



USA RUGBY OFFICIAL CORRESPONDENCE

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Date: September 30, 2019

USAR 2018 Audited Financials

Please find enclosed the USA Rugby consolidated audited financial statements for the fiscal year ended December 31, 2018, which consolidate the operating results of the USA Rugby Union (“Union”) and its subsidiaries; USA Rugby Foundation (the “Foundation”), USA Rugby Partners (“USARP”), Rugby World Cup 2018 (“RWC”) and The Rugby Channel (“TRC”), collectively referred to within as “USA Rugby.”

The independent audit was performed by Waugh & Goodwin LLP. They provided a clean opinion without any material weaknesses or misstatements identified during the course of the audit. However, as disclosed within the report, the auditors raised substantial doubt about the organization’s ability to continue as a viable concern due to the losses derived over the last few years, which, if continued, put the future in substantial doubt. However, as further discussed in the notes to the financial statements, the Union’s management, with support and oversight of its Board of Directors (the “Board”), is committed to successfully implementing corrective actions aimed at eliminating the organization’s losses. Accordingly, critical adjustments, including the restructuring of USARP, the sale of TRC, and cost reductions were made in 2019 to curb the effects of past transactions and place the Union in a better position to succeed financially going forward.

Additionally, the auditors provided comments and recommendations to the Board to strengthen certain internal controls, accounting procedures and financial matters. Addressing these recommendations continues to be high priority for the Union’s Finance department, as it is tasked to continuously find solutions that improve internal controls, processes and procedures at USA Rugby’s National Office.

Finally, in my past year with the Union the Finance department has corrected recommendations provided by the auditors in past years and enhanced the financial reporting and audit processes. As a result, I am proud to report that we were able to provide the audit report to the Board and Audit & Risk Committee months earlier than in the past.

Thank you,
Eric

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

**Consolidated Financial Statements
& Supplemental Schedules**

For the Year Ended December 31, 2018

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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, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, 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, 2018, 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.

Emphasis of Matter

As described in Note A to the financial statements, in 2018, United States of America Rugby Football Union, Ltd. adopted Accounting Standards Update (ASU) 2016-14, Not- For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. Our opinion is not modified with respect to this matter.

As discussed in Note Q to the consolidated financial statements, the Organization has experienced significant operating losses over the last few years and has limited working capital to meet obligations in the next twelve months, which raised substantial doubt that the Organization can continue as a going concern. Management's evaluation of the events and conditions and Management's plans to mitigate those matters are also described in Note Q. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited United States of America Rugby Football Union, Ltd. and Subsidiaries' 2017 consolidated financial statements, and our report dated September 28, 2018, 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, 2017, 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 consolidating statement of financial position is presented for purposes of additional analysis and is 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
July 19, 2019

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

Consolidated Statement of Financial Position

December 31, 2018

(With Comparative Amounts for 2017)

| | <u>ASSETS</u> | |
|---|----------------------------|----------------------------|
| | <u>2018</u> | <u>2017</u> |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 2,253,840 | \$ 5,108,287 |
| Accounts receivable, net | 734,691 | 438,401 |
| Due from affiliated organizations | 69,006 | 184,066 |
| Other receivables | 319,540 | |
| Prepaid expenses | <u>186,975</u> | <u>310,828</u> |
| Total current assets | 3,564,052 | 6,041,582 |
| LONG-TERM INVESTMENTS | 166,073 | 139,718 |
| PROPERTY AND EQUIPMENT: | | |
| Furniture and equipment | 461,671 | 450,239 |
| Website | 13,177 | 13,177 |
| Software | 48,291 | 652,091 |
| Leasehold improvements | 23,775 | 23,775 |
| Less accumulated depreciation | <u>(490,359)</u> | <u>(597,182)</u> |
| Property and equipment - net | 56,555 | 542,100 |
| OTHER ASSET: | | |
| Other long-term receivable, net | 15,801 | |
| Other prepaid expenses | | 140,000 |
| Deposits | <u>19,328</u> | <u>730,648</u> |
| TOTAL ASSETS | <u><u>\$ 3,821,809</u></u> | <u><u>\$ 7,594,048</u></u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES: | | |
| Accounts payable (Note S) | \$ 2,302,127 | \$ 956,569 |
| Accrued liabilities | 298,314 | 99,341 |
| Due to affiliated organizations | 136,938 | |
| Other liability | | 39,868 |
| Current portion of long-term debt | 761,750 | |
| Deferred revenue (Note G) | <u>2,752,468</u> | <u>7,093,293</u> |
| Total current liabilities | 6,251,597 | 8,189,071 |
| LONG-TERM DEBT (Note H) | 2,412,209 | |
| NET ASSETS: | | |
| Without donor restrictions | (5,467,062) | (2,244,746) |
| Without donor restrictions - non-controlling interest in USA Rugby Partners (Note I) | 493,659 | 1,484,210 |
| With donor restrictions (Note J) | <u>131,406</u> | <u>165,513</u> |
| Total net assets | <u>(4,841,997)</u> | <u>(595,023)</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 3,821,809</u></u> | <u><u>\$ 7,594,048</u></u> |

