



USA RUGBY COMMUNICATION

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Date: January 14, 2019

USAR 2017 Audited Financials

Please find enclosed the USA Rugby consolidated audited financials for the fiscal year ended December 31, 2017, which consolidate the operating results of the USA Rugby Union and its subsidiaries, USA Rugby Foundation (the “Foundation”) and Rugby International Marketing (“RIM”), collectively referred to within as “USA Rugby.”

The independent audit was performed by Waugh & Goodwin LLP, whom have provided a clean opinion without any material weaknesses, and no material misstatements were identified during the course of the audit. Though no matters of material concern were noted, which would have been disclosed within the financial report, the auditors did provide recommendations to the Board and Audit Committee to strengthen USA Rugby’s internal controls, accounting procedures and financial matters.

The auditors recommended actions to accelerate the audit process (the auditors experienced delays completing the 2017 audit due to the departure of the USA Rugby’s former CFO) and to timely reconcile the amounts due to/from the Rugby Union and the Foundation; which were resolved but took longer than planned. The auditors also recommended strengthening internal controls for the recognition and recording of deferred membership revenue, value in kind funds and credit card payables, and bank reconciliations and signing authority.

Addressing these recommendations, which have been reviewed by the Audit Committee and USA Rugby executives and management team, continues to be a priority in the coming year. In fact, after joining the Union last September, I undertook an in-depth review of accounting policies, procedures, and financial process. As a result, revisions to these policies, procedures and process are underway, which include the implementation of tighter fiscal controls and policies. This will allow for more timely and accurate financial reporting on a set schedule and future final audit report to be prepared and released much earlier than in prior years.

Thank you,
Eric

**UNITED STATES OF AMERICA RUGBY
FOOTBALL UNION, LTD. AND SUBSIDIARIES**

**Consolidated Financial Statements
& Supplemental Schedules**

For the Year Ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
United States of America Rugby Football Union, Ltd.
and Subsidiaries
Lafayette, Colorado

We have audited the accompanying consolidated financial statements of United States of America Rugby Football Union, Ltd., (a non-profit organization) and Subsidiaries which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and changes in net assets 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 consolidated 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of United States of America Rugby Football Union, Ltd. and Subsidiaries as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited United States of America Rugby Football Union, Ltd. and Subsidiaries' 2016 consolidated financial statements, and our report dated July 31, 2017, expressed an unmodified opinion on those consolidated audited financial statements. In our opinion, the consolidated summarized comparative information presented herein as of and for the year ended December 31, 2016, 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 consolidated schedules of program and supporting services and the consolidating statements of financial position and of activities and changes in net assets 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
September 28, 2018

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
AND SUBSIDIARIES
Consolidated Statement of Financial Position
December 31, 2017
(With Comparative Amounts for 2016)

	<u>ASSETS</u>	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,108,287	\$ 3,076,725
Accounts receivable, net	438,401	1,162,969
Due from affiliated organizations	184,066	
Inventory		3,521
Prepaid expenses	<u>310,828</u>	<u>407,136</u>
Total current assets	6,041,582	4,650,351
LONG-TERM INVESTMENTS	139,718	139,455
PROPERTY AND EQUIPMENT:		
Furniture and equipment	450,239	410,275
Website	13,177	4,645
Software	652,091	343,891
Leasehold improvements	23,775	23,775
Less accumulated depreciation	<u>(597,182)</u>	<u>(410,914)</u>
Property and equipment - net	542,100	371,672
OTHER ASSET:		
Other receivable (Note G)		1,000,000
Other prepaid expenses	140,000	680,000
Deposits	<u>730,648</u>	<u>19,949</u>
TOTAL ASSETS	<u>\$ 7,594,048</u>	<u>\$ 6,861,427</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 956,569	\$ 1,291,613
Due to affiliated organizations		142,380
Accrued liabilities	99,341	59,807
Other liability	39,868	
Deferred revenue (Note E)	<u>7,093,293</u>	<u>2,522,837</u>
Total liabilities	8,189,071	4,016,637
NET ASSETS:		
Unrestricted	(2,244,746)	(2,133,724)
Unrestricted - non-controlling interest in Rugby International Marketing, LLC (Note G)	1,484,210	4,924,373
Temporarily restricted (Note F)	<u>165,513</u>	<u>54,141</u>
Total net assets	<u>(595,023)</u>	<u>2,844,790</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,594,048</u>	<u>\$ 6,861,427</u>

