

USA VOLLEYBALL
Financial Statements
For the Year Ended December 31, 2006

TABLE OF CONTENTS

Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5
Schedule of Program Services	13
Schedule of Supporting Services	14

INDEPENDENT AUDITORS' REPORT

Board of Directors
USA Volleyball
Colorado Springs, Colorado

We have audited the accompanying statement of financial position of United States Volleyball Association, dba USA Volleyball (a nonprofit organization) as of December 31, 2006 and the related statement of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Association's December 31, 2005 financial statements and, in our report dated March 10, 2006, we expressed an unqualified opinion on those financial statements.

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 Volleyball as of December 31, 2006, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of program services and supporting services for the year ended December 31, 2006 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Waugh & Goodwin, LLP

March 28, 2007

USA VOLLEYBALL
Statement of Financial Position
December 31, 2006
(With Comparative Amounts for 2005)

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 600,733	\$ 1,345,569
Accounts receivable	196,074	526,519
Short-term investments (Note D)	2,593	2,533
Inventory	77,768	45,945
Prepaid expenses	<u>391,334</u>	<u>349,839</u>
Total current assets	1,268,502	2,270,405
LONG-TERM INVESTMENTS (Note E)	1,707,442	994,995
EQUIPMENT, at cost:		
Office furniture	59,323	59,323
Office equipment	180,869	164,295
Divisional equipment	456,219	220,689
Less accumulated depreciation	<u>(287,777)</u>	<u>(197,943)</u>
Equipment - net	<u>408,634</u>	<u>246,364</u>
TOTAL ASSETS	<u>\$ 3,384,578</u>	<u>\$ 3,511,764</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 619,415	\$ 646,661
Accrued liabilities	2,401	1,326
Deferred compensation (Note L)	82,841	112,531
Deferred revenue (Note F)	<u>246,792</u>	<u>189,295</u>
Total current liabilities	951,449	949,813
NET ASSETS:		
Unrestricted	994,606	2,431,691
Board designated (Note B)	1,405,042	100,956
Temporarily restricted (Note C)	<u>33,481</u>	<u>29,304</u>
Total net assets	<u>2,433,129</u>	<u>2,561,951</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,384,578</u>	<u>\$ 3,511,764</u>

See Notes to Financial Statements

USA VOLLEYBALL
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2006
(With Comparative Totals for 2005)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2006 Totals</u>	<u>2005 Totals</u>
SUPPORT AND REVENUE:				
National programs	\$ 4,440,771	\$	\$ 4,440,771	\$ 3,951,945
Membership services	2,066,996		2,066,996	1,900,603
Sponsorship and marketing	1,632,893		1,632,893	1,433,954
USOC grants (Note J)	611,512		611,512	585,350
International programs	405,117		405,117	423,776
Product and ball sales less direct costs of \$148,671 and \$142,669	384,399		384,399	345,300
Investment income (Note E)	272,789		272,789	39,825
Other programs	172,132		172,132	167,065
USPC grants (Note J)	164,000		164,000	60,000
Contributions	57,901	10,475	68,376	88,229
Satisfied program restrictions	<u>6,298</u>	<u>(6,298)</u>		
Total support and revenue	10,214,808	4,177	10,218,985	8,996,047
EXPENSES:				
Program services:				
National programs	5,237,216		5,237,216	3,860,901
Membership services	1,221,552		1,221,552	1,031,539
High performance programs	1,065,055		1,065,055	933,571
Development and other programs	527,461		527,461	280,385
Disabled programs	213,289		213,289	101,467
International programs	<u>109,722</u>		<u>109,722</u>	<u>114,526</u>
Total program services	8,374,295		8,374,295	6,322,389
Supporting services:				
National headquarters	1,138,411		1,138,411	1,022,794
Board of Directors	256,611		256,611	229,426
Sponsorship, marketing and public relations	235,454		235,454	227,869
Fundraising	<u>43,036</u>		<u>43,036</u>	<u>31,206</u>
Total supporting services	<u>1,673,512</u>		<u>1,673,512</u>	<u>1,511,295</u>
Total expenses	<u>10,047,807</u>		<u>10,047,807</u>	<u>7,833,684</u>
CHANGE IN NET ASSETS	167,001	4,177	171,178	1,162,363
NET ASSETS, beginning of year	2,532,647	29,304	2,561,951	2,764,629
TRANSFER TO USA VOLLEYBALL FOUNDATION (Note J)	<u>(300,000)</u>		<u>(300,000)</u>	<u>(1,365,041)</u>
NET ASSETS, end of year	<u>\$ 2,399,648</u>	<u>\$ 33,481</u>	<u>\$ 2,433,129</u>	<u>\$ 2,561,951</u>