See Notes to Consolidated 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, 2018
(With Comparative Totals for 2017)

| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | 2018 Consolidated Totals | 2017 Consolidated Totals |
|--|---|--|--------------------------------|--------------------------------|
| REVENUE: | | | | |
| Rugby World Cup | \$ 11,333,445 | \$ | \$ 11,333,445 | \$ |
| Membership dues | 5,221,704 | | 5,221,704 | 5,037,491 |
| Event revenue | 2,778,489 | | 2,778,489 | 2,143,981 |
| High performance grants | 2,732,034 | | 2,732,034 | 1,958,229 |
| Corporate sponsorship | 1,913,533 | | 1,913,533 | 1,866,601 |
| Donations | 945,203 | 48,724 | 993,927 | 940,022 |
| In-kind contributions | 772,730 | | 772,730 | 528,994 |
| Rugby development | 538,203 | | 538,203 | 617,140 |
| Other income | 451,609 | | 451,609 | 65,204 |
| Licensing | 424,318 | | 424,318 | 253,157 |
| TV & broadcast revenue | 191,891 | | 191,891 | 475,411 |
| Merchandise sales, net cost of goods sold of \$6,737 and \$18,079 | 10,135 | | 10,135 | 35,936 |
| Investment income (loss), net (Note E) | 3,367 | | 3,367 | (36,012) |
| Fundraising event contributions & revenue, net direct expenses of \$40,040 | | | | 129,704 |
| Amounts released from restriction (Note J) | <u>82,831</u> | <u>(82,831)</u> | | |
| Total revenue | 27,399,492 | (34,107) | 27,365,385 | 14,015,858 |
| EXPENSES: | | | | |
| Program services: | | | | |
| Rugby World Cup | 12,087,008 | | 12,087,008 | |
| Men's senior national team | 4,030,827 | | 4,030,827 | 2,791,392 |
| Events | 3,402,367 | | 3,402,367 | 3,216,812 |
| Rugby development | 1,752,034 | | 1,752,034 | 1,923,964 |
| Membership | 1,740,873 | | 1,740,873 | 1,829,281 |
| Women's senior national team | 1,713,593 | | 1,713,593 | 1,194,225 |
| High performance | <u>1,362,126</u> | | <u>1,362,126</u> | <u>747,614</u> |
| Total program services | 26,088,828 | | 26,088,828 | 11,703,288 |
| Supporting services: | | | | |
| Media & marketing | 3,373,626 | | 3,373,626 | 4,976,754 |
| National office | 1,833,084 | | 1,833,084 | 1,499,650 |
| Fundraising | <u>316,821</u> | | <u>316,821</u> | <u>275,979</u> |
| Total supporting services | 5,523,531 | | 5,523,531 | 6,752,383 |
| Total expenses | 31,612,359 | | 31,612,359 | 18,455,671 |
| CONSOLIDATED CHANGE IN NET ASSETS | (4,212,867) | (34,107) | (4,246,974) | (4,439,813) |
| NET ASSETS, beginning of year | (760,536) | 165,513 | (595,023) | 2,844,790 |
| CAPITAL CONTRIBUTIONS | | | | 1,000,000 |
| NET ASSETS, end of year | <u>\$ (4,973,403)</u> | <u>\$ 131,406</u> | <u>\$ (4,841,997)</u> | <u>\$ (595,023)</u> |

See Notes to Consolidated Financial Statements

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.

