

USA BADMINTON

**Financial Statements &
Supplemental Schedules**

For the Year Ended December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
USA Badminton
Anaheim, California

We were engaged to audit the accompanying financial statements of USA Badminton (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

During the transition of accounting departments, Management balanced a bank account that had not been reconciled for a lengthy period and adjusted for other inconsistencies by posting amounts directly to net assets. Management made a net adjustment of \$80,630 in the accompanying financial statements to reverse the effects of these transition adjustments that were posted to net assets, which was necessary to reconcile beginning net assets with the prior year ending net assets. Management attempted to identify the correct income and expense accounts associated with requisite reversal of entries to net assets. However, due to turnover in the accounting department, Management could not provide persuasive evidence regarding the reversing entry accounts, electing instead to judgmentally adjust tournament income by the net \$80,630. Therefore, Management cannot verify that the ending balances of tournament related income and expense are accurate. In addition to

the uncertainty regarding this adjustment, we noted numerous misstatements to tournament income and a pass-through entry fees liability account. Management attempted to reconcile the pass-through entry fees liability account and tournament income accounts; but, it was unable to provide persuasive evidence with regard to that reconciliation. And, we were unable obtain sufficient and appropriate evidence regarding these elements through performing other audit procedures. As a result, we were unable to determine whether any additional adjustments might have been necessary in respect to the elements making up tournament income, tournament expenses, and pass-through entry fee liabilities.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Report on Summarized Comparative Information

We have previously audited the USA Badminton's 2015 financial statements, and we expressed a qualified audit opinion on those audited financial statements in our report dated October 11, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of program and supporting services are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Waugh & Goodwin, LLP
Colorado Springs, Colorado
November 15, 2017

USA BADMINTON
Statement of Financial Position
December 31, 2016
(With Comparative Amounts for 2015)

	<u>ASSETS</u>	
	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 175,519	\$ 99,098
Accounts receivable, net	4,450	20,580
Prepaid expenses	<u>3,900</u>	<u>2,898</u>
Total current assets	183,869	122,576
INVESTMENTS	554	422
FURNITURE AND EQUIPMENT, at cost:		
Office furniture and equipment	19,592	19,592
Perpetual trophies	34,336	34,336
Less accumulated depreciation	<u>(53,033)</u>	<u>(51,661)</u>
Furniture and equipment, net	<u>895</u>	<u>2,267</u>
TOTAL ASSETS	<u>\$ 185,318</u>	<u>\$ 125,265</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 38,302	\$ 8,003
Due to USOC	8,349	1,416
Accrued liabilities	77,986	17,548
Current portion of deferred revenue	<u>53,734</u>	<u>40,837</u>
Total current liabilities	178,371	67,804
LONG-TERM LIABILITIES:		
Deferred revenue	<u>9,941</u>	<u>10,288</u>
Total liabilities	188,312	78,092
NET ASSETS:		
Unrestricted	(2,994)	43,694
Temporarily restricted	<u> </u>	<u>3,479</u>
Total net assets	<u>(2,994)</u>	<u>47,173</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 185,318</u>	<u>\$ 125,265</u>

