

USA GOLF FEDERATION, INC.

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

USA GOLF FEDERATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of
USA Golf Federation, Inc.

We have audited the accompanying financial statements of USA Golf Federation, Inc. (a nonprofit organization), 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USA Golf Federation, 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.

Erwin, Fountain & Jackson, P.A.

Jacksonville, Florida
December 13, 2018

USA GOLF FEDERATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 306,303	\$ 40,220
Cash restricted by donor -- Note B	-	58,667
Due from affiliate	12,879	-
Miscellaneous receivables	50,000	197,131
Prepaid expenses	<u>1,302</u>	<u>1,134</u>
<i>TOTAL CURRENT ASSETS</i>	<u>370,484</u>	<u>297,152</u>
OTHER ASSETS		
Cash restricted by donor -- Note B	-	117,333
Trademarks	3,655	3,655
Web-site costs net of accumulated amortization of \$237 in 2017 and \$162 in 2016	<u>438</u>	<u>513</u>
	<u>4,093</u>	<u>121,501</u>
<i>TOTAL ASSETS</i>	<u>\$ 374,577</u>	<u>\$ 418,653</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 18,000	\$ 136,159
Current portion of refundable advances -- Note B	<u>-</u>	<u>58,667</u>
<i>TOTAL CURRENT LIABILITIES</i>	<u>18,000</u>	<u>194,826</u>
LONG-TERM LIABILITIES		
Refundable advances, less current portion -- Note B	<u>-</u>	<u>117,333</u>
<i>TOTAL LIABILITIES</i>	<u>18,000</u>	<u>312,159</u>
NET ASSETS - UNRESTRICTED	<u>356,577</u>	<u>106,494</u>
<i>TOTAL LIABILITIES AND NET ASSETS</i>	<u>\$ 374,577</u>	<u>\$ 418,653</u>

USA GOLF FEDERATION, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
SUPPORT AND REVENUE - UNRESTRICTED		
Donated services	\$ 32,122	\$ 150,444
Gifts-in-kind	190,500	150,000
Digital media fees	25,079	50,000
Apparel licensing fees	50,000	394,798
Sponsorships	-	50,000
Contribution – Grant	176,000	24,000
Other	23,544	343
Interest income	<u>18</u>	<u>415</u>
<i>TOTAL SUPPORT AND REVENUE</i>	<u>497,263</u>	<u>820,000</u>
EXPENSES		
Program services	191,027	779,224
Management and general	<u>56,153</u>	<u>175,830</u>
<i>TOTAL EXPENSES</i>	247,180	955,054
<i>CHANGE IN NET ASSETS - UNRESTRICTED</i>	250,083	(135,054)
<i>NET ASSETS AT THE BEGINNING OF THE YEAR - UNRESTRICTED</i>	<u>106,494</u>	<u>241,548</u>
<i>NET ASSETS AT END OF YEAR - UNRESTRICTED</i>	<u>\$ 356,577</u>	<u>\$ 106,494</u>

USA GOLF FEDERATION, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received – licensing and rights fees	\$ 222,210	\$ 325,946
Cash received – sponsorships	-	50,000
Cash received – Refundable advances	-	176,000
Cash received – contributions	-	24,000
Cash received – other	23,544	329
Interest received	18	415
Cash paid to suppliers	<u>(155,689)</u>	<u>(525,312)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>90,083</u>	<u>51,378</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
<i>Net Cash (Used) by Investing Activities</i>	<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Refundable advances released from restriction	176,000	-
Collection of refundable advances – Restricted for programs	<u>-</u>	<u>(176,000)</u>
<i>Net Cash Provided (Used) by Financing Activities</i>	<u>176,000</u>	<u>(176,000)</u>
Net (decrease) increase in cash and cash equivalents	266,083	(124,622)
Cash and cash equivalents, beginning of year	<u>40,220</u>	<u>164,842</u>
Cash and cash equivalents, end of year	<u>\$ 306,303</u>	<u>\$ 40,220</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 250,083	\$ (135,054)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Adjustment to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Amortization	75	75
(Increase) decrease in operating assets:		
(Increase) Decrease in accounts receivable	-	50,000
(Increase) Decrease in due from affiliate	(12,879)	-
(Increase) Decrease in miscellaneous receivables	147,131	(168,866)
(Increase) Decrease in prepaid expenses	(168)	64
Increase (decrease) in operating liabilities:		
Increase (Decrease) in accounts payable and accrued liabilities	(118,159)	129,159
Increase (Decrease) in refundable advances	(58,667)	58,667
Contributions restricted for long-term purposes:		
Refundable advances	<u>(117,333)</u>	<u>117,333</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 90,083</u>	<u>\$ 51,378</u>

See accompanying notes to financial statements

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES – USA Golf Federation, Inc. (“USA Golf”) is a nonprofit organization formed in 2011, to pursue competitive success in Olympic, Paralympic or Pan American competition and to contribute to the development of future elite American golfers. USA Golf has been recognized by the United States Olympic Committee as the national governing body that will officially name and manage the men’s and women’s U.S. Olympic Golf Teams.

BASIS OF ACCOUNTING – The financial statements of USA Golf have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

BASIS OF PRESENTATION – The Organization reports information regarding its financial position and activities according to three classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operation.

