

**USA TRACK & FIELD, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**USA TRACK & FIELD, INC.  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
USA Track & Field, Inc.  
Indianapolis, Indiana

We have audited the accompanying financial statements of USA Track & Field, Inc., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

Board of Directors  
USA Track & Field, Inc.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USA Track & Field, Inc. as of December 31, 2017 and 2016, 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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Indianapolis, Indiana  
July 31, 2018

**USA TRACK & FIELD, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,318,848	\$ 1,198,090
Investments	12,265,691	12,201,560
Investment income receivable	60,353	55,074
Accounts receivable, net of allowance for doubtful accounts of \$296,998 and \$249,270, respectively	4,033,378	502,793
Inventory	740,230	814,576
Prepaid expenses and other assets	513,730	946,333
Deferred sponsorship commission expenses	925,481	925,481
Total current assets	19,857,711	16,643,907
<b>LONG-TERM DEFERRED SPONSORSHIP COMMISSION EXPENSES</b>	20,052,083	20,977,564
<b>PROPERTY AND EQUIPMENT, NET</b>	390,018	478,653
<b>TOTAL ASSETS</b>	\$ 40,299,812	\$ 38,100,124
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 6,660,871	\$ 6,863,150
Bank line of credit	6,000,000	3,000,000
Accrued sponsorship commission expenses	937,500	937,500
Deferred revenue	1,314,594	2,395,019
Total current liabilities	14,912,965	13,195,669
<b>LONG-TERM ACCRUED SPONSORSHIP COMMISSION EXPENSES</b>	19,687,500	20,625,000
Total liabilities	34,600,465	33,820,669
<b>NET ASSETS</b>		
Unrestricted	5,601,017	4,183,125
Temporarily restricted	98,330	96,330
Total net assets	5,699,347	4,279,455
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 40,299,812	\$ 38,100,124

See accompanying Notes to Financial Statements.

**USA TRACK & FIELD, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>		
Revenues, gains, and public support:		
Sponsorships, net	\$ 23,195,222	\$ 23,094,889
United States Olympic Committee grants	3,911,121	3,732,224
Events and athlete programs	2,055,019	5,337,618
Member-based programs	3,503,507	3,282,585
Merchandise sales	1,566,440	1,294,536
Other revenue	854,529	594,754
Total revenues, gains, and public support	35,085,838	37,336,606
Expenses:		
Program expenses		
Elite athlete competitions	10,022,155	11,075,176
Sports Performance	8,041,598	10,440,315
Grass roots programs	1,798,339	2,145,903
Member-based programs	2,449,934	2,460,287
Program support	3,459,977	4,444,785
Cost of goods sold	1,888,018	1,769,884
Total program expenses	27,660,021	32,336,350
Administration and governance	6,007,925	6,094,841
Total expenses	33,667,946	38,431,191
Increase (decrease) in unrestricted net assets	1,417,892	(1,094,585)
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	2,000	-
Increase in temporarily restricted net assets	2,000	-
<b>CHANGE IN NET ASSETS</b>	1,419,892	(1,094,585)
<b>NET ASSETS, BEGINNING OF YEAR</b>	4,279,455	5,374,040
<b>NET ASSETS, END OF YEAR</b>	\$ 5,699,347	\$ 4,279,455

See accompanying Notes to Financial Statements.

**USA TRACK & FIELD, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,419,892	\$ (1,094,585)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	146,354	136,994
Allowance for doubtful accounts	47,728	163,817
Loss on disposal of property and equipment	-	15,000
Donated inventory	(793,261)	(932,438)
Net realized and unrealized gains on investments	(421,486)	(127,024)
Effects of changes in operating assets and liabilities:		
Investment income receivable	(5,279)	1,992
Accounts receivable	(3,578,313)	(276,963)
Prepaid expenses and other assets	432,603	30,546
Deferred sponsorship commission expenses	925,481	925,481
Inventory	867,607	663,058
Accounts payable and accrued expenses	(202,279)	4,119,175
Accrued sponsorship commission expenses	(937,500)	(500,000)
Deferred revenue	(1,080,425)	(8,497,885)
	<u>(3,178,878)</u>	<u>(5,372,832)</u>
Net cash used in operating activities		
	<u>(3,178,878)</u>	<u>(5,372,832)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(57,719)	(350,784)
Purchase of investments	(2,392,341)	(2,457,676)
Proceeds from sale of investments	2,749,696	1,738,936
	<u>299,636</u>	<u>(1,069,524)</u>
Net cash provided by (used in) investing activities		
	<u>299,636</u>	<u>(1,069,524)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from bank line of credit	3,000,000	3,000,000
	<u>3,000,000</u>	<u>3,000,000</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	120,758	(3,442,356)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,198,090</u>	<u>4,640,446</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,318,848</u>	<u>\$ 1,198,090</u>
<b>SUPPLEMENTAL DATA</b>		
Non-cash transactions:		
In-kind contributions	<u>\$ 3,641,187</u>	<u>\$ 3,742,933</u>
Cash paid for interest	<u>\$ 148,812</u>	<u>\$ 41,932</u>

