

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

United States Soccer Federation, Inc.

March 31, 2020 and 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
United States Soccer Federation, Inc.

We have audited the accompanying consolidated financial statements of the United States Soccer Federation, Inc., which comprise the consolidated statements of financial position as of March 31, 2020 and 2019, and the related consolidated 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 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United States Soccer Federation, Inc. as of March 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Chicago, Illinois
December 31, 2020

United States Soccer Federation, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

March 31,

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 16,196,773 | \$ 14,674,981 |
| Cash held in escrow | 4,237,480 | 2,302,475 |
| Accounts receivable, net | 9,299,490 | 8,643,128 |
| Prepaid expenses and advances | 2,301,344 | 3,252,145 |
| Investments | | |
| Undesignated | 131,360,429 | 151,472,999 |
| Designated - option plan | 1,967,719 | 2,190,914 |
| Property and equipment, net | 3,275,949 | 4,863,848 |
| Total Assets | \$ 168,639,184 | \$ 187,400,490 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 35,161,114 | \$ 24,456,183 |
| Deferred revenue | | |
| Sponsorship | 4,260,648 | 5,039,059 |
| Stack Sports | 4,250,000 | - |
| Games | 108,072 | 4,139,396 |
| Referee registration | 1,162,384 | 1,402,161 |
| Coaching | - | 90,300 |
| Other | 107,272 | 290,556 |
| Deferred compensation - option plan | 1,967,719 | 2,190,914 |
| Total Liabilities | 47,017,209 | 37,608,569 |
| Net Assets | | |
| Net assets without donor restrictions | 116,126,975 | 145,858,588 |
| Net assets with donor restrictions | 5,495,000 | 3,933,333 |
| Total Net Assets | 121,621,975 | 149,791,921 |
| Total Liabilities and Net Assets | \$ 168,639,184 | \$ 187,400,490 |

The accompanying notes are an integral part of these consolidated financial statements.

United States Soccer Federation, Inc.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended March 31, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|-----------------------|
| Revenues | | | |
| Registration and affiliation fees | | | |
| Youth | \$ 3,704,795 | \$ - | \$ 3,704,795 |
| Referee | 2,818,991 | - | 2,818,991 |
| Professional | 1,550,133 | - | 1,550,133 |
| Amateur | 448,019 | - | 448,019 |
| | <u>8,521,938</u> | <u>-</u> | <u>8,521,938</u> |
| Sponsorship, television, licensing, and royalties | 55,180,253 | - | 55,180,253 |
| National Teams' game revenues | 48,285,833 | - | 48,285,833 |
| International game revenues | 6,229,740 | - | 6,229,740 |
| Player development revenues | 4,473,593 | - | 4,473,593 |
| Coaching education | 3,103,038 | - | 3,103,038 |
| Open Cup | 1,496,683 | - | 1,496,683 |
| Olympic Committee funding | 705,000 | - | 705,000 |
| Development and fundraising | 2,374,867 | 1,561,667 | 3,936,534 |
| Other | 3,511,470 | - | 3,511,470 |
| Net assets released from restrictions | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Revenues | 133,882,415 | 1,561,667 | 135,444,082 |
| Expenses | | | |
| National Teams | 92,947,662 | - | 92,947,662 |
| Management expenses | 56,792,420 | - | 56,792,420 |
| Referee program | 4,234,477 | - | 4,234,477 |
| Coaching program | 8,304,996 | - | 8,304,996 |
| National Board of Directors' and committees' expenses | 696,857 | - | 696,857 |
| Open Cup | 1,489,753 | - | 1,489,753 |
| Annual general meeting expenses | 589,989 | - | 589,989 |
| | <u>165,056,154</u> | <u>-</u> | <u>165,056,154</u> |
| Total Expenses | 165,056,154 | - | 165,056,154 |
| Change in net assets before investment return | (31,173,739) | 1,561,667 | (29,612,072) |
| Investment return, net | 1,442,126 | - | 1,442,126 |
| | <u>1,442,126</u> | <u>-</u> | <u>1,442,126</u> |
| Change in Net Assets | (29,731,613) | 1,561,667 | (28,169,946) |
| Net Assets, beginning of year | 145,858,588 | 3,933,333 | 149,791,921 |
| | <u>145,858,588</u> | <u>3,933,333</u> | <u>149,791,921</u> |
| Net Assets, end of year | <u>\$ 116,126,975</u> | <u>\$ 5,495,000</u> | <u>\$ 121,621,975</u> |

The accompanying notes are an integral part of these consolidated financial statements.