AND SUBSIDIARIES

Consolidated Statement of Functional Expenses - Program Services

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

| | Rugby World Cup | Men's Senior National Team | Events | Rugby Development | Membership | Women's Senior National Team | High Performance | Total Program Services |
|---|----------------------|-------------------------------|---------------------|----------------------|---------------------|---------------------------------|---------------------|------------------------------|
| Accounting fees | \$ 20,283 | \$ | \$ | \$ | \$ | \$ | \$ | \$ 20,283 |
| Advertising & marketing | 570,641 | 234 | 164,983 | 2,826 | 22,181 | | 17,846 | 778,711 |
| Apparel | 250,000 | 7,329 | 20,834 | 126 | 230 | 504 | 24,060 | 303,083 |
| Awards & gifts | 3,006 | 3,707 | 27,782 | 2,806 | 37 | 1,028 | 1,540 | 39,906 |
| Background checks | | | | | 103,232 | | | 103,232 |
| Bad debt | | | | | | | | |
| Bank charges | 2,573 | 126 | 723 | | 114,495 | | | 117,917 |
| Branding & signage | 637,387 | 357 | 43,177 | | | | | 680,921 |
| Clinic host reimbursements | | | | 21,125 | | | | 21,125 |
| Conferences | | | | 3,479 | | | | 3,479 |
| Consulting services | | | | | | | 58,653 | 58,653 |
| Contract labor | 388,755 | 884,845 | 26,755 | 347,144 | 7,500 | 209,312 | 376,268 | 2,240,579 |
| Database maintenance | | | | 3,233 | 7,325 | | 19,829 | 30,387 |
| Depreciation | | 23,286 | 772 | 8,051 | 935 | 3,583 | | 36,627 |
| Dues & subscriptions | 75,856 | 1,455 | 6,066 | 36,472 | 33,580 | 6,114 | 6,261 | 165,804 |
| Employee benefits | | 51,945 | 34,780 | 75,200 | 20,837 | 35,281 | 42,000 | 260,043 |
| Facility & equipment rental | 2,724,997 | 177,868 | 166,295 | | 1,174 | 72,779 | 29,698 | 3,172,811 |
| Grants | 236,467 | | | 33,990 | | 30,920 | 80,000 | 381,377 |
| Hosting | | | | | 75,651 | | | 75,651 |
| Insurance | 214,793 | 349,435 | | | 1,181,092 | 89,830 | | 1,835,150 |
| Interest expense | | | | | | | | |
| Laundry | | | 11,122 | | | | | 11,122 |
| Legal fees | 122,521 | 28,688 | 3,218 | 232 | | 15,228 | 12,085 | 181,972 |
| Match fees | | | 1,200,000 | 39,946 | | | 29,113 | 1,269,059 |
| Medical fees | 50,507 | 72,215 | 30,309 | 1,000 | | 35,627 | 4,562 | 194,220 |
| Miscellaneous | 249,307 | 17,021 | 14,785 | 580 | 240 | (1,779) | 3,751 | 283,905 |
| Payroll taxes | | 32,260 | 22,186 | 52,820 | 11,564 | 29,707 | 15,563 | 164,100 |
| Player per diem | | 285,235 | | | | 31,700 | | 316,935 |
| Postage | 148 | 10,992 | 28,907 | 11,177 | 1,825 | 7,790 | 17,356 | 78,195 |
| Printing | 58,486 | 3,019 | 17,660 | 6,309 | 217 | 609 | 3,482 | 89,782 |
| Rent | 35,310 | | | | | | 40,321 | 75,631 |
| Stadiums | 498,170 | | 413,697 | 14,700 | | | | 926,567 |
| Supplies | | | | 33,053 | | | 9,044 | 42,097 |
| Travel, lodging, meals, & transportation | 4,927,076 | 779,256 | 797,182 | 370,396 | 10,550 | 317,826 | 157,530 | 7,359,816 |
| TV, video, & broadcasting | | 8 | 96,076 | 26,244 | | | 5,261 | 127,589 |
| Uniforms | | 336,365 | | | | 246,365 | 190,000 | 772,730 |
| Utilities & telephone | | 21,523 | 712 | 4,451 | 655 | 5,500 | 1,858 | 34,699 |
| Wages | 1,020,725 | 943,658 | 274,346 | 655,349 | 147,553 | 575,669 | 215,730 | 3,833,030 |
| Website | | | | 1,325 | | | 315 | 1,640 |
| Total expenses | 12,087,008 | 4,030,827 | 3,402,367 | 1,752,034 | 1,740,873 | 1,713,593 | 1,362,126 | 26,088,828 |
| Less expenses netted against revenue on statement of activities | | | | | | | | |
| | <u>\$ 12,087,008</u> | <u>\$ 4,030,827</u> | <u>\$ 3,402,367</u> | <u>\$ 1,752,034</u> | <u>\$ 1,740,873</u> | <u>\$ 1,713,593</u> | <u>\$ 1,362,126</u> | <u>\$ 26,088,828</u> |

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.

