

**SMART BOWLING SCHOLARSHIP  
FUNDING CORPORATION**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION  
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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, 2018 and 2017, 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, 2018 and 2017, 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 11, 2019

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 970,666	\$ 966,568
Accounts Receivable	268,486	310,129
Due from Related Parties	-	3,122
Investment Income Receivable	255,107	345,441
Investments, at Fair Value	71,300,081	69,670,189
Total Current Assets	72,794,340	71,295,449
<b>INVESTMENTS, AT FAIR VALUE</b>	711,388	600,000
<b>SOFTWARE</b>		
Software	910,467	910,467
Less: Accumulated Depreciation	775,930	641,394
Total Software	134,537	269,073
 Total Assets	 \$ 73,640,265	 \$ 72,164,522
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 58,320	\$ 57,029
Due to Related Parties	14,512	-
Scholarship Awards Payable	69,341,661	63,190,159
Total Liabilities	69,414,493	63,247,188
 <b>NET ASSETS - WITHOUT DONOR RESTRICTIONS</b>	 4,225,772	 8,917,334
 Total Liabilities and Net Assets	 \$ 73,640,265	 \$ 72,164,522

See accompanying Notes to Financial Statements.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>REVENUES</b>		
Net Investment Return (Loss)	\$ (2,021,294)	\$ 5,455,951
<b>EXPENSES</b>		
Program:		
Earnings Allocated to Providers	1,750,000	1,000,000
Management and General:		
Professional Fees	760,213	759,120
Travel	6,380	3,160
Depreciation and Amortization	134,536	134,536
Miscellaneous	19,139	15,155
Total Expenses	2,670,268	1,911,971
<b>CHANGE IN NET ASSETS</b>	(4,691,562)	3,543,980
Net Assets - Beginning of Year	8,917,334	5,373,354
<b>NET ASSETS - END OF YEAR</b>	\$ 4,225,772	\$ 8,917,334

See accompanying Notes to Financial Statements.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (4,691,562)	\$ 3,543,980
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Net Realized and Unrealized Losses (Gains)	2,021,294	(4,143,604)
Depreciation	134,536	134,537
Effects of Changes in Operating Assets and Liabilities:		
Investment Income Receivable	90,334	1,002
Accounts Receivable	41,643	(75,625)
Due from Related Parties	3,122	(954)
Accounts Payable	1,291	9,220
Due to Related Parties	14,512	(6,311)
Scholarship Awards Payable	6,151,502	4,786,375
Net Cash Provided by Operating Activities	3,766,672	4,248,620
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Investments	286,029,411	176,375,320
Purchase of Investments	(289,791,985)	(180,868,512)
Net Cash Used by Investing Activities	(3,762,574)	(4,493,192)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	4,098	(244,572)
Cash and Cash Equivalents - Beginning of Year	966,568	1,211,140
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 970,666	\$ 966,568

See accompanying Notes to Financial Statements.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**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 returns. 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 4 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, 2018 AND 2017**

**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. However, donor restricted contributions whose restrictions are met during the same year are directly reported as increases in net assets without donor restrictions. The net assets of SMART and changes therein are classified and reported as follows:

Without Donor Restrictions - These represent net assets that are not subject to external donor-imposed restrictions

**Functional Allocation of Expenses**

The costs of operating SMART have been summarized on a functional basis on the statements of activities. Investment returns in excess of administrative costs that are allocated to the accounts of the provider organizations are allocated to SMART's program expenses. All costs except earnings allocated to providers are allocated to management and general expenses.

**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.

**Adoption of New Accounting Principle**

On August 18, 2016, FASB issued Accounting Standards Update (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 provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, which resulted in no change to the total previously reported net assets.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 LIQUIDITY AND AVAILABILITY**

SMART's liquidity goal is to have sufficient assets available to meet operational expenditures for a 12 month period. SMART regularly reviews the liquidity required to meet the ongoing needs for administering a scholarship program for the bowling community and other services needed to support that function. The primary forms of funds that are available include cash, current investments and related investment income receivable, and expected collections of accounts receivable.

As of December 31, 2018, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

Cash and Cash Equivalents	\$ 970,666
Accounts Receivable	268,486
Investment Income Receivable	255,107
Investments, at Fair Value	<u>71,300,081</u>
Total	<u><u>\$ 72,794,340</u></u>

SMART maintains the investments above in investment vehicles that allow access to these funds for satisfaction of SMART's scholarship awards payable.