See Notes to Financial Statements

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
AND SUBSIDIARIES
Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	2017 Consolidated Totals	2016 Consolidated Totals
REVENUE:				
Membership dues	\$ 5,037,491	\$	\$ 5,037,491	\$ 4,787,129
Event revenue	2,143,981		2,143,981	2,688,445
High performance grants	1,958,229		1,958,229	1,983,722
Corporate sponsorship	1,866,601		1,866,601	2,289,090
Donations	485,489	454,533	940,022	646,524
Rugby development	617,140		617,140	584,883
In-kind contributions	528,994		528,994	855,700
TV & broadcast revenue	475,411		475,411	
Licensing	253,157		253,157	278,058
Fundraising event contributions & revenue, net direct expenses of \$40,040 and \$187,384	129,704		129,704	387,770
Other income	65,204		65,204	100,488
Merchandise sales, net cost of goods sold of \$18,079 and \$56,297	35,936		35,936	92,697
Investment income (loss), net (Note C)	(36,012)		(36,012)	911
Amounts released from restriction (Note F)	<u>343,161</u>	<u>(343,161)</u>		
Total revenue	13,904,486	111,372	14,015,858	14,695,417
EXPENSES:				
Program services:				
Events	3,216,812		3,216,812	2,613,604
Men's senior national team	2,791,392		2,791,392	3,609,945
Rugby development	1,923,964		1,923,964	2,248,412
Membership	1,829,281		1,829,281	1,757,895
Women's senior national team	1,194,225		1,194,225	1,742,444
High performance	<u>747,614</u>		<u>747,614</u>	<u>745,850</u>
Total program services	11,703,288		11,703,288	12,718,150
Supporting services:				
Media & marketing	4,976,754		4,976,754	3,817,454
National office	1,499,650		1,499,650	1,172,181
Fundraising	<u>275,979</u>		<u>275,979</u>	<u>360,518</u>
Total supporting services	<u>6,752,383</u>		<u>6,752,383</u>	<u>5,350,153</u>
Total expenses	<u>18,455,671</u>		<u>18,455,671</u>	<u>18,068,303</u>
CONSOLIDATED CHANGE IN NET ASSETS	(4,551,185)	111,372	(4,439,813)	(3,372,886)
NET ASSETS, beginning of year	2,790,649	54,141	2,844,790	1,467,676
CAPITAL CONTRIBUTIONS TO RUGBY INTERNATIONAL MARKETING, LLC & SUBSIDIARIES				
	<u>1,000,000</u>		<u>1,000,000</u>	<u>4,750,000</u>
NET ASSETS, end of year	<u>\$ (760,536)</u>	<u>\$ 165,513</u>	<u>\$ (595,023)</u>	<u>\$ 2,844,790</u>

See Notes to Financial Statements

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
AND SUBSIDIARIES
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2017
(With Comparative Amounts for 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (4,439,813)	\$ (3,372,886)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Realized and unrealized gains on investments	(649)	
Unrealized losses on hedging activities	39,868	
Depreciation	186,268	154,316
(Increase) decrease in operating assets:		
Accounts receivable, net	724,568	201,673
Due from affiliated organizations	(184,066)	3,119
Inventory	3,521	(1,096)
Prepaid expenses	96,308	46,925
Other prepaid expenses	540,000	
Deposits	(710,699)	1,626
Increase (decrease) in operating liabilities:		
Accounts payable	(335,044)	761,350
Due to affiliated organizations	(142,380)	140,995
Accrued liabilities	39,534	(46,671)
Deferred revenue	<u>4,570,456</u>	<u>230,754</u>
Total adjustments	<u>4,827,685</u>	<u>1,492,991</u>
Net cash provided (used) by operating activities	387,872	(1,879,895)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(356,696)	(386,891)
Change in investments, net	<u>386</u>	<u>569</u>
Net cash used by investing activities	(356,310)	(386,322)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contributions to Rugby International Marketing, LLC - cash		3,270,000
Capital contributions - Rugby International Marketing, LLC (decrease in investment receivable)	1,000,000	
Capital contributions - The Rugby Channel, LLC	<u>1,000,000</u>	
Net cash provided by financing activities	<u>2,000,000</u>	<u>3,270,000</u>
NET INCREASE IN CASH	2,031,562	1,003,783
CASH AND CASH EQUIVALENTS, beginning of year	<u>3,076,725</u>	<u>2,072,942</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,108,287</u>	<u>\$ 3,076,725</u>

See Notes to Financial Statements

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
AND SUBSIDIARIES

Notes to Financial Statements

For the Year Ended December 31, 2017

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

USA Rugby Football Union, Ltd. d/b/a USA Rugby and its subsidiaries are collectively referred to as the Organization.

USA Rugby Football Union, Ltd. d/b/a USA Rugby (a non-profit organization) is the national governing body for the sport of rugby and is responsible for the promotion and development of the sport in the United States and promotion of U.S. international participation. USA Rugby (the Corporation) is an official member of the United States Olympic Committee (USOC) and World Rugby (WR). The Corporation has approximately 115,000 members and is responsible for the development of the boys, girls, high school, collegiate, club athletic programs, and ultimately the ten national teams representing the U.S. in international competitions. USA Rugby's current structure comprises 1 Territorial Union, 13 Local Geographic Unions, 40 State Rugby Organizations, and 105 college conferences that compete for regional and national championships. USA Rugby's national office is located in Lafayette, Colorado.

USA Rugby Foundation (the Foundation) was formed in 2002, as a Pennsylvania non-profit corporation, and is a supporting organization for USA Rugby. The Foundation is organized as a membership organization with the sole member being USA Rugby.

