

UNITED STATES FENCING ASSOCIATION

Financial Statements

For the Year Ended July 31, 2005

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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, 2005, 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, 2004 financial statements and, in our report dated September 16, 2004, 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, 2005 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, 2005 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
October 24, 2005

UNITED STATES FENCING ASSOCIATION
Statement of Financial Position
July 31, 2005
(With Comparative Amounts for 2004)

	<u>ASSETS</u>	
	<u>2005</u>	<u>2004</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 841,302	\$ 452,072
Accounts receivable, net	90,627	35,225
Short-term investments (Note B)	115,669	10,862
Prepaid expenses (Note C)	53,133	66,871
Inventory	42,748	51,606
Due from USFF (Note E)		<u>25,000</u>
Total current assets	<u>1,143,479</u>	<u>641,636</u>
PROPERTY, FURNITURE AND EQUIPMENT:		
Undivided interest in building (Note J)	174,619	174,619
Undivided interest in land (Note J)	29,340	29,340
Office furniture and equipment	13,419	13,637
Computer equipment	6,386	9,967
Scoring equipment and strips	36,431	34,994
Less accumulated depreciation	<u>(45,625)</u>	<u>(44,558)</u>
Property, furniture & equipment - net	<u>214,570</u>	<u>217,999</u>
TOTAL ASSETS	<u>\$ 1,358,049</u>	<u>\$ 859,635</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 549,530	\$ 351,853
Accrued liabilities	52,143	116,685
Deferred membership dues (Note D)	336,880	202,923
Due to Divisions and Sections	50,245	49,671
USFA grants payable to athletes	62,580	156,661
Deferred revenue		<u>20,032</u>
Total current liabilities	<u>1,051,378</u>	<u>897,825</u>
NET ASSETS:		
Unrestricted	292,235	(39,403)
Temporarily restricted (Note F)	<u>14,436</u>	<u>1,213</u>
Total net assets	<u>306,671</u>	<u>(38,190)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,358,049</u>	<u>\$ 859,635</u>

See Notes to Financial Statements

UNITED STATES FENCING ASSOCIATION
Statement of Activities and Changes in Net Assets
For the Year Ended July 31, 2005
(With Comparative Totals for 2004)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2005 Total</u>	<u>2004 Total</u>
REVENUE:				
Tournaments	\$1,244,261	\$	\$1,244,261	\$1,136,257
Membership dues	865,072		865,072	646,837
USOC grants (Note E)	577,395		577,395	471,630
Royalties and sponsorships	176,907		176,907	144,271
Miscellaneous	143,810		143,810	84,396
Club insurance fees	109,713		109,713	92,858
USOC joint marketing agreement	105,000		105,000	54,000
Contributions (Note G)	52,605	13,223	65,828	124,094
Coaches college	58,040		58,040	700
USFF Grant	50,000		50,000	
American Fencing Magazine	29,672		29,672	35,149
In-kind revenue	9,465		9,465	27,833
Sale of promotional items	14,195		14,195	14,917
Less cost of promotional items	(6,471)		(6,471)	(8,258)
Interest	5,272		5,272	3,670
Unrealized gain on investments	4,807		4,807	1,183
Newsletter advertising	1,950		1,950	
Gain on sale of assets	533		533	
Total revenue	<u>3,442,226</u>	<u>13,223</u>	<u>3,455,449</u>	<u>2,829,537</u>
EXPENSES:				
Program services:				
National programs	1,227,234		1,227,234	1,022,880
International programs	701,172		701,172	847,739
Membership	440,972		440,972	375,908
Junior programs	206,195		206,195	218,621
Officials and coaches	175,118		175,118	150,555
Total program services	<u>2,750,691</u>		<u>2,750,691</u>	<u>2,615,703</u>
Supporting services:				
General and administrative	359,897		359,897	343,319
Total supporting services	<u>359,897</u>		<u>359,897</u>	<u>343,319</u>
Total expenses	<u>3,110,588</u>		<u>3,110,588</u>	<u>2,959,022</u>
CHANGE IN NET ASSETS	331,638	13,223	344,861	(129,485)
NET ASSETS, beginning of year	<u>(39,403)</u>	<u>1,213</u>	<u>(38,190)</u>	<u>91,295</u>
NET ASSETS, end of year	<u>\$ 292,235</u>	<u>\$ 14,436</u>	<u>\$ 306,671</u>	<u>\$ (38,190)</u>

