

VELODROME FUND, INC.

FINANCIAL STATEMENTS AND
AUDITORS' REPORTS
Year Ended December 31, 2018

VELODROME FUND, INC.

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INDEPENDENT AUDITORS' REPORT

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Emeritus

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Emeritus

To the Board of Directors
Velodrome Fund, Inc.

We have audited the accompanying financial statements of Velodrome Fund, Inc. (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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

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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.

Basis for Qualified Opinion

As explained in Note 3 to the financial statements, Velodrome Fund, Inc. leases the Velodrome facility at a notional sum, the contributed value of which is not determinable due to the uniqueness of the venue.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Velodrome Fund, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Regan, Levin, Bloss, Brown & Sauchak, P.C.

Allentown, Pennsylvania
December 20, 2019

VELODROME FUND, INC.

**Statement of Financial Position
December 31, 2018****Assets**

Cash and cash equivalents	\$	139,769
Accounts receivable, net of allowance		15,590
Retail inventory		18,039
Investments		1,421,208
Property and equipment, net of accumulated depreciation		<u>260,256</u>
Total assets	\$	<u><u>1,854,862</u></u>

Liabilities

Accounts payable	\$	79,870
Credit cards		2,354
Deferred revenue		<u>8,160</u>
Total liabilities		<u>90,384</u>

Net Assets

Without donor restrictions		219,210
With donor restrictions		<u>1,545,268</u>
Total net assets		<u>1,764,478</u>
Total liabilities and net assets	\$	<u><u>1,854,862</u></u>

See accompanying notes to financial statements.

VELODROME FUND, INC.**Statement of Activities
Year Ended December 31, 2018**

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Support and revenues:			
Contributions	\$ 63,589	\$ —	\$ 63,589
Sponsorships	320,870	24,000	344,870
Interest and dividends, net of fees	4,514	39,483	43,997
Net appreciation (depreciation) of investments	(21,629)	(110,305)	(131,934)
Racing:			
Ticket sales	43,528	—	43,528
Rider fees	40,527	—	40,527
Concessions	17,452	—	17,452
Retail sales	12,513	—	12,513
Special events:			
Ticket sales	12,893	—	12,893
Vendor fees	25,811	—	25,811
Facility rentals	18,005	—	18,005
Miscellaneous	26,323	—	26,323
	<u>564,396</u>	<u>(46,822)</u>	<u>517,574</u>
Expenses:			
Racing	669,900	—	669,900
Development	69,841	—	69,841
Non-cycling	27,039	—	27,039
General and administrative	358,618	—	358,618
Fund-raising	5,144	—	5,144
	<u>1,130,542</u>	<u>—</u>	<u>1,130,542</u>
Change in net assets	(566,146)	(46,822)	(612,968)
Beginning net assets	785,356	1,592,090	2,377,446
Ending net assets	<u>\$ 219,210</u>	<u>\$ 1,545,268</u>	<u>\$ 1,764,478</u>

See accompanying notes to financial statements.

VELODROME FUND, INC.**Statement of Functional Expenses
Year Ended December 31, 2018**

	Program Services			General and	Fund-	
	Racing	Development	Non-Cycling	Administrative	Raising	Total
Personnel	\$ 110,611	\$ 40,269	\$ 21,766	\$ 20,160	\$ 4,474	\$ 197,280
Payroll taxes	10,659	3,881	2,098	1,943	431	19,012
Employee benefits	137,341	—	—	—	—	137,341
Supplies	984	—	560	1,662	—	3,206
Facilities supplies	15,732	—	—	8,471	—	24,203
Bad debts	12,350	—	—	—	—	12,350
Concessions	16,672	—	—	—	—	16,672
Merchandise	18,509	—	—	—	—	18,509
Equipment	15,899	—	—	27,901	—	43,800
Awards and rider expense	98,072	—	—	—	—	98,072
Advertising and promotion	80,723	—	—	4,249	—	84,972
Signage	473	—	—	—	—	473
Insurance	7,215	2,020	722	4,329	144	14,430
Communications	4,790	1,341	479	2,874	95	9,579
Occupancy and utilities	18,088	18,088	—	10,204	—	46,380
Program expenses	22,602	—	—	—	—	22,602
Purchased services	62,743	—	—	235,075	—	297,818
Travel and lodging	—	—	—	2,306	—	2,306
Meals and entertainment	—	—	—	1,487	—	1,487
Other	22,296	—	—	19,339	—	41,635
Interest and bank fees	—	—	—	10,132	—	10,132
Depreciation	14,141	4,242	1,414	8,486	—	28,283
	<u>\$ 669,900</u>	<u>\$ 69,841</u>	<u>\$ 27,039</u>	<u>\$ 358,618</u>	<u>\$ 5,144</u>	<u>\$ 1,130,542</u>