Rugby International Marketing, LLC (a Delaware limited liability company) was formed in 2014. Rugby International Marketing, LLC (RIM) is responsible for promoting the sport of rugby through alternative channels and international events. As of December 31, 2014, RIM was a single-member LLC, with the sole member being USA Rugby. However, in 2015, a non-controlling interest was acquired by an unrelated investor, Rugby Football Union USA, Inc. And, additional non-controlling interests were acquired by other unrelated investors during the year ended December 31, 2016. RIM's offices are located in Lafayette, Colorado.

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Organization - continued

Rugby World Cup 2018, LLC (a Delaware limited liability company) was formed in 2017. Rugby World Cup 2018, LLC (RWC) is a single-member LLC, with the sole member being RIM. RWC was formed to (a) promote the sport of rugby and further the purposes that USA Rugby is authorized to pursue, (b) to host and operate the 2018 Rugby World Cup Sevens tournament in the California bay area, and (c) engaging in other activities as may be reasonably necessary to pursue or accomplish the foregoing (collectively, the Business). The Business of RWC may be conducted directly by RWC or indirectly through another company. Refer to Note Q for subsequent transfer of RWC to USA Rugby, as part of RIM Management's corrective actions to continue as a going concern.

The Rugby Channel, LLC (a Delaware limited liability company) was formed in 2016. The Rugby Channel, LLC (TRC) is responsible for broadcasting the sport of rugby through televised events and various media channels. As of December 31, 2016, TRC was a single-member LLC, with the sole member being RIM. However, in 2017, an existing member of RIM made a direct investment in TRC, representing a non-controlling interest in TRC. Refer to Note Q for subsequent divestment of TRC, as part of Management's corrective actions to continue as a going concern.

Principles of Consolidation

The accompanying consolidated financial statements include the assets, liabilities, net assets, and activities of USA Rugby, the Foundation, and RIM (including RIM's subsidiaries, RWC and TRC), collectively referred to as the "Organization". All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements were prepared according to accounting principles generally accepted in the United States of America (US GAAP). The Organization has reported information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represent the expendable resources that are available for operations at management's

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - continued

discretion; temporarily restricted net assets, which represent resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represent resources for which 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.

Supplemental Cash Flow Disclosure

Cash and cash equivalents consist of the Organization's checking and savings accounts. Cash flows from operating activities reflect interest paid of \$16,609 and \$10,369 and no income taxes paid for the years ended December 31, 2017 and 2016, respectively.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that an allowance for doubtful accounts in the amount of \$94,800 is necessary for the period ending December 31, 2017.

Depreciation

Assets are recorded at cost and depreciated using the straight-line method over estimated useful lives of three to five years. Depreciation expense amounted to \$186,268 and \$154,316 for the years ended December 31, 2017 and 2016, respectively.

Use of Estimates in Preparation of Financial Statements

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 that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. However, restricted contributions are reported as an increase in unrestricted net assets if the restriction is satisfied in the same reporting period in which the support is recognized. 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 amounts released from restrictions.

The Foundation maintains and publishes a gift acceptance policy. This policy states that administrative fees to cover all or a portion of the Foundation's indirect costs of administering certain gifts will be determined and charged against gifts as follows:

- Current, restricted gifts - determined by the Foundation's Board annually.
- Endowments - 2% per annum, which will be assessed quarterly based upon the value of the Fund at the end of each quarter.

Administrative fees that were charged against current, restricted gifts and endowments are reported as amounts released from restriction in the statement of activities.

During the year ended December 31, 2017, temporarily restricted net assets granted to USA Rugby from the Foundation for satisfaction of the respective restriction were granted with restrictions intact. However, in accordance with the USA Rugby policy, these restricted contributions were reported as unrestricted revenue when the restrictions were satisfied in the same period.

Donated Services

The Corporation receives a substantial amount of donated services in carrying out its programs. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under generally accepted accounting principles.

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Tax

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

The Corporation's and Foundation's Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by various taxing authorities, generally for three years after the date they were filed.

RIM is a limited liability company, taxed as a partnership under the provisions of the Internal Revenue Code. Under those provisions, the Company does not pay federal income taxes on its taxable income. Instead, the members are liable for federal income taxes on their respective shares of the Company's taxable income.

TRC was a single member LLC (a disregarded entity) for the year ended December 31, 2016. Therefore, no separate tax return was previously filed for this entity. However, due to the direct investment into TRC from an existing investor of RIM, TRC is a limited liability company taxed as a partnership for the year ended December 31, 2017.

RWC was a single-member LLC (a disregarded entity) for the year ended December 31, 2017. Therefore, no separate tax return was filed for this entity. The activity of RWC is reported in the tax returns of RIM.

Management of the Organization believes that it does not have any uncertain tax positions that are material to the financial statements.

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 State of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the information was derived.

Notes to Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Date of Management's Review

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 28, 2018, the date that the financial statements were available to be issued.

B. FAIR VALUE MEASUREMENT

The Organization 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 Organization 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.
- 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 Organization recognizes transfers between levels at the end of the reporting period.

