

**SMART BOWLING SCHOLARSHIP FUNDING  
CORPORATION**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION  
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YEARS ENDED DECEMBER 31, 2017 AND 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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  
March 14, 2018

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

|                                      | 2017              | 2016              |
|--------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                        |                   |                   |
| <b>CURRENT ASSETS</b>                |                   |                   |
| Cash and Cash Equivalents            | \$ 966,568        | \$ 1,211,140      |
| Accounts Receivable                  | 309,102           | 233,477           |
| Due from Related Parties             | 4,149             | 3,195             |
| Investment Income Receivable         | 345,441           | 346,443           |
| Investments, at Fair Value           | 69,670,189        | 61,633,393        |
| Total Current Assets                 | 71,295,449        | 63,427,648        |
| <b>INVESTMENTS, AT FAIR VALUE</b>    | 600,000           | -                 |
| <b>SOFTWARE</b>                      |                   |                   |
| Software                             | 910,467           | 910,467           |
| Less: Accumulated Depreciation       | 641,394           | 506,857           |
| Total Software                       | 269,073           | 403,610           |
| <br>Total Assets                     | <br>\$ 72,164,522 | <br>\$ 63,831,258 |
| <b>LIABILITIES AND NET ASSETS</b>    |                   |                   |
| <b>LIABILITIES</b>                   |                   |                   |
| Accounts Payable                     | \$ 57,029         | \$ 47,809         |
| Due to Related Parties               | -                 | 6,311             |
| Scholarship Awards Payable           | 63,190,159        | 58,403,784        |
| Total Liabilities                    | 63,247,188        | 58,457,904        |
| <br><b>NET ASSETS - UNRESTRICTED</b> | <br>8,917,334     | <br>5,373,354     |
| <br>Total Liabilities and Net Assets | <br>\$ 72,164,522 | <br>\$ 63,831,258 |

See accompanying Notes to Financial Statements.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

|                                     | 2017         | 2016         |
|-------------------------------------|--------------|--------------|
| <b>REVENUES</b>                     |              |              |
| Investment Income:                  |              |              |
| Interest and Dividends              | \$ 1,312,347 | \$ 1,142,071 |
| Net Realized and Unrealized Gains   | 4,143,604    | 2,710,051    |
| Total Revenues                      | 5,455,951    | 3,852,122    |
| <br><b>EXPENSES</b>                 |              |              |
| Program Services:                   |              |              |
| Earnings Allocated to Providers     | 1,000,000    | 450,000      |
| Management and General              | 911,971      | 832,994      |
| Total Expenses                      | 1,911,971    | 1,282,994    |
| <br><b>CHANGE IN NET ASSETS</b>     | 3,543,980    | 2,569,128    |
| Net Assets - Beginning of Year      | 5,373,354    | 2,804,226    |
| <br><b>NET ASSETS - END OF YEAR</b> | \$ 8,917,334 | \$ 5,373,354 |

See accompanying Notes to Financial Statements.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

|   | 2017          | 2016          |
|---|---------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |               |               |
| Change in Net Assets  | \$ 3,543,980  | \$ 2,569,128  |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: |               |               |
| Net Realized and Unrealized Gains   | (4,143,604)   | (2,710,051)   |
| Depreciation  | 134,537       | 134,536       |
| Effects of Changes in Operating Assets and Liabilities:                                     |               |               |
| Investment Income Receivable  | 1,002         | (14,053)      |
| Accounts Receivable   | (75,625)      | (66,662)      |
| Due from Related Parties  | (954)         | (3,195)       |
| Accounts Payable  | 9,220         | (3,682)       |
| Due to Related Parties  | (6,311)       | 6,311         |
| Scholarship Awards Payable  | 4,786,375     | 3,913,394     |
| Net Cash Provided by Operating Activities   | 4,248,620     | 3,825,726     |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |               |               |
| Proceeds from Sale of Investments   | 176,375,320   | 187,502,108   |
| Purchase of Investments   | (180,868,512) | (191,983,160) |
| Net Cash Used by Investing Activities   | (4,493,192)   | (4,481,052)   |
| <br><b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>  | (244,572)     | (655,326)     |
| <br>Cash and Cash Equivalents - Beginning of Year   | 1,211,140     | 1,866,466     |
| <br><b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>  | \$ 966,568    | \$ 1,211,140  |

See accompanying Notes to Financial Statements.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**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 and 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. Management has determined no valuation allowance is deemed necessary.

**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 statements of activities.

**Software**

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

**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.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2017 and 2016.

**Income Taxes**

The Internal Revenue Service 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.

**NOTE 2 INVESTMENTS**

Investments consist of the following at December 31:

|                       | <u>2017</u>          | <u>2016</u>          |
|-----------------------|----------------------|----------------------|
| Investments:          |                      |                      |
| Equity Securities     | \$ 1,830,956         | \$ 926,493           |
| Bonds                 | 45,880,835           | 45,011,479           |
| Mutual Funds          | 20,206,998           | 14,476,806           |
| Interest-Bearing Cash | 1,389,866            | 875,709              |
| Money Market Funds    | 361,534              | 342,906              |
| Limited Partnership   | 600,000              | -                    |
| Total Investments     | <u>\$ 70,270,189</u> | <u>\$ 61,633,393</u> |

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 3 FAIR VALUE MEASUREMENTS**

Accounting principles generally accepted in the United States of America establish 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 and Money Market Funds:* Are 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.

