# PGA Foundation, Inc.

**Financial Statements**
**March 31, 2019**

# PGA Foundation, Inc.
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## March 31, 2019

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## Report of Independent Auditors

To the Board of Directors of the PGA Foundation, Inc.

We have audited the accompanying financial statements of the PGA Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of March 31, 2019, and the related statements of activities, of changes in net assets and of cash flows for the nine month period then ended.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PGA Foundation, Inc. as of March 31, 2019, and the changes in its net assets and its cash flows for the nine month period then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 9, 2019

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# PGA Foundation, Inc.
## Statement of Financial Position
## March 31, 2019

| | |
|---|---|
| **Assets** | |
| Current assets | |
| Cash and cash equivalents | $ 737,932 |
| Short-term investments | 26,292 |
| Accounts receivable, net | 58,391 |
| Prepaid expenses and other current assets | 2,103,821 |
| Due from PGA of America | 3,789,432 |
| Total current assets | 6,715,868 |
| Intangible assets, net | 1,605,104 |
| Goodwill | 3,415,000 |
| Other assets | 970 |
| Total assets | $ 11,736,942 |
| **Liabilities and net assets without donor restrictions** | |
| Current liabilities | |
| Accounts payable and accrued expenses | $ 3,062,133 |
| Current portion of deferred revenue | 1,749,750 |
| Total current liabilities | 4,811,883 |
| Long-term debt | 7,500,000 |
| Deferred revenue | 77,500 |
| Total liabilities | 12,389,383 |
| Net assets without donor restrictions | |
| Undesignated | (967,526) |
| Designated | 315,085 |
| Total net assets without donor restrictions | (652,441) |
| Total liabilities and net assets without donor restrictions | $ 11,736,942 |

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

# PGA Foundation, Inc.
## Statement of Activities
## Nine Months Ended March 31, 2019

| | |
|---|---|
| **Change in net assets without donor restrictions** | |
| Revenues and support | |
| Contributions received | $ 2,453,467 |
| Fundraiser event entry fees | 68,250 |
| Registration revenue | 84,657 |
| Sponsorship revenue | 915,490 |
| Investment income, net | 936 |
| Merchandise sales | 23,116 |
| Miscellaneous revenue | 9,205 |
| Licensing revenue | 33,750 |
| Total revenues and support | 3,588,871 |
| **Expenses** | |
| Administrative expenses | 938,709 |
| Fundraising expenses | 409,253 |
| Junior League Golf expenses | 2,937,390 |
| Fundraiser event expenses | 16,797 |
| Contributions made | 589,909 |
| Cost of sales | 23,116 |
| Total expenses | 4,915,174 |
| Decrease in net assets without donor restrictions | $ (1,326,303) |

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

# PGA Foundation, Inc.
## Statement of Changes in Net Assets
## Nine Months Ended March 31, 2019

| | Designated | Undesignated |
|---|---|---|
| **Net assets without donor restrictions - beginning of year** | $ 148,585 | $ 525,277 |
| Decrease in net assets without donor restrictions | | (1,326,303) |
| Designated fund activities | | |
| Dick's JLG Sponsorship | 166,500 | (166,500) |
| Change in net assets without donor restrictions | 166,500 | (1,492,803) |
| **Net assets without donor restrictions - end of year** | $ 315,085 | $ (967,526) |

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

# PGA Foundation, Inc.
## Statement of Cash Flows
## Nine Months Ended March 31, 2019

| | |
|---|---|
| **Cash flows from operating activities** | |
| Decrease in net assets without donor restrictions | $ (1,326,303) |
| Adjustments to reconcile decrease in net assets without donor restrictions to net cash used in operating activities | |
| Amortization | 307,634 |
| Noncash interest expense | 150,035 |
| Changes in net assets without donor restrictions: | |
| Decrease in accounts receivable | 12,796 |
| Increase in prepaid expenses and other assets | (519,910) |
| Increase in due from PGA of America | (3,940,961) |
| Increase in accounts payable and accrued expenses | 2,663,191 |
| Increase in deferred revenue | 1,521,000 |
| Net cash used in operating activities | (1,132,518) |
| **Cash flows from investing activities** | |
| Proceeds from sales of short-term investments | 26,010 |
| Purchases of short-term investments | (26,292) |
| Net cash used in investing activities | (282) |
| **Cash flows from financing activities** | |
| Loan proceeds received from PGA of America | 1,500,000 |
| Payment of contingent consideration | (1,500,000) |
| Net cash provided by financing activities | - |
| Net decrease in cash and cash equivalents | (1,132,800) |
| **Cash and cash equivalents** | |
| Beginning of year | 1,870,732 |
| End of year | $ 737,932 |

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

## 1. Organization and Nature of Operations

The PGA Foundation, Inc. (the "Foundation") is involved in various charitable activities and grant programs to promote the game of golf. The Foundation is affiliated with The Professional Golfers' Association of America, Inc. (the "PGA of America"), through representation on boards of directors, management and other activities. The Foundation does business as PGA REACH. Effective for the period ended March 31, 2019, the Foundation changed its fiscal year-end from June 30 to March 31, and therefore these statements are presented for the nine month period from July 1, 2018 to March 31, 2019.

