2012. 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 years ended October 31, 2016 and 2015, USAB did not recognize any interest or penalties. USAB did not have any interest or penalties accrued at October 31, 2016 or 2015.

- p. **Recent accounting pronouncements** – In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02 Topic 842, “Leases.” 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. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. USAB is currently evaluating the impact of this ASU on its combined financial statements.

## Notes to Combined Financial Statements

October 31, 2016 and 2015

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

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 the USAB's future combined financial statements.

2. Donated Goods and Facilities

Donated goods and facilities are valued at their fair market value. The Federation received the following noncash contributions of goods and facilities:

	<u>2016</u>	<u>2015</u>
Baseball clothing and equipment	\$ 598,838	\$ 692,416
Office facilities	<u>16,581</u>	<u>198,967</u>
	<u>\$ 615,419</u>	<u>\$ 891,383</u>

## Notes to Combined Financial Statements

October 31, 2016 and 2015

3. **Property and Equipment**

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 627,390	\$ 422,695
Less accumulated depreciation	<u>(262,285)</u>	<u>(269,817)</u>
Property and equipment, net	<u>\$ 365,105</u>	<u>\$ 152,878</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 year. At October 31, 2016, there was no amount owed under this line of credit.

5. **Investments**

Investments consist of the following:

<u>October 31, 2016</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Bonds			
Intermediate cap - government and corporate	\$ 290,523	\$ 296,399	\$ 5,876
Stocks			
Large cap	346,472	412,888	66,416
Mid cap	91,713	109,294	17,581
Small cap	92,640	110,398	17,758
International	<u>155,634</u>	<u>185,469</u>	<u>29,835</u>
	<u>\$ 976,982</u>	<u>\$ 1,114,448</u>	<u>\$ 137,466</u>

## Notes to Combined Financial Statements

October 31, 2016 and 2015

5. Investments (cont.)

<u>October 31, 2015</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Bonds			
Intermediate cap - government and corporate	\$ 298,037	\$ 302,590	\$ 4,553
Stocks			
Large cap	402,919	537,754	134,835
Mid cap	169,106	181,865	12,759
Small cap	152,865	211,307	58,442
International	<u>209,185</u>	<u>249,238</u>	<u>40,053</u>
	<u>\$ 1,232,112</u>	<u>\$ 1,482,754</u>	<u>\$ 250,642</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.

## Notes to Combined Financial Statements

October 31, 2016 and 2015

6. Fair Value (cont.)

- **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.

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)	Total
<u>October 31, 2016</u>				
Assets				
Bonds				
Intermediate cap - government and corporate	\$ 296,399	\$ -	\$ -	\$ 296,399
Stocks				
Large cap	412,888	-	-	412,888
Mid cap	109,294	-	-	109,294
Small cap	110,398	-	-	110,398
International	185,469	-	-	185,469
	<u>\$ 1,114,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,114,448</u>



## Notes to Combined Financial Statements

October 31, 2016 and 2015

6. Fair Value (cont.)

	Quoted Prices in Active Markets for Identical Assets (Level I)	Other Observable Inputs (Level II)	Unobservable Inputs (Level III)	Total
<u>October 31, 2015</u>				
Assets				
Bonds				
Intermediate cap - government and corporate	\$ 302,590	\$ -	\$ -	\$ 302,590
Stocks				
Large cap	537,754	-	-	537,754
Mid cap	181,865	-	-	181,865
Small cap	211,307	-	-	211,307
International	249,238	-	-	249,238
	<u>\$ 1,482,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,482,754</u>

7. Leases

USAB leases certain equipment under an operating lease on a month to month basis. Equipment lease expense was \$11,371 and \$10,855 for the years ended October 31, 2016 and 2015, respectively, and is included in printing expense.

During 2014, USAB entered into a lease for the USAB Fulfillment Center warehouse. The remaining lease term is eight months. Lease expense was \$41,556 and \$40,332 during the years ended October 31, 2016 and 2015, respectively. Future lease expense is projected to be as follows: 2017 – \$28,250.

In November 2015, the 10-year lease concluded for the office facilities at the Durham Bulls Athletic Park in Durham, North Carolina. The fair value of the office facilities was \$16,581 and \$198,967 for the years ended October 31, 2016 and 2015, respectively, and has been included in value in-kind donation revenue and expenses. The fair value was determined based on rental rates for similar facilities based on the term of the agreement.

In December 2015, USAB signed a new lease for office facilities for 36 months, to conclude in November 2018. Lease expense was \$145,654 for the year ended October 31, 2016. The remaining lease term is 25 months. Future lease expense is projected to be as follows: 2017 – \$190,995 and 2018 – \$154,481.

**Notes to Combined Financial Statements****October 31, 2016 and 2015****8. Related Party Transactions**

During 2016, the Federation compensated Michael Gaski, USAB Board President, in the amount of \$145,000 for consulting services and assistance with the development of Youth Baseball Bat Standards, USA Bat.

**9. 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 \$49,774 and \$45,224 for the years ended October 31, 2016 and 2015, respectively.

**10. Major League Baseball Agreement**

The Federation granted exclusively to Major League Baseball Properties, Inc. and MLB Advanced Media, LLC (collectively, "MLB"), 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 ("BOC"), with the minimum amounts as follows: 2016 - \$2,300,000; 2017 - \$2,500,000; 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.