See accompanying Notes to Financial Statements.

**USA TRACK & FIELD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1 MISSION AND ORGANIZATION**

USA Track & Field, Inc. (USATF) drives competitive excellence and popular engagement in our sport.

USATF is the national governing body for track and field, long-distance running, race walking, and cross-country running. USATF is the United States' representative member of the International Association of Athletics Federations (IAAF), the world governing body for athletics, as well as a Group A member of the United States Olympic Committee (USOC).

Through its national membership of 2,500 clubs, schools, and other organizations interested in track and field, long-distance running, and race walking, USATF promotes programs of training and competition for all ages, protects the interests and eligibility of its more than 100,000 registered athletes, and establishes and maintains the sports' rules of competition.

As a governing body, USATF may discipline individuals or organizations for violations of its rules. Individuals or organizations who are disciplined may seek administrative and civil remedies, including arbitration or litigation.

Revenue to support these programs is generated primarily by sponsorships, USOC grants, events, and memberships.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting and Net Asset Classification**

Revenue and expenses are reported as an increase or decrease, respectively, in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Temporarily restricted net assets are assets whose use by USATF has been limited by donors to a specific time period or purpose. However, if a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

**Net Asset Classifications**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). GAAP requires, among other things, that the financial statements report the changes in and total of each of the net asset classes, based upon donor restrictions, as applicable. Net assets are to be classified as unrestricted, temporarily restricted, and permanently restricted. The following classes of net assets are used to reflect donor intent:

**Unrestricted Net Assets**

The unrestricted net asset class includes general assets and liabilities of USATF. The unrestricted net assets may be used to support USATF's purposes and operations.

**USA TRACK & FIELD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Asset Classifications (Continued)**

**Temporarily Restricted Net Assets**

The temporarily restricted net asset class includes assets of USATF related to contributions and grants with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. Net assets temporarily restricted for the use of supporting specific USATF programs total \$98,330 and \$96,330 at December 31, 2017 and 2016, respectively. There were no temporarily restricted net assets released from restriction due to meeting donor-imposed purpose restrictions during the years ended December 31, 2017 and 2016.

**Permanently Restricted Net Assets**

The permanently restricted net asset class includes assets of USATF which the donor has stipulated be maintained in perpetuity. Donor-imposed restrictions limiting the use of the assets or its economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose. USATF did not have any permanently restricted net assets at December 31, 2017 and 2016.

**Income Taxes**

The Internal Revenue Service (IRS) has ruled that USATF qualifies under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not subject to income taxation under present income tax laws. USATF is subject to tax on the sale of merchandise which is considered unrelated to its tax-exempt purpose. No unrelated business income tax expense was incurred in 2017 or 2016.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by USATF and recognize a tax liability (or asset) if USATF has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by USATF, and has concluded that as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The U.S. federal and state income tax returns of USATF are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed.

**Credit Risks**

USATF maintains its checking and savings accounts at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Periodically throughout the year, USATF's cash balances may exceed this FDIC insurance coverage limit; however, management does not anticipate nonperformance by the institutions.

**USA TRACK & FIELD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Revenue Recognition**

**Program Revenues**

Membership revenue is recognized ratably over the membership period. Television rights fees, gate receipts, and other event revenue, including sponsorships, are recognized upon completion of the event. National sponsorships and any associated commitment bonuses are recognized ratably over the sponsorship period, offset by any commission expenses associated with sponsorship origination amortized ratably over the sponsorship period. USATF has entered into marketing agreements with sponsors and other business partners that extend until 2040, and is liable for sponsorship negotiation commissions payable through 2039. Association membership fees collected by USATF and passed through are not shown as revenues or expenses in USATF's financial statements.