The following tables present assets that are measured at fair value on a recurring basis at December 31, 2017 and 2016:

Notes to Financial Statements

B. FAIR VALUE MEASUREMENT - Continued

Assets at Fair Value as of December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income	\$ 134,352	\$	\$	\$ 134,352
Mutual funds	4,882			4,882
Cash	<u>484</u>			<u>484</u>
	<u>\$ 139,718</u>	<u>\$</u>	<u>\$</u>	<u>\$ 139,718</u>

Assets at Fair Value as of December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income	\$ 90,794	\$	\$	\$ 90,794
Cash	48,581			48,581
Equities	<u>80</u>			<u>80</u>
	<u>\$ 139,455</u>	<u>\$</u>	<u>\$</u>	<u>\$ 139,455</u>

C. INVESTMENT INCOME (LOSS) AND HEDGING ACTIVITIES

Investment income (loss) consists of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 3,207	\$ 986
Realized and unrealized gain (loss)	<u>(39,219)</u>	<u>(75)</u>
Investment income (loss)	<u>\$ (36,012)</u>	<u>\$ 911</u>

As of December 31, 2017, the Corporation held forward foreign currency contracts, expiring through December 2018, to hedge the foreign currency exposure of its future grant revenue to be received in British pounds. These hedging contracts are classified as fair value hedges. Losses related to these hedging activities were \$39,868 in 2017. The liability created by the derivative instrument is recorded as an "other liability" in the accompanying financial statements.

D. LINES OF CREDIT

The Corporation had two lines of credit available from commercial banks. The first is a \$250,000 line that carried interest at lender's prime rate plus 3.240% and matured May 23, 2018 and was not renewed by the Corporation; this line was secured by business assets. The second is a \$650,000 line that is secured by all business assets and carries interest at LIBOR plus 9.221% and matures on December 22, 2018.

Notes to Financial Statements

D. LINES OF CREDIT - Continued

As of December 31, 2017 and 2016, there were no outstanding borrowings on either of the lines of credit.

E. DEFERRED REVENUE

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

	<u>2017</u>	<u>2016</u>
Advanced ticket sales	\$ 3,357,889	\$
Membership revenue	2,276,226	2,083,039
Grants	676,000	136,000
Sponsorship	650,000	
Miscellaneous	<u>133,178</u>	<u>303,798</u>
	<u>\$ 7,093,293</u>	<u>\$ 2,522,837</u>

The Corporation uses a membership year of September 1 to August 31. At December 31, 2017 and 2016, eight months of membership revenue is deferred to the subsequent year, when applicable.

F. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017 and 2016, consist of contributions received for the following purposes:

	<u>2017</u>	<u>2016</u>
IT Infrastructure Project	\$ 100,078	\$
Shanagher Morrison Referee Fund	<u>65,435</u>	<u>54,141</u>
	<u>\$ 165,513</u>	<u>\$ 54,141</u>

The Foundation incurs costs for administering certain restricted contributions, which are charged against restricted net assets. During the year ended December 31, 2017, these costs represented approximately 22% of total restricted contributions received by the Foundation.

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the years ended December 31, 2017 and 2016, net assets were released from restrictions by satisfying the following restricted purposes:

Notes to Financial Statements

F. TEMPORARILY RESTRICTED NET ASSETS

	<u>2017</u>	<u>2016</u>
Administrative cost allocation	\$ 202,556	\$ 70,227
IT Infrastructure Project	130,404	
Don Morrison Referee Fund	<u>10,201</u>	<u>12,077</u>
	<u>\$ 343,161</u>	<u>\$ 82,304</u>

G. CHANGES IN CONSOLIDATED UNRESTRICTED NET ASSETS ATTRIBUTABLE TO RUGBY INTERNATIONAL MARKETING, LLC AND SUBSIDIARIES

During the year ended December 31, 2015, an unrelated entity, Rugby Football Union USA, Inc., acquired a non-controlling interest in RIM for \$2,000,000, acquiring Class A Preferred Units. During the year ended December 31, 2016, seven unrelated entities and individuals acquired additional non-controlling interests in RIM for \$4,750,000, acquiring Class B Preferred Units. As of December 31, 2016, USA Rugby controlled RIM through Class A Common Units and a majority representation on RIM's Board of Directors.

Of the \$4,750,000 in Class B Preferred Units issued during the year ended December 31, 2016, \$480,000 was in exchange for services to be rendered subsequent to year end.

Also, during the year ended December 31, 2017, an unrelated entity, Harlequins Rugby (USA), Inc. (a Delaware corporation), acquired a non-controlling interest in TRC for \$1,000,000, acquiring 1,000 membership units and representing a non-controlling interest of the RIM subsidiary.