See accompanying notes to financial statements.

VELODROME FUND, INC.

Statement of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities:	
Change in net assets	\$ (612,968)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	28,283
Bad debts	12,350
Net depreciation of investments	131,934
Increase in accounts receivable	(17,533)
Increase in retail inventory	(4,703)
Increase in accounts payable	37,117
Increase in credit cards	2,354
Increase in deferred revenue	3,215
	<u> </u>
Net cash used in operating activities	<u>(419,951)</u>
Cash flows from investing activities:	
Proceeds from sales of investments	912,922
Purchases of investments	(683,776)
Purchases of fixed assets	<u>(26,469)</u>
	<u> </u>
Net cash provided by investing activities	<u>202,677</u>
Cash flows from financing activities:	
Repayment of line of credit	<u>(96,796)</u>
	<u> </u>
Net cash used in financing activities	<u>(96,796)</u>
Net decrease in cash and cash equivalents	(314,070)
Cash and cash equivalents, beginning	<u>453,839</u>
Cash and cash equivalents, ending	<u>\$ 139,769</u>
Supplemental disclosure of cash flow information:	
Interest paid	<u>\$ 1,958</u>

See accompanying notes to financial statements.

VELODROME FUND, INC.

Notes to Financial Statements December 31, 2018

1. Nature of Activities:

Velodrome Fund, Inc. is a nonprofit organization which operates, supports, and maintains the Velodrome facility and venue (a Lehigh County-owned facility) located in Trexlertown, Pennsylvania.

2. Summary of Significant Accounting Policies:

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions or law.

With Donor Restrictions – Net assets subject to donor-imposed restrictions. Donor-imposed restrictions may be temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are permanent, where the donor stipulates that resources be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Acquisitions of property and equipment in excess of \$2,500 are capitalized. Property and equipment are carried at cost or, if donated, at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment.

Revenue Recognition

Contributions received are recorded as with restrictions or without restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with restrictions are reclassified

VELODROME FUND, INC.

Notes to Financial Statements December 31, 2018

2. Summary of Significant Accounting Policies, Continued:

to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

Accounts Receivable

Accounts receivable are reported at the amount the Organization expects to collect from outstanding balances. Differences between the amount due and the amount the Organization expects to collect are reported in the results of operations of the year in which those differences are determined, with an offsetting entry to a valuation allowance for accounts receivable. Balances that are still outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2018, no amounts were deemed uncollectible.

Retail Inventory Valuation

Retail inventory is valued at the lower of cost (first-in, first-out) or market.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$84,972 for the year ended December 31, 2018.

Accounting for Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. The Organization believes that there has been no impairment of its long-lived assets.

Contributed Services

Velodrome Fund, Inc. receives services donated by its sponsors. No amounts have been reflected in the financial statements for those services because they do not meet the criteria for recognition under Financial Accounting Standards Board's Accounting Standard Codification (FASB ASC) 958, Not-for-Profit Entities.

VELODROME FUND, INC.

Notes to Financial Statements December 31, 2018

2. Summary of Significant Accounting Policies, Continued:

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Expenses that can be identified with a specific program or supporting service are allocated directly according to their natural expenditure classification. Certain other costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include payroll taxes (based on wages incurred), facilities supplies, advertising, insurance, communications, occupancy and utilities, and depreciation (allocated based on historical estimates of usage between program and support functions).

