

JOHNSON KIGHTLINGER GRAHAM & CO

**UNITED STATES OF AMERICA
RUGBY FOOTBALL UNION, LTD.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
United States of America Rugby Football Union, Ltd.
Boulder, Colorado

We have audited the accompanying consolidated statements of financial position of United States of America Rugby Football Union, Ltd. (a nonprofit corporation) and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United States of America Rugby Football Union, Ltd. and Subsidiaries as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Johnson Kightlinger Graham & Co.

JOHNSON KIGHTLINGER GRAHAM & CO.
Boulder, Colorado
March 28, 2008

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2007 and 2006**

ASSETS

| | <u>2007</u> | <u>2006</u> |
|-------------------------------|---------------------|--------------------|
| CURRENT ASSETS | | |
| Cash | \$ 118,239 | \$ 301,050 |
| Investments | 817,254 | 248,170 |
| Accounts receivable | 115,244 | 47,201 |
| Inventory | 16,895 | 3,740 |
| Prepaid expenses and other | 151,328 | 54,324 |
| Total current assets | 1,218,960 | 654,485 |
| PROPERTY AND EQUIPMENT | | |
| Equipment and furniture | 86,534 | 41,348 |
| Software | 256,000 | 262,590 |
| Website | 55,570 | 46,770 |
| | 398,104 | 350,708 |
| Accumulated depreciation | (337,737) | (227,470) |
| Net property and equipment | 60,367 | 123,238 |
| OTHER ASSETS | | |
| Deposits | 18,035 | 6,535 |
| TOTAL ASSETS | \$ 1,297,362 | \$ 784,258 |

LIABILITIES AND NET DEFICIT

| | | |
|--|---------------------|-------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 307,827 | \$ 229,716 |
| Accrued payroll liabilities | 98,617 | 24,878 |
| Deferred revenue | 1,006,736 | 645,760 |
| Total current liabilities | 1,413,180 | 900,354 |
| COMMITMENTS (Note 5) | | |
| NET DEFICIT | | |
| Unrestricted | (115,818) | (116,096) |
| TOTAL LIABILITIES AND NET DEFICIT | \$ 1,297,362 | \$ 784,258 |

See Notes to Consolidated Financial Statements

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006

| | <u>2007</u> | <u>2006</u> |
|-----------------------------------|---------------------|---------------------|
| REVENUE AND SUPPORT | | |
| Membership dues | \$ 2,152,010 | \$ 2,004,622 |
| Grants | 1,732,671 | 1,334,041 |
| Events | 1,018,902 | 699,410 |
| Sponsorship | 918,079 | 222,881 |
| Registration fees and clinics | 464,865 | 262,716 |
| In-kind contributions | 449,647 | 320,972 |
| Coaching development fees | 124,693 | 146,198 |
| Contributions | 105,907 | 118,947 |
| Referee fees and other income | 65,438 | 78,141 |
| Dues and assessments | 48,000 | 39,520 |
| Investment income | 47,069 | 26,677 |
| Other | 300 | 18,678 |
| Total revenue and support | <u>7,127,581</u> | <u>5,272,803</u> |
| EXPENSES | | |
| <u>Program services</u> | | |
| High Performance | 1,509,814 | 1,333,801 |
| Men's National Team | 1,153,083 | 430,476 |
| Events | 1,050,810 | 664,827 |
| Game development | 924,870 | 779,184 |
| Women's National Teams | 460,441 | 301,853 |
| Membership | 398,313 | 350,121 |
| Super league | 14,119 | 109,455 |
| Total program services | <u>5,511,450</u> | <u>3,969,717</u> |
| <u>Fund raising</u> | | |
| Marketing and fundraising | 759,881 | 401,291 |
| <u>Supporting services</u> | | |
| Headquarters | 705,897 | 616,604 |
| Media and communications | 90,531 | 87,888 |
| Board of directors | 59,544 | 80,799 |
| Total supporting services | <u>855,972</u> | <u>785,291</u> |
| Total expenses | 7,127,303 | 5,156,299 |
| INCREASE IN NET ASSETS | 278 | 116,504 |
| NET DEFICIT - UNRESTRICTED | | |
| Beginning of year | <u>(116,096)</u> | <u>(232,600)</u> |
| End of year | <u>\$ (115,818)</u> | <u>\$ (116,096)</u> |