AND SUBSIDIARIES

Consolidated Statement of Functional Expenses - Continued - Supporting Services

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

| | <u>Media & Marketing</u> | <u>National Office</u> | <u>Fundraising</u> | <u>Total Supporting Services</u> | <u>2018 Total Expenses</u> | <u>2017 Total Expenses</u> |
|---|----------------------------------|----------------------------|--------------------|--|------------------------------------|------------------------------------|
| Accounting fees | \$ 31,750 | \$ 19,297 | \$ 170 | \$ 51,217 | \$ 71,500 | \$ 24,461 |
| Advertising & marketing | 53,010 | 35 | | 53,045 | 831,756 | 629,489 |
| Apparel | 313 | 20 | 1,223 | 1,556 | 304,639 | 38,407 |
| Awards & gifts | 889 | 3,369 | 6,079 | 10,337 | 50,243 | 47,708 |
| Background checks | | 466 | | 466 | 103,698 | 94,554 |
| Bad debt | 75,624 | 46,306 | | 121,930 | 121,930 | 105,077 |
| Bank charges | 7,961 | 21,048 | 8,215 | 37,224 | 155,141 | 132,802 |
| Branding & signage | 821 | | | 821 | 681,742 | 7,383 |
| Clinic host reimbursements | | | | | 21,125 | 21,559 |
| Conferences | | 3,639 | | 3,639 | 7,118 | 6,093 |
| Consulting services | | | 22,805 | 22,805 | 81,458 | 935 |
| Contract labor | 581,256 | 252,519 | 5,000 | 838,775 | 3,079,354 | 2,922,190 |
| Database maintenance | | 4,889 | 7,088 | 11,977 | 42,364 | 14,861 |
| Depreciation | 52,255 | 18,979 | 1,289 | 72,523 | 109,150 | 186,268 |
| Dues & subscriptions | 9,684 | 39,760 | 4,370 | 53,814 | 219,618 | 140,294 |
| Employee benefits | 39,782 | 17,188 | 17,762 | 74,732 | 334,775 | 361,304 |
| Facility & equipment rental | 3,469 | 45,343 | 43,469 | 92,281 | 3,265,092 | 501,262 |
| Grants | 6,391 | | 1,747 | 8,138 | 389,515 | 74,674 |
| Hosting | | 3,638 | | 3,638 | 79,289 | 91,005 |
| Insurance | | 138,726 | 1,678 | 140,404 | 1,975,554 | 1,668,971 |
| Interest expense | | 23,642 | | 23,642 | 23,642 | 16,609 |
| Laundry | | | | | 11,122 | 2,343 |
| Legal fees | 228,019 | 133,642 | 700 | 362,361 | 544,333 | 359,419 |
| Match fees | | | | | 1,269,059 | 556,490 |
| Medical fees | | 1,360 | | 1,360 | 195,580 | 71,581 |
| Miscellaneous | 22,552 | | 17,680 | 40,232 | 324,137 | 104,634 |
| Payroll taxes | 53,589 | 45,743 | 10,575 | 109,907 | 274,007 | 253,412 |
| Player per diem | | | | | 316,935 | 208,872 |
| Postage | 6,371 | 9,269 | 1,916 | 17,556 | 95,751 | 106,056 |
| Printing | 28 | 4,725 | 1,329 | 6,082 | 95,864 | 31,310 |
| Rent | 5,294 | 187,473 | | 192,767 | 268,398 | 155,883 |
| Stadiums | | | | | 926,567 | 496,357 |
| Supplies | | | | | 42,097 | 33,602 |
| Travel, lodging, meals, & transportation | 121,665 | 197,374 | 31,329 | 350,368 | 7,710,184 | 2,482,205 |
| TV, video, & broadcasting | 1,071,211 | | | 1,071,211 | 1,198,800 | 2,016,887 |
| Uniforms | | | | | 772,730 | 469,606 |
| Utilities & telephone | 3,098 | 58,008 | 700 | 61,806 | 96,505 | 171,183 |
| Wages | 1,005,331 | 556,626 | 131,697 | 1,693,654 | 5,526,684 | 3,819,903 |
| Website | | | | | 1,640 | 88,141 |
| Total expenses | 3,380,363 | 1,833,084 | 316,821 | 5,530,268 | 31,619,096 | 18,513,790 |
| Less expenses netted against revenue on statement of activities | <u>(6,737)</u> | | | <u>(6,737)</u> | <u>(6,737)</u> | <u>(58,119)</u> |
| | <u>\$ 3,373,626</u> | <u>\$ 1,833,084</u> | <u>\$ 316,821</u> | <u>\$ 5,523,531</u> | <u>\$ 31,612,359</u> | <u>\$ 18,455,671</u> |

See Notes to Consolidated Financial Statements

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.

AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2018

(With Comparative Amounts for 2017)

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (4,246,974) | \$ (4,439,813) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Gain on deconsolidation | (333,929) | |
| Realized and unrealized gains on investments | | (649) |
| Unrealized losses on hedging activities | | 39,868 |
| Allowance for other receivable | 31,431 | |
| Depreciation | 109,150 | 186,268 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable, net | (296,290) | 724,568 |
| Due from affiliated organizations | 115,060 | (184,066) |
| Inventory | | 3,521 |
| Prepaid expenses | 123,853 | 96,308 |
| Other prepaid expenses | 140,000 | 540,000 |
| Deposits | 711,320 | (710,699) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 1,345,558 | (335,044) |
| Due to affiliated organizations | 136,938 | (142,380) |
| Accrued liabilities | 198,973 | 39,534 |
| Other liability | (39,868) | |
| Deferred revenue | <u>(4,340,825)</u> | <u>4,570,456</u> |
| Total adjustments | <u>(2,098,629)</u> | <u>4,827,685</u> |
| Net cash provided (used) by operating activities | (6,345,603) | 387,872 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment | (11,432) | (356,696) |
| Change in investments, net | <u>(26,299)</u> | <u>386</u> |
| Net cash used by investing activities | (37,731) | (356,310) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from long-term debt, net | 3,173,959 | |
| Cash proceeds from sale of The Rugby Channel, net | 354,928 | |
| Capital contributions - Rugby International Marketing, LLC (decrease in investment receivable) | | 1,000,000 |
| Capital contributions - The Rugby Channel, LLC | <u>1,000,000</u> | <u>1,000,000</u> |
| Net cash provided by financing activities | <u>3,528,887</u> | <u>2,000,000</u> |
| NET INCREASE (DECREASE) IN CASH | (2,854,447) | 2,031,562 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>5,108,287</u> | <u>3,076,725</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 2,253,840</u> | <u>\$ 5,108,287</u> |

See Notes to Consolidated Financial Statements

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

Notes to Consolidated Financial Statements

For the Year Ended December 31, 2018

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 & Paralympic Committee (USOPC) 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. During 2018, the Board of Directors resigned and USA Rugby is primarily assuming the activity carried on by the Foundation.

