

USA TRACK & FIELD, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

**USA TRACK & FIELD, INC.
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CliftonLarsonAllen

CliftonLarsonAllen LLP
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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, 2016 and 2015, 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, 2016 and 2015, 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
September 7, 2017

USA TRACK & FIELD, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,198,090	\$ 4,640,446
Investments	12,201,560	11,355,796
Investment income receivable	55,074	57,066
Accounts receivable, net of allowance for doubtful accounts of \$249,270 and \$85,454, respectively	502,793	389,647
Inventory	814,576	545,196
Prepaid expenses and other assets	946,333	976,879
Deferred sponsorship commission expenses	925,481	925,481
	16,643,907	18,890,511
LONG-TERM DEFERRED SPONSORSHIP COMMISSION EXPENSES	20,977,564	21,903,045
PROPERTY AND EQUIPMENT, NET	478,653	279,863
	\$ 38,100,124	\$ 41,073,419
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 6,863,150	\$ 2,743,975
Bank line of credit	3,000,000	-
Accrued sponsorship commission expenses	937,500	500,000
Deferred revenue	2,395,019	10,892,904
	13,195,669	14,136,879
LONG-TERM ACCRUED SPONSORSHIP COMMISSION EXPENSES	20,625,000	21,562,500
	33,820,669	35,699,379
NET ASSETS		
Unrestricted	4,183,125	5,277,710
Temporarily restricted	96,330	96,330
	4,279,455	5,374,040
TOTAL LIABILITIES AND NET ASSETS	\$ 38,100,124	\$ 41,073,419

See accompanying Notes to Financial Statements.

USA TRACK & FIELD, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues, gains, and public support:		
Sponsorships, net	\$ 23,094,889	\$ 22,465,265
United States Olympic Committee grants	3,732,224	3,305,304
Events and athlete programs	5,337,618	1,552,473
Member-based programs	3,282,585	3,283,725
Merchandise sales	1,294,536	1,451,904
Other revenue	594,754	361,372
Total revenues, gains, and public support	37,336,606	32,420,043
Net assets released from restrictions:		
Satisfaction of program restrictions	-	59,564
Total net assets released from restrictions	-	59,564
Total unrestricted revenues, gains, and other support	37,336,606	32,479,607
Expenses:		
Program expenses		
Elite athlete competitions	11,075,176	9,511,449
Sports Performance	10,440,315	6,492,075
Grass roots programs	2,145,903	1,685,128
Member-based programs	2,460,287	2,252,603
Program support	4,444,785	3,961,312
Cost of goods sold	1,769,884	1,606,373
Total program expenses	32,336,350	25,508,940
Administration and governance	6,094,841	4,848,316
Total expenses	38,431,191	30,357,256
Increase (decrease) in unrestricted net assets	(1,094,585)	2,122,351
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	-	14,600
Net assets released from restrictions	-	(59,564)
Decrease in temporarily restricted net assets	-	(44,964)
CHANGE IN NET ASSETS	(1,094,585)	2,077,387
NET ASSETS, BEGINNING OF YEAR	5,374,040	3,296,653
NET ASSETS, END OF YEAR	\$ 4,279,455	\$ 5,374,040

See accompanying Notes to Financial Statements.

USA TRACK & FIELD, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,094,585)	\$ 2,077,387
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	136,994	97,893
Loss on disposal of property and equipment	15,000	-
Donated inventory	(932,438)	(577,872)
Net realized and unrealized (gains) losses on investments	(127,024)	253,118
Effects of changes in operating assets and liabilities:		
Investment income receivable	1,992	(16,093)
Accounts receivable	(113,146)	(73,584)
Prepaid expenses and other assets	30,546	(601,026)
Deferred sponsorship commission expenses	925,481	925,481
Inventory	663,058	718,565
Accounts payable and accrued expenses	4,119,175	312,027
Accrued sponsorship commission expenses	(500,000)	(500,000)
Deferred revenue	(8,497,885)	(3,124,050)
	(5,372,832)	(508,154)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(350,784)	(73,683)
Purchase of investments	(2,457,676)	(3,946,182)
Proceeds from sale of investments	1,738,936	4,173,287
	(1,069,524)	153,422
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from bank line of credit	3,000,000	-
	3,000,000	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,442,356)	(354,732)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,640,446	4,995,178
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,198,090	\$ 4,640,446
SUPPLEMENTAL DATA		
Non-cash transactions:		
In-kind contributions	\$ 3,742,933	\$ 3,035,324
Cash paid for interest	\$ 41,932	\$ -

See accompanying Notes to Financial Statements.