## 2. Significant Accounting Policies

### Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Significant accounting policies are described below.

### Use of Estimates

The preparation of financial statements in accordance 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the period received. Revenue from fundraising tournaments is recognized when the event takes place. Revenue from all other activities is recognized at the time the goods or services are provided. The Foundation is not party to any conditional or unconditional pledges for future contributions.

Total contributions from donations, sponsorships and entry fees related to fundraising events were $68,250 for the year ended March 31, 2019. Contributions and sponsorships from the championship events included within the accompanying Statement of Activities in contribution revenue were $0 for the year ended March 31, 2019.

### Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on hand and on deposit. The Foundation deposits cash and cash equivalents with financial institutions which management believes are of high credit quality.

The Foundation considers investments purchased with an original maturity of three months or less when acquired to be cash equivalents. Investments purchased with an original maturity of more than three months at the date of acquisition, but less than twelve months, are classified as short-term. Short-term investments of the Foundation consist of certificates of deposit, and are stated at contract price, which approximates fair value.

### Accounts Receivable

The Foundation records receivables for event sponsorships, event entry fees and team registrations in the year in which the events are held. Accounts receivable are carried at the original invoice amount less an allowance for doubtful accounts based upon the Foundation's assessment of various factors, including historical experience and other factors that may affect customers' ability to pay. Accounts receivable are written off when deemed uncollectible and recoveries of accounts receivable previously written off are recorded when received. As of March 31, 2019, the reserve for bad debt was $21,671.

**Other Current Assets**
Other current assets include uniforms for Junior League Golf participants. The cost of the uniforms is included in the registration fee. As of March 31, 2019, the amount of uniforms was $1,694,230. Uniforms inventory are valued at the lower of cost or market, with cost determined on a first-in, first-out basis.

**Goodwill**
Goodwill represents the excess of consideration transferred over the fair value of tangible net assets and identifiable intangible assets of businesses acquired. Goodwill is not amortized, but is subject to impairment testing annually, or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. This testing compares the assets' carrying values to fair values and, when appropriate, the carrying value of these assets is reduced to their fair value. The Foundation recorded goodwill following its acquisition of League Golf LLC. The Foundation performed an impairment test at March 31, 2019, and no impairment charges were recorded.

**Intangible Assets**
Intangible assets with determinable lives consist of customer relationships and a covenant not to compete. Intangible assets are stated at cost less accumulated amortization. Amortization of intangible assets is recorded using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of customer relationships and the covenant not to complete are 8 years and 7 years, respectively.

**Impairment of Long-Lived Assets**
Long-lived assets, such as intangible assets with determinable lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset in conjunction with other assets at the lowest level of separately identifiable cash flows. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset or asset group exceeds its fair value. Assets to be disposed of are separately presented in the Statement of Financial Position and reported at the lower of the carrying amount or fair value less costs to dispose, and are no longer depreciated.

**Deferred Revenue**
Revenue received in advance is deferred until such time as the event takes place or services are rendered. Revenue received for events that are scheduled to occur after March 31, 2020 are classified as noncurrent.

**Net Assets**
The Foundation classifies contributions received with temporary donor restrictions as net assets with temporary donor restrictions, and classifies contributions received with permanent donor restrictions as net assets with permanent donor restrictions. All other contributions are classified as net assets without donor restrictions. Donor restricted contributions that are satisfied within the same period as received are classified as net assets without donor restrictions on the accompanying Statement of Financial Position.

**Income Taxes**
The Foundation is a public charity exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. Provision for unrelated business income tax, when applicable, is made for activities unrelated to the stated tax-exempt purposes of the Foundation.

**Artifacts**
Artifacts consisting of golf clubs, pictures, paintings and assorted memorabilia that have been donated to the Foundation are included on the accompanying Statement of Financial Position as other assets.

**Significant Contributions**
The Foundation received 10% of its contributions from one donor for the year ended March 31, 2019.

**New Accounting Pronouncements**
In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this Update make several changes to current reporting requirements of not-for-profit entities, including certain presentation matters and enhanced disclosures. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. As such, the Foundation has adopted the amendment in the current period.

## 3. Intangible assets

Intangible assets consist of the following as of March 31, 2019:

| | |
|---|---|
| **Subject to amortization** | |
| Golf facilities relationships | $ 3,270,000 |
| Covenant not-to-compete | 10,000 |
| | 3,280,000 |
| Less: Accumulated amortization | (1,674,896) |
| | $ 1,605,104 |

For the year ended March 31, 2019, amortization expense was $307,634.