**NOTE 3 INVESTMENTS**

Investments consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Investments:		
Equity Securities	\$ -	\$ 1,830,956
Bonds	39,567,768	45,880,835
Mutual Funds	20,152,569	20,206,998
Interest-Bearing Cash	910,358	1,389,866
Money Market Funds	605,520	361,534
Hedge Fund	10,063,866	-
Limited Partnership	<u>711,388</u>	<u>600,000</u>
Total Investments	<u><u>\$ 72,011,469</u></u>	<u><u>\$ 70,270,189</u></u>

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
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**NOTE 4 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 (NAV) of shares held at year-end.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
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**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

*Hedge Fund:* Is valued based on the NAV per unit (or its equivalent) based upon the fair value of the underlying investments. NAV is used as a practical expedient to estimate fair value. The investment strategy of the hedge fund is to maximize long-term total return, consistent with prudent investment management. The fund seeks to achieve its objective by investing in at least 70% in other commingled investment vehicles, in investment grade debt and fixed income securities rated at the time of purchase at least Baa3 or BBB- by a nationally recognized rating agency. SMART has no additional committed capital obligations.

*Limited Partnership:* Is valued at an amount equal to the ownership interest in the partners' capital, NAV, used as a practical expedient to estimate 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.

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
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**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

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

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Interest-Bearing Cash	\$ -	\$ 910,358	\$ -	\$ 910,358
Money Market Funds	-	605,520	-	605,520
Fixed Income:				
Municipal Bonds	-	427,513	-	427,513
Corporate Bonds	-	31,088,399	-	31,088,399
Treasury Bonds	-	8,051,856	-	8,051,856
Mutual Funds:				
International	6,888,208	-	-	6,888,208
Index Funds	13,264,361	-	-	13,264,361
Total Assets at Fair Value	<u>\$ 20,152,569</u>	<u>\$ 41,083,646</u>	<u>\$ -</u>	<u>61,236,215</u>
Assets Valued at NAV:				
Hedge Fund				10,063,866
Limited Partnership				711,388
Total Investments				<u>\$ 72,011,469</u>
	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	-	543,772	-	543,772
Corporate	-	32,185,037	-	32,185,037
Treasury	-	13,152,026	-	13,152,026
Mutual Funds:				
International	7,816,590	-	-	7,816,590
Index Funds	12,390,408	-	-	12,390,408
Total Assets at Fair Value	<u>\$ 22,037,954</u>	<u>\$ 47,632,235</u>	<u>\$ -</u>	<u>69,670,189</u>
Assets Valued at NAV:				
Limited Partnership				600,000
Total Investments				<u>\$ 70,270,189</u>

**SMART BOWLING SCHOLARSHIP FUNDING CORPORATION**  
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**NOTE 5 RELATED PARTY TRANSACTIONS**

SMART has a service agreement with United States Bowling Congress, Inc. (USBC) wherein USBC manages the day-to-day operations of SMART. The service agreement calls for up to \$475,000 of reimbursements to USBC for the cost of services provided. The agreement expires December 31, 2019. Payments made to USBC pursuant to this agreement totaled \$475,000 during both of the years ended December 31, 2018 and 2017.

Amounts due to USBC were \$14,512 and \$-0- at December 31, 2018 and 2017, respectively.

Amounts due from IBC Youth Bowling, Inc. (IBCYB) were \$-0- and \$3,122 at December 31, 2018 and 2017, respectively, for funds collected by IBCYB on behalf of SMART.

**NOTE 6 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.

**NOTE 7 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, 2018, SMART has contributed \$700,000 of their \$2,000,000 committed capital. SMART's unfunded committed capital as of December 31, 2018 and 2017 is \$1,300,000 and \$1,400,000, respectively.

**NOTE 8 SUBSEQUENT EVENTS**

Management evaluated subsequent events through April 11, 2019, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2018, but prior to April 11, 2019 that provided additional evidence about conditions that existed at December 31, 2018, have been recognized in the financial statements for the year ended December 31, 2018. Events or transactions that provided evidence about conditions that did not exist at December 31, 2018, 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, 2018.