Taxes

Velodrome Fund, Inc. is a not-for-profit corporation that is exempt from income taxes under Internal Revenue Code Section 501(c)(3). The Organization has adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FASB ASC) 740-10. The Organization continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings in determining any uncertain tax positions. The Organization files its Form 990 with the United States Internal Revenue Service and with the Bureau of Charitable Organizations in Pennsylvania. The Organization is no longer subject to examination by the Internal Revenue Service for years prior to 2015.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in bank accounts and highly-liquid investments with an initial maturity of three months or less.

Credit Risks

The Organization maintains its cash accounts in several depository accounts which, at times, may exceed federally-insured limits. The Organization has not experienced losses in such accounts. The Organization believes it is not exposed to significant credit risk.

The Organization maintains a significant portion of its assets in investments, which are subject to fluctuations in value. Further, the Organization is subject to risks associated with each investment, such as compliance of the issuer with certain contractual obligations.

Notes to Financial Statements
December 31, 2018

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without restrictions if the restrictions are met (either by the passage of time or by use) in the reporting period in which the income and gains are recognized.

Subsequent Events

Management of the Organization has evaluated events and transactions subsequent to December 31, 2018, for items that could potentially be recognized or disclosed in these financial statements. The evaluation was conducted through December 20, 2019, the date these financial statements were available to be issued.

3. Facilities Agreement:

The County of Lehigh has leased a portion of the Bob Rodale Cycling and Fitness Park to Velodrome Fund, Inc. The Park is used for staging of cycling races and conducting training and cycling related events in accordance with the terms and restrictions of the lease agreement. The lease originally had a term of 20 years commencing on January 2, 1998 and terminating on January 1, 2018. It has subsequently been extended for an additional 20-year term through January 1, 2038. Rent is due annually in the notional sum of \$1. Due to the uniqueness of the venue, valuation of this contribution is not determinable; no provision for fair rental value of the facility has been made in the financial statements reflective of the annual contributed value. See note 4 for discussion of an amendment to the lease.

4. Net Assets With Donor Restrictions:

Expendable Trust – Velodrome Operations Trust Fund

During 1998, the Rodale Press, Inc. established and contributed to the Organization an expendable trust fund in the amount of \$1,500,000. Such funds are restricted in accordance with the directives of the Trust. The purpose of the

VELODROME FUND, INC.

Notes to Financial Statements December 31, 2018

4. Net Assets With Restrictions, Continued:

Expendable Trust – Velodrome Operations Trust Fund (Continued)

Fund is to provide a source of continuing funds to pay salaries and benefits for key Velodrome Fund, Inc. employees. The Trust Fund is authorized to distribute up to a maximum of \$150,000 annually, to be used for its prescribed purpose. The Trust Fund is maintained in a separate account under the management of a fund custodian. The fair value of the Fund was \$1,261,361 at December 31, 2018. No withdrawals from the Fund were authorized in 2018. Investment earnings are recorded as additions to net assets with donor restrictions.

Capital Improvements Fund

Effective July 11, 2007, the County of Lehigh, lessor of the Organization's facilities (see note 3), amended the lease to require that twenty percent of monies received by the Organization from the sponsor of the naming rights be set aside to be used for capital improvements to the facilities. By common consent of the parties, the annual amount due to the lessor for the stated purpose was limited to \$24,000. In 2007, the Organization paid \$24,000 to the lessor to fund its capital improvements.

No payments have been made subsequently, and \$264,000 remained unpaid at December 31, 2018. In lieu of payment of the amount otherwise due, the lessor and lessee have agreed to allow the lessee to retain the funds with a restricted designation. Expenditure of the restricted funds will occur as needed by the lessor to fund capital improvements to the facilities.

Endowment Account

Certain restricted contributions to the Organization totaling \$6,000 are held in an endowment account. Only earnings derived from such funds may be released from restriction. Earnings are recorded as income with donor restrictions.

Net assets with donor restrictions consisted of the following funds at December 31, 2018:

Velodrome Operations Trust Fund	\$ 1,275,268
Capital Improvements Fund	264,000
Endowment Account	<u>6,000</u>
	\$ <u>1,545,268</u>

VELODROME FUND, INC.