USA TRACK & FIELD, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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
DECEMBER 31, 2016 AND 2015

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 \$96,330 at December 31, 2016 and 2015. There were no temporarily restricted net assets released from restriction due to meeting donor-imposed purpose restrictions during the year ended December 31, 2016, and \$59,564 of temporarily restricted net assets were released during the year ended December 31, 2015.

Permanently Restricted Net Assets

The permanently restricted net asset class includes assets of USTAF 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, 2016 and 2015.

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 2016 or 2015.

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, 2016, 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 non-performance by the institutions.

USA TRACK & FIELD, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 2016 and 2015, USATF received approximately 65% and 73% 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
DECEMBER 31, 2016 AND 2015

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 2016 and 2015 of \$3,742,933 and \$3,035,324, 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 statement 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
DECEMBER 31, 2016 AND 2015

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 market 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, 2016 and 2015 consist of the following:

	2016	2015
Furniture and fixtures	\$ 480,967	\$ 355,561
Office equipment	39,969	43,395
Computer equipment	62,632	70,299
Vehicles	92,459	92,459
Leasehold improvements	292,330	111,952
	<u>968,357</u>	<u>673,666</u>
Less: accumulated depreciation	(489,704)	(393,803)
Property and equipment, net	<u>\$ 478,653</u>	<u>\$ 279,863</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$136,994 and \$97,893, 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
DECEMBER 31, 2016 AND 2015

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 not-for-profit entities to improve the information presented in the financial statements and notes about a not-for-profit 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
DECEMBER 31, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. The reclassifications had no effect on the total net assets or changes in net assets.

Subsequent Events

Management has evaluated subsequent events through September 7, 2017, the date the financial statements were available to be issued.

NOTE 3 ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following at December 31, 2016 and 2015:

	2016	2015
Sponsors	\$ 212,023	\$ 25,275
USOC	-	16,381
USATF Foundation	113,662	66,366
Event organizers	28,843	160,166
Others	397,535	206,913
	<u>752,063</u>	<u>475,101</u>
Allowance for doubtful accounts	(249,270)	(85,454)
	<u>\$ 502,793</u>	<u>\$ 389,647</u>

NOTE 4 DEFERRED REVENUE

Deferred revenue consists of the following at December 31, 2016 and 2015:

	2016	2015
Deferred sponsorship revenue	\$ 1,301,282	\$ 7,143,588
Deferred USOC revenue	-	657,688
Rights fees for future events	142,000	658,000
Deferred membership revenue	585,875	580,615
Other deferred revenue	365,862	1,853,013
	<u>\$ 2,395,019</u>	<u>\$ 10,892,904</u>

USA TRACK & FIELD, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 5 INVESTMENTS

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>

Investments at December 31, 2015 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity funds:				
Domestic	\$ 1,156,177	\$ 77,934	\$ -	\$ 1,234,111
International	639,053	1,625	41,485	599,193
Income funds:				
Domestic	7,577,455	1,888	205,525	7,373,818
Alternative investments:				
Hedge funds	2,320,754	1,640	173,720	2,148,674
Total	<u>\$ 11,693,439</u>	<u>\$ 83,087</u>	<u>\$ 420,730</u>	<u>\$ 11,355,796</u>

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

	2016	2015
Interest and dividend income	\$ 284,210	\$ 368,597
Unrealized gain (loss) on investments	113,463	(169,609)
Realized gain (loss) on investments	13,561	(83,509)
Total investment income	<u>\$ 411,234</u>	<u>\$ 115,479</u>

Investment management fees of \$80,702 and \$77,473 are classified within administration and governance expenses in the statements of activities for the years ended December 31, 2016 and 2015, respectively.