United States Soccer Federation, Inc.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended March 31, 2019

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|------------------------------|
| Revenues | | | |
| Registration and affiliation fees | | | |
| Youth | \$ 3,758,592 | \$ - | \$ 3,758,592 |
| Referee | 2,938,128 | - | 2,938,128 |
| Professional | 1,319,396 | - | 1,319,396 |
| Amateur | 500,425 | - | 500,425 |
| | <u>8,516,541</u> | <u>-</u> | <u>8,516,541</u> |
| Sponsorship, television, licensing, and royalties | 51,031,249 | - | 51,031,249 |
| National Teams' game revenues | 29,498,265 | - | 29,498,265 |
| International game revenues | 3,198,406 | - | 3,198,406 |
| Player development revenues | 3,570,932 | - | 3,570,932 |
| Coaching education | 3,138,198 | - | 3,138,198 |
| Open Cup | 1,075,674 | - | 1,075,674 |
| Olympic Committee funding | 705,000 | - | 705,000 |
| Development and fundraising | 1,320,320 | 3,933,333 | 5,253,653 |
| Other | 2,672,634 | - | 2,672,634 |
| Net assets released from restrictions | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Revenues | 104,727,219 | 3,933,333 | 108,660,552 |
| Expenses | | | |
| National Teams | 82,623,188 | - | 82,623,188 |
| Management expenses | 33,337,901 | - | 33,337,901 |
| Referee program | 4,150,554 | - | 4,150,554 |
| Coaching program | 8,943,816 | - | 8,943,816 |
| National Board of Directors' and committees' expenses | 892,185 | - | 892,185 |
| Open Cup | 1,192,013 | - | 1,192,013 |
| Annual general meeting expenses | 664,916 | - | 664,916 |
| | <u>131,804,573</u> | <u>-</u> | <u>131,804,573</u> |
| Total Expenses | 131,804,573 | - | 131,804,573 |
| Change in net assets before investment return | (27,077,354) | 3,933,333 | (23,144,021) |
| Investment return, net | 6,035,122 | - | 6,035,122 |
| | <u>(21,042,232)</u> | <u>3,933,333</u> | <u>(17,108,899)</u> |
| Change in Net Assets | (21,042,232) | 3,933,333 | (17,108,899) |
| Net Assets, beginning of year | 166,900,820 | - | 166,900,820 |
| Net Assets, end of year | <u>\$ 145,858,588</u> | <u>\$ 3,933,333</u> | <u>\$ 149,791,921</u> |

The accompanying notes are an integral part of these consolidated financial statements.

United States Soccer Federation, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31,

| | 2020 | 2019 |
|---|-----------------|-----------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (28,169,946) | \$ (17,108,899) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 1,587,899 | 1,622,161 |
| Realized and unrealized investment loss (gain) | 1,896,583 | (2,469,859) |
| Changes in operating assets and liabilities | | |
| Cash held in escrow | (1,935,005) | (795,618) |
| Accounts receivable | (656,362) | 171,898 |
| Prepaid expenses and advances | 950,801 | 1,430,865 |
| Accounts payable and accrued expenses | 10,704,931 | 3,373,661 |
| Deferred revenue | (1,073,096) | 6,147,728 |
| Deferred compensation - option plan | (223,195) | 23,422 |
| Net cash used in operating activities | (16,917,390) | (7,604,641) |
| Cash flows from investing activities | | |
| Purchases of investments | (7,437,943) | (4,717,833) |
| Proceeds from sales of investments | 25,877,125 | 17,152,570 |
| Purchases of property and equipment | - | (551,271) |
| Net cash provided by investing activities | 18,439,182 | 11,883,466 |
| Net change in cash and cash equivalents | 1,521,792 | 4,278,825 |
| Cash and cash equivalents, beginning of year | 14,674,981 | 10,396,156 |
| Cash and cash equivalents, end of year | \$ 16,196,773 | \$ 14,674,981 |

The accompanying notes are an integral part of these consolidated financial statements.

United States Soccer Federation, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020 and 2019

NOTE 1 - NATURE OF OPERATIONS

United States Soccer Federation, Inc. (USSF) was incorporated in New York on June 29, 1914, as a nonprofit corporation. The purpose of USSF is to promote and govern the game of soccer at all levels in the United States of America.

USSF is affiliated through membership with the Fédération Internationale de Football Association (FIFA), which is the world-governing body of soccer and is comprised of the various national soccer associations. FIFA is responsible for promoting and governing the game of soccer throughout the world. USSF is recognized as the National Governing Body of Soccer in the United States of America by FIFA and the United States Olympic and Paralympic Committee (USOPC), as provided by the Ted Stevens Olympic and Amateur Sports Act, and operates various national team programs, including the Men's National Team (USMNT) and Women's National Team (USWNT).

CA2016 Local Organizing Committee LLC (CA2016 LOC), a single-member LLC formed on October 29, 2014. The sole member of CA2016 LOC is USSF. USSF established CA2016 LOC for the purpose of organizing and promoting the Copa America Centenario 2016 tournament held in the United States. Under the Amended & Restated Local Organizing Committee Agreement between CA2016 LOC and Confederation of North, Central America and Caribbean Association Football (Concacaf), Concacaf designated CA2016 LOC as the official and exclusive local organizing committee (LOC) to host and stage the tournament. In consideration for performing the LOC services under the agreement, CA2016 LOC received net ticketing and stadium revenues generated by the tournament games. These revenues are consolidated with USSF's financial statements pursuant to the principles discussed in Note 2.