	<u>Controlling Interest</u>	<u>Non- controlling Interest</u>
Balance at January 1, 2016	\$ (203,489)	\$ 1,852,266
Capital contributions	0	4,750,000
Change in net assets	<u>(210,588)</u>	<u>(1,677,893)</u>
Balance at December 31, 2016	(414,077)	4,924,373
Capital contributions	0	1,000,000
Change in net assets	<u>0</u>	<u>(4,440,163)</u>
Balance at December 31, 2017	<u>\$ (414,077)</u>	<u>\$ 1,484,210</u>

Notes to Financial Statements

H. AFFILIATED ORGANIZATIONS

The United States Olympic Committee (USOC) provides grants to the Corporation for sports development, international competition, and team preparation. Total grants from the USOC for the years ended December 31, 2017 and 2016, consist of the following project categories:

	<u>2017</u>	<u>2016</u>
High performance grant	\$ 869,500	\$ 940,000
Value-in-kind	55,000	60,000
International relations grant		15,000
Other grants		10,000
	<u>\$ 924,500</u>	<u>\$ 1,025,000</u>

For the year ended December 31, 2017, the USOC also provided \$400,000 in direct athlete support, which is not recorded in the consolidated statement of activities.

World Rugby (WR) also provides grants to the Corporation for sports development, international competition, and team preparation. Total grants from WR for the years ended December 31, 2017 and 2016, consist of the following project categories:

	<u>2017</u>	<u>2016</u>
High performance grant	\$ 1,088,729	\$ 1,043,722
Rugby development grants	317,493	307,712
Other grants		92,915
	<u>\$ 1,406,222</u>	<u>\$ 1,444,349</u>

I. IN-KIND CONTRIBUTIONS

The Corporation received in-kind sponsorships and donations from various supporters, including affiliated organizations. In-kind sponsorships and donations recorded in the Organization's financial statements are \$524,606 and \$855,700 for the years ended December 31, 2017 and 2016, respectively.

J. PENSION PLAN

The Corporation adopted a 401(k) plan (the Plan) covering all employees who are at least 21 years old and who work at least 1,000 hours per year. Plan participants may make pre-tax deferrals subject to limitations imposed by the Internal Revenue Code. The Corporation matches a portion of the employee's deferral, subject to limits set by the Plan.

Notes to Financial Statements

J. PENSION PLAN - Continued

During the years ended December 31, 2017 and 2016, the Corporation made matching contributions to the Plan totaling \$14,613 and \$15,890, respectively.

K. OPERATING LEASE AGREEMENTS

The Corporation leased office and warehouse space in Boulder, Colorado until these leases expired in 2015. In 2016, the Corporation moved its office location to Lafayette, Colorado, executed a new lease for office space, and terminated the lease for warehouse space. The Corporation also leases a postage meter and copier.

The term for the office lease is April 1, 2016, through April 30, 2021, with an initial rate of \$6,250 per month and an escalation factor every 12 months.

The postage meter lease expired on January 31, 2016. A new lease for a postage meter was executed in January, 2016, for an additional 51 month term at a quarterly rate of \$475.

The copier lease expired on May 1, 2016. A new copier lease was signed in February, 2016, for an additional 48 month term at a monthly rate of \$570.

The future minimum lease payments for the years ended December 31 are as follows:

2018	\$ 141,903
2019	147,484
2020	146,167
2021	36,679

L. INTERCOMPANY TRANSACTIONS

The Corporation receives grants and occasionally transacts business with the Foundation and RIM and its subsidiaries. And, the Corporation occasionally receives contributions or other revenue intended for the Foundation or RIM, which are owed back to either the Foundation or RIM. These intercompany transactions and the amounts owed to/from the Organizations have been eliminated in the consolidated financial statements.

Notes to Financial Statements

M. RUGBY INTERNATIONAL MARKETING, LLC - PREFERRED UNITS

Subject to capital account restrictions set forth in the RIM amended and restated operating agreement (the RIM Agreement) Section 10.2(b), each outstanding unit of preferred units in RIM entitles the members' to certain liquidation preference. Liquidating distributions shall be made as follows: (a) first, to the holders of Class A Preferred Units and Class B Preferred Units (ratably among such holders in accordance with the aggregate amount of Unreturned Class A Preferred Liquidation Preference and Unreturned Class B Preferred Liquidation Preference associated with the Class A Preferred Units and Class B Preferred Units held by each such holder) until the aggregate Unreturned Class A Preferred Liquidation Preference with respect to each such holder's Class A Preferred Units has been reduced to zero and until the aggregate Unreturned Class B Liquidation Preference with respect to each such holder's Class B Preferred Units has been reduced to zero; (b) second, to the holders of Class A Common Units (ratably among such holders), until the aggregate Unreturned Capital with respect to each such holder's Class A Common Units has been reduced to zero; and (c) third, to the holders of Class A Preferred Units, the holders of Class B Preferred Units and the holders of Class A Common Units in proportion to their respective Sharing Ratios.

The Preferred Liquidation Values of Preferred Class A Units and Preferred Class B Units means, with respect to each unit, \$1,000 and \$1,250, respectively.

N. RUGBY INTERNATIONAL MARKETING, LLC - UNIT OPTIONS

Additional purchase option

A certain holder of Class A Preferred Units maintains an option to purchase additional Class A Preferred Units in RIM at an Exercise price of \$1,000, if exercised before the Option Date of June 30, 2020. The maximum number of Class A Preferred Units available for purchase under this option is 204.08; and, the exercise price is subject to variation in accordance with Section 3.9 of the RIM Agreement.