See Notes to Consolidated Financial Statements

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 278 | \$ 116,504 |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: | | |
| Depreciation | 110,266 | 145,863 |
| Unrealized gain on investments | - | (4,937) |
| Loss on disposal of assets | - | 1,300 |
| Changes in operating assets and liabilities: | | |
| Receivables | (68,043) | 128,200 |
| Prepaid expenses and other assets | (121,659) | (32,335) |
| Accounts payable and accrued liabilities | 151,850 | (10,671) |
| Deferred revenue | 360,976 | 148,464 |
| Net cash provided by operating activities | <u>433,668</u> | <u>492,388</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Change in investments, net | (569,084) | (126,400) |
| Purchases of property and equipment | <u>(47,395)</u> | <u>(17,921)</u> |
| Net cash used in investing activities | (616,479) | (144,321) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayments on bank line of credit | <u>-</u> | <u>(272,282)</u> |
| Net cash used in financing activities | - | (272,282) |
| NET INCREASE (DECREASE) IN CASH | (182,811) | 75,785 |
| CASH - BEGINNING OF YEAR | <u>301,050</u> | <u>225,265</u> |
| CASH - END OF YEAR | <u>\$ 118,239</u> | <u>\$ 301,050</u> |
| SUPPLEMENTAL CASH FLOW DISCLOSURE: | | |
| Interest paid | <u>\$ -</u> | <u>\$ 2,353</u> |

See Notes to Consolidated Financial Statements

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

United States of America Rugby Football Union, Ltd. (USAR) is the national governing body for the sport of rugby and is responsible for the promotion and development of the sport in the United States and promotion of U.S. international participation. USAR is an official member of the United States Olympic Committee (USOC) and the International Rugby Board (IRB). The organization has approximately 77,000 members and is responsible for the development of the boys, girls, high school, collegiate and club athletic programs, and ultimately the ten national teams representing the U.S. in international competitions. USAR's current structure comprises seven Territorial Unions and 37 Local Area Unions that compete for regional and National Championships. The national office is located in Boulder, Colorado.

The accompanying consolidated financial statements include all the financial activities of USAR and its two subsidiaries – USA Rugby Charitable Foundation (the "Foundation") and USA Rugby Ventures, LLC ("Rugby Ventures"). Rugby Ventures is doing business as North America Four. The Foundation was formed in 2002 as a Pennsylvania nonprofit corporation for the purpose of supporting USAR. As sole member of the corporation, USAR appoints the Foundation's Board of Directors. Rugby Ventures was formed in 2006 as a Delaware corporation for the purpose of enhancing selection and performance of players, coaches, and referees in North America. USAR is its sole member and manager.

Basis of Presentation

The accompanying financial statements include the accounts of USAR and subsidiaries (collectively, the consolidated group is "USA Rugby"). All intercompany accounts have been eliminated in the accompanying financial statements.

USA Rugby reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Use of Estimates in the 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the report period. Actual results could differ from those estimates.

Cash and Cash Equivalents

USA Rugby considers all highly liquid debt and equity instruments purchased with maturities of three months or less to be cash equivalents. USA Rugby maintains cash balances at high-quality financial institutions where the funds are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 at each institution. In the ordinary course of business, cash balances may exceed the FDIC limit. To date, USA Rugby has not suffered any losses from this exposure.

Accounts Receivable

Receivables arise from fees and assessments earned but not collected until future periods, and from expenses paid on behalf of other entities. Receivables are uncollateralized obligations due from players and others that are due under varying trade terms. Generally, payment is required within 45 days. USA Rugby generally bills as the fees and assessments are earned under the terms of its various memberships. Account balances not paid by the due date are considered delinquent. Payments of receivables are allocated to the specific invoices identified on the customer's remittance advice, or, if unspecified, are applied to the earliest unpaid invoices.