USA Rugby Partners, LLC (a Delaware limited liability company) was formed in 2014 under the name Rugby International Marketing, LLC. The name changed early in 2019. USA Rugby Partners, LLC (USARP) is responsible for promoting the sport of rugby through alternative channels and international events. As of December 31, 2014, USARP 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. Additional non-controlling interests were acquired by other unrelated investors during the year ended December 31, 2016.

Notes to Consolidated 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 initial sole member being USARP. In May 2018, RWC was transferred to USARP's sole member, USA Rugby. 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.

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 USARP. However, in 2018 USA Rugby's connection with TRC was eliminated with the divestment of USARP. See Note C for additional information.

Principles of Consolidation

The accompanying consolidated financial statements include the assets, liabilities, net assets, and activities of the Corporation, the Foundation, USARP, and RWC, 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 two classes of net assets: net assets without donor restrictions, which represent the expendable resources that are available for operations at management's discretion and net assets with donor restrictions, which represent resources restricted by donors as to purpose or by the passage of time and 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.

Notes to Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting Standards Update

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of the consolidated financial statements, accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Organizations' financial statements:

- The temporarily restricted and permanently restricted net asset classes, if any existed, have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements now include a presentation of expenses that describes both the functional nature of the expenses and their natural classification according to the actual usage of resources.
- The financial statements include a new disclosure about liquidity and availability of resources (Note B).

The changes have the following effect on net assets at December 31, 2017:

| <u>Net Asset Class</u> | <u>As Originally Presented</u> | <u>After Adoption of ASU 2016-14</u> |
|---------------------------------------|--------------------------------|--------------------------------------|
| Unrestricted net assets | \$ (760,536) | \$ |
| Temporarily restricted net assets | 165,513 | |
| Net assets without donor restrictions | | (760,536) |
| Net assets with donor restrictions | | <u>165,513</u> |
| Total net assets | <u>\$ (595,023)</u> | <u>\$ (595,023)</u> |

Notes to Consolidated Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting Standards Update - continued

In addition, certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of the Organization's checking and savings accounts. The Organization maintains its cash and cash equivalents at commercial banks. In the unlikely event of a bank failure, the Organization could suffer a loss to the extent its deposits exceed the respective bank insurance limits.

Supplemental Cash Flow Disclosure

Cash flows from operating activities reflect interest paid of \$3,388 and \$16,609 and no income taxes paid for the years ended December 31, 2018 and 2017, 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 \$119,887 and \$94,800 is necessary for the years ending December 31, 2018 and 2017, respectively.

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 \$109,150 and \$186,268 for the years ended December 31, 2018 and 2017, 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 Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Functional expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. The expenses are allocated based on internal records and estimates made by the Organizations' management.

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 net assets without donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets 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 consolidated statement of activities and changes in net assets.

During the year ended December 31, 2018, net assets with donor restrictions granted to the Corporation from the Foundation for satisfaction of the respective restriction were granted with restrictions intact. However, in accordance with the Corporation's policy, these restricted contributions were reported as revenue without donor restrictions when the restrictions were satisfied in the same period.

Notes to Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Donated Services

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

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. As a disregarded entity, RWC's information is included in the Corporation's Form 990.

USA Rugby Partners, LLC 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.

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, 2017, from which the information was derived.

Date of Management's Review

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 19, 2019, the date that the financial statements were available to be issued.

Notes to Consolidated Financial Statements

B. AVAILABLE RESOURCES AND LIQUIDITY

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

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 2,253,840 | \$ 5,108,287 |
| Accounts receivable, net | 734,691 | 438,401 |
| Due from affiliated organizations | 69,006 | 184,066 |
| Other receivables | 319,540 | |
| Long-term investments | <u>166,073</u> | <u>139,718</u> |
| Total | <u>\$ 3,543,150</u> | <u>\$ 5,870,472</u> |

The Corporation's working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts for memberships which occur primarily between September and March (the membership year is 9/1-8/31). To manage liquidity, the Corporation maintains a line of credit in the amount of \$650,000 that is drawn upon as needed once membership cash receipts slow down. The line of credit is repaid in full once a new membership year begins and excess cash is available.

The Organization receives a majority of its support without donor restrictions. In addition, the Organization receives occasional contributions with donor restrictions to use in accordance with the associated purpose or time restrictions. Income from donor restricted contributions is restricted for specific purposes, and, therefore, is not available for general expenditure.

