

FINISH LINE YOUTH FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017



FINISH LINE YOUTH FOUNDATION, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Finish Line Youth Foundation, Inc.
Indianapolis, Indiana

We have audited the accompanying financial statements of Finish Line Youth Foundation, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses 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.

Auditor's 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Finish Line Youth Foundation, Inc. as of December 31, 2018 and 2017, and the changes in net assets, functional expenses, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Aludy CPA Group

June 29, 2019

FINISH LINE YOUTH FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Assets:		
Cash and cash equivalents	\$ 52,747	\$ 62,256
Investments	8,670,135	9,420,371
Contributions receivable	<u>874,327</u>	<u>1,058,441</u>
 Total assets	 <u>\$ 9,597,209</u>	 <u>\$ 10,541,068</u>

LIABILITIES AND UNRESTRICTED NET ASSETS

Liabilities:		
Grants payable	\$ 250,000	\$ 270,000
Accounts payable	177,352	95,859
Accrued expenses	441,600	305,280
Deferred revenue and support	<u>-0-</u>	<u>10,186</u>
Total liabilities	868,952	681,325
 Net Assets:		
Without donor restrictions	<u>8,728,257</u>	<u>9,859,743</u>
 Total liabilities and net assets	 <u>\$ 9,597,209</u>	 <u>\$ 10,541,068</u>

See accompanying Notes to Financial Statements.

FINISH LINE YOUTH FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Revenue and Support:		
Holiday fundraising drive	\$ 636,500	\$ 815,283
Keypads	981,814	777,000
Back to School fundraising drive	560,931	524,768
Spring fundraising drive	379,080	336,565
Golf outing	390,545	418,806
Bowl for Kids	126,600	129,965
Employee giving campaigns	50,295	53,935
General contributions and other	1,265	8,435
Interest and investment income (loss), net	<u>(600,168)</u>	<u>1,239,899</u>
Total revenue and support	<u>2,526,862</u>	<u>4,304,656</u>
Expenses:		
Program services	3,057,121	2,707,533
Fundraising	433,052	503,292
Management and general	<u>168,175</u>	<u>155,109</u>
Total expenses	<u>3,658,348</u>	<u>3,365,934</u>
Change in net assets	(1,131,486)	938,722
Net Assets, Beginning of Year	<u>9,859,743</u>	<u>8,921,021</u>
Net Assets, End of Year	<u>\$ 8,728,257</u>	<u>\$ 9,859,743</u>

See accompanying Notes to Financial Statements.

FINISH LINE YOUTH FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>2018 Total</u>	<u>2017 Total</u>
Charitable grants	\$ 1,041,766	\$ -0-	\$ -0-	\$ 1,041,766	\$ 1,055,357
Special Olympics - sponsorship and license agreement	1,000,000	-0-	-0-	1,000,000	1,000,000
Boys and Girls Club - sponsorship and license agreement	250,000	-0-	-0-	250,000	250,000
Special Olympics - program expenses	446,730	-0-	-0-	446,730	108,900
Golf outing	-0-	285,466	-0-	285,466	252,579
Bowl for Kids	-0-	38,554	-0-	38,554	47,758
Holiday fundraising drive	-0-	26,203	-0-	26,203	30,032
Spring fundraising drive	-0-	15,753	-0-	15,753	26,675
Back to School fundraising drive	-0-	21,566	-0-	21,566	21,722
Promotional material and supplies	14,031	419	28,981	43,431	71,520
Shared services agreement	283,500	40,500	81,000	405,000	404,206
Travel, meals and entertainment	9,160	965	12,305	22,430	28,179
Professional fees	-0-	-0-	10,778	10,778	26,826
Outside services	11,463	1,860	5,136	18,459	10,539
Other taxes and licenses	-0-	-0-	12,070	12,070	8,570
Office expenses	471	1,766	5,417	7,654	13,944
Staff development	-0-	-0-	5,030	5,030	7,345
Miscellaneous	-0-	-0-	7,458	7,458	1,782
	<u>\$ 3,057,121</u>	<u>\$ 433,052</u>	<u>\$ 168,175</u>	<u>\$ 3,658,348</u>	<u>\$ 3,365,934</u>

See accompanying Notes to Financial Statements.