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable (Continued)

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. At December 31, 2007 and 2006, no allowance for doubtful accounts was recorded either because the receivable was subsequently collected or management believes the account is fully collectible.

Property and Equipment

Property and equipment is stated at cost if purchased and at estimated fair value if donated. Depreciation is computed using the straight-line method at rates that, in the opinion of management, are adequate to allocate the cost of such assets over their estimates useful lives, which are as follows:

Office equipment and furniture – 3 to 5 years
Website and software – 3 years

USA Rugby capitalizes property and equipment additions greater than \$750. Expenditures for maintenance and repairs are charged to operations as incurred, whereas expenditures for renewal and betterments are capitalized.

USA Rugby tests for possible impairment of property and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. USA Rugby has not incurred any impairment losses to date.

Inventory

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

Investments

USA Rugby's investment portfolio consists of money market funds and mutual fund investments in debt securities. These investments have readily determinable market values and are reported at fair value in the consolidated statement of financial position, with gains and losses reported in the consolidated statement of activities.

USA Rugby holds a 10% ownership interest in USA Sevens, LLC (Sevens). Sevens was organized to host an IRB sanctioned seven-on-seven rugby tournament in the United States. This investment is accounted for using the cost method. At December 31, 2007 and 2006, no investment balance is reported in the accompanying statements of financial position because Sevens has incurred operating losses in excess of USA Rugby's initial investment balance. This has resulted in a negative capital account for USA Rugby. According to the terms of the LLC's operating agreement, USA Rugby has no obligation to restore its negative capital account nor does it have any obligation to USA Sevens, LLC.

USA Rugby holds a 34.65% ownership interest in Churchill Cup Rugby, LP (Churchill Cup), a Delaware limited partnership. Churchill Cup was organized to develop high level competition in North America. No investment balance is reported in the accompanying statement of financial position because USA Rugby has an interest in future profits and, to date, has not invested cash in Churchill Cup.

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Membership income is recognized ratably over the term of the membership. Typically, memberships are for one year and run from September through August. Sponsorship income is recognized as earned in accordance with USA Rugby's fulfillment obligations under the terms of the contract. Tournament fees and ticket sales are recognized when the event takes place. Cash received before the underlying amounts have been earned is reported as deferred revenue.

Contributions and unrestricted grants are recognized in the period when the contribution or unconditional promise to give is received. Restricted grant revenue is recognized as the related expenses are incurred. Contributions are considered to be unrestricted unless specifically restricted by the donor. USA Rugby records donor-restricted contributions as unrestricted revenue if the restrictions are met in the same reporting period. Net assets released from restrictions (when the donor-stipulated purpose has been met or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets in the statement of activities. As of December 31, 2007 and 2006, USA Rugby did not have any temporarily or permanently restricted net assets.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$12,759 in 2007 and \$1,110 in 2006.

Donated Materials

Donated materials are reported as contributions at fair market value in the year they are received.

USA Rugby received donated rugby gear and apparel with a fair market value of \$449,647 in 2007 and \$320,972 in 2006. These items are reported as in-kind support and expense in the accompanying statements of activities.

Income Taxes

USA Rugby qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal income taxes. Accordingly, no provision for income taxes is included in the accompanying financial statements.

NOTE 2 – INVESTMENTS

Investments consisted of the following at December 31:

| | <u>2007</u> | <u>2006</u> |
|----------------------------|-------------------|-------------------|
| Money market | \$ 691,955 | \$ 131,948 |
| U.S. government securities | 80,000 | 81,517 |
| Corporate bonds | 45,299 | 34,705 |
| | <u>\$ 817,254</u> | <u>\$ 248,170</u> |

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 3 – DEFERRED REVENUE

Deferred revenue consisted of the following at December 31:

| | <u>2007</u> | <u>2006</u> |
|-------------|---------------------|-------------------|
| Sponsorship | \$ 520,000 | \$ 240,000 |
| Membership | 307,021 | 58,768 |
| Grants | 170,000 | 346,992 |
| Other | <u>9,715</u> | <u>-</u> |
| | <u>\$ 1,006,736</u> | <u>\$ 645,760</u> |