CA2016 Marketing, Inc. (CA2016 Marketing) was incorporated and formed by CA2016 LOC on February 12, 2016, to provide marketing and administrative services for the Copa America Centenario 2016 tournament. The sole owner of the entity is CA2016 LOC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of USSF and CA2016 LOC, which in turn includes the accounts of CA2016 Marketing (collectively referred to hereinafter as USSF). Inter-entity transactions and balances have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of American (U.S. GAAP). These consolidated financial statements report amounts separately by class of net assets. The separate classes of assets are defined as net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions include all resources that are not subject to donor-imposed restrictions. Net assets without donor restrictions also include board-designated funds. Net assets with donor restrictions include resources that are subject to donor stipulations that limit the use of the contributed assets. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of March 31, 2020 and 2019, USSF had no such funds. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

United States Soccer Federation, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020 and 2019

Recently Adopted Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope of the accounting guidance for contributions received and contributions made. The clarifications and improved scope assists entities in 1) evaluation whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions and 2) determining whether a contribution is conditional. The ASU is effective for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. The impact of adopting ASU 2018-08 did not have a material impact on the financial position, change in net assets, cash flows, business processes or systems of the Federation.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which established a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for non-public entities for annual periods beginning after December 15, 2019. Earlier adoption is permitted subject to certain limitations. ASU 2014-09 is to be applied using one of two retrospective application methods. Management is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2021. Early adoption is permitted. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. This ASU allows for the presentation and disclosure of contributions of nonfinancial assets to be more transparent in not-for-profit entities' financial statements. The new guidance will require not-for-profit entities to add a separate line item to the statement of activities, and to include various disaggregated disclosures by category, for contributions of nonfinancial assets. ASU 2020-07 is to be applied retrospectively and would be effective for annual reporting periods beginning after June 15, 2021. Early adoption is permitted. Management is currently evaluating the impact of the adoption of ASU 2020-07 on its consolidated financial statements.

Cash and Cash Equivalents

USSF considers all unrestricted highly liquid financial instruments with an original maturity of three months or less to be cash equivalents. USSF maintains its cash in bank deposit accounts which at times may exceed federally insured limits. USSF has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash.

Cash Held in Escrow

USSF receives cash deposits from the organizers of impending international games. After the international games to which the deposits relate are played and game reports filed, USSF distributes the deposits, plus other fees received, to the appropriate recipients as provided in its Bylaws and Polices. These funds are distributed based on a predetermined percentage of the total ticket sales for each respective international game according to its International Matches Policy. One of the recipients of such distributions is USSF.

United States Soccer Federation, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020 and 2019

Accounts Receivable

Accounts receivable are comprised primarily of Men's and Women's National Teams' game revenue, player registration fees, and contractual sponsorship, television and licensing revenue. USSF closely reviews all outstanding accounts receivable and follows up on all delinquent amounts in a timely manner. Delinquency status is determined based on the recent payment history of the customer. Amounts are considered uncollectible only when the customer is unable to provide collateral for the amount outstanding or commit to a payment plan. The allowance for doubtful accounts as of March 31, 2020 and 2019 was approximately \$94,000.

Investments

Investments are stated at fair value. Investments include fixed income securities, such as corporate bonds, U.S treasury notes, U.S. government agency obligations, equity and fixed income mutual funds and invested cash and cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value because of the short maturity of these instruments.

USSF's investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to these risk factors, it is possible that changes in the value of investments could occur in the near term that could materially affect the amounts reported in the consolidated financial statements.

Property and Equipment

Property and equipment, including leasehold improvements and software development costs, are recorded at cost net of accumulated depreciation and amortization. Significant property and equipment purchases are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. Depreciation and amortization are provided on a straight-line basis over estimated useful lives of five years for furniture, equipment and vehicles, three years for computer equipment and software development costs, twenty years for building and building improvements and the shorter of the useful life or the lease term for leasehold improvements.

Contributions

Contributions are recognized as revenue upon receipt and are recorded based on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in net assets with donor restrictions. Contributions that are with donor restrictions are reported as an increase in net assets without donor restrictions if the restriction is met in the reporting period in which the contribution is recognized.

Revenue Recognition

Registration and Affiliation Fees

In addition to the scheduled membership fees provided in USSF policy, all member organizations of USSF that register players are required to pay a referee or player registration fee for services provided by USSF. Registration fees for individual players are determined by whether a player is registered as a youth, adult amateur, or professional player. Organization members pay to USSF \$1.00 for each registered youth player, and \$2.00 for each registered adult player. Professional Leagues pay according to schedules provided in the USSF Bylaws and Policies, ranging from approximately \$1,333 - \$2,000 per team in addition to a league fee that ranges from \$73,150 to \$350,000 plus \$30,000 for each team over 10, in each case depending on the division level of the applicable league. In addition to membership fees and registration fees, referees pay yearly registration fees. Registration and affiliation fees are recognized over the applicable term, which is the calendar year.