In 2017 and 2016, USATF received approximately 68% and 65%, respectively, of total revenues from two sponsors and the USOC. Agreements with the sponsors include long-term contracts that extend into 2040.

**Deferred Revenue**

Amounts received pursuant to sponsorship agreements or from memberships are recorded as deferred revenue and recognized in subsequent periods when the corresponding programs are conducted or expenses are incurred.

**Contributions**

Contributions, which include unconditional pledges, are recognized as revenue in the period received or pledged.

**USOC Funds**

The USOC provides funding to USATF for approved programs through either advances or reimbursements. Such revenue is recognized concurrently with the related expenses. Expenditures are recorded in the program-related accounts.

**USA TRACK & FIELD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

**In-Kind and Donated Services**

Volunteers and sponsors donate their goods and services to USATF. Value in-kind includes team uniforms, merchandise for resale, office equipment and furniture, legal services, and publication printing and mailing. In-kind revenue recognized in 2017 and 2016 of \$3,641,187 and \$3,742,933, represents an estimate of the goods and services provided. This amount is included under sponsorship revenue, United States Olympic Committee grants, and other revenue on the statements of activities.

**Functional Allocation of Expenses**

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program and administrative and governance categories based on the actual direct expenditures and cost allocations based upon estimates by management.

**Cash and Cash Equivalents**

USATF considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Deposits at each financial institution are insured up to a specified amount by a government agency.

**Investments and Income Recognition**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value in the financial statements in accordance with accounting principles generally accepted in the United States of America, as discussed in Note 6. Changes in fair value are recorded as unrealized gains (losses). Realized gains (losses) are recorded upon the sale of the investments. Interest income is recognized under the accrual basis and dividend income on the ex-dividend date.

Investments are exposed to various risks such as interest rate, market, and credit risks. It is reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect the amounts reported.

**Accounts Receivable**

USATF's accounts receivable balance consists of amounts billed or billable under contracts, sponsorship agreements, or for products or services provided. Interest is not charged on outstanding accounts receivable. Management determines the net collectability of accounts receivable by establishing an allowance for doubtful accounts. The allowance is determined by management based on USATF's historical losses, specific payer circumstances, general economic conditions, and results of collection activities.

**USA TRACK & FIELD, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Inventory**

Inventory is comprised of USATF merchandise for resale which is donated and appropriately valued with in-kind donations. Inventory value at receipt is estimated based on the merchandise received. The inventory is stated at the lower of cost or net realizable value on a first-in, first-out basis (FIFO).

**Property and Equipment**

Property and equipment exceeding \$3,000 are recorded at cost at date of acquisition or fair value at date of donation in the case of in-kind gifts. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, based on the following useful lives:

Furniture and fixtures	5 years
Office equipment	7 years
Computer equipment	3 years
Vehicles	3 years
Leasehold improvements	Lease term

The major classes of property and equipment as shown in the statements of financial position as of December 31, 2017 and 2016 consist of the following:

	2017	2016
Furniture and fixtures	\$ 483,758	\$ 480,967
Office equipment	39,969	39,969
Computer equipment	62,632	62,632
Vehicles	92,459	92,459
Leasehold improvements	347,258	292,330
	<u>1,026,076</u>	<u>968,357</u>
Less: accumulated depreciation	(636,058)	(489,704)
Property and equipment, net	<u>\$ 390,018</u>	<u>\$ 478,653</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$146,354 and \$136,994, respectively.

**Impairment of Long-lived Assets**

On an ongoing basis, USATF reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may be overstated. USATF recognizes impairment losses if the undiscounted cash flows expected to be generated are less than the carrying value of the related asset. If impaired, the assets are adjusted to fair value based on the discounted cash flows.

**USA TRACK & FIELD, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2     SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**New Accounting Standards**

**Presentation of Financial Statements of Not-for-Profit Entities**

In August 2016, the Financial Accounting Standards Board (FASB) issued amended guidance regarding the presentation of financial statements of nonprofit entities to improve the information presented in the financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. The guidance requires information regarding liquidity and the financial assets available to satisfy near term demands for cash, requires inclusion of a statement of functional expenses, and alters the net asset classifications. The guidance also requires both qualitative and quantitative disclosures regarding the types of costs that can be allocated and management and general activities. The guidance will initially be applied using a retrospective approach. The standard will be effective for the entity for annual periods beginning after December 15, 2018, and early adoption is permitted and encouraged. Management is evaluating the impact of the amended financial statement presentation guidance on the entity's financial statements.