Notes to Financial Statements December 31, 2018

5. Investments:

Investments as of December 31, 2018, are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Without restrictions:			
Equity mutual funds	\$ 111,564	\$ 103,637	\$ 103,637
Fixed income mutual funds	<u>57,715</u>	<u>56,210</u>	<u>56,210</u>
	<u>169,279</u>	<u>159,847</u>	<u>159,847</u>
With restrictions:			
Equity mutual funds	631,604	741,412	741,412
Fixed income mutual funds	<u>532,333</u>	<u>519,949</u>	<u>519,949</u>
	<u>1,163,937</u>	<u>1,261,361</u>	<u>1,261,361</u>
	<u>\$ 1,333,216</u>	<u>\$ 1,421,208</u>	<u>\$ 1,421,208</u>

Investment revenues are reported net of brokers' fees amounting to \$43,997 in 2018.

6. Fair Value Measurements:

FASB ASC 820-10, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active, and Level 3 inputs are unobservable and have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Fair values of assets measured on a recurring basis at December 31, 2018 are as follows:

VELODROME FUND, INC.

Notes to Financial Statements December 31, 2018

6. Fair Value Measurements (Continued):

	<u>Fair Value Measurements at Reporting Date Using</u>	
	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>
Equity mutual funds	\$ 845,049	\$ 845,049
Fixed income mutual funds	<u>576,159</u>	<u>576,159</u>
	<u>\$ 1,421,208</u>	<u>\$ 1,421,208</u>

Following is a description of the valuation methodology used for mutual funds measured at fair value.

Level 1 mutual funds are valued at the daily closing price as reported by the fund. Such mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The level 1 mutual funds held by the Organization are deemed to be actively traded.

7. Property and Equipment:

Property and equipment consisted of the following at December 31, 2018:

Building	\$ 290,155
Construction in process	171,765
Equipment and furniture	<u>152,467</u>
	614,387
Less accumulated depreciation	<u>354,131</u>
Property and equipment, net	<u>\$ 260,256</u>

VELODROME FUND, INC.

Notes to Financial Statements December 31, 2018

8. Line of Credit:

The Organization had a \$150,000 line of credit with a bank. The loan was fully repaid in May 2018.

9. Liquidity:

The following reflects the Organization's financial assets, consisting of cash, accounts receivable, inventory and investments, as of December 31, 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Financial assets at year end	\$1,594,606
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Less funds unavailable for general
expenditures within one year, due to;

Contractual or donor-imposed restrictions	<u>1,545,268</u>
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Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 49,338</u>
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As discussed in Note 4, the Organization also has access to a maximum of \$150,000 annually in its Expendable Trust, which can be used to fund certain operating expenses with proper approval.

10. Employee Benefit Plans:

In 2017, the Organization adopted a 401(k) Profit Sharing Plan covering eligible full-time employees satisfying the minimum age requirement of 21 and one year of service requirement. Contributions by the Organization to this plan for the year ended December 31, 2018 were \$94,868. The 401(k) Profit Sharing Plan was terminated effective December 31, 2018 and all plan assets were distributed to participants.

VELODROME FUND, INC.

Notes to Financial Statements December 31, 2018

11. Commitments and Contingencies:

In October 2018, the former executive director filed an employment related claim against the Velodrome Fund, Inc. and a member of its Board of Directors with a court. No assessment of the probability of an unfavorable outcome or estimate of the range of potential damages can presently be made; accordingly, in accordance with FASB Accounting Standards Codification subtopic 450-20, *Contingencies: Loss Contingencies*, no accrual has been included in the financial statements.

12. Change in Accounting Principles:

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The new standards change the following aspects of the Organization's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 9).

13. Related Party Transactions:

The Organization received sponsorships and regularly purchased products and services from companies affiliated with various board members. Sponsorships, dues and other support received from related parties during the year ended December 31, 2018 totaled \$89,500. The total cost of products and services purchased from related parties amounted to \$156,720 for the year ended December 31, 2018. The Organization had no balances due to or due from related parties at December 31, 2018.