

USA PENTATHLON, INC.
FINANCIAL STATEMENTS
December 31, 2009



EB&K

Erickson, Brown & Kloster, P.C.
Certified Public Accountants

USA PENTATHLON, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
USA Pentathlon, Inc.
Colorado Springs, Colorado

We have audited the accompanying statement of financial position of ***USA Pentathlon, Inc.*** (a not-for-profit organization) as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***USA Pentathlon, Inc.*** as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Erickson, Brown & Kloster, P.C.

Colorado Springs, Colorado
November 22, 2010

USA PENTATHLON, INC.
Statement of Financial Position
December 31, 2009

Assets

Current assets:

Cash \$ 102,462

Total current assets 102,462

Property and equipment:

Office furniture and equipment 10,566

Less accumulated depreciation (753)

9,813

Assets held and administered by United States
Olympic Foundation (USOF)

124,484

\$ 236,759

Net Assets

Net assets:

Unrestricted \$ 112,275

Temporarily restricted 124,484

\$ 236,759

The accompanying notes are an integral part of these financial statements.

USA PENTATHLON, INC.
Statement of Activities
Year ended December 31, 2009

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-------------------|
| Support and revenue: | | | |
| United States Olympic Committee | | | |
| grants and royalties | \$ 284,186 | \$ - | \$ 284,186 |
| Membership dues | 2,407 | - | 2,407 |
| Tournament income | 5,900 | - | 5,900 |
| Camps and training income | 2,340 | - | 2,340 |
| Corporate sponsorships | 7,046 | - | 7,046 |
| Contributions and other grants | 9,482 | - | 9,482 |
| Interest and dividends | 63 | - | 63 |
| Change in value of assets held and administered by USOF | - | 26,841 | 26,841 |
| Net assets released from restrictions | 100,000 | (100,000) | - |
| Total support and revenue | <u>411,424</u> | <u>(73,159)</u> | <u>338,265</u> |
| Expenses: | | | |
| Program: | | | |
| Competitions | 88,571 | - | 88,571 |
| National team development | 134,232 | - | 134,232 |
| Camps and training | 38,873 | - | 38,873 |
| Total program services | <u>261,676</u> | <u>-</u> | <u>261,676</u> |
| General and administrative | 43,646 | - | 43,646 |
| Fundraising | 494 | - | 494 |
| Total supporting services | <u>44,140</u> | <u>-</u> | <u>44,140</u> |
| Total expenses | <u>305,816</u> | <u>-</u> | <u>305,816</u> |
| Change in net assets | 105,608 | (73,159) | 32,449 |
| Net assets, beginning of year | <u>6,667</u> | <u>197,643</u> | <u>204,310</u> |
| Net assets, end of year | <u>\$ 112,275</u> | <u>\$ 124,484</u> | <u>\$ 236,759</u> |

The accompanying notes are an integral part of these financial statements.

USA PENTATHLON, INC.
Statement of Cash Flows
Year ended December 31, 2009

| | |
|--|--------------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ 32,449 |
| Adjustments to reconcile change in net assets to cash provided by operating activities: | |
| Depreciation | 753 |
| Proceeds from donated goods | (3,000) |
| Change in value of assets held and administered by USOF | <u>(26,841)</u> |
| Net cash provided by operating activities | <u>3,361</u> |
| Cash flows from investing activities: | |
| Purchases of property and equipment | <u>(7,566)</u> |
| Net cash used in investing activities | <u>(7,566)</u> |
| Net decrease in cash | (4,205) |
| Cash, beginning of year | <u>106,667</u> |
| Cash, end of year | <u><u>\$ 102,462</u></u> |

The accompanying notes are an integral part of these financial statements.

USA PENTATHLON, INC.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

USA Pentathlon, Inc. (the Organization) is the national governing body for the sport of modern pentathlon, making it responsible for the promotion and development of amateur pentathlon in the United States. The Organization began operations in October 2008. Members are located throughout the United States.

The Organization is committed to cultivating national and international amateur competition in the sport of modern pentathlon. Competitions, national team development, camps and training activities are utilized in pursuit of its goals.

The Organization supports male and female athletes as they compete in national and international pentathlon events. The athletes compete annually in a series of World Cup events, World Championship events, as well as National Championships and Pan Am Championships. Additionally, the athletes compete in the Pan Am Games and the Olympic Games every four years.

Through the team development program, the Organization coaches and monitors the training of selected elite pentathlon athletes that are residents of the US Olympic training center. Additionally, this program is used to develop younger or less experienced athletes to improve the overall growth of the sport nationally.