C. DECONSOLIDATION

USARP had a 92.5% interest in The Rugby Channel, LLC (TRC). In May 2018, the entire interest in TRC was sold to FloSports Inc., an unrelated party. USARP's share of the sale price was \$772,928. The proceeds will be paid in quarterly installments with the final installment due December 31, 2024. The receivable balance on the contract is included in other receivables. USARP recognized a gain of \$333,929 on the transaction, which is included in other income on the accompanying consolidated statement of activities and changes in net assets.

D. 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.

Notes to Consolidated Financial Statements

D. FAIR VALUE MEASUREMENT - Continued

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, 2018 and 2017:

Assets at Fair Value as of December 31, 2018

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------|-------------------|----------------|----------------|-------------------|
| Fixed income | \$ 159,838 | \$ | \$ | \$ 159,838 |
| Mutual funds | 4,792 | | | 4,792 |
| Cash | <u>1,443</u> | | | <u>1,443</u> |
| | <u>\$ 166,073</u> | <u>\$</u> | <u>\$</u> | <u>\$ 166,073</u> |

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> |

Notes to Consolidated Financial Statements

E. INVESTMENT INCOME (LOSS) AND HEDGING ACTIVITIES

Investment income (loss) consists of the following for the years ended December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|--|-----------------|--------------------|
| Interest and dividends | \$ 2,886 | \$ 3,207 |
| Realized and unrealized gain (loss) | <u>481</u> | <u>(39,219)</u> |
| Investment income (loss) | <u>\$ 3,367</u> | <u>\$ (36,012)</u> |

F. LINES OF CREDIT

The Corporation has a line of credit available from a commercial bank for \$650,000 that is secured by all business assets and carries interest at LIBOR plus 8.856% and matures on January 27, 2020.

At December 31, 2017, the Corporation had an additional \$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.

As of December 31, 2018 and 2017, there were no outstanding borrowings on either line of credit.

G. DEFERRED REVENUE

Deferred revenue consists of the following at December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|-----------------------|---------------------|---------------------|
| Membership revenue | \$ 2,001,962 | \$ 2,276,226 |
| Grants | 576,000 | 676,000 |
| Miscellaneous | 174,506 | 133,178 |
| Advanced ticket sales | | 3,357,889 |
| Sponsorship | | <u>650,000</u> |
| | <u>\$ 2,752,468</u> | <u>\$ 7,093,293</u> |

The Corporation uses a membership year of September 1 to August 31. At December 31, 2018 and 2017, eight months of membership revenue is deferred to the subsequent year, when applicable.

Notes to Consolidated Financial Statements

H. LONG-TERM DEBT

Long-term debt consists of the following as of December 31:

2018

Long-term debt and accrued interest with World Rugby, an affiliated organization (see Note K). The note carries a term of 56 months with an interest rate of 1.00% and an original principal balance of \$4,400,000. The note is payable in 8 biannual installments equal to 12% of the outstanding principal amount as of January 1, 2019, commencing on January 1, 2019 and continuing the first day of July and January, thereafter. The remaining amount is due in full on January 1, 2023. The Organization made additional principal payments during 2018. \$ 3,173,959

Future maturities of notes payables, for the years ending December 31, are as follows:

| | |
|------|------------|
| 2019 | \$ 761,750 |
| 2020 | 761,750 |
| 2021 | 761,750 |
| 2022 | 761,750 |
| 2023 | 126,959 |

I. CHANGES IN CONSOLIDATED NET ASSETS WITHOUT DONOR RESTRICTIONS ATTRIBUTABLE TO USARP AND SUBSIDIARIES

During the year ended December 31, 2015, an unrelated entity, Rugby Football Union USA, Inc., acquired a non-controlling interest in USARP 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 USARP for \$4,750,000, acquiring Class B Preferred Units. As of December 31, 2016, the Corporation controlled USARP through Class A Common Units and a majority representation on USARP'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 USARP subsidiary.

Notes to Consolidated Financial Statements

I. CHANGES IN CONSOLIDATED NET ASSETS WITHOUT DONOR RESTRICTIONS
ATTRIBUTABLE TO USARP AND SUBSIDIARIES - Continued

During the year ended December 31, 2018, USA Rugby acquired Rugby World Cup 2018, LLC (RWC) from USARP. As part of the transaction USA Rugby made a cash capital contribution to USARP and assumed the assets and liabilities of RWC.

| | <u>USARP Controlling Interest</u> | <u>USARP Non- controlling Interest</u> |
|-----------------------------------|---|--|
| Balance at January 1, 2017 | \$ (414,077) | \$ 4,924,373 |
| Capital contributions | | 1,000,000 |
| Change in net assets | | <u>(4,440,163)</u> |
| Balance at December 31, 2017 | (414,077) | 1,484,210 |
| Transfer of RWC 2018 to USA Rugby | 794,670 | |
| Capital contributions | 920,400 | |
| Change in net assets | <u>(1,343,124)</u> | <u>(990,551)</u> |
| Balance at December 31, 2018 | <u>\$ (42,131)</u> | <u>\$ 493,659</u> |

J. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2018 and 2017, consist of contributions received for the following purposes:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|-------------------|-------------------|
| IT Infrastructure Project | \$ 73,231 | \$ 100,078 |
| Shanagher Morrison Referee Fund | <u>58,175</u> | <u>65,435</u> |
| | <u>\$ 131,406</u> | <u>\$ 165,513</u> |

The Foundation incurs costs for administering certain restricted contributions, which are charged against net assets with donor restrictions. During the year ended December 31, 2017, these costs represented approximately 22% of total restricted contributions received by the Foundation. The activity of the Foundation was primarily carried out by the Corporation during 2018; therefore, no administrative cost allocation was recorded.