FINISH LINE YOUTH FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Charitable grants	\$ 1,055,357	\$ -0-	\$ -0-	\$ 1,055,357
Special Olympics - sponsorship and license agreement	1,000,000	-0-	-0-	1,000,000
Boys and Girls Club - sponsorship and license agreement	250,000	-0-	-0-	250,000
Special Olympics - program expenses	108,900	-0-	-0-	108,900
Golf outing	-0-	252,579	-0-	252,579
Bowl for Kids	-0-	47,758	-0-	47,758
Holiday fundraising drive	-0-	30,032	-0-	30,032
Spring fundraising drive	-0-	26,675	-0-	26,675
Back to School fundraising drive	-0-	21,722	-0-	21,722
Promotional material and supplies	-0-	71,520	-0-	71,520
Shared services agreement	282,944	40,421	80,841	404,206
Travel, meals and entertainment	9,384	2,394	16,401	28,179
Professional fees	-0-	9,432	17,394	26,826
Outside Services	245	-0-	10,294	10,539
Other taxes and licenses	-0-	-0-	8,570	8,570
Office expenses	261	759	12,924	13,944
Staff development	-0-	-0-	7,345	7,345
Miscellaneous	442	-0-	1,340	1,782
	<u>\$ 2,707,533</u>	<u>\$ 503,292</u>	<u>\$ 155,109</u>	<u>\$ 3,365,934</u>

See accompanying Notes to Financial Statements.

FINISH LINE YOUTH FOUNDATION, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (1,131,486)	\$ 938,722
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gains) losses on investments	987,340	(934,847)
Changes in assets and liabilities:		
Contributions receivable	184,114	(62,548)
Grants payable	(20,000)	(696,500)
Accounts payable	81,493	68,868
Accrued expenses	136,320	214,436
Deferred revenue and support	<u>(10,186)</u>	<u>(4,814)</u>
Net cash provided by (used in) operating activities	<u>227,595</u>	<u>(476,683)</u>
Cash Flows From Investing Activities:		
Proceeds from sale of investments	180,707	678,110
Purchase of investments	<u>(417,811)</u>	<u>(332,801)</u>
Net cash provided by (used in) investing activities	<u>(237,104)</u>	<u>345,309</u>
Net decrease in cash and cash equivalents	(9,509)	(131,374)
Cash and Cash Equivalents, Beginning of Year	<u>62,256</u>	<u>193,630</u>
Cash and Cash Equivalents, End of Year	<u>\$ 52,747</u>	<u>\$ 62,256</u>

See accompanying Notes to Financial Statements.

FINISH LINE YOUTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

1. SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity

Finish Line Youth Foundation, Inc. (the "Foundation"), a private foundation, was formed in 1998 to make a difference in the lives of youth in the communities where employees and customers live, work and play. The Foundation funds nonprofit organizations that provide opportunities for children to participate in community-based youth athletic programs and camps that emphasize sports and active lifestyles, especially programs that serve disadvantaged and special needs children.

Since 2012, Finish Line Youth Foundation has been engaged in a partnership with Special Olympics in celebration of athletes everywhere. The Foundation supports Special Olympics through multiple opportunities including:

- Finish Line employee volunteer participation in Special Olympic events nationwide;
- Partnering in the Fit Feet Program to supply athletes with properly fitting shoes;
- An in-store and online holiday fundraising drive to support Special Olympics.

Since 2015, the Foundation has been engaged in a partnership with The Boys & Girls Clubs of Indianapolis as part of the "Building Our Future, Investing in Our Kids" Capital Campaign that, among other things, will fund the construction of a new program club being built on the far east side of Indianapolis, Indiana.

The Foundation has three major annual fundraising events to help raise funds that in turn are used to award grants to qualifying not-for-profit organizations across the country. The Foundation conducts a holiday, Back-to-School, and spring fundraising drive that takes place in all retail stores and on the website of Finish Line, Inc. (Note 7). Additionally, the Foundation hosts an annual golf outing and bowling event based in Indianapolis and markets across the country.

The significant accounting policies followed by the Foundation in the preparation of its financial statements are summarized below:

Change in Accounting Principle

During 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-For-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-For-Profit Entities*. The update addresses the financial reporting 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 returns for not-for-profit organizations. As required by the update, the Organization retrospectively adopted the standard during 2018 and has conformed to the new presentation in the financial statements for all periods presented herein.

FINISH LINE YOUTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Basis of Presentation

Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are net assets not subject to donor-imposed restrictions and are, therefore, available to support the general operations of the Foundation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires Management to make estimates and assumptions that affect the reported amounts in the financial statements and notes to the financial statements. Actual results could differ from those estimates. Significant estimates made in the preparation of the Foundation's financial statements include collectability of contributions receivable and the allocation of functional expenses.