United States Soccer Federation, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020 and 2019

Coaching Education

Coaches pay fees associated with coaching educational courses. These fees are recognized in the period in which the session is held.

Olympic Committee Funding

The USOPC provides grants to USSF to support its mission as the National Governing Body of Soccer in the United States. In addition, USSF receives in kind contributions from the USOPC related to airfare. Funding from the USOPC is recognized when earned.

National Team Games and International Games

National Team games and international games revenue is recognized in the period (fiscal year) in which the applicable game is played. USSF recognizes revenue earned from international games net of amounts remitted to third parties.

Revenues and expenses for Senior National Teams generally increase as each team takes part in different major competitions such as FIFA World Cups, World Cup Qualifying, Olympics, Olympic Qualifying, and the Concacaf Gold Cup. The USWNT won the women's World Cup in the fiscal year ended March 31, 2020. The next men's World Cup is scheduled for the fiscal year ended March 31, 2023.

Revenues earned for USMNT events were \$11,942,555 and \$16,370,831 for the years ended March 31, 2020 and 2019. Revenues earned for USWNT events were \$35,582,104 and \$12,554,448 for the years ended March 31, 2020 and 2019, which includes World Cup prize money. The USMNT played 15 matches and the USWNT played 27 matches in the fiscal year ended March 31, 2020.

See Note 11 for a summary of National Team expenses.

Sponsorship, Television, and Licensing Revenue

USSF has two major agreements relating to its sponsorship, television and licensing rights: a marketing representation agreement with Soccer United Marketing, LLC (SUM) and a sponsorship and license agreement with Nike, Inc. (Nike). Revenue from these agreements is recognized as earned, according to the terms of the agreements (See Note 3).

Lamar Hunt U.S. Open Cup™

Dating back to 1914, the Lamar Hunt U.S. Open Cup™ is the oldest soccer competition in the United States and is among the oldest in the world. Open to all affiliated amateur and professional teams in the United States who qualify, the annual Lamar Hunt U.S. Open Cup™ is a single-elimination tournament organized and run by USSF. Revenue from the tournament is recognized from team entry and hosting fees when earned.

Player Development

Player development revenue includes a grant from FIFA's *FIFA Forward Programme* and Development Academy Club registration fee. The Development Academy Program, launched by the USSF in 2007, focuses on positively impacting everyday club environments to assist in maximizing elite youth player development across the country. Grant revenue is recognized when earned and revenue from registration revenue is recognized over the applicable term.

United States Soccer Federation, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Development and Fundraising

In support of its non-profit mission, USSF actively seeks philanthropic contributions from individuals and family foundations. The process to cultivate these donations includes many different opportunities that already have a revenue component, including VIP experiences for USMNT and USWNT events, the World Cup Patrons Program, fundraisers, and networking events held throughout the United States.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Management bases these estimates and assumptions upon historical experience, existing known circumstances, authoritative accounting pronouncements and other factors that management believes to be reasonable. Actual results could differ from those estimates.

NOTE 3 - SPONSORSHIP AGREEMENTS

Soccer United Marketing (SUM)

USSF entered into a marketing representation agreement with SUM, which is effective through December 31, 2022. In accordance with this agreement, USSF receives annual, guaranteed cash compensation that is recognized evenly over the calendar year to which the compensation relates. Under the agreement, third-party sponsorship, television, and licensing revenues from certain categories (for example, excluding those received from Nike) are paid to SUM, and SUM pays USSF annual guaranteed compensation. After certain revenue limits are reached, additional funding above the annual guarantee can be realized based on revenue sharing provisions within the agreement. USSF recognizes revenue earned under this agreement net based on amounts received from SUM.

Revenue under the agreement approximated \$30,250,000 and \$28,500,000 for the years ended March 31, 2020 and 2019, respectively. USSF was due receivables of \$569,509 and \$348,334 from SUM at March 31, 2020 and 2019, respectively.

Nike

USSF entered into a sponsorship and license agreement with Nike, which is effective through December 31, 2022. In accordance with this agreement, Nike pays USSF cash compensation including annual base compensation, minimum royalty guarantee payments, and discretionary funds. The agreement also provides for annual product supply allowances for the national teams' players, coaches, and staff members and other USSF programs such as the Development Academy. Additionally, the agreement provides for performance bonuses based on the USMNT and USWNT performance at various competitions.

For the year ended March 31, 2020, revenue under the agreement approximated \$22,650,000, which includes \$16,000,000 of base compensation, \$3,400,000 of equipment, \$3,000,000 of merchandise royalties and a \$250,000 bonus for the USWNT winning the World Cup. For the year ended March 31, 2019, revenue under the agreement approximated \$22,531,000, which includes \$16,000,000 of base compensation, \$3,531,000 of equipment, and \$3,000,000 of merchandise royalties.

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

USSF follows ASC 820, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements.