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the years ended December 31, 2018 and 2017, net assets were released from restrictions by satisfying the following restricted purposes:

Notes to Consolidated Financial Statements

J. NET ASSETS WITH DONOR RESTRICTIONS - Continued

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|-----------------------------|-------------------|
| IT Infrastructure Project | \$ 72,588 | \$ 130,404 |
| Shanagher Morrison Referee Fund | 10,243 | 10,201 |
| Administrative cost allocation | <u> </u> | <u>202,556</u> |
| | <u>\$ 82,831</u> | <u>\$ 343,161</u> |

K. AFFILIATED ORGANIZATIONS

The United States Olympic & Paralympic Committee (USOPC) provides grants to the Corporation for sports development, international competition, and team preparation. Total grants from the USOPC for the years ended December 31, 2018 and 2017, consist of the following project categories:

| | <u>2018</u> | <u>2017</u> |
|------------------------|---------------------|-------------------|
| High performance grant | \$ 1,130,000 | \$ 869,500 |
| Value-in-kind | <u>60,000</u> | <u>55,000</u> |
| | <u>\$ 1,190,000</u> | <u>\$ 924,500</u> |

For the year ended December 31, 2018, the USOPC 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, 2018 and 2017, consist of the following project categories:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------|---------------------|-----------------------------|
| High performance grant | \$ 986,686 | \$ 1,088,729 |
| Rugby world cup development | 388,248 | |
| Rugby development grants | 254,543 | 317,493 |
| Other grants | <u>160,223</u> | <u> </u> |
| | <u>\$ 1,789,700</u> | <u>\$ 1,406,222</u> |

L. 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 \$772,730 and \$524,606 for the years ended December 31, 2018 and 2017, respectively.

Notes to Consolidated Financial Statements

M. 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.

During the years ended December 31, 2018 and 2017, the Corporation made matching contributions to the Plan totaling \$14,781 and \$14,613, respectively.

N. OPERATING LEASE AGREEMENTS

The Corporation leases office space located in Lafayette, Colorado. 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 Corporation also leases a postage meter and copier. The original postage meter lease expired on January 31, 2016 and 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 original copier lease expired on May 1, 2016 and 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:

| | |
|------|------------|
| 2019 | \$ 147,484 |
| 2020 | 146,167 |
| 2021 | 36,679 |

O. INTERCOMPANY TRANSACTIONS

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

P. CONCENTRATIONS

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 Consolidated Financial Statements

Q. 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.

Management acknowledges that the Organization incurred net losses for the years ended December 31, 2018 and 2017 of \$4,246,974 and \$4,439,813, respectively. These losses have substantially reduced working capital and net assets of the Organization.

The losses are attributed to each entity as follows:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|----------------------|----------------------|
| USA Rugby | \$(1,233,736) | \$ (10,942) |
| USA Rugby Charitable Foundation | 20,851 | 11,292 |
| USA Rugby Partners | (2,313,275) | (3,645,493) |
| Rugby World Cup 2018 LLC | <u>(720,814)</u> | <u>(794,670)</u> |
| Total | <u>\$(4,246,974)</u> | <u>\$(4,439,813)</u> |

Rugby World Cup 2018 was an opportunity to promote the sport of rugby in the United States and the losses will not recur in the next year. USA Rugby agreed to reduce license payments from USARP by \$675,000 in 2018. This did not impact the consolidated loss but did negatively impact the USA Rugby operations and positively impact USARP operations.

Management and the Board of Directors was restructured in 2018 and have taken the initiative to make corrective actions towards future solvency and profitability. Management was able to alleviate the substantial doubt that the Organization would continue as a going concern through its corrective actions.

As part of those corrective actions, the USARP sold its interests in TRC for a gain in May 2018 and executed sublicense agreements that will provide a revenue source through 2024. Subsequent to year-end, USARP negotiated promissory notes with payments due from 2020 - 2024 for accounts payable of \$550,000.

In addition, a new principal sponsor was secured which will provide both additional cash revenue, in addition to in-kind consulting and advisory services, including strategic planning. Also, Management has implemented cost reductions in all departments.

Notes to Consolidated Financial Statements

Q. GOING CONCERN - Continued

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

R. CONTINGENCIES

Occasionally, in the conduct of business, the Organization may be named defendant in a lawsuit or other form of legal action. In the opinion of management, and pending or threatened litigation claims against the Organization, as of December 31, 2018, are either without merit or will not exceed insurance limits.