Cash and cash equivalents

Cash and cash equivalents represent amounts held in checking and money market accounts. All liquid investments with original maturity dates of three months or less are classified as cash equivalents.

Revenue and Support Recognition

Contributions are recognized as revenue and support when received, and revenue from Foundation events are recognized at the time the event is performed. The Foundation reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions are met in the same reporting period in which the revenue is recognized.

Functional Expenses

Expenses are classified as Program Services, Fundraising and Management and General. Classifications are based on actual direct expenditures and costs allocations determined by estimates of time spent by Foundation personnel or other rational basis of allocation.

Income Taxes

The Foundation is exempt from Federal and state income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state law. Accordingly, no provision has been made for Federal or state income taxes.

FINISH LINE YOUTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Management of the Foundation evaluates all significant tax positions to ensure compliance with exempt purpose of the Foundation as required by U.S. GAAP, including consideration of any unrelated business income tax. As of December 31, 2018, Management does not believe the Foundation has taken any tax positions that are not in compliance with the exempt purpose of the Foundation. The Foundation's Federal and state tax returns remain open and subject to examination beginning with the tax year ended December 31, 2015.

Subsequent Events

Subsequent events have been evaluated through June 29, 2019, which is the date the financial statements were available for issuance.

2. LIQUIDITY AND AVAILABILITY

At December 31, 2018 and 2017, financial assets available for future general expenditure within one year of the Statements of Financial Position comprise the following:

	<u>2018</u>	<u>2017</u>
Financial assets:		
Cash and cash equivalents	\$ 52,747	\$ 62,256
Investments	8,670,135	9,420,371
Contributions receivable	<u>874,327</u>	<u>1,058,441</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,597,209</u>	<u>\$ 10,541,068</u>

The Foundation maintains adequate liquid assets to fund near-term operating needs and maintains sufficient reserves to provide reasonable assurance that obligations will be discharged as they become due. The Foundation manages its liquidity and reserves following three guiding principles: (1) Operating within a prudent range of financial soundness and stability; (2) maintaining adequate liquid assets to fund near-term operating needs; and (3) maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The Foundation's investment portfolio consists of highly liquid investments.

FINISH LINE YOUTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

3. CONTRIBUTIONS RECEIVABLE

The Foundation recognizes all material unconditional promises to give as revenue and support. Contributions receivable of \$874,327 and \$1,058,441 at December 31, 2018 and 2017, respectively, represent contributions from donors and are due from the donors within one year.

4. INVESTMENTS

Investments at December 31, 2018 and 2017 include the following:

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 950,850	\$ 686,087
Corporate bonds	1,024,604	939,169
Equities	1,360,580	1,783,873
Mutual and index funds	<u>5,334,101</u>	<u>6,011,242</u>
	<u>\$ 8,670,135</u>	<u>\$ 9,420,371</u>

Interest and investment income (loss) include the following for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 417,879	\$ 333,162
Net realized gains	262,929	123,242
Net unrealized gains (losses)	<u>(1,250,269)</u>	<u>811,605</u>
	(569,461)	1,268,009
Investment fees	<u>(30,707)</u>	<u>(28,110)</u>
	<u>\$ (600,168)</u>	<u>\$ 1,239,899</u>

FINISH LINE YOUTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

5. FAIR VALUE MEASUREMENTS

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP also establishes a fair value hierarchy, which requires the Foundation to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels are defined by U.S. GAAP as a means of measuring fair value:

Level 1

Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2

Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3

Unobservable inputs reflecting the entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

FINISH LINE YOUTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Assets measured at fair value at December 31, 2018 include the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 950,850	\$ -0-	\$ -0-	\$ 950,850
Corporate bonds	-0-	1,024,604	-0-	1,024,604
Equities				
All cap	184,119	-0-	-0-	184,119
Large cap	694,143	-0-	-0-	694,143
Mid/small cap	482,318	-0-	-0-	482,318
Real assets	-0-	-0-	-0-	-0-
Mutual and index funds				
All cap	541,089	-0-	-0-	541,089
Large cap	500,186	-0-	-0-	500,186
International	986,493	-0-	-0-	986,493
Asset allocation	2,785,980	-0-	-0-	2,785,980
Real assets	140,353	-0-	-0-	140,353
Fixed income	<u>380,000</u>	<u>-0-</u>	<u>-0-</u>	<u>380,000</u>
	<u>\$ 7,645,531</u>	<u>\$ 1,024,604</u>	<u>\$ -0-</u>	<u>\$ 8,670,135</u>