See Notes to Financial Statements

USA VOLLEYBALL
Statement of Cash Flows
For the Year Ended December 31, 2006
(With Comparative Amounts for 2005)

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 171,178	\$ 1,162,363
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	89,834	31,464
Net unrealized and realized (gains) losses on investments	(59,105)	23,107
Changes in assets and liabilities:		
Decrease in accounts receivable	330,445	(342,231)
Increase in prepaid expenses and deposits	(41,495)	(124,100)
Increase in inventory	(31,823)	7,883
Decrease in accounts payable	(27,246)	229,062
Increase in accrued liabilities	1,075	(2,939)
Decrease in deferred compensation	(29,690)	(32,079)
Increase in deferred revenue	<u>57,496</u>	<u>(11,440)</u>
Total adjustments	<u>289,491</u>	<u>(221,273)</u>
Net cash provided by operating activities	460,669	941,090
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(252,103)	(209,608)
Net change in investments	(653,402)	735,694
Transfer to USA Volleyball Foundation	<u>(300,000)</u>	<u>(1,365,041)</u>
Net cash used by investing activities	<u>(1,205,505)</u>	<u>(838,955)</u>
NET DECREASE IN CASH	(744,836)	102,135
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,345,569</u>	<u>1,243,434</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 600,733</u>	<u>\$ 1,345,569</u>

See Notes to Financial Statements

USA VOLLEYBALL
Notes to Financial Statements
For the Year Ended December 31, 2006

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The United States Volleyball Association, dba USA Volleyball (the Association), is a nonprofit corporation organized in 1928 and incorporated in the State of California in 1970. The principal purposes of the Association are to foster and conduct area, regional, state and national amateur instructional and competitive volleyball programs and to represent the volleyball interests of the nation to the United States Olympic Committee (USOC) and to international volleyball organizations. Effective December 28, 2006, the Association re-organized and incorporated in the state of Colorado.

The Association is the National Governing Body of the sport of volleyball. The Association recognizes and sets general policy for Regional Volleyball Associations (RVA's). These RVA's are separate legal entities whose operations are controlled by their own elected boards.

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 reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

Certain costs and expenses are allocated among the various programs and supporting service expenses based on internal records and estimates made by the Association's management.

Income Taxes

The Association is an organization which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986. The Association qualifies for charitable contribution deductions and is not a private foundation. Income from certain activities not directly related to the Association's tax-exempt purpose is subject to taxation as unrelated business income.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the Association's checking, money market and petty cash accounts. The Association maintains its cash and cash equivalents primarily at one commercial bank. In the unlikely event of a bank failure, the Association might only be able to recover the amounts insured.

Supplemental Cash Flow Information

During the years ended December 31, 2006 and 2005, no interest or income taxes were paid.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial. Therefore, no allowance for doubtful accounts is considered necessary.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Prepaid Expenses and Deferred Charges

Event expenses paid for in a fiscal year prior to the occurrence of a scheduled event are deferred and recognized as expenses in the fiscal year in which such events occur.

Property and Equipment

Property and equipment consist of assets used in the operations of the Association. They are recorded at cost or, if donated, at the estimated fair market value at the date of donation.

Depreciation is recorded using the straight-line method over an estimated life of three to five years. Depreciation expense was \$89,834 and \$31,464 for the years ended December 31, 2006 and 2005, respectively.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In-kind Revenue

Sponsorship income in the form of in-kind goods such as clothing and volleyballs are reported as revenue and expense in the fiscal year they are received.