United States Soccer Federation, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020 and 2019

Fair value measurement is based on a hierarchy of observable or unobservable inputs. The standard describes three levels of inputs that may be used to measure fair value.

- Level 1 - Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;
- Level 2 - Inputs to the valuation methodology other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and the fair value can be determined through the use of models or other valuation methodologies; and
- Level 3 - Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity of the asset and liability and the reporting entity makes estimates and assumptions relating to the pricing of the asset or liability including assumptions regarding risk.

The following tables set forth, by level within the fair value hierarchy, USSF's financial assets that were accounted for at fair value on a recurring basis as of March 31, 2020 and 2019. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement. USSF's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect its placement within the fair value hierarchy levels. Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

| | Fair Value as of March 31, 2020 | Quoted Prices in Active Markets for Identical assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---------------------------------------|--|--|--|
| Investments: | | | | |
| Corporate bonds | \$ 20,473,280 | \$ - | \$ 20,473,280 | \$ - |
| U.S. Treasury notes | 8,843,237 | - | 8,843,237 | - |
| U.S. government agency | 1,618,966 | - | 1,618,966 | - |
| Equity mutual funds | 50,095,136 | 50,095,136 | - | - |
| Fixed income mutual funds | 30,965,412 | 30,965,412 | - | - |
| Cash and cash equivalents | 14,555,925 | 14,555,925 | - | - |
| | | <u>\$ 95,616,473</u> | <u>\$ 30,935,483</u> | <u>\$ -</u> |
| Investments measured at NAV: | | | | |
| United States Olympic Endowment Investment | <u>6,776,192</u> | | | |
| Total Investments | <u>\$ 133,328,148</u> | | | |

United States Soccer Federation, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020 and 2019

| | Fair Value as of March 31, 2019 | Quoted Prices in Active Markets for Identical assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---------------------------------------|--|--|--|
| Investments: | | | | |
| Corporate bonds | \$ 39,268,254 | \$ - | \$ 39,268,254 | \$ - |
| U.S. Treasury notes | 23,815,927 | - | 23,815,927 | - |
| U.S. government agency | 9,408,635 | - | 9,408,635 | - |
| Equity mutual funds | 62,268,318 | 62,268,318 | - | - |
| Fixed income mutual funds | 10,768,665 | 10,768,665 | - | - |
| Cash and cash equivalents | 878,036 | 878,036 | - | - |
| | <u>146,407,835</u> | <u>\$ 73,915,019</u> | <u>\$ 72,492,816</u> | <u>\$ -</u> |
| Investments measured at NAV: | | | | |
| United States Olympic Endowment Investment | <u>7,256,078</u> | | | |
| Total Investments | <u>\$ 153,663,913</u> | | | |

A description of the valuation techniques applied to the major categories of investments measured at fair value is outlined below.

The fair value of corporate bonds, U.S. Treasury notes, and U.S. government agency securities are estimated using recently executed transactions, market price quotations (where observable), or bond spreads. If the spread data does not reference the issuer, then data that references a comparable issuer is used. These fixed income securities are generally categorized in Level 2 of the fair value hierarchy.

Equity and fixed income mutual funds are valued based on the NAV as computed once per day based on the quoted market prices of the securities in the fund's portfolio and are generally categorized in Level 1 of the fair value hierarchy.

The U.S. Olympic Endowment Investment represents USSF's investment in a pooled account with the United States Olympic Endowment. The underlying securities of the pooled investment account are comprised of cash, common stocks, corporate bonds, mutual funds, U.S. Treasury notes, convertible securities, hedge equity funds, limited partnerships, real estate funds, private equity funds, bond fund trusts and fund of funds. The fair value of this investment has been estimated using the NAV per share of the investment as reported by the investment fund. Redemptions can be made at any time at NAV, upon 90 days' notice. USSF does not have any open commitments to make additional investments to the fund at March 31, 2020 or 2019.

United States Soccer Federation, Inc.

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NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Building | \$ 417,759 | \$ 417,759 |
| Building improvements | 1,003,764 | 1,003,764 |
| Furniture and equipment | 2,891,169 | 2,891,169 |
| Software development | 4,305,204 | 4,305,204 |
| Vehicles | 82,037 | 82,037 |
| Leasehold improvements | <u>5,922,145</u> | <u>5,922,145</u> |
| | 14,622,078 | 14,622,078 |
| Less accumulated depreciation and amortization | <u>(11,346,129)</u> | <u>(9,758,230)</u> |
| | <u>\$ 3,275,949</u> | <u>\$ 4,863,848</u> |

Depreciation and amortization expense was \$1,587,899 and \$1,622,161 for the years ended March 31, 2020 and 2019, respectively.

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions include contributions subject to donor-imposed restrictions as to purpose that will be met by actions of USSF, or that expire by the passage of time.