Temporarily restricted net assets are resources subject to donor imposed restrictions that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to the donor’s stipulations.

Permanently restricted net assets are resources from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

ESTIMATES – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS – For the purposes of the Statements of Cash Flows, USA Golf considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

ACCOUNTS RECEIVABLE – Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding accounts receivable and charges off to expense any balances that are determined to be uncollectible. At December 31, 2017 and 2016, respectively, management considered all accounts receivable to be collectible. Accordingly, there was no allowance for doubtful accounts.

REFUNDABLE ADVANCES – The organization is the recipient of a donor-restricted grant. Contribution revenue is recognized as donor-imposed conditions are substantially met.

DONATED SERVICES – Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by USA Golf.

USA GOLF FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GIFTS-IN-KIND – Gifts-In-Kind are recorded at fair value as contributions and as an asset or expenses in the period received.

INTANGIBLE ASSETS – Intangible assets consist of trademarks in the amount of \$3,655 and \$3,655 at December 31, 2017 and 2016, respectively. The trademarks are not required to be amortized.

WEB-SITE DESIGN COSTS – Capitalized costs incurred in the development and design of the Organization’s web-site total \$750. The costs are being amortized over a 10-year period.

EXPENSE ALLOCATION – Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of USA Golf.

INCOME TAX STATUS – The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE B – REFUNDABLE ADVANCES

In 2016, the Organization received a donor-restricted grant totaling \$200,000 to support USA Golf programs that focus on junior elite and elite player development. USA Golf has partnered with other related entities to engage young people to enter the game and provide a path and resources to develop into elite athletes.

The grant is considered to be a nonreciprocal contribution transaction. Accordingly, revenue and expenses are recognized in the period when donor-imposed conditions have been substantially met.

The change in the Organization’s refundable advances accounts is comprised of the following:

Balance, December 31, 2016	\$ 176,000
Additions:	
Receipt of donor-restricted funds	-
Reductions:	
Program expenses	<u>(176,000)</u>
Balance, December 31, 2017	<u>\$ -</u>

USA GOLF FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE B – REFUNDABLE ADVANCES (CONTINUED)

Cash restricted by the donor (\$176,000) related to the grant is reflected in the Statement of Financial Position at December 31, 2016. The Organization fulfilled the terms of the grant in 2017 and \$176,000 was released from restrictions.

NOTE C -- AGREEMENTS

The Organization has a digital media agreement which expires in December 2020 and an apparel licensing agreement which expired in December 2016. The Company entered into a new apparel licensing agreement in 2017 which expires in 2020.

NOTE D -- DONATED SERVICES

The fair value of donated services included as contributions in the financial statements and general expenses are as follows for the years ending December 31:

	<u>2017</u>	<u>2016</u>
Wages, payroll taxes and benefits – management and general	\$ 32,122	\$ 150,444
Wages, payroll taxes and benefits – programs	<u>113,500</u>	<u>-</u>
	<u>\$ 145,622</u>	<u>\$ 150,444</u>

NOTE E -- RELATED ENTITIES

Founding members of USA Golf include the following related entities:

Ladies Professional Golf Association (LPGA)
PGA of America (PGAA)
PGA TOUR, Inc. (PGA TOUR)
United States Golf Association (USGA)

Each founding member is responsible for selecting one permanent director to sit on the Board of Directors.

NOTE F -- RELATED PARTY TRANSACTIONS

The PGA TOUR, Inc. provided contributed services totaling \$32,122 and \$150,444 related to wages, taxes and benefits of the executive director of USA Golf for the years ending December 31, 2017 and 2016 respectively. The executive director of USA Golf is an employee of the PGA TOUR.

The PGA Tour, Inc. contributed \$-0- and \$150,000 towards player travel costs to the 2016 Olympics in the year ending December 31, 2017 and 2016, respectively.

USA GOLF FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE F -- RELATED PARTY TRANSACTIONS (CONTINUED)

In 2017, the following related parties contribute services and gifts in kind related to the adoption of the American Development Model (ADM) that will focus on player development.

<u>Entity</u>	<u>Wages</u>	<u>Gifts in Kind</u>	<u>Total</u>
PGA Tour	\$ 5,000	\$ -	\$ 5,000
LPGA	5,000	-	5,000
USGA	3,500	-	3,500
PGAA	<u>100,000</u>	<u>77,000</u>	<u>177,000</u>
	<u>\$ 113,500</u>	<u>\$ 77,000</u>	<u>\$ 190,500</u>

NOTE G -- CONCENTRATION OF RISK

USA Golf maintains its cash balance in one financial institution. The balance is insured by the Federal Deposit Corporation (FDIC) up to \$250,000. At December 31, 2017 and 2016, uninsured balances totaled \$61,508 and \$0-, respectively.

NOTE H -- INCOME TAXES

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and application state law.

The accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBTI). The tax benefits recognized in the financial statements from a tax position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the years ended December 31, 2017 and 2016. The Organization's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the financial statements. No interest or penalties were recorded during the years ended December 31, 2017 and 2016, respectively. Generally, the tax years before 2014 are no longer subject to examination by federal, state, or local taxing authorities.

NOTE I -- SUBSEQUENT EVENTS

Subsequent events were evaluated through December 13, 2018, which is the date the financial statements were available to be issued.