Contributions

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a 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.

Prior Year Comparisons

The financial statements include certain prior-year summarized comparative information in total but not by net asset or functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2005 from which the summarized information was derived.

Certain reclassifications have been made to the prior year amounts in order to conform to the current year financial statement format.

B. BOARD DESIGNATED NET ASSETS

At December 31, 2006 and 2005, Board designated net assets consist of the following:

	<u>2006</u>	<u>2005</u>
Operating reserve	\$ 1,350,000	\$
Officials programs	15,181	15,181
YJOV programs	<u>39,861</u>	<u>85,775</u>
	<u>\$ 1,405,042</u>	<u>\$ 100,956</u>

Notes to Financial Statements

C. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Men's sitting team	\$ 14,049	\$ 17,039
Women's sitting team	11,317	12,265
2007 Operations	8,000	
Men's standing team	<u>115</u>	
	<u>\$ 33,481</u>	<u>\$ 29,304</u>

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the year ended December 31, 2006, net assets were released from restrictions by satisfying the following purposes:

Men's sitting team	\$ 5,350
Women's sitting team	<u>948</u>
	<u>\$ 6,298</u>

D. SHORT-TERM INVESTMENTS

Short-term investments consist of money market funds in the amount of \$2,593 and \$2,533 for the years ended December 31, 2006 and 2005, respectively.

E. LONG-TERM INVESTMENTS

Long-term investments consist of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Stocks	\$ 1,067,823	\$ 665,419
Fixed income funds	388,408	260,297
Money market funds	210,117	28,759
Mutual funds	40,444	39,870
Investment in USA Volleyball Properties	<u>650</u>	<u>650</u>
Total market value	<u>\$ 1,707,442</u>	<u>\$ 994,995</u>

Investment income consists of the following components for the years ended December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Unrealized/realized gains (losses)	\$ 164,223	\$ (23,107)
Interest and dividends	<u>108,566</u>	<u>62,932</u>
	<u>\$ 272,789</u>	<u>\$ 39,825</u>

Notes to Financial Statements

F. DEFERRED REVENUE

Deferred revenue includes payments under corporate sponsor agreements, with terms in excess of one year, whereby revenue is recognized when earned based on the term of each agreement. Registration fees and other fees from RVA's received in advance of the January through August playing season are also deferred and recognized in the playing season to which they relate.

At December 31, 2006 and 2005, deferred revenue consists of the following:

	<u>2006</u>	<u>2005</u>
Region registrations	\$ 133,270	\$ 104,564
Registration fees	72,656	
Official renewal fees	25,760	30,320
High performance development fee	12,806	43,680
Impact fees	1,900	5,481
Member organization	400	
Junior qualifier fees		5,250
	<u>\$ 246,792</u>	<u>\$ 189,295</u>

G. RETIREMENT PLAN

The Association has a 403(b) retirement plan available to all eligible personnel. The plan enables employees to make contributions on either a tax deferred salary reduction basis or an after tax basis if the Roth provision is chosen, of a percentage of their compensation. The Association matches contributions at a minimum of 3% up to 8% of base compensation for employees who have made a minimum 3% voluntary contribution and have completed ninety days of employment. Employee contributions are immediately vested. Employer contributions are fully vested on the first day of the month following completion of two years of employment. Employer contributions under this plan were \$128,455 and \$103,201 for the years ended December 31, 2006 and 2005, respectively.

H. COMMITMENTS AND CONTINGENCIES

The Association has entered into annual agreements with its players that call for monthly stipends to the players in exchange for their participation on the Association's volleyball teams. These monthly stipends conform to USOC, International Olympic Committee and the Federation Internationale de Volleyball guidelines and policies. For the years ended December 31, 2006 and 2005, the monthly stipends amounted to \$368,561 and \$294,901, respectively.