**11. 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 \$287,194 and \$295,321 for the years ended October 31, 2016 and 2015, respectively, which are included in rent-playing facilities in the accompanying combined statements of functional expenses.

## Notes to Combined Financial Statements

October 31, 2016 and 2015

12. **Unrestricted Net Assets**

Unrestricted net assets are comprised of the following:

	<u>2016</u>	<u>2015</u>
Unrestricted	\$ 844,772	\$ 1,063,801
Board designated - Foundation	<u>1,441,568</u>	<u>1,580,029</u>
	<u>\$ 2,286,340</u>	<u>\$ 2,643,830</u>

13. **Concentrations of Credit Risk**

At October 31, 2016 and 2015 and at various times throughout these years, USAB maintained cash balances with financial institutions in excess of Federal Deposit Insurance Corporation insured limits. Uninsured funds represented approximately \$341,000 and \$429,000 at October 31, 2016 and 2015, respectively.

14. **Subsequent Events Evaluation Date**

USAB evaluated the events and transactions subsequent to its October 31, 2016 combined statement of financial position date and determined there were no significant events to report through February 27, 2017, 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 years ended October 31, 2016 and 2015, and have issued our report thereon dated February 27, 2017, which contained an unmodified opinion on those combined financial statements. Our audits were 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 audits 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.



*Frost, PLLC*

Certified Public Accountants

Little Rock, Arkansas  
February 27, 2017

## Combining Statement of Financial Position

October 31, 2016

<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	\$ 369,203	\$ 79,917	\$ -	\$ 449,120
Cash bat licensing program	18,558	-	-	18,558
Investments	-	1,114,448	-	1,114,448
Inventories	585,547	-	-	585,547
Accounts receivable	286,111	245,000	(245,000)	286,111
Other current assets	<u>53,823</u>	<u>2,203</u>	<u>-</u>	<u>56,026</u>
Total current assets	1,313,242	1,441,568	(245,000)	2,509,810
Property and equipment, net	<u>365,105</u>	<u>-</u>	<u>-</u>	<u>365,105</u>
Total assets	<u>\$ 1,678,347</u>	<u>\$ 1,441,568</u>	<u>\$ (245,000)</u>	<u>\$ 2,874,915</u>
<u>Liabilities and Net Assets</u>				
Current liabilities				
Accounts payable and accrued expenses	\$ 672,963	\$ -	\$ (245,000)	\$ 427,963
Deferred revenue	142,054	-	-	142,054
Bat licensing program	<u>18,558</u>	<u>-</u>	<u>-</u>	<u>18,558</u>
Total current liabilities	833,575	-	(245,000)	588,575
Unrestricted net assets	<u>844,772</u>	<u>1,441,568</u>	<u>-</u>	<u>2,286,340</u>
Total liabilities and net assets	<u>\$ 1,678,347</u>	<u>\$ 1,441,568</u>	<u>\$ (245,000)</u>	<u>\$ 2,874,915</u>

See independent auditor's report on supplementary information.

## Combining Statement of Activities and Changes in Net Assets

For the Year Ended October 31, 2016

	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	\$ 2,174,496	\$ -	\$ -	\$ 2,174,496
Pro-Teams	150,880	-	-	150,880
MLB Breakthrough Series/Elite Development				
Invitational	1,500,120	-	-	1,500,120
Tournament of Stars	75,000	-	-	75,000
Value in-kind donations	615,419	-	-	615,419
Sponsorships, licensing and donations	701,254	-	-	701,254
Event registration and room rebates	2,003,628	-	-	2,003,628
Merchandise sales and memorabilia	1,514,354	-	-	1,514,354
Ticket sales	464,055	-	-	464,055
Bat licensing program	125,000	-	-	125,000
World Baseball Classic/P12 Tournament	600,000	-	-	600,000
Membership revenue	5,317	-	-	5,317
National Member Organization revenue	3,200	-	-	3,200
Dividends and interest	2,215	22,320	-	24,535
Net realized and unrealized loss on investments	-	(54,649)	-	(54,649)
Other income	89,652	-	(88,020)	1,632
Total revenues and other support	<u>10,024,590</u>	<u>(32,329)</u>	<u>(88,020)</u>	<u>9,904,241</u>
Expenses and direct costs				
Expenses				
Program services	8,712,728	-	-	8,712,728
Management and general	735,194	106,132	(88,020)	753,306
Total expenses	<u>9,447,922</u>	<u>106,132</u>	<u>(88,020)</u>	<u>9,466,034</u>
Direct costs				
Merchandise sales	756,004	-	-	756,004
Card sale fund-raiser	39,693	-	-	39,693
Total direct costs	<u>795,697</u>	<u>-</u>	<u>-</u>	<u>795,697</u>
Total expenses and direct costs	<u>10,243,619</u>	<u>106,132</u>	<u>(88,020)</u>	<u>10,261,731</u>
Changes in net assets	(219,029)	(138,461)	-	(357,490)
Net assets - beginning of year	<u>1,063,801</u>	<u>1,580,029</u>	<u>-</u>	<u>2,643,830</u>
Net assets - end of year	<u>\$ 844,772</u>	<u>\$ 1,441,568</u>	<u>\$ -</u>	<u>\$ 2,286,340</u>

See independent auditor's report on supplementary information.