See Notes to Financial Statements

USA BADMINTON
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	2016 Totals	2015 Totals
REVENUE:				
Tournament/coaching fees	\$ 289,919	\$	\$ 289,919	\$ 51,395
Membership dues	110,610		110,610	98,892
Sponsorships	75,000		75,000	76,836
Junior registration fees	56,866		56,866	31,596
USOC media/marketing agreement	50,000		50,000	50,000
USOC grants and VIK support	48,497		48,497	60,025
Contributions	32,735		32,735	32,440
Technical official fees	26,349		26,349	22,437
Para-badminton income	18,061		18,061	2,558
Miscellaneous	13,508		13,508	8,828
Sanction fees	10,150		10,150	9,450
National bid fees	10,000		10,000	9,500
Other grants	6,000		6,000	
Royalties	586		586	7,036
Investment income	287		287	240
Insurance proceeds				13,799
Less cost of goods sold	(468)		(468)	(181)
Retail sales, net	(596)		(596)	49
Satisfied program restrictions	<u>3,479</u>	<u>(3,479)</u>		
Total revenue	750,983	(3,479)	747,504	474,900
EXPENSES:				
Program services:				
Elite athletes & coaching	531,335		531,335	232,020
Athlete development	127,406		127,406	73,290
Membership	52,667		52,667	57,631
Para-badminton	<u>5,021</u>		<u>5,021</u>	<u>1,988</u>
Total program services	716,429		716,429	364,929
Supporting services:				
National office	71,960		71,960	88,613
Board of directors	<u>9,282</u>		<u>9,282</u>	<u>18,174</u>
Total supporting services	<u>81,242</u>		<u>81,242</u>	<u>106,787</u>
Total expenses	<u>797,671</u>		<u>797,671</u>	<u>471,716</u>
CHANGE IN NET ASSETS	(46,688)	(3,479)	(50,167)	3,184
NET ASSETS, beginning of year	<u>43,694</u>	<u>3,479</u>	<u>47,173</u>	<u>43,989</u>
NET ASSETS, end of year	<u>\$ (2,994)</u>	<u>\$</u>	<u>\$ (2,994)</u>	<u>\$ 47,173</u>

See Notes to Financial Statements

USA BADMINTON
Statement of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Amounts for 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (50,167)	\$ 3,184
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,372	1,659
Unrealized loss (gain) on securities	(132)	27
(Increase) decrease in operating assets:		
Accounts receivable, net	16,130	(18,837)
Prepaid expenses	(1,002)	(635)
Increase (decrease) in operating liabilities:		
Accounts payable	37,232	5,107
Accrued liabilities	60,438	2,311
Deferred revenue	<u>12,550</u>	<u>790</u>
Total adjustments	<u>126,588</u>	<u>(9,578)</u>
Net cash provided (used) by operating activities	76,421	(6,394)
NET INCREASE (DECREASE) IN CASH	76,421	(6,394)
CASH AND CASH EQUIVALENTS, beginning of year	<u>99,098</u>	<u>105,492</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 175,519</u>	<u>\$ 99,098</u>

See Notes to Financial Statements

USA BADMINTON
Notes to Financial Statements
For the Year Ended December 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

USA Badminton (the Corporation) is the national governing body for the sport of badminton, making it responsible for the promotion and development of the sport in the United States.

Effective January 1, 2003, the Corporation incorporated in the state of Colorado under the name USA Badminton.

Income Taxes

The Corporation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax. Accordingly, no income tax provision has been recorded.

The Corporation's form 990, Return of Organization Exempt from Income Tax, is subject to examination by various taxing authorities, generally for three years after the date filed. Management of the Corporation believes that it does not have any uncertain tax positions that are material to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the Corporation's checking and money market accounts.

Accounts Receivable

Accounts receivable are stated at the amount the Corporation expects to collect from balances outstanding at year-end. Based on the Corporation's experience with individuals and entities having outstanding balances, it has concluded that an allowance for doubtful accounts of \$0 and \$500 is necessary for the years ended December 31, 2016 and 2015, respectively.

Depreciation

Items with greater than one year useful life and costs greater than \$1,000 are capitalized. Assets are recorded at cost or fair market value if donated and depreciated using the straight-line method over estimated useful lives of five to

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Depreciation - continued

seven years. Depreciation expense for the years ended December 31, 2016 and 2015, was \$1,372 and \$1,659, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Donated Services

Inasmuch as an objective basis is not available to measure the value of donated services, none have been included in the accompanying statements; however, a substantial number of volunteers have donated time to the Corporation.

Contributions

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

Functional Allocation of Expenses

Certain costs and expenses are allocated among the various programs and supporting service expenses based on salary and related expenses.

Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through November 15, 2017, the date that the financial statements were available to be issued.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences

Employees of the Corporation earn a vested right to compensation for unused vacation. Accordingly, an accrual has been made for vacation compensation that employees have earned but not yet taken.

Prior-Year Comparisons

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Certain reclassifications have been made to the prior-year amounts in order to conform to the current year financial statement format.

B. FAIR VALUE MEASUREMENTS

The Corporation applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Notes to Financial Statements

B. FAIR VALUE MEASUREMENTS - Continued

- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables present assets that are measured at fair value on a recurring basis at December 31, 2016 and 2015:

Assets at Fair Value as of December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ <u>554</u>	\$ _____	\$ _____	\$ <u>554</u>

Assets at Fair Value as of December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ <u>422</u>	\$ _____	\$ _____	\$ <u>422</u>

Investment income consists of the following components for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 155	\$ 267
Unrealized gain (loss) on securities	<u>132</u>	<u>(27)</u>
	\$ <u>287</u>	\$ <u>240</u>

C. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
World University Games	\$ _____	\$ 2,000
Walk of Fame	_____	<u>1,479</u>
	\$ _____	\$ <u>3,479</u>

Notes to Financial Statements

C. TEMPORARILY RESTRICTED NET ASSETS - Continued

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the years ended December 31, 2016 and 2015, net assets were released from restrictions by satisfying the following purposes:

	<u>2016</u>	<u>2015</u>
World University Games	\$ 2,000	\$
Walk of Fame	<u>1,479</u>	<u> </u>
	<u>\$ 3,479</u>	<u>\$</u>

D. RELATED PARTY TRANSACTIONS

The United States Olympic Committee (USOC) provides grants to the Corporation for sports development, international competition, and team preparation. Grants and other support provided during the years ended December 31, 2016 and 2015 consisted of the following project categories:

	<u>2016</u>	<u>2015</u>
Challenge grant	\$ 25,000	\$ 25,571
Media support	7,200	17,497
International relations	2,800	
Value-in-kind	10,497	10,957
Para badminton grants	3,000	
Additional funding	<u> </u>	<u>6,000</u>
	<u>\$ 48,497</u>	<u>\$ 60,025</u>

In August 2012, the Corporation entered into a digital media agreement with the USOC. The term of the agreement is January 1, 2013 through December 31, 2016. The Corporation received \$50,000 in digital media fees for both the years ended December 31, 2016 and 2015.

The USOC provides the Corporation with a portion of its current office facilities at no cost, which has been valued at \$4,031 for the years ended December 31, 2016 and 2015.

Excluding value-in-kind, rent paid to the USOC for the years ended December 31, 2016 and 2015, amounted to \$10,770 and \$10,494, respectively.

Notes to Financial Statements

D. RELATED PARTY TRANSACTIONS - Continued

At December 31, 2016 and 2015, the Corporation owed \$8,349 and \$1,416, respectively, to the USOC.

E. DEFERRED REVENUE

Membership dues received for one-year memberships were deferred and recognized as revenue over the corresponding period of the membership. Dues for life memberships are deferred and recognized as revenue over a 20 year period. The Corporation recognizes bid fees as revenue when earned. Deferred revenue consists of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Lifetime memberships	\$ 11,568	\$ 12,524
Regular memberships	39,807	23,101
Bid fees, sanctions, and tournament income	<u>12,300</u>	<u>15,500</u>
	<u>\$ 63,675</u>	<u>\$ 51,125</u>

F. OPERATING LEASES

During the year ended December 31, 2010, the Corporation entered into a lease agreement for office space with the USOC commencing May 1, 2010, and expiring April 30, 2015. The Corporation has 1,657 square feet of usable office space and 1,273 square feet of common space. The lease terms required \$6 a square foot for the office space and \$3 a square foot for the common space. The Corporation did not pay for the use of the common space under this lease.

During the year ended December 31, 2015, the Corporation renewed its lease agreement for office space, commencing May 1, 2015, and expiring April 30, 2020. The lease terms require \$6.50 a square foot for the office space and \$3.25 a square foot for the common space. The Corporation does not pay for the use of the common space, and has recorded value-in-kind in the amount of \$4,031 for use of this common space.

