

Many members of US Fencing are aware that our organization has a large deficit from past fiscal years. As I and other members of the Board and Executive Committee speak to members around the country it is obvious that many members are still unclear about how the deficit occurred, our current financial situation, and what US Fencing is doing to improve its fiscal situation. This memo is an attempt to provide a narrative of the financial situation of US Fencing over the past couple of years, what has changed with the organization to ensure that the problems do not reoccur and to outline our path going forward.

During Summer Nationals 2007, it became clear that there were problems with oversight. Reports given to the Board of Directors (BOD) indicated an anticipated net loss of \$443K (the approved budget was for a net loss of \$166K). Answers from US Fencing's executive director and treasurer about the loss and about how variances are approved were deemed inadequate by some BOD members. Unfortunately, the BOD meeting in September did not provide any additional information about the fiscal 2006/2007 year. Motions were put forth for a first reading at that September meeting to increase financial oversight of the organization that were then passed at the February BOD meeting. (This is the normal procedure for BOD motions.)

Finally at the February, 2008 Board meeting the BOD learned just how large the actual loss was. It was reported to the BOD that the loss, rather than being \$443K, was actually more than \$1,100K. The following occurred at the meeting:

1. Two new financial committees were created; Budget & Finance and Audit. You may find details of those committees' responsibilities at:
http://assets.teamusa.org/assets/documents/attached_file/filename/8541/BOD200802M.pdf.
2. The BOD decided, since it was only a few months until the Olympics, to maintain the budget for the remainder of the fiscal year.
3. The Executive Director tendered his resignation effective after the end of the Olympics.

Many questions were asked about how the loss occurred and why reports were delayed. These questions continued after the end of the meeting. A good summary of the findings may be found in the letter issued by the Budget & Finance and Audit committees in March 2008.
http://assets.teamusa.org/assets/documents/attached_file/filename/9897/Financial_Status_of_USF_A.pdf

In addition to continued questions from the new financial committees two different groups audited US Fencing. You'll find the results of these audits and their comments in a number of different documents.

1. 2007 Financial Statement: Details our revenues and spending for the year and should be considered the annual financial report of our organization:
http://assets.teamusa.org/assets/documents/attached_file/filename/8823/US_Fencing_Association_Financial_Stmts-7-31-07-FINAL.pdf.
2. 2007 Audit Letter: This is from US Fencing's independent auditor, and outlines our auditor's recommendations about how to ensure that US Fencing does not repeat the difficulties experienced in the 2006/2007 season.
http://assets.teamusa.org/assets/documents/attached_file/filename/8824/US_Fencing_Association_Mgmt_Letter_7-31-07-FINAL.pdf.
3. 2006 Form 990 (for the fiscal year starting in 2006 and ending in 2007). This is our tax document filed with the IRS.
http://assets.teamusa.org/assets/documents/attached_file/filename/8313/2006-2007_Form_990.pdf.

4. 2008 USOC Audit: The USOC conducted an independent audit of our financial situation, focusing most intently on the high performance programs and on how USOC grants were spent.
http://assets.teamusa.org/assets/documents/attached_file/filename/9560/USFA2008Audit_USOC.pdf.
5. USOC Letter about Audit. The USOC audit generated 19 recommendations for US Fencing. The response to those recommendations from October 2008 is contained in this document.
http://assets.teamusa.org/assets/documents/attached_file/filename/9559/2008mgmtlettertoUSOCaudit.pdf.

Again, during these audits no evidence of fraud or misappropriation was found. Both highlight the need for tighter financial controls and for additional reporting and oversight. Beginning with the creation of the Budget and Audit Committees, and continuing with revised budgeting, reporting and oversight procedures, US Fencing is addressing these concerns.

The remainder of fiscal 2007/2008 was quite challenging. US Fencing owed large amounts of money to athletes, coaches, and volunteers. The financial staff at the office changed as a result of the problems identified from the 2006/2007 fiscal year, making it difficult to obtain timely reports. The USOC decided to suspend grant payments at the end of 2008 and to use that funding to directly support our athletes, coaches, and staff for the Olympic Games. US Fencing also undertook a number of different programs to attempt to improve the balance sheet, offering lifetime memberships to volunteers who were owed balances, raising membership and tournament dues, and reducing expense in non-essential areas.