**Revenue from Contracts with Customers**

In May 2014, the (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual periods beginning after December 15, 2018. Early adoption is permitted beginning for periods beginning after December 15, 2016. Management is evaluating the impact of the amended revenue recognition guidance on the entity's financial statements.

**Leases**

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the entity's financial statements.

**USA TRACK & FIELD, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**New Accounting Standards (Continued)**

**Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made**

In June 2018, the FASB issued amended guidance to clarify and improve the guidance between contributions and exchange transactions. The ASU distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. The ASU assists in determining whether a contribution is conditional or unconditional, and if unconditional, whether the transaction is donor-restricted for a limited purpose or timing. The amendments in the guidance are effective for annual periods beginning after December 15, 2018. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the entity's financial statements.

**Reclassifications**

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the total net assets or changes in net assets.

**Subsequent Events**

Management has evaluated subsequent events through July 31, 2018, the date the financial statements were available to be issued.

**NOTE 3 ACCOUNTS RECEIVABLE, NET**

Accounts receivable consist of the following at December 31, 2017 and 2016:

	2017	2016
Sponsors	\$ 3,926,285	\$ 212,023
USATF Foundation	9,447	113,662
Event organizers	53,295	28,843
Others	341,349	397,535
	<u>4,330,376</u>	<u>752,063</u>
Allowance for doubtful accounts	(296,998)	(249,270)
	<u>\$ 4,033,378</u>	<u>\$ 502,793</u>

**USA TRACK & FIELD, INC.**  
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**NOTE 4 DEFERRED REVENUE**

Deferred revenue consists of the following at December 31, 2017 and 2016:

	2017	2016
Deferred sponsorship revenue	\$ -	\$ 1,301,282
Rights fees for future events	197,500	142,000
Deferred membership revenue	614,691	585,875
Other deferred revenue	502,403	365,862
	<u>\$ 1,314,594</u>	<u>\$ 2,395,019</u>

**NOTE 5 INVESTMENTS**

Investments at December 31, 2017 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity funds:				
Domestic	\$ 506,300	\$ 194,741	\$ -	\$ 701,041
International	677,482	104,915	-	782,397
Income funds:				
Domestic	8,512,793	63,476	79,214	8,497,055
International	882,896	-	3,508	879,388
Alternative investments:				
Hedge funds	1,564,297	-	158,487	1,405,810
Total	<u>\$ 12,143,768</u>	<u>\$ 363,132</u>	<u>\$ 241,209</u>	<u>\$ 12,265,691</u>

Investments at December 31, 2016 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity funds:				
Domestic	\$ 782,368	\$ 133,193	\$ -	\$ 915,561
International	625,811	12,438	28,914	609,335
Income funds:				
Domestic	8,641,386	48,542	148,750	8,541,178
International	256,802	-	11,096	245,706
Alternative investments:				
Hedge funds	2,119,373	-	229,593	1,889,780
Total	<u>\$ 12,425,740</u>	<u>\$ 194,173</u>	<u>\$ 418,353</u>	<u>\$ 12,201,560</u>

The following summarizes investment income classified within other revenue in the statements of activities for the year ended December 31:

**USA TRACK & FIELD, INC.**  
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**NOTE 5 INVESTMENTS (CONTINUED)**

	2017	2016
Interest and dividend income	\$ 322,641	\$ 284,210
Unrealized gain (loss) on investments	346,103	113,463
Realized gain (loss) on investments	75,383	13,561
Total investment income	\$ 744,127	\$ 411,234

Investment management fees of \$81,473 and \$80,702 are classified within administration and governance expenses in the statements of activities for the years ended December 31, 2017 and 2016, respectively.

**NOTE 6 FAIR VALUE MEASUREMENTS**

FASB ASC 820, *Fair Value Measurements* provides a comprehensive framework for measuring fair value and expands disclosures which are required about fair value measurements. Specifically, ASC 820 sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. ASC 820 defines levels within the hierarchy as follows:

- Level 1 – Unadjusted quoted prices for identical assets and liabilities in active markets;
- Level 2 – Quoted prices for similar assets and liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and,
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

USATF recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

The following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy.

