

JOHNSON KIGHTLINGER GRAHAM & CO

**UNITED STATES OF AMERICA
RUGBY FOOTBALL UNION, LTD.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008**

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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, 2008 and 2007, 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, 2008 and 2007, 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
October 16, 2009

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 82,137	\$ 118,239
Investments	131,914	817,254
Contributions receivable	44,600	28,527
Accounts receivable	624,966	86,717
Inventory	6,395	16,895
Prepaid expenses and other	189,721	151,328
Total current assets	<u>1,079,733</u>	<u>1,218,960</u>
PROPERTY AND EQUIPMENT		
Equipment and furniture	112,811	86,534
Software	110,044	256,000
Website	63,442	55,570
	<u>286,297</u>	<u>398,104</u>
Accumulated depreciation	<u>(126,616)</u>	<u>(337,737)</u>
Net property and equipment	159,681	60,367
OTHER ASSETS		
Deposits	21,575	18,035
TOTAL ASSETS	<u>\$ 1,260,989</u>	<u>\$ 1,297,362</u>
<u>LIABILITIES AND NET DEFICIT</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 395,679	\$ 307,827
Accrued liabilities	121,046	98,617
Deferred revenue	1,435,935	1,006,736
Bank line of credit	70,000	-
Total current liabilities	<u>2,022,660</u>	<u>1,413,180</u>
COMMITMENTS (Note 5)		
NET DEFICIT		
Unrestricted	(761,671)	(115,818)
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 1,260,989</u>	<u>\$ 1,297,362</u>

See Notes to Consolidated Financial Statements

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
REVENUE AND SUPPORT		
Membership dues	\$ 2,031,535	\$ 2,152,010
Grants	1,423,884	1,732,671
Events	945,057	1,018,902
Sponsorship	2,728,667	918,079
In-kind contributions	390,083	449,647
Coaching development fees	187,158	124,693
Contributions	197,767	105,907
Referee fees and other income	42,599	65,438
Dues and assessments	53,884	48,000
Investment income	20,900	47,069
Other	5,320	300
Total revenue and support	8,026,854	6,662,716
EXPENSES		
<u>Program services</u>		
High Performance	1,878,530	1,224,836
Men's National Team	1,115,826	1,153,083
Events	1,249,202	1,050,810
Game development	1,044,834	924,870
Women's National Teams	442,700	280,554
Membership	406,148	398,313
Super league	44,651	14,119
Total program services	6,181,891	5,046,585
<u>Fund raising</u>		
Marketing and fundraising	1,474,417	759,881
<u>Supporting services</u>		
Headquarters	820,449	705,897
Media and communications	128,810	90,531
Board of directors	67,140	59,544
Total supporting services	1,016,399	855,972
Total expenses	8,672,707	6,662,438
INCREASE (DECREASE) IN NET ASSETS	(645,853)	278
NET DEFICIT - UNRESTRICTED		
Beginning of year	(115,818)	(116,096)
End of year	\$ (761,671)	\$ (115,818)

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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (645,853)	\$ 278
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	46,828	110,266
Changes in operating assets and liabilities:		
Receivables	(554,322)	(68,043)
Prepaid expenses and other assets	(31,433)	(121,659)
Accounts payable and accrued liabilities	110,281	151,850
Deferred revenue	429,199	360,976
Net cash provided (used) by operating activities	<u>(645,300)</u>	<u>433,668</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments, net	685,340	(569,084)
Purchases of property and equipment	<u>(146,142)</u>	<u>(47,395)</u>
Net cash provided (used) in investing activities	539,198	(616,479)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on bank line of credit	<u>70,000</u>	-
Net cash provided in financing activities	70,000	-
 NET INCREASE (DECREASE) IN CASH	 (36,102)	 (182,811)
 CASH - BEGINNING OF YEAR	 <u>118,239</u>	 <u>301,050</u>
CASH - END OF YEAR	\$ <u>82,137</u>	\$ <u>118,239</u>
 SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Interest paid	<u>\$ 2,464</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008**

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 82,000 members and is responsible for the development of the boys, girls, high school, collegiate and club athletic programs, and ultimately the nine 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 \$250,000 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, 2008

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, 2008 and 2007, no allowance for doubtful accounts was recorded either because the receivable was subsequently collected or management believes the account is fully collectible.

Contributions Receivable

Contributions receivable represent unconditional promises to give that are expected to be collected within the upcoming year. Accordingly, no discount is applied to these receivables. 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. Investment income primarily includes dividends and interest.

