

UNITED STATES FENCING ASSOCIATION

**Financial Statements and Schedules of
Program and Supporting Services**

For the Year Ended July 31, 2007

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INDEPENDENT AUDITORS' REPORT

Board of Directors
United States Fencing Association

We have audited the accompanying statement of financial position of United States Fencing Association (a nonprofit corporation) as of July 31, 2007, and the related statements 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 July 31, 2006 financial statements and, in our report dated September 15, 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 United States Fencing Association as of July 31, 2007 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 of supporting services for the year ended July 31, 2007 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

February 26, 2008

UNITED STATES FENCING ASSOCIATION
Statement of Financial Position
July 31, 2007
(With Comparative Amounts for 2006)

	<u>ASSETS</u>	
	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 124,317	\$ 120,533
Accounts receivable, net	270,093	168,016
Due from USOC		212,132
Due from USFF		50,000
Short-term investments	13,360	272,599
Prepaid expenses	84,738	148,961
Inventory	<u>94,943</u>	<u>83,027</u>
Total current assets	587,451	1,055,268
PROPERTY, FURNITURE AND EQUIPMENT:		
Undivided interest in building	174,619	174,619
Undivided interest in land	29,340	29,340
Office furniture and equipment	13,419	13,419
Computer equipment	16,602	16,602
Scoring equipment and strips	112,104	107,104
Less accumulated depreciation	<u>(80,577)</u>	<u>(58,848)</u>
Property, furniture & equipment - net	<u>265,507</u>	<u>282,236</u>
TOTAL ASSETS	<u>\$ 852,958</u>	<u>\$ 1,337,504</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 706,448	\$ 629,017
Accrued liabilities	414,237	30,531
Deferred membership dues	457,625	399,471
Deferred USOC revenue	19,793	
Due to Divisions and Sections	33,774	33,150
USFA grants payable to athletes	<u>139,878</u>	<u>93,152</u>
Total current liabilities	1,771,755	1,185,321
LINE OF CREDIT	<u>50,000</u>	<u> </u>
TOTAL LIABILITIES	1,821,755	1,185,321
NET ASSETS:		
Unrestricted	(968,797)	151,007
Temporarily restricted	<u> </u>	<u>1,176</u>
Total net assets	<u>(968,797)</u>	<u>152,183</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 852,958</u>	<u>\$ 1,337,504</u>

See Notes to Financial Statements

UNITED STATES FENCING ASSOCIATION
Statement of Activities and Changes in Net Assets
For the Year Ended July 31, 2007
(With Comparative Totals for 2006)

	Unrestricted	Temporarily Restricted	2007 Total	2006 Total
REVENUE:				
Tournaments	\$ 1,521,971	\$	\$ 1,521,971	\$ 1,562,231
Membership dues	972,428		972,428	918,944
USOC grants	527,616		527,616	668,811
Royalties and sponsorships	275,692		275,692	229,368
Club insurance fees	138,735		138,735	119,771
American Fencing Magazine	103,552		103,552	56,246
USOC joint marketing agreement	72,000		72,000	72,000
USFF Grant	70,000		70,000	50,000
Other programs	63,432		63,432	66,795
In-kind revenue	43,605		43,605	50,068
Contributions	28,702		28,702	21,561
USOC content license agreement	25,000		25,000	
Sale of promotional items	14,242		14,242	18,918
Less cost of promotional items	(14,428)		(14,428)	(5,208)
Investment income	9,987		9,987	8,549
Satisfied program restrictions	<u>1,176</u>	<u>(1,176)</u>		
Total revenue	3,853,710	(1,176)	3,852,534	3,838,054
EXPENSES:				
Program services:				
National programs	1,741,499		1,741,499	1,438,689
International programs	1,642,535		1,642,535	1,104,449
Officials and coaches	494,581		494,581	439,800
Membership	463,032		463,032	414,330
Junior programs	<u>181,226</u>		<u>181,226</u>	<u>179,189</u>
Total program services	4,522,873		4,522,873	3,576,457
Supporting services:				
General and administrative	312,765		312,765	386,127
Board of Directors	74,876		74,876	29,958
Fundraising	<u>63,000</u>		<u>63,000</u>	
Total supporting services	450,641		450,641	416,085
Total expenses	<u>4,973,514</u>		<u>4,973,514</u>	<u>3,992,542</u>
CHANGE IN NET ASSETS	(1,119,804)	(1,176)	(1,120,980)	(154,488)
NET ASSETS, beginning of year	<u>151,007</u>	<u>1,176</u>	<u>152,183</u>	<u>306,671</u>
NET ASSETS, end of year	<u>\$ (968,797)</u>	<u>\$</u>	<u>\$ (968,797)</u>	<u>\$ 152,183</u>