The Organization will host and send athletes to participate in training camps that will generally focus on a specific skill. The sport of modern pentathlon is a combination of running, swimming, shooting, fencing and equestrian riding. This program is used to assist athletes in their development of each specific skill set to improve their overall scoring in competition.

The programs efforts yielded positive results during the year as individual athletes improved their finish at international competitions. The program had a male athlete that didn't qualify to compete in the 2008 Olympic Games that made it to the finals of the 2009 World Championships. Additionally, a female competitor that placed 22nd at the 2008 Olympic Games improved five spots to finish 17th at the 2009 World Championships. The Organization also held successful US Championships and a NORSECA event that included participants from countries in the Western Hemisphere.

Basis of accounting

The accounts of the Organization are maintained and the financial statements are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation

Under U.S. generally accepted accounting principles (GAAP), the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of estimates

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

Cash and cash equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and equipment

Property and equipment is recorded at cost, or if donated, at the estimated fair value at the date of donation. Property and equipment is depreciated using the straight-line method over estimated useful lives ranging from 3 to 8 years. The Organization's policy is to capitalize acquisitions of property and equipment in excess of \$1,000 and having a useful life exceeding one year. The Organization received donated equipment of approximately \$3,000 for the year ended December 31, 2009.

Contributions and grants

Contributions and grants that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions and grants are recognized. All other donor-restricted contributions and grants are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income tax status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status (continued)

As of January 1, 2009, the Organization adopted the provisions of accounting for uncertainty in income taxes as required under GAAP. The Organization has evaluated all of its outstanding tax positions as of December 31, 2009 and determined that they meet the more-likely-than-not recognition threshold. Accordingly, the Organization has not recognized a liability, cumulative-effect adjustment or income tax expense for any unrecognized tax benefits in the accompanying financial statements.

2. ASSETS HELD AND ADMINISTERED BY USOF

The Organization receives the beneficial use of assets invested in securities that are held and administered by the USOF under an operating agreement. The Organization has recognized an asset equal to the present value of estimated future distributions expected to be received under the arrangement. The discount rate used is 5%. Adjustments to reflect revaluations of the present value of the estimated future payments and amortization of the discount are recognized in the statement of activities as a change in value of assets held and administered by USOF. Under the terms of the agreement, these assets will be held by the USOF until the Organization is recognized as a viable and fully functioning national governing board, which includes the creation of a trust to administer these funds upon transfer. As of December 31, 2009, the total of these temporarily restricted assets was \$124,484.

3. FAIR VALUE MEASUREMENTS

GAAP establishes 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 an active market 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 under GAAP are described as follows:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology include unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. |
| Level 2 | Inputs to the valuation methodology include <ul style="list-style-type: none">• 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.

3. FAIR VALUE MEASUREMENTS (continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for the Organization's assets measured at fair value. There have been no changes in the methodologies used at December 31, 2009.

Assets held and administered by USOF: Valued using the income approach in the form of present value techniques, which is a Level 3 measurement.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Organization 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.

4. RELATED PARTY TRANSACTIONS

The United States Olympic Committee (USOC) provided grants and royalties to the Organization for the year ended December 31, 2009 as follows:

| | |
|---------------------------|-------------------|
| Performance grant | \$ 196,761 |
| Value in-kind grant | 12,425 |
| Joint marketing royalties | <u>75,000</u> |
| | <u>\$ 284,186</u> |

During the year ended December 31, 2009, the Organization repaid a \$100,000 advance received from the USOC in 2008 to begin operations. The Organization is economically dependent upon grants and advances from the USOC in order to maintain its program services at current levels.

5. RESTRICTIONS ON NET ASSETS

At December 31, 2009, temporarily restricted assets consist of assets held and administered by USOF in the amount of \$124,484. Temporarily restricted net assets released from restrictions during the year consist of \$100,000 of assets held and administered by USOF.

6. CASH FLOW STATEMENT DISCLOSURES

Supplemental disclosures of cash flow information

During the year ended December 31, 2009, the Organization did not pay any interest or income taxes.

6. CASH FLOW STATEMENT DISCLOSURES (continued)

Supplemental schedule of noncash financing and investing activities

During the year ended December 31, 2009, \$100,000 was released from the assets held and administered by USOF and was paid directly to the USOC to settle the Organization's payable to the USOC. During the year ended December 31, 2009, the Organization received donated equipment in the form of three horses with an estimated fair value of \$3,000 from the USOC.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 22, 2010, the date which the financial statements were available to be issued. There were no subsequent events that provided evidence about conditions that did not exist as of December 31, 2009 that require disclosure in the notes in order to keep the financial statements from being misleading. There were no material subsequent events that existed as of December 31, 2009 that were not reflected in the accompanying financial statements.