Equity funds

Equity securities are valued at the closing price reported on the active market on which the individual securities are traded. The fair value of mutual funds is based on quoted net asset values of the underlying assets of shares held by USATF. Such investments are classified within Level 1 of the valuation hierarchy.

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**NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)**

Income funds

Fixed income securities are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote is available. Fixed income securities were transferred from a Level 1 measurement to Level 2 during the year ended December 31, 2016 after USATF evaluated the volume of trading activity within these securities in the market.

Alternative investments

Hedge funds are valued based on the net asset value (NAV) per unit (or its equivalent) based upon the fair value of the underlying investments. NAV is used as a practical expedient to estimate fair value. Hedge funds seek to generate consistent capital appreciation over the long term, with relatively low volatility and a low correlation with traditional equity and fixed income markets. The funds do not have a finite life, unfunded commitments relating to this type of investment, or significant restrictions on redemption, as the funds can be redeemed daily. Such investments are classified within Level 2 of the valuation hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while USATF believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents assets and liabilities of USATF's investments measured at fair value by classification within the fair value hierarchy as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Equity funds:				
Domestic	\$ 701,041	\$ -	\$ -	\$ 701,041
International	782,397	-	-	782,397
Income funds:				
Domestic	-	8,497,055	-	8,497,055
International	-	879,388	-	879,388
Alternative investments:				
Hedge funds	-	1,405,810	-	1,405,810
Total	<u>\$ 1,483,438</u>	<u>\$ 10,782,253</u>	<u>\$ -</u>	<u>\$ 12,265,691</u>

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**NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table presents assets and liabilities of USATF's investments measured at fair value by classification within the fair value hierarchy as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds:				
Domestic	\$ 915,561	\$ -	\$ -	\$ 915,561
International	609,335	-	-	609,335
Income funds:				
Domestic	-	8,541,178	-	8,541,178
International	-	245,706	-	245,706
Alternative investments:				
Hedge funds	-	1,889,780	-	1,889,780
Total	<u>\$ 1,524,896</u>	<u>\$ 10,676,664</u>	<u>\$ -</u>	<u>\$ 12,201,560</u>

**NOTE 7 OPERATING LEASES**

USATF has entered into operating leases for storage facilities, office space, and parking facilities expiring at various dates from March 2018 to February 2026. USATF has also entered into an operating lease for parking facilities expiring on March 31, 2018. These leases have escalating rent payments. Approximate future minimum payments required under current operating leases with non-cancelable lease terms in excess of one year are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 595,877
2019	607,905
2020	540,403
2021	492,920
2022	499,339
Thereafter	1,407,464
Total	<u>\$ 4,143,908</u>

Rent and associated property tax expense under the terms of these leases for the years ended December 31, 2017 and 2016 was \$893,681 and \$566,191, respectively.

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**NOTE 8 RETIREMENT PLAN**

USATF has a 401(k) plan, allowing both employer and employee contributions. USATF matches 100% of employee contributions up to 5% of compensation, as defined by the plan. Matching contributions are 100% vested. In addition, for all employees with at least one year of service, USATF may contribute additional discretionary employer contributions, as defined by the plan. Discretionary contributions vest ratably over a six-year period. Discretionary employer contributions equaled 5% in both 2017 and 2016. Retirement plan expense for 2017 and 2016 was \$381,546 and \$349,371, respectively.

**NOTE 9 BANK LINE OF CREDIT**

USATF amended its line of credit agreement with JPMorgan Chase Bank, NA (the Bank) on November 6, 2017 to increase maximum borrowings to \$8,000,000. As of December 31, 2017, \$6,000,000 was outstanding on the line of credit (2016; \$3,000,000). Interest is calculated on the outstanding daily balance at a variable rate of London Interbank offered Rate (LIBOR) plus 1.79%. Accrued interest is due and payable monthly, with the full outstanding principal balance and accrued interest due at maturity on November 1, 2018. The line of credit is collateralized by certain investment accounts held by the Bank in the name of USATF, as well as substantially all of USATF's property to the extent the investment account balances are not sufficient to fully collateralize the balance outstanding. There are affirmative and negative covenants which require periodic reporting to the Bank.