See Notes to Financial Statements

UNITED STATES FENCING ASSOCIATION
Statement of Cash Flows
For the Year Ended July 31, 2007
(With Comparative Amounts for 2006)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,120,980)	\$ (154,488)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	21,729	13,223
Realized (gain) loss on securities	(7,676)	1,339
Unrealized (gain) loss on securities	(407)	2,909
Non-cash contribution of equipment	(5,000)	
Decrease (increase) in assets:		
Accounts receivable	(102,077)	(77,389)
Prepaid expenses	64,223	(95,828)
Inventory	(11,916)	(40,279)
Due from USOC	212,132	(212,132)
Due from USFF	50,000	(50,000)
Increase (decrease) in liabilities:		
Accounts payable	77,431	79,487
Accrued liabilities	383,706	(21,612)
Deferred membership revenue	58,154	62,591
Deferred USOC revenue	19,793	
Due to Divisions and Sections	624	(17,095)
USFA grants payable to athletes	<u>46,726</u>	<u>30,572</u>
Total adjustments	<u>807,442</u>	<u>(324,214)</u>
Net cash used by operating activities	(313,538)	(478,702)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of equipment		(80,889)
Proceeds from sale of short-term investments	267,322	
Purchase of short-term investments	<u> </u>	<u>(161,178)</u>
Net cash provided (used) by investing activities	267,322	(242,067)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Line of credit - net	<u>50,000</u>	<u> </u>
Net cash provided by financing activities	<u>50,000</u>	<u> </u>
NET INCREASE (DECREASE) IN CASH	3,784	(720,769)
CASH AND CASH EQUIVALENTS, beginning of year	<u>120,533</u>	<u>841,302</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 124,317</u>	<u>\$ 120,533</u>

See Notes to Financial Statements

UNITED STATES FENCING ASSOCIATION
Notes to Financial Statements
For the Year Ended July 31, 2007

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

United States Fencing Association (Association) is the national governing body for fencing, making it responsible for the promotion and development of amateur fencing in the United States.

The Association qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax. The Association is not a private foundation.

Depreciation

Property and equipment are recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of gifts. Depreciation is recorded using the straight-line method over estimated useful lives of three to five years. Depreciation expense of \$21,729 and \$13,223 was recorded for the years ended July 31, 2007 and 2006, respectively.

The Association's policy is to capitalize property and equipment if the cost or fair value is \$1,000 or greater. The Association expenses all equipment maintenance costs when incurred.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

The Association's accounts receivable are recorded net of an allowance for doubtful accounts of \$2,500 at July 31, 2007 and 2006.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. However, support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received.

Contributed Services

The Association receives a substantial amount of donated services in carrying out the Association's programs. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under SFAS No. 116.

Inventory

Inventory consists of promotional items which are stated at the lower of cost (first-in, first-out method) or market.

Cash and Cash Equivalents

Cash and cash equivalents consist of the Association's cash in its checking and money market accounts.

The Association maintains its cash and cash equivalents in a commercial bank. At July 31, 2007 and 2006, the Association had approximately \$124,300 and \$120,500, respectively on deposit at one bank, and, in the unlikely event of a bank failure, the Association could suffer a loss to the extent its deposits exceed the respective bank's insurance limits.

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 July 31, 2006, from which the summarized information was derived.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Prior Year Comparisons - continued

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

Use of Estimates in Preparation of Financial Statements

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, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Functional Allocation of Expenses

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

B. SHORT-TERM INVESTMENTS

Investments are considered available for sale and recorded at market value. At July 31, 2007 and 2006 investments consist of the following:

	<u>2007</u>	<u>2006</u>
Common stock	\$ 13,360	\$ 12,603
Mutual funds		259,996
At market value	<u>\$ 13,360</u>	<u>\$ 272,599</u>
At adjusted cost	<u>\$ 12,491</u>	<u>\$ 275,508</u>

Investment income for the years ended July 31, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Realized gain (loss) on securities	\$ 7,214	\$ (1,339)
Capital gain distributions	975	
Interest and dividends	929	12,797
Unrealized gain (loss) on securities	<u>869</u>	<u>(2,909)</u>
	<u>\$ 9,987</u>	<u>\$ 8,549</u>

