

JOHNSON KIGHTLINGER & COMPANY

**UNITED STATES OF AMERICA
RUGBY FOOTBALL UNION, LTD.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5

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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, 2009 and 2008, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of USAR's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2009 and 2008, 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 & Company

JOHNSON KIGHTLINGER & COMPANY
Boulder, Colorado
September 14, 2010

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 71,546	\$ 82,137
Investments (Note 2)	139,337	131,914
Contributions receivable	42,146	44,600
Accounts receivable	255,044	624,966
Inventory	6,395	6,395
Prepaid expenses and other	157,378	189,721
Total current assets	671,846	1,079,733
PROPERTY AND EQUIPMENT		
Equipment and furniture	210,372	112,811
Software	67,441	110,044
Website	49,999	63,442
	327,812	286,297
Accumulated depreciation	(193,852)	(126,616)
Net property and equipment	133,960	159,681
OTHER ASSETS		
Deposits	21,575	21,575
TOTAL ASSETS	\$ 827,381	\$ 1,260,989
<u>LIABILITIES AND NET DEFICIT</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 206,547	\$ 395,679
Accrued liabilities	86,977	121,046
Deferred revenue (Note 3)	1,230,952	1,435,935
Bank lines of credit (Note 6)	180,000	70,000
Total current liabilities	1,704,476	2,022,660
COMMITMENTS (Note 5)		
NET DEFICIT		
Unrestricted	(877,095)	(761,671)
TOTAL LIABILITIES AND NET DEFICIT	\$ 827,381	\$ 1,260,989

See Notes to Consolidated Financial Statements

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
REVENUE AND SUPPORT		
Membership dues	\$ 2,655,466	\$ 2,031,535
Grants	1,288,111	1,423,884
Events	849,689	945,057
Sponsorship	2,367,443	2,728,667
In-kind contributions	382,184	390,083
Coaching development fees	133,040	187,158
Contributions	313,252	197,767
Referee fees and other income	60,396	42,599
Dues and assessments	14,520	53,884
Investment income	22,146	20,900
Other	-	5,320
Total revenue and support	<u>8,086,247</u>	<u>8,026,854</u>
EXPENSES		
<u>Program services</u>		
High Performance	1,530,779	1,878,530
Men's National Team	1,215,196	1,115,826
Events	800,199	1,249,202
Game development	913,742	1,044,834
Women's National Teams	561,225	442,700
Membership	337,454	406,148
Rugby Super League	14,120	44,651
Total program services	<u>5,372,715</u>	<u>6,181,891</u>
<u>Fund raising</u>		
Marketing and fundraising	1,903,216	1,474,417
<u>Supporting services</u>		
Headquarters	742,968	820,449
Media and communications	165,323	128,810
Board of directors	17,449	67,140
Total supporting services	<u>925,740</u>	<u>1,016,399</u>
Total expenses	8,201,671	8,672,707
INCREASE (DECREASE) IN NET ASSETS	(115,424)	(645,853)
NET DEFICIT - UNRESTRICTED		
Beginning of year	<u>(761,671)</u>	<u>(115,818)</u>
End of year	<u>\$ (877,095)</u>	<u>\$ (761,671)</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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease) in net assets	\$ (115,424)	\$ (645,853)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	67,236	46,828
Changes in operating assets and liabilities:		
Receivables	372,376	(554,322)
Prepaid expenses and other assets	32,343	(31,433)
Accounts payable and accrued liabilities	(223,201)	110,281
Deferred revenue	(204,983)	429,199
Net cash used by operating activities	<u>(71,653)</u>	<u>(645,300)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments, net	(7,423)	685,340
Purchases of property and equipment	<u>(41,515)</u>	<u>(146,142)</u>
Net cash provided by (used in) investing activities	(48,938)	539,198
 CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on bank line of credit	<u>110,000</u>	<u>70,000</u>
Net cash provided by financing activities	110,000	70,000
 NET DECREASE IN CASH	(10,591)	(36,102)
 CASH - BEGINNING OF YEAR	<u>82,137</u>	<u>118,239</u>
CASH - END OF YEAR	<u>\$ 71,546</u>	<u>\$ 82,137</u>
 SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Interest paid	<u>\$ 5,297</u>	<u>\$ 2,464</u>

