

**SMART BOWLING SCHOLARSHIP
FUNDING CORPORATION
ARLINGTON, TEXAS**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
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DECEMBER 31, 2015 AND 2014**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
SMART Bowling Scholarship Funding Corporation
Arlington, Texas

We have audited the accompanying financial statements of SMART Bowling Scholarship Funding Corporation, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related 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 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 these financial statements based on our audits. We conducted our audits 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 the auditors' 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.

Board of Directors
SMART Bowling Scholarship Funding Corporation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SMART Bowling Scholarship Funding Corporation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Milwaukee, Wisconsin
April 1, 2016

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,866,466	\$ 3,651,249
Accounts receivable	166,815	216,174
Due from related parties	-	40,500
Investment income receivable	332,390	196,438
Investments, at fair value	54,442,290	50,274,614
Total current assets	56,807,961	54,378,975
SOFTWARE		
Software	910,467	910,467
Less accumulated depreciation	372,321	232,953
Total software	538,146	677,514
TOTAL ASSETS	\$ 57,346,107	\$ 55,056,489
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 51,491	\$ 44,164
Scholarship awards payable	54,490,390	50,447,786
Total liabilities	54,541,881	50,491,950
NET ASSETS - UNRESTRICTED	2,804,226	4,564,539
TOTAL LIABILITIES AND NET ASSETS	\$ 57,346,107	\$ 55,056,489

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

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
REVENUES		
Contributions	\$ -	\$ 294,024
Investment income		
Interest and dividends	868,422	815,981
Net realized and unrealized gains (losses)	<u>(1,389,365)</u>	<u>1,549,065</u>
Total revenues	<u>(520,943)</u>	<u>2,659,070</u>
EXPENSES		
Program services		
Earnings allocated to providers	400,000	192,969
Management and general	<u>839,370</u>	<u>490,217</u>
Total expenses	<u>1,239,370</u>	<u>683,186</u>
CHANGE IN NET ASSETS	(1,760,313)	1,975,884
NET ASSETS, BEGINNING OF YEAR	<u>4,564,539</u>	<u>2,588,655</u>
NET ASSETS, END OF YEAR	<u>\$ 2,804,226</u>	<u>\$ 4,564,539</u>

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

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,760,313)	\$ 1,975,884
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized (gains) losses	1,389,365	(1,549,065)
Depreciation	139,368	137,232
Effects of changes in operating assets and liabilities		
Investment income receivable	(135,952)	31,391
Accounts receivable	49,359	(216,174)
Due from related parties	40,500	(40,500)
Accounts payable	7,327	(52,013)
Due to related parties	-	(312,594)
Scholarship awards payable	4,042,604	3,644,819
	<u>3,772,258</u>	<u>3,618,980</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	154,486,407	155,223,208
Purchase of investments	<u>(160,043,448)</u>	<u>(159,693,711)</u>
	<u>(5,557,041)</u>	<u>(4,470,503)</u>
Net cash used in investing activities		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,784,783)	(851,523)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,651,249</u>	<u>4,502,772</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,866,466</u>	<u>\$ 3,651,249</u>

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

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The SMART Bowling Scholarship Funding Corporation (SMART) was incorporated on March 23, 2010, in the state of Wisconsin, for the purpose of administering a scholarship program. SMART's revenues are derived primarily from investment gains. Significant accounting policies followed by SMART are presented below.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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.

Cash Equivalents

SMART considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable are uncollateralized obligations. Accounts receivable are stated at the provider unfunded scholarship amount. Payments of accounts receivable are applied to the specific scholarships identified, or, if unspecified, to the earliest unfunded scholarships. No valuation allowance is deemed necessary as accounts receivable have an offsetting scholarship awards payable.

Investments

Investments are reported at fair value. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses on investments are included in the statement of activities.

Software

Software is stated at cost. Depreciation is determined using the straight-line method over 7 years.

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Risks and Uncertainties

SMART utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect SMART's account balances and the amounts reported in the financial statements.

Scholarship Awards Payable

SMART administers a scholarship program for the bowling community known as Scholarship Management and Accounting Reports for Tenpins. SMART collects, manages, and disburses scholarship funds for youth bowling scholarships. A scholarship awards payable is recorded for payments received. SMART effectively acts as an agent for these funds. Investment income is used to pay the administrative costs of operating the program. Investment income in excess of these administrative costs may be allocated to the accounts of the provider organizations.