Reports continued to be developed through Summer Nationals 2008 and into the Board meeting in September 2008. The September Budget report may be found in this document:
http://assets.teamusa.org/assets/documents/attached_file/filename/9896/Budget_Summary_through_Sep_BOD_mtg.pdf. This report contains our best understanding of our final status from the end of the previous year. At that time, we thought we had lost \$181K in the year. Please note that this also contains our budget for 2008/2009.

As our auditor went to work in the same period, we learned additional pieces of information. Unfortunately, the ways we accounted for revenues at the end of the 07/08 season were not in compliance with Generally Accepted Accounting Principals (GAAP). Memberships that people purchased in the summer of 2008 for the 2008/2009 season, rather than showing as revenue in the 2007/2008 year, now actually become liabilities on the balance sheet and are then realized as revenue over the period for which the membership is in effect (the 08/09 season, the seasons between 08/09 and 10/11, or 08/09 and 27/28 depending on whether they're one, three, or lifetime). It does not negatively impact our cash situation, but it does lower the reported revenue and increase the reported liabilities. In addition, we wrote off a significant amount (\$120K) of accounts receivable that were deemed to be uncollectable. The association will continue to attempt to recover these obligations over time, but under GAAP they are considered sufficiently doubtful that it was necessary to clean up the balance sheet by writing them off. This shows as a loss in the current year. Finally, there were expenses that the USOC was incurring on our behalf in the 2006/2007 fiscal year as we prepared for the Olympic Games of which we had no current knowledge and no control. These additional expenses (approximately \$110K) show up on the expenses on our financial statements.

After all of this is added together, we actually lost, on an accounting basis \$761k in fiscal 2007/2008. Documents outlining all of this may be found below:

1. 2008 Audited Financials:
http://assets.teamusa.org/assets/documents/attached_file/filename/8718/2008_audited_financials.pdf.
2. 2008 Audit Letter parts 1 and 2:
http://assets.teamusa.org/assets/documents/attached_file/filename/8719/audit_letter_1.pdf.
http://assets.teamusa.org/assets/documents/attached_file/filename/8720/audit_letter_2.pdf.
3. 2007 Form 990:
http://assets.teamusa.org/assets/documents/attached_file/filename/8314/2009_USFA_990s.pdf.

These reports detail a very severe financial situation with a net debt of over \$1.7 million at the end of the 2007/2008 fiscal year.

The approved budget for 2008/2009 was a first step towards moving out of debt. We budgeted a surplus of almost \$394K. We felt that we used conservative assumptions about expenses and revenues to get to this amount. As we move through the year and the actual revenues and expenses have materialized the situation (as it has for most companies and families) has deteriorated. You'll find our best estimate of our final financial position in the February 2009 budget report:

http://assets.teamusa.org/assets/documents/attached_file/filename/8721/Feb_budget_report.pdf.

You'll find that our anticipated revenues are down by \$318K for the NACs. Simply put, fewer people are travelling to our national tournaments and revenues are down. Expenses for these are largely fixed. In addition to these lower revenues, we absorbed approximately \$117K of unbudgeted expense for the Olympic Games from the USOC. These expenses are in addition to the \$110K from the 07/08 season which was incurred in the lead up to the games themselves. When the budget was formed these expenses and our relationship to the USOC were impossible to anticipate. Economies in other areas of the budget continue to be explored.

In conclusion, we are in a difficult financial situation. We will need to be creative in finding new sources of revenue and careful in how we spend our funds over the next several years. However, I have confidence that with Kurt Aichele (our new Executive Director) and Teri Holt (our new Director of Finance and Business Services) that we are on the path to slowly, but surely, improving our balance sheet while still funding those essential programs that will allow us to continue our recent success.

Should you have any questions or if you would like to discuss any of this with me please don't hesitate to contact me.

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