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, 2008 and 2007, 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, 2008

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, 2008 and 2007, USA Rugby did not have any temporarily or permanently restricted net assets.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$9,496 in 2008 and \$12,759 in 2007.

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 \$390,083 in 2008 and \$449,647 in 2007. 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.

The Association has elected to defer the application of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*.

Reclassification

The 2007 financial statements have been reclassified to conform to the 2008 presentation.

NOTE 2 – INVESTMENTS

Investments consisted of the following at December 31:

	<u>2008</u>	<u>2007</u>
Money market	\$ 4,764	\$ 691,955
U.S. government securities	81,677	80,000
Corporate bonds	45,473	45,299
	<u>\$ 131,914</u>	<u>\$ 817,254</u>

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 3 – DEFERRED REVENUE

Deferred revenue consisted of the following at December 31:

	<u>2008</u>	<u>2007</u>
Sponsorship	\$ 390,000	\$ 520,000
Membership	1,041,980	307,021
Grants	-	170,000
Other	3,955	9,715
	<u>\$ 1,435,935</u>	<u>\$ 1,006,736</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 2008 and 2007, USA Rugby received the \$150,000 and \$50,000 fees noted above.

NOTE 5 – COMMITMENTS

Operating Lease

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, a vehicle and a storage unit under non-cancelable operating leases that expire between 2008 and 2012. Total rent expense was \$79,661 in 2008 and \$87,172 in 2007.

Minimum future lease commitments under these leases at December 31, 2008 are as follows:

2009	\$ 98,389
2010	84,692
2011	77,395
2012	<u>21,103</u>
	<u>\$ 281,579</u>

Employment Contracts

USA Rugby has employment contract commitments with two key employees. The minimum amounts due under these contracts at December 31, 2008 are as follows:

2009	\$ 317,371
2010	304,167
2011	<u>325,000</u>
	<u>\$ 946,538</u>

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 6 – LINES OF CREDIT

USA Rugby has two unsecured 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 of the lines is due on demand while the other one terminates May 15, 2009. As of December 31, 2008, there were total outstanding borrowings of \$70,000.

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 2008 and 2007, respectively, USA Rugby contributed \$3,814 and \$3,036 to the Plan in the form of matching contributions.

NOTE 8 – MAJOR CONTRIBUTORS

USA Rugby receives significant financial support from the International Rugby Board (IRB) and another sponsor. IRB support was \$1,898,191 in 2008 and \$2,190,939 in 2007. The major sponsor contributed \$1,900,000 and \$450,000 in 2008 and 2007, respectively. Accounts receivable due from this sponsor was \$500,000 at December 31, 2008. These two contributors provided 47% and 31% of USA Rugby's total support for 2008 and 2007, respectively.

NOTE 9 – LITIGATION

USA Rugby is involved in various litigation matters that arise from time to time in the ordinary course of business. The process of resolving matters through litigation or other means is inherently uncertain and it is possible that an unfavorable resolution of these matters will adversely affect USA Rugby, its statement of activities, financial position and cash flows. The Organization's regular practice is to expense legal fees as services are rendered in connection with legal matters, and to accrue for liabilities when payment is probable.

US Sports

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 originally claimed they own the trademark because USA Rugby abandoned its use in the marketplace. USA Rugby disputed these claims. On April 22, 2009, the parties came to an amicable resolution whereby US Sports withdrew its action.

Vendor Dispute

On March 30, 2009, a former vendor to the USA Rugby filed suit in the U.S. District Court against USA Rugby. The vendor claims various contractual breaches by USA Rugby with respect to a supply agreement that was terminated in 2008. The vendor's latest complaint does not specify the amount of damages it is seeking. The case is currently in the pre-discovery phase. USA Rugby disputes the vendor's claims and intends to vigorously defend the action. Management has attempted to settle matter out of court but no reasonable terms have been reached by the parties. A reserve of \$50,000 has been provided for in the accompanying financial statements for future legal fees related to this claim.

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 9 – LITIGATION (Continued)

Wrongful Death

USA Rugby was named defendant in two wrongful death cases. The plaintiffs have also named other defendants in these actions. At this time, the cases are still in the discovery phase and the final outcome is not clear. The legal fees to defend these actions are currently being paid by USA Rugby's insurance carriers. Management believes they have no liability in these matters and that its insurance policies will cover legal fees and any awards that might go to the plaintiffs.