RIM preferred put/call arrangements

Pursuant to the RIM Agreement, the following arrangements are available to holders of preferred members:

Notes to Financial Statements

H. RUGBY INTERNATIONAL MARKETING, LLC - UNIT OPTIONS - Continued

Put Right:

Each holder of Class A Preferred Units or Class B Preferred Units (each, a "Preferred Member") shall have the right to require the Company to repurchase all or any portion of the Membership Interests held by such Preferred Member and its Permitted Transferees at the Redemption Value (the "Put") by giving a written notice to the Company on or prior to the Applicable Redemption Exercise Date specifying the Membership Interests to be purchased pursuant to the Put (the "Put Notice").

Call Right:

The Company shall have the right to require a Preferred Member to sell back to the Company all but not less than all of the Membership Interests held such Preferred Member and its Permitted Transferees at the Redemption Value (the "Call") by giving a written notice to such Preferred Member on or prior to the Applicable Redemption Exercise Date specifying the Membership Interests to be purchased pursuant to the Call.

Redemption Value:

The "Redemption Value" of a Preferred Member's Membership Interests to be repurchased shall mean the amount equal to the *greater of* (i) the aggregate Class A Preferred Liquidation Value of such Preferred Member's Class A Preferred Units and/or the aggregate Class B Preferred Liquidation Value of such Preferred Member's Class B Preferred Units, reduced by the amount of any distributions (other than tax distributions under Section 7.1) paid on such Preferred Member's Membership Interests prior to the Redemption Closing, or (ii) the Fair Market Value of such Membership Interests (calculated based on the Sharing Ratio of the total number of Membership Interests being repurchased), as defined by the RIM Agreement.

P. CONCENTRATIONS AND EXCLUSIVE RIGHTS

The Organization concentrated significant investment in the preparation and production of the 2018 Rugby World Cup event, which occurred in San Francisco, California in July 2018.

Notes to Financial Statements

P. CONCENTRATIONS AND EXCLUSIVE RIGHTS - Continued

Also, RIM relies on the exclusive rights provided by USA Rugby in the 2015 License Agreement to maintain and cultivate its revenue streams, which requires annual licensing fees paid to USA Rugby guaranteed through 2030.

Q. SUBSEQUENT EVENTS

Subsequent to the year end December 31, 2017, RIM sold TRC to an unrelated party. The arrangement included a combination of amounts paid for the TRC membership interest purchase and future licensing revenue to RIM. Due to the sale of TRC to an unrelated party, RIM assumed responsibility for certain contractual payments and other severance-type payments to departing employees. RIM estimates that the early termination of a certain software development contract and the severance payments to certain employees will be approximately \$250,000 plus any applicable payroll taxes and fees.

Also, subsequent to the year ended December 31, 2017, the RIM CEO resigned from his position. He did not exercise any option provisions for RWC or TRC units offered under his employment contract.

Due to the challenges faced by RIM in early 2018, the Corporation purchased WRC from RIM in 2018 to ensure the event was not impacted by RIM's restructuring. USA Rugby acquired WRC using funds borrowed from World Rugby.

R. RUGBY INTERNATIONAL MARKETING, LLC - GOING CONCERN

The Organization's consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These consolidated financial statements include the consolidated financial statements of RIM and its subsidiaries, collectively referred to as "the Company". Management acknowledges that the Company incurred a net loss of \$4,440,163 for the year ended December 31, 2017. And, in the prior year, the Company experienced net losses exceeding \$1,850,000. These losses have substantially reduced working capital and retained earnings of the Company. Furthermore, subsequent to the year ended December 31, 2017, Management revised the projections for future positive cash flow. As a result, at that time, substantial doubt existed about the Company's ability to continue as a going concern.

Notes to Financial Statements

R. RUGBY INTERNATIONAL MARKETING, LLC - GOING CONCERN

However, RIM's Management and the Board of Directors was restructured in 2018 and given a mandate to make corrective actions towards future solvency and profitability. Management was able to alleviate the substantial doubt that the Company would continue as a going concern through its corrective actions.

As part of those corrective actions, the Company divested its interests in RWC and TRC. Also, the Company negotiated a reduced license payment to USA Rugby for the year ended December 31, 2018; and, Management has implemented cost reductions in all departments.

Having implemented the actions described above, Management of the Company continues using the going concern basis in preparing the financial statements which assumes that the Company will continue in operation for the foreseeable future. The ability of the Company to continue as a going concern is dependent upon the success of these actions. There can be no assurance that the Company will be successful in accomplishing its objectives.