Assets measured at fair value at December 31, 2017 include the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 686,087	\$ -0-	\$ -0-	\$ 686,087
Corporate bonds	-0-	939,169	-0-	939,169
Equities				
All cap	205,140	-0-	-0-	205,140
Large cap	851,675	-0-	-0-	851,675
Mid/small cap	634,321	-0-	-0-	634,321
Real assets	92,737	-0-	-0-	92,737
Mutual and index funds				
All cap	868,467	-0-	-0-	868,467
Large cap	631,644	-0-	-0-	631,644
International	972,703	-0-	-0-	972,703
Asset allocation	3,221,846	-0-	-0-	3,221,846
Real assets	81,772	-0-	-0-	81,772
Fixed income	<u>234,810</u>	<u>-0-</u>	<u>-0-</u>	<u>234,810</u>
	<u>\$ 8,481,202</u>	<u>\$ 939,169</u>	<u>\$ -0-</u>	<u>\$ 9,420,371</u>

FINISH LINE YOUTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

6. SPONSORSHIP AND LICENSE AGREEMENT

Effective April 13, 2012, the Foundation entered into a Sponsorship and License Agreement with Special Olympics, Inc. ("SOI") until February 28, 2017, which was extended through February 28, 2019 (Note 9), whereby the Foundation serves as a sponsor of SOI in exchange for the right to use certain names and marks owned by SOI and providing other support to SOI and granting SOI the right to use and sublicense other persons to use designated names and marks owned or licensed by the Foundation. For such rights, the Foundation is to pay SOI royalty payments of \$1,000,000 at December 31, 2018 annually, paid quarterly.

Effective May 19, 2015, the Foundation entered into a Sponsorship and License Agreement with The Boys & Girls Club of Indianapolis ("BGCI") until February 15, 2019 (Note 9), whereby the Foundation serves as a donor of BGCI in exchange for the right to use certain names and marks owned by BGCI and providing other support to BGCI and granting BGCI the right to use and sublicense other persons to use designated names and marks owned or licensed by the Foundation. For such rights, the Foundation is to pay BGCI royalty payments of \$250,000 annually.

Future minimum royalty payments under the terms of the Agreements are \$250,000 for the year ending December 31, 2019.

Total sponsorship and licenses agreement expense was \$1,250,000 for each of the years ended December 31, 2018 and 2017, respectively.

7. SHARED SERVICES AGREEMENT

The Foundation receives professional and managerial services from Finish Line, Inc. ("FLI") under a Shared Services Agreement renewing December 31st for successive one (1) year periods, unless either Party provides written notice of its intent not to renew at least thirty (30) days prior to the renewal of any year but may be terminated upon thirty (30) days written notice to the other Party without cause.

Under the terms of the Agreement, the Foundation reimburses FLI for the actual compensation and expenses incurred by FLI as Foundation and Grant Administrators. The total expense for such services were \$405,000 and \$404,206 for the years ended December 31, 2018 and 2017, respectively, of which \$441,600 and \$305,280 was payable as of December 31, 2018 and 2017, respectively.

Additionally, FLI provides, at no cost to the Foundation, office space, grant administration software and support, bookkeeping and recordkeeping services, services related to licensing and maintenance of intellectual property, marketing, internal legal services, and website hosting. However, the value of this support and related expense is not reflected in the financial statements as the amounts have been determined to be insignificant.

FINISH LINE YOUTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

8. CONCENTRATION OF CREDIT RISK

Cash and Cash Equivalents

The Foundation maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally insured limits. The Foundation has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

9. SUBSEQUENT EVENTS

Special Olympics, Inc.

Effective March 1, 2019, the Foundation entered into a Sponsorship and License Agreement with SOI until February 28, 2020, whereby the Foundation serves as a sponsor of SOI in exchange for the right to use certain names and marks owned by SOI and providing other support to SOI and granting SOI the right to use and sublicense other persons to use designated names and marks owned or licensed by the Foundation. For such rights, the Foundation is to pay SOI royalty payments of \$900,000 annually, paid quarterly.

Boys & Girls Clubs of America

Effective January 1, 2019, the Foundation entered into a Sponsorship and License Agreement with The Boys & Girls Club of America ("BGCA") until December 31, 2019, whereby the Foundation serves as a donor of BGCA in exchange for the right to use certain names and marks owned by BGCA and providing other support to BGCA and granting BGCA the right to use and sublicense other persons to use designated names and marks owned or licensed by the Foundation. For such rights, the Foundation is to pay BGCA royalty payments of \$500,000 annually.