The following table summarizes net assets with donor restriction as of March 31:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------|---------------------|---------------------|
| Development Academy Clubs | \$ 4,650,000 | \$ 3,283,333 |
| Scholarships | 195,000 | - |
| STEM High Performance Roles | <u>650,000</u> | <u>650,000</u> |
| | <u>\$ 5,495,000</u> | <u>\$ 3,933,333</u> |

There were no net assets released from restriction for the years ended March 31, 2020 and 2019.

NOTE 7 - LIQUIDITY AND AVAILABILITY

USSF regularly monitors liquidity to meet its operating needs and other contractual commitments. As part of USSF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, USSF invests cash in excess of operating requirements.

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USSF's financial assets available within one year of the consolidated statement of financial position date for general expenditures are as follows:

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Cash and cash equivalents | \$ 16,196,773 | \$ 14,674,981 |
| Accounts receivable, net | 9,299,490 | 8,643,128 |
| Undesignated investments | 131,360,429 | 151,472,999 |
| Less net assets with donor restrictions | <u>(5,495,000)</u> | <u>(3,933,333)</u> |
| Total financial assets available within one year | <u>\$151,361,692</u> | <u>\$170,875,775</u> |

NOTE 8 - INCOME TAXES

USSF qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and, accordingly, is only subject to federal or state income taxes on specific types of income from activities that are unrelated to its exempt purpose. USSF had no income from unrelated activities and has no income taxes due as of March 31, 2020 and 2019.

CA2016 LOC is a single member limited liability company that is exempt from federal income tax under Section 501(c)(3) of the IRC. CA2016 Marketing is a taxable corporation whose sole stockholder is CA2016 LOC.

USSF's application of the accounting standards regarding uncertain tax positions had no effect on its financial position as management believes USSF has no material unrecognized income tax benefits, including any potential risk of loss of its not-for-profit tax status. USSF would account for any potential interest or penalties related to possible future liabilities for unrecognized income tax benefits as income tax expense.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Legal Matters

USSF currently is involved in multiple legal actions. Management believes that there are no pending legal proceedings against or involving USSF where the outcome can be predicted and the financial impact be estimated.

Frisco Stadium, LP

USSF entered into a long-term agreement with Frisco Stadium, LP (FSLP) for the use of Pizza Hut Park's training and educational facilities for the benefit of USSF national teams and other organizational members. The agreement became effective October 16, 2006, and continues through December 31, 2025, with an automatic renewal to December 31, 2026, available without any action on behalf of the parties. USSF made four payments to FSLP to offset construction costs totaling \$5,000,000. The payments are being amortized to expense over the term of the agreement. The unamortized balance recorded as prepaid expense amounted to \$1,579,352 and \$1,854,008 at March 31, 2020 and 2019, respectively.

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Leases

USSF has entered into a long-term agreement with Anschutz Southern California Sports Complex for the use of the National Training Center, which became effective February 20, 2002, and will continue for 25 years from that date. The agreement consists of a building lease with an annual lodging guarantee. The agreement provides for USSF to pay an annual fee over the entire term of the lease, amounting to \$250,000 per year over the first three years of the lease, after which the fee is subject to annual Consumer Price Index increases. In conjunction with the agreement, USSF was originally required to make capital improvements to the facility totaling at least \$6,000,000, but the total was subsequently reduced due to construction changes. As of March 31, 2020 and 2019, USSF has capitalized leasehold improvements approximating \$5,922,000, which are being amortized over the shorter of the useful life of the improvement or the life of the lease.

USSF has entered into a long-term lease agreement with Kansas Training Development for the use of the Pinnacle National Development Center, which became effective January 23, 2018, and will continue for 20 years from that date. The agreement provides for USSF to pay an annual base rent of \$100,000 and additional rent based on a percentage share of annual operating expenses over the entire term of the lease.

The estimated future minimum lease payments under leases with terms in excess of one year are as follows.

| <u>Year ending March 31,</u> | <u>Amount</u> |
|------------------------------|---------------------|
| 2021 | \$ 444,592 |
| 2022 | 450,794 |
| 2023 | 457,109 |
| 2024 | 463,536 |
| 2025 | 470,080 |
| 2026 and thereafter | <u>1,960,265</u> |
| Total | <u>\$ 4,246,376</u> |

Rental expense was \$603,700 and \$474,205 for the years ended March 31, 2020 and 2019, respectively.

NOTE 10 - RELATED PARTIES

The U.S. Soccer Federation Foundation (the Foundation) was organized on June 10, 1991, as a 501(c)(3) organization to assume the net assets of World Cup USA 1994. The Soccer Foundation's purpose is to manage the surplus funds from World Cup USA 1994 in order to create a permanent legacy for soccer in the United States through the funding of projects designated for long-term growth of the game and in support of USSF's vision to make soccer a preeminent sport recognized for excellence in participation, spectator appeal, international competition and gender equity. USSF and the Foundation share at least one common board member.