S. SUBSEQUENT EVENTS

Subsequent to year-end, USARP negotiated non-interest-bearing promissory notes with the Welsh Rugby Union Limited and the South African Rugby Union to extend the payment terms for the \$550,000 of the \$1,000,000 included in accounts payable. USARP will make payments totaling \$34,375 each quarter, beginning April 1, 2020, with the final payment due January 1, 2024.

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
AND SUBSIDIARIES
Consolidating Statement of Financial Position
December 31, 2018

| | <u>USA Rugby *</u> | <u>USA Rugby Charitable Foundation</u> | <u>USA Rugby Partners</u> | <u>Rugby World Cup 2018 LLC</u> | <u>Eliminating Entries</u> | <u>2018 Consolidated Totals</u> |
|--|---------------------|--|---------------------------|---------------------------------|----------------------------|---------------------------------|
| <u>ASSETS</u> | | | | | | |
| CURRENT ASSETS: | | | | | | |
| Cash and cash equivalents | \$ 374,708 | \$ 128,671 | \$ 1,092,352 | \$ 658,109 | | \$ 2,253,840 |
| Accounts receivable, net | 278,909 | 10,275 | 333,740 | 111,767 | | 734,691 |
| Due from related and affiliated parties, net | 1,942,520 | | | | (1,873,514) | 69,006 |
| Other receivable | | | 319,540 | | | 319,540 |
| Prepaid expenses | <u>186,975</u> | | | | | <u>186,975</u> |
| Total current assets | 2,783,112 | 138,946 | 1,745,632 | 769,876 | (1,873,514) | 3,564,052 |
| LONG-TERM INVESTMENTS | 166,073 | | | | | 166,073 |
| PROPERTY AND EQUIPMENT: | | | | | | |
| Furniture and equipment | 454,195 | 5,870 | 1,606 | | | 461,671 |
| Leasehold improvements | 13,177 | | | | | 13,177 |
| Website | 48,291 | | | | | 48,291 |
| Software | 23,775 | | | | | 23,775 |
| Less accumulated depreciation | <u>(483,141)</u> | <u>(5,612)</u> | <u>(1,606)</u> | | | <u>(490,359)</u> |
| Property and equipment - net | 56,297 | 258 | | | | 56,555 |
| OTHER ASSETS: | | | | | | |
| Other long-term receivable, net | | | 15,801 | | | 15,801 |
| Deposits | <u>19,328</u> | | | | | <u>19,328</u> |
| TOTAL ASSETS | <u>\$ 3,024,810</u> | <u>\$ 139,204</u> | <u>\$ 1,761,433</u> | <u>\$ 769,876</u> | <u>\$ (1,873,514)</u> | <u>\$ 3,821,809</u> |

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
AND SUBSIDIARIES
Consolidating Statement of Financial Position - Continued
December 31, 2018

| | USA Rugby * | USA Rugby Charitable Foundation | USA Rugby Partners | Rugby World Cup 2018 LLC | Eliminating Entries | 2018 Consolidated Totals |
|---|---------------------|---------------------------------------|-----------------------|-----------------------------|------------------------|--------------------------------|
| <u>LIABILITIES, MEMBERS' EQUITY, AND NET ASSETS</u> | | | | | | |
| CURRENT LIABILITIES: | | | | | | |
| Accounts payable | \$ 981,415 | \$ 725 | \$ 1,291,203 | \$ 28,784 | \$ | \$ 2,302,127 |
| Due to related and affiliated parties, net | 136,938 | 60,843 | 16,195 | 1,796,476 | (1,873,514) | 136,938 |
| Accrued liabilities | 298,214 | | | 100 | | 298,314 |
| Current portion of long-term debt | 761,750 | | | | | 761,750 |
| Deferred revenue | <u>2,749,961</u> | | <u>2,507</u> | | | <u>2,752,468</u> |
| Total current liabilities | 4,928,278 | 61,568 | 1,309,905 | 1,825,360 | (1,873,514) | 6,251,597 |
| LONG-TERM DEBT | 2,412,209 | | | | | 2,412,209 |
| MEMBERS' EQUITY | | | | | | |
| Controlling interest | | | (42,131) | (1,055,484) | | (1,097,615) |
| Non-controlling interest | | | <u>493,659</u> | | | <u>493,659</u> |
| Total members' equity | | | 451,528 | (1,055,484) | | (603,956) |
| NET ASSETS: | | | | | | |
| Without donor restrictions | (4,315,677) | (53,770) | | | | (4,369,447) |
| With donor restrictions | | <u>131,406</u> | | | | <u>131,406</u> |
| Total net assets | <u>(4,315,677)</u> | <u>77,636</u> | | | | <u>(4,238,041)</u> |
| TOTAL LIABILITIES, MEMBERS' EQUITY, AND NET ASSETS | <u>\$ 3,024,810</u> | <u>\$ 139,204</u> | <u>\$ 1,761,433</u> | <u>\$ 769,876</u> | <u>\$ (1,873,514)</u> | <u>\$ 3,821,809</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