See Notes to Financial Statements

UNITED STATES FENCING ASSOCIATION
Statement of Cash Flows
For the Year Ended July 31, 2005
(With Comparative Amounts for 2004)

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 344,861	\$ (129,485)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	14,199	10,998
Change in assets and liabilities:		
Increase in accounts receivable	(55,402)	5,484
Decrease in prepaid expenses	13,738	(6,528)
Decrease in inventory	8,858	(1,266)
Decrease in due from USFF	25,000	
Increase in accounts payable	197,677	4,351
Decrease in accrued liabilities	(64,542)	42,085
Increase in deferred membership dues	133,957	24,136
Decrease in deferred revenue	(20,032)	17,948
Increase in due to Divisions and Sections	574	5,139
Decrease in USFA grants payable	(94,081)	(10,094)
Total adjustments	<u>159,946</u>	<u>92,253</u>
Net cash provided (used) by operating activities	504,807	(37,232)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition and disposal of equipment	(10,770)	(15,416)
Increase in short-term investments	(104,807)	(1,184)
Net cash used by investing activities	<u>(115,577)</u>	<u>(16,600)</u>
NET INCREASE (DECREASE) IN CASH	389,230	(53,832)
CASH AND CASH EQUIVALENTS, beginning of year	<u>452,072</u>	<u>505,904</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 841,302</u>	<u>\$ 452,072</u>

See Notes to Financial Statements

UNITED STATES FENCING ASSOCIATION
Notes to Financial Statements
For the Year Ended July 31, 2005

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 \$14,199 and \$10,998 was recorded for the years ended July 31, 2005 and 2004, respectively.

Accounts Receivable

The Association's accounts receivable are recorded net of an allowance for doubtful accounts of \$2,500 at July 31, 2005 and 2004.

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. 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.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Prior Year Comparisons

Certain reclassifications have been made to the prior year amounts in order to conform to the current year financial statement format. 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, 2004, from which the summarized information was derived.

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.

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.

B. SHORT-TERM INVESTMENTS

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

	<u>2005</u>	<u>2004</u>
197 shares of Eli Lilly & Company common stock	\$ 11,095	\$ 10,862
Mutual funds	<u>104,574</u>	<u> </u>
At market value	<u>\$ 115,669</u>	<u>10,862</u>
At adjusted cost	<u>\$ 111,823</u>	<u>\$ 9,679</u>

Notes to Financial Statements

C. PREPAID EXPENSES

Prepaid expenses consist of the following at July 31:

	<u>2005</u>	<u>2004</u>
National events & Olympics	\$ 39,379	\$ 60,405
Deferred dues to Divisions & Sections	3,808	5,116
Insurance	<u>9,946</u>	<u>1,350</u>
	<u>\$ 53,133</u>	<u>\$ 66,871</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>2005</u>	<u>2004</u>
Base funding	\$ 239,188	\$ 248,914
Base funding (value-in-kind)	15,582	1,296
Performance grant	309,625	200,000
International support	13,000	10,000
Paralympic integration funding		10,000
Refund		<u>1,420</u>
	<u>\$ 577,395</u>	<u>\$ 471,630</u>

The Association entered into a joint marketing agreement with the USOC in 2001. The term of the agreement was January 1, 2001 through December 31, 2005. The Association received \$105,000 and \$54,000 under the terms of the agreement during the years ended July 31, 2005 and 2004, respectively.

The United States Fencing Foundation (USFF) was formed to operate exclusively for the benefit and support of the Association. The purpose of the USFF is to raise funds and acquire assets that will enable the Association to encourage,

Notes to Financial Statements

E. RELATED PARTY TRANSACTIONS - Continued

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 year ended July 31, 2005, the USFF provided grants to the Association in the amount of \$50,000. The USFF owed the Association \$25,000 at July 31, 2004.

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

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 year ended July 31, 2005, the total amount of honorariums paid to members of the board and executive committee was \$15,450.

F. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2005</u>	<u>2004</u>
Coaches college	\$ 1,213	\$ 1,213
World Vets	12,600	
Wheelchair development	623	
	<u>\$ 14,436</u>	<u>\$ 1,213</u>

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the years ended July 31, 2005 and 2004, \$0 of net assets were released from restrictions.

G. CONTRIBUTIONS

The Association was named as a beneficiary of the Raymond Miller Estate and during the years ended July 31, 2005 and July 31, 2004, the Association received distributions of \$20,191 and \$100,000, respectively. The 2005 distribution represents the final distribution from this Estate.

Notes to Financial Statements

H. LEASES

The Association leased a storage unit on a month-to-month basis for \$110 per month. The Association is a part owner in a building as explained in Note J. The Association pays \$667 per month to a joint owners' account to pay for improvements and common area expenses. Total rent expense amounted to \$6,904 and \$6,464 for the years ended July 31, 2005 and 2004, respectively.

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, 2005 and 2004.

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 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'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, 2005

	National Programs	Int'l Programs	Membership	Junior Programs	Officials & Coaches	Total
Advertising & promotion	\$ 6,103	\$	\$ 66	\$	\$	\$ 6,169
Airfare	143,568	111,912	307	21,613	56,382	333,782
Computer services	336	39	245		113	733
Contract services	9,000	21,550	17,683	1,712	600	50,545
Depreciation	5,981					5,981
Dues & fees	4,090	38,272	47,956		6,045	96,363
Employee benefits & taxes	17,355	23,554	11,073			51,982
Equipment (minor & uniforms)	742	7,695		6,182	8,710	23,329
Equipment maintenance	367			35		402
Freight	48,145	10,541	545	4,993	712	64,936
Gifts & awards	11,699	5,242	87	1,166	62	18,256
Grants to athletes	50,000	124,558	86,268	70,544		331,370
Ground transportation	82,243	9,590	522	2,656	9,882	104,893
Honorariums	142,695	6,000		20,415	50,355	219,465
Hotel	149,213	96,724	1,819	21,524	20,338	289,618
Insurance		684	86,701		25	87,410
Meals	128,112	54,719	347	10,625	3,729	197,532
Miscellaneous	23	1,970	67,831			69,824
Per diem	58,758	18,193	47	7,978	8,207	93,183
Photos		10,647	130			10,777
Postage	5,395	6,651	18,752		4,176	34,974
Printing & publications	6,734	958	34,407	576	2,465	45,140
Rent	254,658	38,450		35,223	35	328,366
Salaries	85,271	106,511	60,465			252,247
Supplies	11,548	3,244	3,975	439	2,043	21,249
Telephone	5,198	3,468	1,746	514	1,239	12,165
	<u>\$ 1,227,234</u>	<u>\$ 701,172</u>	<u>\$ 440,972</u>	<u>\$ 206,195</u>	<u>\$ 175,118</u>	<u>\$ 2,750,691</u>

UNITED STATES FENCING ASSOCIATION
Schedule of Supporting Services
For the Year Ended July 31, 2005

	<u>General & Administrative</u>	<u>Board of Directors</u>	<u>Total</u>
Airfare	\$ 5,642	\$ 21,630	\$ 27,272
Bad debts	845		845
Computer services	29		29
Contract services	8,112		8,112
Depreciation	8,218		8,218
Dues & fees	4,820	1,311	6,131
Equipment maintenance	1,069		1,069
Equipment (minor & uniforms)	968		968
Freight	336	386	722
Gifts & awards	187	833	1,020
Grants		3,070	3,070
Ground transportation	508	1,814	2,322
Hotel	1,159	15,442	16,601
Insurance	7,859		7,859
Miscellaneous	1,327	2,840	4,167
Per diem	1,119	120	1,239
Postage	2,659	1,333	3,992
Printing & publications	732	1,665	2,397
Rent	16,142		16,142
Meals	471	7,428	7,899
Salaries	196,992		196,992
Supplies	4,695	132	4,827
Employee benefits & taxes	35,179		35,179
Telephone	690	2,135	2,825
	<u>\$ 299,758</u>	<u>\$ 60,139</u>	<u>\$ 359,897</u>