The National Soccer Hall of Fame Museum (the Hall of Fame), a Texas not-for-profit qualified under Section 501(c)(3) and a supporting organization of USSF pursuant to Section 509(a)(3), maintains the historical archives of soccer in the United States and promotes soccer through educational and cultural outreach. USSF appoints the members of the Board of the Hall of Fame.

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National Women's Soccer League, LLC (NWSL LLC) was formed on December 12, 2012, and functions as a Division I professional women's soccer league. As of the date of these financials, NWSL is owned by its nine member teams. USSF is not a member of NWSL but, pursuant to a 2016 Amended and Restated Management Agreement, serves as the Manager of NWSL LLC and, in this capacity, USSF performs management, governance, operational, administrative, and advisory services for NWSL. The management agreement is currently effective through December 31, 2020. USSF does not receive any management fees or rent from NWSL as part of the arrangement but does receive expense reimbursement.

Professional Referee Organization LLC (PRO) was formed on April 27, 2012 and commenced operations in November 2012. PRO was formed for the purpose of administering a professional soccer referee program in the United States, and to improve the quality of professional refereeing in North America through training administered by the program. USSF is a member of the LLC agreement along with Major League Soccer, LLC ("MLS"). The agreement provides for an annual contributions based on a percentage of defined Shared Expenses, subject to a cap. The contribution requirement is determined on PRO's calendar-year basis based on budgeted amounts and USSF Board approval. During fiscal year ended March 31, 2017, the Federation's Board approved funding in the amount of \$1,300,000 to help fund the Video Assistant Referee ("VAR") program to support testing of the system by certain professional leagues starting in the 2017-2018 season. The Federation incurred approximately \$2,533,338 and \$1,996,000 of expenses related to PRO and VAR during the years ended March 31, 2020 and 2019, respectively, which are included in the Referee program expense on the consolidated statements of activities.

As described in Note 3, USSF is party to a marketing representation agreement with SUM. The CEO of SUM, and commissioner of MLS, is also a board member of USSF by virtue of being elected by the Pro Council of U.S. Soccer.

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NOTE 11 - FUNCTIONAL EXPENSES AND NATIONAL TEAMS

The following table summarizes functional expenses for the years ended March 31:

| | 2020 | | |
|---|-----------------------|---------------------------|-----------------------|
| | Programs | Management and General | Total |
| Salaries and wages | \$ 33,373,192 | \$ 6,933,553 | \$ 40,306,745 |
| Employee benefits | 2,740,994 | 1,082,842 | 3,823,836 |
| Payroll taxes | 1,743,486 | 404,702 | 2,148,188 |
| Professional services | 15,577,798 | 23,872,212 | 39,450,010 |
| Advertising and promotions | 4,171,906 | 200,186 | 4,372,092 |
| Office supplies | 141,866 | 37,265 | 179,131 |
| Occupancy | 885,862 | 45,563 | 931,425 |
| Information technology | 1,551,384 | 1,508,385 | 3,059,769 |
| Travel | 31,912,677 | 2,211,523 | 34,124,200 |
| Conferences, conventions, and meetings | 5,788,483 | 98,897 | 5,887,380 |
| Depreciation and amortization | 264,177 | 1,323,722 | 1,587,899 |
| Insurance | 1,047,780 | 390,837 | 1,438,617 |
| Equipment and maintenance | 1,465,407 | 640,560 | 2,105,967 |
| Professional referee organization | 2,533,338 | - | 2,533,338 |
| Sponsorship | - | 921,471 | 921,471 |
| Other | 15,764,540 | 6,421,546 | 22,186,086 |
| | <u>\$ 118,962,890</u> | <u>\$ 46,093,264</u> | <u>\$ 165,056,154</u> |

United States Soccer Federation, Inc.

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| | 2019 | | |
|--|-----------------------|---------------------------|-----------------------|
| | Programs | Management and General | Total |
| Salaries and wages | \$ 25,261,537 | \$ 6,709,723 | \$ 31,971,260 |
| Employee benefits | 2,356,478 | 1,088,338 | 3,444,816 |
| Payroll taxes | 1,412,911 | 390,069 | 1,802,980 |
| Professional services | 19,374,487 | 4,217,174 | 23,591,661 |
| Advertising and promotions | 2,438,375 | 195,014 | 2,633,389 |
| Office supplies | 131,774 | 49,666 | 181,440 |
| Occupancy | 519,297 | 38,465 | 557,762 |
| Information technology | 141,569 | 2,920,334 | 3,061,903 |
| Travel | 31,128,984 | 1,185,151 | 32,314,135 |
| Conferences, conventions, and meetings | 4,043,299 | 91,375 | 4,134,674 |
| Depreciation and amortization | 264,177 | 1,357,984 | 1,622,161 |
| Insurance | 665,760 | 246,181 | 911,941 |
| Equipment and maintenance | 1,136,145 | 355,598 | 1,491,743 |
| World Cup bid | 3,385,411 | - | 3,385,411 |
| Professional referee organization | 1,995,634 | - | 1,995,634 |
| Sponsorship | 186,950 | 607,250 | 794,200 |
| Other | 11,951,698 | 5,957,765 | 17,909,463 |
| | <u>\$ 106,394,486</u> | <u>\$ 25,410,087</u> | <u>\$ 131,804,573</u> |

Certain expenses are attributable to one or more programs or supporting functions of USSF. Those expenses such as salaries and benefits are allocated based on employee hours and specific identification when possible.