*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.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)**

*Limited Partnership:* Is valued at an amount equal to the ownership interest in the partners' capital, which approximates fair value. The fund has a 10-year term after final closing, subject to two two-year extensions at the election of the General Partner. SMART may not sell, assign, or transfer its interest except with prior written consent of the General Partner. Withdrawals of capital are not permitted except in limited instances. The investment strategy of the limited partnership is to achieve attractive risk-adjusted returns relative to more liquid fixed income alternatives, with an emphasis on current income and preservation of capital. The fund seeks to achieve its objective primarily by investing in senior secured, floating rate middle market loans, through wholly and partially owned holding companies and other investment vehicles.

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, 2017:

|                               | December 31, 2017    |                      |                   |                      |
|-------------------------------|----------------------|----------------------|-------------------|----------------------|
|                               | Level 1              | Level 2              | Level 3           | Total                |
| Interest-Bearing Cash         | \$ -                 | \$ 1,389,866         | \$ -              | \$ 1,389,866         |
| Money Market Funds            | -                    | 361,534              | -                 | 361,534              |
| Equities:                     |                      |                      |                   |                      |
| Common Stock                  | 1,830,956            | -                    | -                 | 1,830,956            |
| Fixed Income:                 |                      |                      |                   |                      |
| Municipal Bonds               | -                    | 543,772              | -                 | 543,772              |
| Corporate Bonds               | -                    | 32,185,037           | -                 | 32,185,037           |
| Treasury Bonds                | -                    | 13,152,026           | -                 | 13,152,026           |
| Mutual Funds:                 |                      |                      |                   |                      |
| International                 | 7,816,590            | -                    | -                 | 7,816,590            |
| Index Funds                   | 12,390,408           | -                    | -                 | 12,390,408           |
| Limited Partnership           | -                    | -                    | 600,000           | 600,000              |
| Total Assets<br>at Fair Value | <u>\$ 22,037,954</u> | <u>\$ 47,632,235</u> | <u>\$ 600,000</u> | <u>\$ 70,270,189</u> |

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**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, 2016:

|                               | December 31, 2016    |                      |             |                      |
|-------------------------------|----------------------|----------------------|-------------|----------------------|
|                               | Level 1              | Level 2              | Level 3     | Total                |
| Interest-Bearing Cash         | \$ -                 | \$ 875,709           | \$ -        | \$ 875,709           |
| Money Market Funds            | -                    | 342,906              | -           | 342,906              |
| Equities:                     |                      |                      |             |                      |
| Common Stock                  | 926,493              | -                    | -           | 926,493              |
| Fixed Income:                 |                      |                      |             |                      |
| Municipal                     | -                    | 170,499              | -           | 170,499              |
| Corporate                     | -                    | 31,766,067           | -           | 31,766,067           |
| Treasury                      | -                    | 13,074,913           | -           | 13,074,913           |
| Mutual Funds:                 |                      |                      |             |                      |
| International                 | 7,135,771            | -                    | -           | 7,135,771            |
| Index Funds                   | 7,341,035            | -                    | -           | 7,341,035            |
| Total Assets<br>at Fair Value | <u>\$ 15,403,299</u> | <u>\$ 46,230,094</u> | <u>\$ -</u> | <u>\$ 61,633,393</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 original agreement expired on December 31, 2016 and has been extended through December 31, 2019. The extended agreement calls for up to \$475,000 of reimbursements to USBC. Payments made to USBC pursuant to this agreement totaled \$475,000 and \$400,000 during the years ended December 31, 2017 and 2016, respectively. Amounts due from USBC were \$1,027 and \$0- at December 31, 2017 and 2016, respectively, for funds collected by USBC on behalf of SMART.

Amounts due to USBC were \$0- and \$6,311 at December 31, 2017 and 2016, respectively.

Amounts due from Bowling Proprietors' Association of America, Inc. (BPAA) were \$0- and \$2,481 at December 31, 2017 and 2016, respectively, for funds collected by BPAA on behalf of SMART.

Amounts due from IBC Youth Bowling, Inc. (IBCYB) were \$3,122 and \$714 at December 31, 2017 and 2016, respectively, for funds collected by IBCYB on behalf of SMART.

**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, 2017 AND 2016**

**NOTE 6 COMMITMENTS AND CONTINGENCIES**

On July 1, 2017, SMART invested in a limited partnership. As part of this investment, SMART has committed \$2,000,000 in future contributions to be called upon at the discretion of the General Partner. As of December 31, 2017, SMART has contributed \$600,000 of their \$2,000,000 committed capital. Any unrealized gains or capital distributions are added to this committed capital amount. Committed capital as of December 31, 2017 is \$2,015,376. SMART's unfunded committed capital as of December 31, 2017 is \$1,415,376.

**NOTE 7 SUBSEQUENT EVENTS**

Management evaluated subsequent events through March 14, 2018, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2017, but prior to March 14, 2018 that provided additional evidence about conditions that existed at December 31, 2017, have been recognized in the financial statements for the year ended December 31, 2017. Events or transactions that provided evidence about conditions that did not exist at December 31, 2017, 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, 2017.