Notes to Financial Statements

C. PREPAID EXPENSES

Prepaid expenses consist of the following at July 31:

	<u>2007</u>	<u>2006</u>
Events	\$ 62,704	\$ 138,013
Online membership application website	20,625	
Deferred dues to Divisions & Sections		4,056
Insurance	<u>1,409</u>	<u>6,892</u>
	<u>\$ 84,738</u>	<u>\$ 148,961</u>

D. DEFERRED MEMBERSHIP DUES

Dues received for three-year memberships are deferred and recognized as revenue over the corresponding period of the membership. Amounts paid to Divisions and Sections relating to the deferred portion of membership dues are included in prepaid expenses. Dues for life memberships are deferred and recognized as revenue over a 20 year period.

E. RELATED PARTY TRANSACTIONS

The United States Olympic Committee (USOC) provides grants to the Association for sports development, international competition, and team preparation. Total grants from the USOC for the years ended July 31 consisted of the following:

	<u>2007</u>	<u>2006</u>
NGB funding	\$ 488,649	\$ 643,811
International support	3,767	5,000
Wheelchair funding	<u>35,200</u>	<u>20,000</u>
	<u>\$ 527,616</u>	<u>\$ 668,811</u>

At July 31, 2006, \$212,132 was due from the USOC for funding under the above categories.

The Association entered into a joint marketing agreement with the USOC in November, 2004. The term of the original agreement was January 1, 2005 through December 31, 2008. The Association received \$72,000 during each of the years ending July 31, 2007 and 2006.

In May, 2007 the Association entered into a content license agreement with the USOC. The term of the agreement is July 1, 2007 through December 31, 2012. Under the terms of the content license agreement the joint marketing agreement was terminated. The Association received \$25,000 during the year ended July 31, 2007.

Notes to Financial Statements

E. RELATED PARTY TRANSACTIONS - Continued

The Association is economically dependent upon grants from the USOC in order to maintain its programs at current levels.

The United States Fencing Foundation (USFF) was formed to operate for the benefit and support of the Association and the sport of fencing. The purpose of the USFF is to raise funds and acquire assets that will enable the Association to encourage, improve and promote amateur fencing in the United States. The Association does not control the USFF and therefore does not prepare consolidated financial statements.

During the years ended July 31, 2007 and 2006, the USFF provided grants to the Association in the amounts of \$70,000 and \$50,000, respectively. As of July 31, 2006, a receivable in the amount of \$50,000 was outstanding.

The Association is currently paying an honorarium to its officials for serving at tournaments. Several members of the Association's board of directors and executive committee receive honorariums under this program.

During the years ended July 31, 2007 and 2006, the total amount of honoraria paid to members of the board and executive committee was \$3,700 and \$17,210, respectively.

F. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at July 31:

	<u>2007</u>	<u>2006</u>
Wheelchair development	\$	\$ 623
Coaches college		433
Elite athletes		120
	<u>\$</u>	<u>\$ 1,176</u>

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the years ended July 31, 2007 and 2006, \$1,176 and \$13,775, respectively, of net assets were released from restrictions.

G. LINE OF CREDIT

In November, 2001 the Association entered into a \$50,000 line of credit agreement with a commercial bank. The line of credit was at a variable interest rate tied to the prime rate and is secured by the Association's receivables, inventory and securities. At July 31, 2007 and 2006 the Association had outstanding balances of \$50,000 and \$0, respectively.

Notes to Financial Statements

G. LINE OF CREDIT - Continued

In August, 2007 the Association renewed and extended this line of credit. The limit was increased to \$150,000, and bears interest at prime rate plus .75%. The line of credit is secured by the Association's assets. Interest only payments are due until such time as the Association is notified of the final availability date for any further advances under this line of credit.

After the final availability date, the Association is required to make monthly payments of the greater of the accrued interest or \$250 per month, plus 1/60th of the outstanding principal immediately following the final availability date.

H. LEASES

The Association leased two storage facilities on a month-to-month basis for \$110 and \$150 per month. The Association also entered into a five-year operating lease for a copier in December, 2005 for \$551 per month. Total rent expense under these leases amounted to \$8,100 for each of the years ended July 31, 2007 and 2006.