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National Teams' expenses were as follows:

| <u>Year ended March 31,</u> | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Women's Senior National Team | \$ 36,256,370 | \$ 20,261,891 |
| Youth National Teams and Player Development | 25,696,185 | 29,907,544 |
| Men's Senior National Team | 15,619,707 | 15,013,438 |
| National Team Coaching - All | 4,577,837 | 4,386,180 |
| Equipment and Supplies | 3,400,000 | 3,531,250 |
| Opponent Team Appearances | 1,800,000 | 5,506,724 |
| Event Management | 1,170,209 | 902,397 |
| Beach Soccer National Team | 856,964 | 529,002 |
| National Women's Soccer League (Administration Expenses) | 800,000 | 843,019 |
| Equipment Management | 689,028 | - |
| Paralympic National Team | 648,814 | 1,210,686 |
| Extended National Teams Admin | 580,208 | - |
| Futsal National Team | 439,097 | 9,368 |
| National Training Center | 413,243 | 521,689 |
| | <u>\$ 92,947,662</u> | <u>\$ 82,623,188</u> |

Revenues and expenses for Senior National Teams generally increase as each team takes part in different major competitions such as FIFA World Cups, World Cup Qualifying, Olympics, Olympic Qualifying, and the Concacaf Gold Cup. The USWNT won the women's World Cup in the fiscal year ended March 31, 2020. The next men's World Cup is scheduled for the fiscal year ended March 31, 2023.

Expenses incurred for USMNT events were \$15,619,707 and \$15,013,438 for the years ended March 31, 2020 and 2019. Expenses incurred for USWNT events were \$36,256,370 and \$20,261,891 for the years ended March 31, 2020 and 2019. The USMNT played 15 matches and the USWNT played 27 matches in the fiscal year ended March 31, 2020.

NOTE 12 - EMPLOYEE BENEFITS

USSF provides benefits under The U.S. Soccer Federation Option Plan (the Option Plan), effective January 1, 1999, which is designed to accumulate retirement funds for two past CEO/Secretary's General. The Option Plan allows the participant to defer up to 100% of his compensation for the right to buy a variety of mutual funds equal to the deferred compensation he would have otherwise received. The Option Plan is administered by USSF. The fair value of the underlying securities purchased to cover the options was \$1,967,719 and \$2,190,914 as of March 31, 2020 and 2019, respectively. The balance is reflected as an investment and a liability within the consolidated statements of financial position, and changes in fair value are recorded as investment income and expense. Until such time as the IRS regulations are amended or changed, no further options of this type will be granted.

USSF has a 401(k) defined-contribution plan (the Plan) that is available to eligible employees who meet the Plan's eligibility criteria, excluding employees covered by collective bargaining agreements or otherwise excluded by the terms of the Plan. The Plan permits Plan participants to defer a portion of their salary on a pre-tax basis to contribute to the Plan. The Federation makes discretionary matching contributions of 50% of up to 6% of eligible compensation, or a maximum of 3% of eligible compensation. In addition, the Federation makes a non-elective Safe Harbor contribution to all participant accounts of 3% of eligible compensation. Contributions by the Federation were \$997,763 and \$694,922 for the years ended March 31, 2020 and 2019, respectively.

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NOTE 13 - LABOR AGREEMENTS

The players on the Men's and Women's Senior National Teams are each covered by separate collective bargaining agreements (CBA). The Men's National Team CBA expired on December 31, 2018 and USSF is in the process of negotiating a successor CBA with the U.S. National Team Players Association, the union representing the USMNT bargaining unit. The Women's Senior National Team CBA expires on December 31, 2021. Under the U.S. Women's Senior National Team CBA, USSF has agreed, in addition to other compensation provided in the CBA, to pay compensation directly to a minimum of 22 players per NWSL season. NWSL player compensation was \$1,524,420 and \$1,405,252 for the years ended March 31, 2020 and 2019, respectively.

NOTE 14 - SUBSEQUENT EVENTS

The Federation evaluated its March 31, 2020 consolidated financial statements for subsequent events through December 31, 2020, the date the consolidated financial statements were available to be issued. No subsequent events have occurred that would require recognition or disclosure in these consolidated financial statements.

Subsequent to year-end, as a result of the spread of COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact the Federation's results. Due to imposed restrictions, events have been temporarily cancelled, thus the Federation expects a material impact on its revenues. Given the uncertainties surrounding the duration of the outbreak and its potential impact on the Federation's operations, the Federation cannot reasonably estimate the related financial impact at this time. The federation is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines.

The Federation is not aware of any other subsequent events that would require recognition or disclosure in the financial statements.