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
AND SUBSIDIARIES
Consolidated Schedule of Program Services
For the Year Ended December 31, 2017

	Events	Men's Senior National Team	Rugby Development	Membership	Women's Senior National Team	High Performance	Total
Advertising	\$ 280,699	\$ 77	\$ 7,604	\$ 1,576	\$	\$	\$ 289,956
Apparel	9,902	3,914	5,315	960	4,250	13,010	37,351
Awards & gifts	30,896	2,578	3,733	194	1,109	566	39,076
Background checks		110		93,184		222	93,516
Bad debt	8,508						8,508
Bank charges	144	417		109,773			110,334
Branding & signage	7,267						7,267
Clinic host reimbursements			21,559				21,559
Contract labor	522,825	625,207	338,064		264,699	233,718	1,984,513
Database maintenance			6,817				6,817
Depreciation	638	24,650	4,682	307	14,043	48	44,368
Dues & subscriptions	16,585	1,056	10,527	47,030	953	3,082	79,233
Employee benefits	31,041	64,395	92,468	27,876	18,887	17,049	251,716
Equipment rental & maintenance	70,477	95,572	249	461	31,047	39,428	237,234
Facilities rental	46,787	81,712			55,744	7,650	191,893
Grants			41,377			25,000	66,377
Graphic design fees	32,280		2,399				34,679
Hosting				88,811			88,811
Insurance		219,546	(5,965)	1,268,823	93,859	5,196	1,581,459
Laundry	2,343						2,343
Legal	48,661	8,896	1,491		5,731		64,779
Legal settlements					9,772		9,772
Match fees	527,694		28,796				556,490
Medical fees	23,548	29,875	1,292		16,660	206	71,581
Miscellaneous	21,677	20,930	5,910	500	8,425	3,228	60,670
Payroll fees	7,514						7,514
Payroll taxes	21,670	33,621	50,991	12,538	6,422	13,991	139,233
Player per diem		157,856			51,016		208,872
Postage	40,520	12,821	10,286	386	10,323	20,160	94,496
Printing	14,726	1,504	5,432		584	363	22,609
Rent - office						40,675	40,675
Stadiums	495,503		854				496,357
Supplies			32,327			1,275	33,602
Telephone	2,535	7,359	5,407	244	12	355	15,912
Travel, lodging, meals, & transportation	598,656	576,962	554,924	11,019	335,895	120,352	2,197,808
TV & broadcasting	80,793				950	4,087	85,830
Uniforms		334,803			134,803		469,606
Utilities		3,395					3,395
Video			11,154				11,154
Wages	272,923	484,136	664,131	165,599	129,041	197,953	1,913,783
Website			22,140				22,140
	<u>\$ 3,216,812</u>	<u>\$ 2,791,392</u>	<u>\$ 1,923,964</u>	<u>\$ 1,829,281</u>	<u>\$ 1,194,225</u>	<u>\$ 747,614</u>	<u>\$ 11,703,288</u>

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
AND SUBSIDIARIES

Consolidated Schedule of Supporting Services
For the Year Ended December 31, 2017

	<u>Media & Marketing</u>	<u>National Office</u>	<u>Fundraising</u>	<u>Total</u>
Accounting fees	\$ 4,116	\$ 15,670	\$ 4,675	\$ 24,461
Advertising	270,614			270,614
Apparel	65		991	1,056
Awards & gifts	730	1,392	2,122	4,244
Background checks		1,038		1,038
Bad debt	21,569	75,000		96,569
Bank charges	1,705	17,733	3,030	22,468
Branding & signage	116			116
Conferences		6,093		6,093
Consulting services			935	935
Contract labor	859,504	78,173		937,677
Database maintenance		1,763	6,281	8,044
Depreciation expense	99,166	41,103	1,631	141,900
Dues & subscriptions	18,974	31,450	10,637	61,061
Employee benefits	52,197	30,565	26,826	109,588
Entertainment			680	680
Equipment rental & maintenance	7,850	54,472	4,522	66,844
Facility & equipment rental			5,291	5,291
Grants	8,297			8,297
Hosting	200	1,994		2,194
In-kind gifts expense			4,388	4,388
Insurance	7,489	78,385	1,638	87,512
Interest expense		16,609		16,609
Legal fees	194,212	89,291	1,365	284,868
Media & public relations	10,800			10,800
Miscellaneous	4,459		4,146	8,605
Payroll fees	7,500			7,500
Payroll taxes	56,691	30,279	12,195	99,165
Postage	2,931	6,614	2,015	11,560
Printing	3,054	5,011	636	8,701
Rent	32,448	82,760		115,208
Telephone	2,751	13,801	861	17,413
Travel, lodging, meals, & transportation	158,699	103,650	22,048	284,397
TV & video	1,918,085	599	1,219	1,919,903
Utilities	4,400	130,063		134,463
Wages	1,228,132	520,141	157,847	1,906,120
Website		66,001		66,001
	<u>\$ 4,976,754</u>	<u>\$ 1,499,650</u>	<u>275,979</u>	<u>\$ 6,752,383</u>

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
AND SUBSIDIARIES
Consolidating Statement of Financial Position
December 31, 2017