Notes to Financial Statements

H. COMMITMENTS AND CONTINGENCIES - Continued

The Association has a line of credit agreement with a local bank. The line of credit has a \$400,000 limit, with interest at 1.0% below prime and expires January 25, 2007. The line of credit is secured by the Association's inventory, equipment and investment accounts. There were no outstanding borrowings at December 31, 2006 and 2005.

I. LEASES

The Association leases office space under an operating lease that started March 20, 2001 and continues through March 31, 2009. The Association has the option to extend this lease for one year if notice is given to the landlord prior to December 31, 2008.

The Association also has operating leases for two copiers through May 2007, which require monthly payments of \$1,695.

During 2005, the Association entered into an operating lease agreement for a postage machine through August, 2009. This lease requires quarterly payments of \$783.

The Association leases warehouse space for storage under an operating lease commencing December 1, 2005 and continuing for a period of five years, expiring November 30, 2010. This lease requires monthly payments of \$2,000 through November 2007, \$2,100 through November 2008, \$2,200 through November 2009 and \$2,300 through November 2010.

Future minimum payments under these operating leases are as follows:

2007	\$ 116,853
2008	110,203
2009	49,331
2010	25,300

Notes to Financial Statements

J. RELATED PARTIES

During the years ended December 31, 2006 and 2005, the United States Olympic Committee (USOC) provided grants to the Association under the following project categories:

	<u>2006</u>	<u>2005</u>
NGB funding	\$ 608,584	\$ 585,350
International representation	<u>2,928</u>	<u> </u>
	<u>\$ 611,512</u>	<u>\$ 585,350</u>

In addition to the amounts above, the USOC provided additional funding in the form of value in kind in the amount of \$34,700 and \$17,650 for the years ended December 31, 2006 and 2005, respectively, which is included with sponsorship and marketing in the statement of activities and changes in net assets. The Association is economically dependent upon grants from the USOC in order to maintain its programs at current levels.

During the years ended December 31, 2006 and 2005, the Association also received grants from the USOC in the amount of \$164,000 and \$60,000, respectively, to support disabled programs.

In addition, the Association entered into a joint marketing agreement with the USOC in 2005. The term of the agreement is January 1, 2005 through December 31, 2008. The Association received \$36,000, each year for the years ended December 31, 2006 and 2005. These amounts are included in sponsorship and marketing revenue in the statement of activities.

The USA Volleyball Foundation (USAVF) was formed to operate exclusively for the benefit and support of the Association and the Regional Volleyball Associations. The purpose of the USAVF is to raise funds and acquire assets that will enable the Association to encourage, improve and promote amateur volleyball in the United States. The Association does not control the USAVF and therefore does not prepare consolidated financial statements.

During the year ended December 31, 2006 and 2005, the Association transferred \$300,000 and \$1,365,041, respectively, to the USAVF.

In addition to payments made pursuant to the deferred compensation arrangement discussed in Note L, the Association paid stipends during 2006 and 2005 to certain board members for board services provided totaling \$30,000 each year.

Notes to Financial Statements

K. AFFILIATES

The Association has accounts receivable of \$77,981 and \$20,216 due from affiliates and RVA's at December 31, 2006 and 2005, respectively. The Association has accounts payable of \$735 and \$0 due to affiliates and RVA's as of December 31, 2006 and 2005, respectively.

L. DEFERRED COMPENSATION

In prior years, the Association contracted with an individual to perform the duties of Executive Director. At December 31, 2006, the unpaid portion of the contract fee is accrued in the Association's financial statements. These funds have been set aside in a designated cash account.