NOTE 4 – SALE OF USA SEVENS, LLC

On August 17, 2005, USA Rugby sold a 90% interest in USA Sevens, LLC (Sevens) to American International Media, LLC (AIM), an unrelated party. In 2006, USA Rugby held the remaining 10% interest in Sevens. Under the terms of the sale, USA Rugby is entitled to additional payments. Sevens will pay \$150,000 for each year that Sevens has the right to host a tournament. Sevens also agreed to pay USA Rugby \$50,000 for each year that it has the right to select the title sponsor.

No amounts have been reported in the accompanying financial statements for the future payments to which USA Rugby is entitled because ultimate realization is uncertain. USA Rugby has adopted the policy of recording such amounts as revenue when they are received. During both 2007 and 2006, USA Rugby received the \$150,000 and \$50,000 fees noted above.

NOTE 5 – LEASE COMMITMENTS

USA Rugby leases office space for its national office under a non-cancelable operating lease that expires March 31, 2012. USA Rugby also leases office equipment and a storage unit under non-cancelable operating leases that expire between 2008 and 2012. Total rent expense was \$87,172 in 2007 and \$73,619 in 2006.

NOTE 6 – LINES OF CREDIT

USA Rugby has two lines of credit from commercial banks with available borrowings up to \$425,000. The lines have interest rates ranging from prime plus 1.5% to prime plus 1%. One line is due on demand while the other terminates January 5, 2008. At December 31, 2007 and 2006, there were no outstanding borrowings under the lines.

NOTE 7 – BENEFIT PLAN

USA Rugby adopted a 401(k) plan (the Plan) covering all employees who are at least 21 year old and who work at least 1,000 hours per year. Plan participants may make pre-tax deferrals subject to limitations imposed by the Internal Revenue Code. USA Rugby matches up to 20% of the employee's deferral, subject to certain limits set by the Plan. During 2007 and 2006, respectively, USA Rugby contributed \$3,036 and \$2,226 to the Plan in the form of matching contributions.

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 8 – MAJOR CONTRIBUTOR

USA Rugby receives significant financial support from the International Rugby Board (IRB) in the form of grants and contributions. IRB support was \$2,190,939 in 2007 and \$1,790,439 in 2006, which was 31% and 34% of USA Rugby's total support.

NOTE 9 – PRIOR PERIOD CORRECTIONS

During 2007, USA Rugby discovered that accounts payable as of December 31, 2006 was understated by \$50,000. The error was corrected in the accompanying financial statements and resulted in an increase to 2006 expense and a corresponding increase to the December 31, 2006 accounts payable balance.

During 2006, USA Rugby discovered that deferred revenue as of December 31, 2005 was understated by \$75,000 and revenue for 2005 was overstated by \$200,000. The errors were corrected in 2006, resulting in increased revenues in 2006 of \$150,000 and a restatement of net assets as of December 31, 2005, as follows:

| | | |
|------------------------------|----|-------------------------|
| Balance, previously reported | \$ | 42,400 |
| Corrections | | <u>(275,000)</u> |
| Balance, restated | \$ | <u><u>(232,600)</u></u> |

NOTE 10 – CONTINGENCIES

USA Rugby is involved in a legal action involving a trademark for certain rugby clothing. U.S. Sports Association, LLC (US Sports) filed a petition on June 27, 2006 to cancel registration of a certain trademark owned by USA Rugby. US Sports claims they own the trademark because USA Rugby abandoned its use in the marketplace. USA Rugby disputes the US Sports claims and intends to defend the action vigorously. The parties are currently engaged in settlement discussions.

A vendor is seeking payment from USA Rugby for approximately \$40,000 relating to purchases made in prior years. USA Rugby is contesting the claim due to non-fulfillment of contractual obligations and improper reporting by the vendor.