	<u>USA Rugby *</u>	<u>USA Rugby Charitable Foundation</u>	<u>Rugby International Marketing & Subsidiaries</u>	<u>Eliminating Entries</u>	<u>2017 Consolidated Totals</u>
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 765,492	\$ 244,395	\$ 4,098,400	\$	\$ 5,108,287
Accounts receivable, net	18,936		419,465		438,401
Due from related parties, net	384,863			(384,863)	
Due from affiliated organizations	184,066				184,066
Prepaid expenses	<u>225,685</u>		<u>85,143</u>		<u>310,828</u>
Total current assets	1,579,042	244,395	4,603,008	(384,863)	6,041,582
LONG-TERM INVESTMENTS	139,718				139,718
PROPERTY AND EQUIPMENT:					
Furniture and equipment	442,763	5,870	1,606		450,239
Leasehold improvements	13,177				13,177
Website	48,291		603,800		652,091
Software	23,775				23,775
Less accumulated depreciation	<u>(425,501)</u>	<u>(4,323)</u>	<u>(167,358)</u>		<u>(597,182)</u>
Property and equipment - net	102,505	1,547	438,048		542,100
OTHER ASSETS:					
Other prepaid expenses			140,000		140,000
Deposits	<u>80,648</u>		<u>650,000</u>		<u>730,648</u>
TOTAL ASSETS	<u>\$ 1,901,913</u>	<u>\$ 245,942</u>	<u>\$ 5,831,056</u>	<u>\$ (384,863)</u>	<u>\$ 7,594,048</u>
LIABILITIES, MEMBERS' EQUITY, AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	\$ 405,241	\$ 2,652	\$ 548,676		\$ 956,569
Due to related parties, net		186,505	198,358	(384,863)	
Accrued liabilities	93,341		6,000		99,341
Other liability	39,868				39,868
Deferred revenue (Note E)	<u>3,085,404</u>		<u>4,007,889</u>		<u>7,093,293</u>
Total liabilities	3,623,854	189,157	4,760,923	(384,863)	8,189,071
MEMBERS' EQUITY			1,070,133		1,070,133
NET ASSETS:					
Unrestricted	(1,721,941)	(108,728)			(1,830,669)
Temporarily restricted (Note F)	<u>(1,721,941)</u>	<u>165,513</u>			<u>165,513</u>
Total net assets	(1,721,941)	56,785			(595,023)
TOTAL LIABILITIES, MEMBERS' EQUITY, AND NET ASSETS	<u>\$ 1,901,913</u>	<u>\$ 245,942</u>	<u>\$ 5,831,056</u>	<u>(384,863)</u>	<u>\$ 7,594,048</u>

* Investments in subsidiaries are not reflected in this consolidating information to prevent distortion of entity specific assets; thus, elimination of the investments in subsidiaries is not applicable

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
AND SUBSIDIARIES
Consolidating Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017

	USA Rugby *	USA Rugby Charitable Foundation	Rugby International Marketing & Subsidiaries	Eliminating Entries	2017 Consolidated Totals
REVENUE:					
Membership dues	\$ 5,037,491	\$	\$	\$	\$ 5,037,491
Event revenue	229,668		1,914,313		2,143,981
High performance grants	1,958,229				1,958,229
Corporate sponsorship	44,101		1,822,500		1,866,601
Donations	780,466	873,952		(714,396)	940,022
Rugby development	617,140				617,140
In-kind contributions	524,606	4,388			528,994
TV & broadcast revenue			475,411		475,411
Licensing	1,486,165		18,112	(1,251,120)	253,157
Fundraising event contributions & revenue, net of direct expenses of \$40,040 and \$187,384		129,704			129,704
Other income	65,204				65,204
Merchandise sales, net of cost of goods sold of \$18,079 and \$56,297	9,984		25,952		35,936
Investment income (loss), net (Note C)	(37,053)		1,041		(36,012)
Total revenue	10,716,001	1,008,044	4,257,329	(1,965,516)	14,015,858
EXPENSES:					
Program services:					
Events	498,921		2,717,891		3,216,812
Men's senior national team	2,791,392				2,791,392
Rugby development	1,917,587	720,773		(714,396)	1,923,964
Membership	1,829,281				1,829,281
Women's senior national team	1,194,225				1,194,225
High performance	747,614				747,614
Total program services	8,979,020	720,773	2,717,891	(714,396)	11,703,288
Supporting services:					
Media & marketing	248,273		5,979,601	(1,251,120)	4,976,754
National office	1,499,650				1,499,650
Fundraising		275,979			275,979
Total supporting services	1,747,923	275,979	5,979,601	(1,251,120)	6,752,383
Total expenses	10,726,943	996,752	8,697,492	(1,965,516)	18,455,671
CHANGE IN NET ASSETS	(10,942)	11,292	(4,440,163)		(4,439,813)
NET ASSETS AND MEMBERS' EQUITY, beginning of year	(1,710,999)	45,493	4,510,296		2,844,790
CAPITAL CONTRIBUTIONS TO RUGBY INTERNATIONAL MARKETING, LLC & SUBSIDIARIES			1,000,000		1,000,000
NET ASSETS AND MEMBERS' EQUITY, end of year	\$ (1,721,941)	\$ 56,785	\$ 1,070,133	\$	\$ (595,023)

* Investments in subsidiaries are not reflected in this consolidating information to prevent distortion of entity specific revenue and support; thus, elimination for the changes in subsidiary equity is not applicable