USA TRACK & FIELD, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 6 FAIR VALUE MEASUREMENTS

In determining fair value, USATF uses various valuation approaches within the Financial Accounting Standard Board's (FASB) generally accepted fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The accepted framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The definitions of the levels within the hierarchy are based on the reliability of inputs as follows:

- Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 - Valuations based on quoted prices for similar assets or liabilities in active markets, identical assets or liabilities in less active markets, such as dealer or broker markets, inputs other than quoted prices that are observable for assets or liabilities, or inputs that are derived principally from or corroborated by observable market data by correlation or other means; 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.

USA TRACK & FIELD, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 2016:

	Level 1	Level 2	Level 3	Total
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>

USA TRACK & FIELD, INC.
NOTES TO FINANCIAL STATEMENTS
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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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds:				
Domestic	\$ 1,234,111	\$ -	\$ -	\$ 1,234,111
International	599,193	-	-	599,193
Income funds:				
Domestic	7,373,818	-	-	7,373,818
Alternative investments:				
Hedge funds	-	2,148,674	-	2,148,674
Total	<u>\$ 9,207,122</u>	<u>\$ 2,148,674</u>	<u>\$ -</u>	<u>\$ 11,355,796</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>
2017	\$ 579,951
2018	559,428
2019	559,305
2020	491,803
2021	444,320
Thereafter	1,846,052
Total	<u>\$ 4,480,859</u>

Rent and associated property tax expense under the terms of these leases for the years ended December 31, 2016 and 2015 was \$566,191 and \$352,569, respectively.

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 2016 and 2015. Retirement plan expense for 2016 and 2015 was \$349,371 and \$357,268, respectively.

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NOTE 9 BANK LINE OF CREDIT

USATF entered into a line of credit agreement with JPMorgan Chase Bank, NA (the Bank) on June 1, 2015 for a principal amount of \$3,000,000. As of December 31, 2016, \$3,000,000 was outstanding on the line of credit (2015; -\$0-). Interest is calculated on the outstanding daily balance at a variable rate of LIBOR plus 1.79%. Accrued interest is due and payable monthly, with the full outstanding principal balance and accrued interest due at maturity on June 1, 2017. 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 no covenants which require periodic reporting to the Bank.

Effective January 3, 2017, USATF increased their initial line of credit agreement with the Bank to a principal amount of \$5,000,000. There was no change to the interest rate, the method in which interest is accrued and payable, or the collateral pledged to guarantee the debt. The line of credit matures on January 1, 2018, but may be renewed or extended at the Bank's discretion. The line of credit includes negative and affirmative covenants, including a requirement that USATF's audited financial statements be furnished to the Bank within 120 days after and as of the end of each fiscal year.

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 2016 and 2015, respectively, were \$318,023 and \$252,071, which were fully reimbursable by the Foundation. Amounts of \$113,662 and \$66,366 were receivable from the Foundation as of December 31, 2016 and 2015, respectively. During 2016 and 2015, 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 d/b/a TrackTown USA, The TrackTown Summer Series, and Oregon21, and the Oregon Track Club d/b/a OTC Events are entities which Mr. Lananna serves as President and as a member of the Board of Directors, respectively.

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, related to rights fees for hosting the 2016 Summer Olympic Trials. Additionally, USATF incurred expenses of \$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 were no amounts receivable from or due to these related parties as of December 31, 2016.

NOTE 11 RISKS AND UNCERTAINTIES

USATF is a defendant in certain lawsuits. Management intends to vigorously contest these cases and does not expect their outcome to have a material effect on USATF's financial position. In addition, management believes its insurance policies are adequate. During 2016, USATF was a party to a lawsuit which is anticipated to be settled in 2017 and will not be covered under USATF's insurance policies. Management has accrued for an estimated settlement of \$395,000 as of December 31, 2016. 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. 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, 2016 and 2015.

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NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2016 and 2015 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, 2016 and 2015 include a current and long-term deferred expense asset related to the amortization of the commission expense ratably over the associated sponsorship period.