**NOTE 10 RELATED PARTIES**

**USA Track & Field Foundation, Inc.**

The USA Track & Field Foundation, Inc. (the Foundation) was formed in 2002 to attract funding and support new and innovative track and field programs and expand involvement in the sport. The Foundation is classified under the Internal Revenue Service Code as a 501(c)(3) organization. The Foundation is governed by an independent board of directors and its net assets and financial results are not included in the USATF financial statements. While the Foundation board of directors is independent of USATF, two seats on the Foundation board are reserved for the USATF CEO and board president. In addition, USATF provides administrative support to the Foundation.

Certain expenses of the Foundation are paid by USATF on behalf of the Foundation. All direct costs incurred by USATF on behalf of the Foundation are reimbursed by the Foundation. Total expenses paid on behalf of the Foundation during 2017 and 2016, respectively, were \$132,352 and \$318,023, which were fully reimbursable by the Foundation. Amounts of \$9,447 and \$113,662 were receivable from the Foundation as of December 31, 2017 and 2016, respectively. During 2017 and 2016, the Foundation provided \$20,000 in grants to USATF designated for specific programs supporting youth development through competitive opportunities.

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**NOTE 10 RELATED PARTIES (CONTINUED)**

**President of USATF**

Mr. Vin Lananna was elected as president of the USATF and to the board of directors in December 2016. Mr. Lananna has affiliations with several entities with which USATF conducts business on a routine basis. Specifically, TrackTown Events LLC dba: TrackTown USA, The TrackTown Summer Series, and Oregon21, and the Oregon Track Club dba: OTC Events are entities which Mr. Lananna served as president and as a member of the board of directors, respectively. Mr. Lananna has been placed on administrative leave by the board of directors.

During 2016, USATF engaged in various transactions with these entities. USATF recognized revenue of \$350,000 and \$50,000 from TrackTown LLC and the Oregon Track Club, respectively, in 2016 related to rights fees for hosting the 2016 Summer Olympic Trials. Additionally, USATF incurred expenses of \$5,000 during 2017 for a bid deposit and \$2,000,000 during 2016 for prize money and athlete support related to the 2016 Summer Olympic Trials, which were fully reimbursed by TrackTown LLC. There was \$15,000 due from these related parties as of December 31, 2017.

**NOTE 11 RISKS AND UNCERTAINTIES**

During 2016, USATF was a party to a lawsuit which was estimated at \$395,000 and accrued at December 31, 2016 and settled for such amount in 2017. This settlement was not covered under USATF's insurance policies. The corresponding expense is classified within program support expenses in the statement of activities for the year ended December 31, 2016.

USATF is party to various contracts and agreements which include future obligations of USATF. USATF could be liable for unfulfilled contractual duties if future events do not take place as planned, but management believes they are adequately safeguarded from material liabilities by negotiating contracts to allow for such contingencies.

**NOTE 12 COMMITMENTS AND CONTINGENCIES**

In 2014, USATF received a one-time commitment bonus from a sponsor in the amount of \$25,000,000 in consideration for entering into a long-term contract extending through 2040, \$15,000,000 of which was received during 2014, \$5,000,000 of which was received during 2015, and the remaining \$5,000,000 was received in 2016. The sponsorship agreement may be terminated by either party in advance of 2040 for various reasons, and the sponsor has the right to recoup all or part of the commitment bonus depending on the effective date of the termination of the agreement. As described in Note 2, commitment bonus revenue is recognized ratably over the sponsorship period.

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**NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

As such, the deferred revenue balance as shown in the statements of financial position include a portion of this commitment bonus received but not yet recognized as revenue as of December 31, 2017 and 2016.

No additional provision has been made in the accompanying financial statements for the contingent liability since termination of the sponsorship agreement is not anticipated and the ultimate liability cannot be reasonably estimated.

In conjunction with the origination of the long-term contract extending through 2040 discussed above, USATF is liable for a sponsorship negotiation commission payable through 2039. As such, the statements of financial position as of December 31, 2017 and 2016 include a current and long-term accrued expense representing the amounts due for such commissions. Also, the statements of financial position as of December 31, 2017 and 2016 include a current and long-term deferred expense asset related to the amortization of the commission expense ratably over the associated sponsorship period.