USA VOLLEYBALL
Schedule of Program Services
For the Year Ended December 31, 2006

	National Programs	Membership Services	High Performance Programs	Development and Other Programs	Disabled Programs	International Programs	Total
Advertising and promotion	\$	\$	\$	\$	\$	\$	\$
Apparel and equipment	479,667		153,944	44,748	20,871	700	699,930
Athlete support	368,561				500		369,061
Background screening	720	192	704	944	48		2,608
Bank charges	13,215		5,690	5,981	2	205	25,093
Catering	28,272		2,051	526		12,627	43,476
Commissions	22,400						22,400
Communication services				2,802			2,802
Computer fees and support	4,540		2,035	100			6,675
Consulting fees	7,824						7,824
Contract labor	242,919	94,677	4,596	32,828		750	375,770
Donations (HOF)		7,550					7,550
Dues and fees	338	230	50	279	526	1,175	2,598
Educational materials				11,748			11,748
Educational programs				14,265			14,265
Entertainment	150		1,236				1,386
Entry fees			3,400			1,125	4,525
Equipment rent and maintenance	107,643					282	107,925
Equipment shipping and storage	23,976						23,976
Event personnel	216,900		500				217,400
Facilities	484,077		200	150			484,427
Gifts and awards	62,280		584	100		349	63,313
Honorariums	50,265		123,973	48,091	12,000		234,329
Host fees	650		228,180	2,905			231,735
Impact fees				23,236			23,236
Insurance	5,335	525,758					531,093
Medical	16,137		744				16,881
NCAA grant expense	10,000						10,000
Officials fees	516,689		38,646			11,098	566,433
Other expense	27,317	614	4,339	26,548	997	190	60,005
Per diem	92,100						92,100
Postage and shipping	51,759	145,067	8,864	3,388	577	8,474	218,129
Printing and copies	104,296	284,707	2,308	5,214	40	233	396,798
Prize money	8,100						8,100
Rating team				20,576			20,576
Relocation and remodeling	183,901						183,901
Rent	25,066						25,066
Salaries, benefits and taxes	1,211,278	157,167	287,169	226,422	39,510	37,248	1,958,794
Security	45,200						45,200
Small equipment	27,334		1,786	1,210	295		30,625
Storage	30,242						30,242
Supplies	13,704	230	5,115	3,694	36	771	23,550
Telephone	18,435	1,549	1,320	1,056	44	105	22,509
Television fees	150,000						150,000
Tournament scheduling	26,640						26,640
Travel, food and lodging	559,286	3,811	187,621	50,650	137,843	34,390	973,601
Total	\$ 5,237,216	\$ 1,221,552	\$ 1,065,055	\$ 527,461	\$ 213,289	\$ 109,722	\$ 8,374,295

USA VOLLEYBALL
Schedule of Supporting Services
For the Year Ended December 31, 2006

	National Headquarters	Board of Directors	Sponsorship, Marketing and Public Relations	Fundraising	Total
Accounting fees	\$ 9,800	\$	\$	\$	\$ 9,800
Advertising and promotion			681		681
Apparel and equipment	25,821		43,800		69,621
Audiovisual expense		10,656			10,656
Bad debts	91,250				91,250
Bank charges and interest	11,569	132		25	11,726
Catering		12,688			12,688
Commissions		7,907			7,907
Contract labor	35,636		(1,043)		34,593
Depreciation expense	89,834				89,834
Donations		4,458			4,458
Dues and subscriptions	1,007		189		1,196
Equipment rent and maintenance	7,685				7,685
Fundraising				24,017	24,017
Gifts and awards		3,797			3,797
Honorariums		30,000			30,000
Insurance	58,758				58,758
Internet expenses	18,778				18,778
Legal fees	66,105				66,105
Meeting and committee expense		104,122			104,122
Other expense	2,887	1,145	7,370	20	11,422
Photography and articles			6,147		6,147
Postage and shipping	1,830	4,561	895	91	7,377
Printing and copies	21,903	2,057	449	8	24,417
Promotion and office functions	5,813		618		6,431
Rating team		973			973
Relocation and remodeling	3,074				3,074
Rent	128,023				128,023
Salaries, benefits and taxes	472,943		159,483	18,873	651,299
Small equipment	21,341		1,130		22,471
Sponsor servicing			13,750		13,750
Storage	2,686				2,686
Supplies	14,921	1,309	251	2	16,483
Telephone	15,781	369	276		16,426
Travel, food and lodging	30,966	72,437	1,458		104,861
	<u>\$ 1,138,411</u>	<u>\$ 256,611</u>	<u>\$ 235,454</u>	<u>\$ 43,036</u>	<u>\$ 1,673,512</u>