Minimum lease payments for the copier for the years ending July 31 are as follows:

2008	\$ 6,612
2009	6,612
2010	6,612
2011	2,755

I. RETIREMENT PLAN

The Association sponsors a 403(b) retirement plan. To be eligible, an employee must be 21 years of age and have 90 days of continuous employment. The Association may make a discretionary contribution for all eligible employees. There were no employer contributions for the years ended July 31, 2007 and 2006.

J. BUILDING ACQUISITION

In April 2002, the Association purchased an undivided interest in a building as tenants in common with the National Archery Association, United States Field Hockey Association, United States Team Handball Federation, and USA Table Tennis. The Association received a 29% ownership interest in the land, building and related improvements. The purchase of the building was made possible by a grant in the amount of \$43,500 from the El Pomar Foundation and a grant of \$165,471 from the United States Olympic Committee. A condition of the El Pomar

Notes to Financial Statements

J. BUILDING ACQUISITION - Continued

grant is that if the Association relocates outside of El Paso County within 15 years after receipt of the grant, it will forfeit that portion of its interest paid with El Pomar grant monies to the remaining tenants in common.

The Association, in conjunction with the other tenants in common, has opened a checking account in which they are contributing funds for utilities, repairs and maintenance to the building. The Association pays \$734 per month to this account. The Association's share of the building is being depreciated over a 40-year life, using the straight-line method of depreciation.

UNITED STATES FENCING ASSOCIATION
Schedule of Program Services
For the Year Ended July 31, 2007

	National Programs	Int'l Programs	Officials & Coaches	Membership	Junior Programs	Total
Airfare & travel	\$ 203,284	\$ 382,869	\$ 119,780	\$ 3,789	\$ 22,839	\$ 732,561
Advertising & promotion	2,251	2,162	165	4,686	43	9,307
Contract services	14,134	40,477	209,633	68,729	1,700	334,673
Credit card processing	25,938			25,938		51,876
Dues & fees	280	81,576	6,693			88,549
Employee benefits & taxes	20,901	17,327		12,347		50,575
Equipment (minor)	1,503	16,825	8,243	98	62	26,731
Grants to athletes & clubs	5,130	406,175		3,235		414,540
Ground transportation	64,019	24,057	20,179	901	5,916	115,072
Honoraria	189,280	71,980	61,150		20,665	343,075
Hotel	227,968	273,354	37,333	1,773	19,690	560,118
Insurance		653		54,199		54,852
Meals	194,135	28,975	7,679	590	21,443	252,822
Miscellaneous	681	6,317		123		7,121
Per diem	87,134	68,155	15,852		8,451	179,592
Postage & freight	89,707	19,637	4,671	17,570	8,328	139,913
Printing & publications	6,132	1,092	88	104,873	638	112,823
Rebates				67,229		67,229
Rent	476,635	85,794		28,226	67,526	658,181
Salaries	91,685	76,130		59,678		227,493
Supplies	32,720	27,341	1,868	5,902	3,560	71,391
Telephone	7,982	11,639	1,247	3,146	365	24,379
	<u>\$ 1,741,499</u>	<u>\$ 1,642,535</u>	<u>\$ 494,581</u>	<u>\$ 463,032</u>	<u>\$ 181,226</u>	<u>\$ 4,522,873</u>

UNITED STATES FENCING ASSOCIATION
Schedule of Supporting Services
For the Year Ended July 31, 2007

	<u>General & Administrative</u>	<u>Board of Directors</u>	<u>Fundraising</u>	<u>Total</u>
Airfare	\$ 1,297	\$ 21,171	\$	\$ 22,468
Contract services	15,195	6,052		21,247
Depreciation	21,729			21,729
Dues & fees	5,240	2,117		7,357
Employee benefits & taxes	44,839			44,839
Equipment (minor)	331			331
Ground transportation	398	3,512		3,910
Hotel	844	17,810		18,654
Insurance		2,100		2,100
Meals	69	12,709		12,778
Miscellaneous	15,733	367		16,100
Per diem	820	2,164		2,984
Postage & freight	1,957	1,120		3,077
Printing & publications	580	515		1,095
Professional fundraising fees	518	1,182	63,000	64,700
Rent	17,583			17,583
Salaries	181,633			181,633
Supplies	2,171	2,599		4,770
Telephone	<u>1,828</u>	<u>1,458</u>		<u>3,286</u>
	<u>\$ 312,765</u>	<u>\$ 74,876</u>	<u>\$ 63,000</u>	<u>\$ 450,641</u>