The future estimated aggregate amortization expense on the intangible assets as of March 31, 2019 is:

| | |
|---|---|
| 2019 | $ 410,179 |
| 2020 | 410,179 |
| 2021 | 410,060 |
| 2022 | 374,688 |
| Total minimum future amortization expense | $ 1,605,104 |

## 4. Contingent Consideration

The Foundation acquired League Golf LLC in 2015. A portion of the consideration for the acquired business was contingent. During fiscal year 2017 the Foundation amended the agreement to pay contingent consideration based on the greater of the number of program participants in calendar years 2017 or 2018. The Foundation determined by evaluating the results of the past three seasons that the maximum contingent consideration of $2,500,000 is the most likely outcome. The Foundation made payments of $1,000,000 and $1,500,000 in January 2018 and January 2019, respectively. The contingent consideration liability balance at March 31, 2019 was $0.

## 5. Functional Allocation of Expenses

For the year ended March 31, 2019, the Foundation's functional allocation of expenses is represented as follows:

| | |
|---|---|
| **Program expenses** | |
| Support of other charitable entities | $ 589,909 |
| Total program expenses | 589,909 |
| Fundraiser event expenses | 16,797 |
| Junior League Golf expenses | 2,937,390 |
| Administrative expenses | 938,709 |
| Fundraising expenses | 409,253 |
| Cost of sales | 23,116 |
| Total expenses | $ 4,915,174 |

All management and general expenses that were directly attributable to a specific program were allocated to that program. Administrative expenses include certain costs allocated to the Foundation by the PGA of America based on an analysis of time spent performing Foundation functions. For the year ended March 31, 2019, total allocations were $779,397. Significant items allocated were salaries and wages of $415,083 for the year ended March 31, 2019.

## 6. Fair Value of Financial Instruments

The Foundation records certain assets and liabilities at fair value in accordance with ASC 820, *Fair Value Measurements and Disclosures*. Fair value is defined as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A hierarchical framework has been established that classifies assets, based on the market observability of the inputs used to determine fair value, into the following three categories:

Level 1 Quoted prices for identical instruments in active markets to which the Foundation has access at the date of measurement.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar assets in markets that are not active; and model-derived valuations in which all significant inputs are directly or indirectly observable.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the instrument. Level 3 valuations are typically performed using pricing models, discounted cash flow methodologies, or similar techniques, which incorporate management's own estimates of assumptions that market participants would use in pricing the instrument or valuations that require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques for determining fair value and may include price information, market transaction data, investment liquidity and other factors. An investment's level within the fair value hierarchy is based on the lowest level input that is significant to the fair value. Transfers between levels are recognized on the date they occur.

Fair values for marketable securities are based on quoted market prices from an active exchange. The Foundation's holdings of individual marketable securities where the value may be determined by referring to quoted prices from an active exchange are classified in Level 1.

The Foundation's money market funds and mutual funds, regardless of the underlying asset (i.e. common stocks, treasuries, corporate bonds, etc.), are all managed by registered investment companies and have daily net asset values ("NAV"). These investments are classified in Level 2.

The fair value of limited partnerships and similar nonmarketable equity interests which invest in both publicly and privately owned securities are based on estimates and assumptions of the general partners in the absence of readily determinable market values. These investments are classified in Level 3.

The following table sets forth the Foundation's investments by major investment strategy on the basis of the nature and risk of the investments by level within the fair value hierarchy:

| **March 31, 2019** | **Quoted Prices in Active Markets (Level 1)** | **Siginificant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total Fair Value** |
|---|---|---|---|---|
| Certificates of deposit | $ 26,292 | $ - | $ - | $ 26,292 |
| Money market accounts | 737,932 | - | - | 737,932 |
| Total assets at fair value | $ 764,224 | $ - | $ - | $ 764,224 |

The following table summarizes the significant terms of the agreements with investment managers by major category.

| | **Redemption Frequency** | **Redemption Notice** |
|---|---|---|
| Money market funds | Daily | 1 Day |
| Fixed income | Daily | 1 Day |
| Equity investments | | |
| Domestic | Daily - Quarterly | 1 to 60 Days |
| International | Daily - Quarterly | 1 to 60 Days |

All investments are carried at fair value in the accompanying Statement of Financial Position.

## 7. Litigation

The Foundation is subject to various legal claims arising in the normal course of business out of the conduct of its current operations. Based on information currently available, it is the opinion of management that the ultimate resolution of pending litigation and threatened proceedings will not have a material adverse effect on the Foundation's financial position or results of activities or cash flows, beyond its current estimates.

## 8. Related Party Transactions

The Foundation's cash receipts and cash disbursements are processed through the PGA of America's centralized cash disbursement system. The financial impact of these transactions is recorded through Due from PGA of America within the accompanying Statement of Financial Position. During fiscal year 2015, the Foundation's purchase of League Golf (Note 4) was funded by a line of credit extended to the Foundation by the PGA of America. The balance of the line of credit was $7,500,000 at March 31, 2019. The Foundation accrues interest to the PGA of America monthly on the balance of the line of credit at an interest rate equal to the monthly mid-term federal rate. Total noncash interest expense for the nine months ended March 31, 2019 is $150,035. The maturity date for the line of credit is March 4, 2025.

## 9. Subsequent Events

The Foundation evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through August 9, 2019, the date the financial statements were available for issuance, and determined that no additional items required disclosure.