During 2017, the Corporation moved its National Headquarters to Anaheim, California. The Corporation continues to keep two staff members in Colorado Springs, Colorado. Consequently, the Corporation terminated its office lease agreement with the USOC

Notes to Financial Statements

F. OPERATING LEASES - Continued

effective February 28, 2017. During the year ended December 31, 2017, the Corporation entered into a new office lease agreement with the USOC, commencing March 1, 2017 and expiring December 31, 2020. The lease terms provide space for the two staff members in Colorado Springs, and requires \$6.50 a square foot for the office space and \$3.25 for the common space.

During the year ended December 31, 2016, the Corporation entered into an agreement for office space in Anaheim, California, commencing January 1, 2017, and expiring December 31, 2024. The agreement provides the Corporation with in-kind office space for up to six staff.

Future minimum lease payments for the years ended December 31 under these lease agreements are as follows:

2017	\$	3,014
2018		1,463
2019		1,463
2020		1,463

G. RETIREMENT PLAN

The Corporation established a salary reduction retirement plan for its employees in January, 2004, pursuant to Section 403(b) of the Internal Revenue Code. USA Badminton does not match voluntary contributions of its employees.

H. TOURNAMENT RELATED INCOME AND EXPENSE

The Corporation uses a system for tracking and collecting membership income and tournament activity. Part of this system identifies entry fees that are collected on behalf of the local tournament organizers. Management initially reported these entry fees as gross tournament related income and expense. Management later determined that these amounts did not represent revenue and expense to the Corporation and attempted to reverse the gross effects of these amounts in the financial statements. However, Management was not able to reconcile the gross revenue recorded for these entry fees to the gross expense recorded. Management has made certain adjustments to tournament income to correctly state liabilities related to local organizer fees, according to its understanding of ending balances as of December 31, 2016.

USA BADMINTON
Schedule of Program Services
For the Year Ended December 31, 2016

	Elite Athletes & Coaching	Athlete Development	Membership	Para-badminton	Total Program Services
Coaching & officials certifications	\$ 33,508	\$	\$	\$	\$ 33,508
Development/training	1,797				1,797
Events	297,696	81,245		3,033	381,974
Small equipment				777	777
Insurance	311		17,929		18,240
Membership services			1,387		1,387
Olympics	7,197				7,197
Salaries, benefits & payroll taxes	168,393	46,161	33,351		247,905
Sanction refund & regional rebates	4,100				4,100
Shipping, phones, supplies	1,020				1,020
Travel, lodging & meals	17,313			1,211	18,524
	<u>\$ 531,335</u>	<u>\$ 127,406</u>	<u>\$ 52,667</u>	<u>\$ 5,021</u>	<u>\$ 716,429</u>

USA BADMINTON
Schedule of Supporting Services
For the Year Ended December 31, 2016

	<u>National Office</u>	<u>Board of Directors</u>	<u>Total Supporting Services</u>
Professional fees	\$ 8,584	\$	\$ 8,584
Administrative		685	685
Bad debt	(500)		(500)
Bank fees & credit card charges	17		17
Conferences & meetings		3,019	3,019
Depreciation	1,372		1,372
Dues & publications	6,805		6,805
Employee benefits	156		156
Events	2,614		2,614
Insurance	9,737	4,015	13,752
Internet & telephone	152	59	211
Media & public relations	10,751		10,751
Miscellaneous	2,005	914	2,919
Office supplies	1,614		1,614
Olympic tickets		295	295
Printing	59		59
Rent	14,801		14,801
Repairs & maintenance	3,360		3,360
Salaries & payroll taxes	9,401		9,401
Shipping & postage	957		957
Taxes & licenses	75		75
Travel		295	295
	<u>\$ 71,960</u>	<u>\$ 9,282</u>	<u>\$ 81,242</u>