Net Assets

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. All net assets of SMART and changes therein are classified as unrestricted net assets at December 31, 2015 and 2014.

Income Taxes

The Internal Revenue Service (IRS) has issued a determination letter dated January 11, 2011, granting SMART an exemption from federal income tax under Internal Revenue Code Section 501(c)(3). Management is not aware of any items that could cause revocation of the tax-exempt status.

Reclassifications

Certain reclassifications have been made to the 2014 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2 - INVESTMENTS

Investments consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Investments		
Equities	\$ 68,948	\$ -
Bonds	37,758,971	35,761,963
Mutual Funds	14,152,682	12,709,070
Interest-bearing cash	2,095,243	294,804
Money Market Funds	366,446	1,508,777
Total Investments	<u>\$ 54,442,290</u>	<u>\$ 50,274,614</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States of America establishes a framework for measuring fair value. That framework provides 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 unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value.

Interest-bearing cash is valued at cost which approximates fair value.

Equity securities are valued at the closing price reported on the active market on which the individual securities are traded.

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 3 - FAIR VALUE MEASUREMENTS (continued)

Bonds are valued with an institutional bid evaluation or an institutional mid evaluation. A bid evaluation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). A mid evaluation is the average of the estimated price at which a dealer would sell a security and the estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases, there may be manual sources used when primary price vendors do not supply prices.

Mutual funds are valued at quoted market prices, which represent the net asset value of shares held at year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although SMART believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, SMART's assets at fair value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest-bearing cash	\$ -	\$ 2,095,243	\$ -	\$ 2,095,243
Money market	-	366,446	-	366,446
Equities				
Preferred Stock	68,948	-	-	68,948
Fixed Income				
Government bonds	-	70,821	-	70,821
Municipal bonds	-	167,812	-	167,812
Corporate bonds	-	26,101,885	-	26,101,885
Treasury bonds	-	11,418,453	-	11,418,453
Mutual Funds				
International	6,573,260	-	-	6,573,260
Index funds	7,579,422	-	-	7,579,422
Total Assets at Fair Value	<u>\$ 14,221,630</u>	<u>\$ 37,758,971</u>	<u>\$ -</u>	<u>\$ 54,442,290</u>

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 3 - FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, SMART's assets at fair value as of December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest-bearing cash	\$ -	\$ 294,804	\$ -	\$ 294,804
Money market	-	1,508,777	-	1,508,777
Fixed Income				
Government	-	426,933	-	426,933
Municipal	-	182,538	-	182,538
Corporate	-	18,570,742	-	18,570,742
Treasury	-	16,581,750	-	16,581,750
Mutual Funds				
International	5,795,074	-	-	5,795,074
Index funds	6,913,996	-	-	6,913,996
Total Assets at Fair Value	<u>\$ 12,709,070</u>	<u>\$ 35,761,963</u>	<u>\$ -</u>	<u>\$ 50,274,614</u>

NOTE 4 - RELATED-PARTY TRANSACTIONS

SMART entered into a service agreement with United States Bowling Congress, Inc. (USBC), effective January 1, 2015, to manage the day-to-day operations of SMART. The service agreement calls for up to \$400,000 of reimbursements to USBC for the cost of services provided. The agreement expires on December 31, 2016. Payments made to USBC pursuant to this agreement totaled \$352,027 during the year ended December 31, 2015.

During the year ended December 31, 2014, certain services, including the majority of management and general services were provided by USBC at no charge. The value of these services is not reflected in the accompanying financial statements as they are not material to the financial statement as a whole. Additionally, SMART utilized 3 USBC employees. Total expenses for these employees were \$103,840 for the year ended December 31, 2014.

SMART received contributions of \$0 and \$294,024 from USBC during the years ended December 31, 2015 and 2014, respectively.

Amounts due from USBC were \$0 and \$40,500 at December 31, 2015 and 2014, respectively.

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

SMART maintains its cash and cash equivalents in various commercial banks. Balances on deposit are insured by the Federal Deposit Insurance Corporation up to specified limits. Balances in excess of these limits are uninsured.

SMART BOWLING SCHOLARSHIP FUNDING CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 6 - SUBSEQUENT EVENTS

Management evaluated subsequent events through April 1, 2016, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2015, but prior to April 1, 2016 that provided additional evidence about conditions that existed at December 31, 2015, have been recognized in the financial statements for the year ended December 31, 2015. Events or transactions that provided evidence about conditions that did not exist at December 31, 2015, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2015.

This information is an integral part of the accompanying financial statements.