See Notes to Consolidated Financial Statements

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

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 the financial activities of USAR and its two subsidiaries: USA Rugby Charitable Foundation ("the Foundation") and USA Rugby Ventures, LLC ("Rugby Ventures"). Rugby Ventures does business as North America Four. The Foundation was formed in 2002 as a Pennsylvania nonprofit corporation to support USAR. As sole owner of the Foundation, 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 owner and manager.

Basis of Presentation

The accompanying financial statements include the accounts of USAR and its 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, 2009

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, 2009 and 2008, no allowance for doubtful accounts was recorded either because the receivables were subsequently collected or management believes the accounts are 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 contributions receivable was recorded because the receivables were subsequently collected or management believes them to be 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 over estimates useful lives of 3 to 5 years for office equipment and furniture and 3 years for website and software. 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) (see also Note 4). 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, 2009 and 2008, 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, resulting 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, 2009**

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. At December 31, 2009 and 2008, USA Rugby did not have any temporarily or permanently restricted net assets.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$500 and \$9,496 in 2009 and 2008, respectively.

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 \$382,184 and \$390,083 in 2009 and 2008, respectively. These items are reported as in-kind support and expense in the accompanying statements of activities.

Income Taxes

USA Rugby is 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.

Fair Value

Fair value measurements of assets and liabilities may be carried out using:

- Quoted prices in active markets for identical assets (Level 1),
- Significant other observable inputs (Level 2), or
- Significant unobservable inputs (Level 3).

Assets and liabilities measured at fair value consisted of the following at December 31, 2009:

	<u>Level 1</u>	<u>Level 3</u>
<u>Assets measured on a recurring basis:</u>		
Cash equivalents - money market funds	\$ 6,995	
Investments – publicly traded securities (Note 2)	132,342	
Investment – USA Sevens, LLC (above and Note 4)	-	\$ -
Investment – Churchill Cup Rugby, LP (above)	-	-
	<u>\$ 139,337</u>	<u>\$ -</u>

The value of assets measured using Level 3 inputs did not change during 2009.

Subsequent Events

Management has evaluated subsequent events through September 14, 2010, the date the financial statements were available to be issued.

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2 – INVESTMENTS

Investments consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
Money market	\$ 6,995	\$ 4,764
U.S. government securities	103,015	81,677
Corporate bonds	29,327	45,473
	<u>\$ 139,337</u>	<u>\$ 131,914</u>

NOTE 3 – DEFERRED REVENUE

Deferred revenue consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
Membership	\$ 1,107,337	\$ 1,041,980
Sponsorship	90,000	390,000
Grants	32,440	-
Other	1,175	3,955
	<u>\$ 1,230,952</u>	<u>\$ 1,435,935</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. USA Rugby currently holds 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 are included 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. In both 2009 and 2008, 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 June 30, 2014. USA Rugby also leases office equipment, a vehicle and a storage unit under non-cancelable operating leases that expire between 2008 and 2012. Rent expense totaled \$107,652 and \$79,661 in 2009 and 2008, respectively.

Minimum future lease commitments under these leases were as follows at December 31, 2009:

2010	\$ 90,789
2011	95,998
2012	84,772
2013	66,019
2014	33,657
	<u>\$ 371,235</u>

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 5 – COMMITMENTS (Continued)

Employment Contracts

USA Rugby has employment contract commitments with two key employees. The minimum amounts due under these contracts were as follows at December 31, 2009:

2010	534,167
2011	<u>555,000</u>
	<u>\$ 1,089,167</u>

NOTE 6 – LINES OF CREDIT

USA Rugby has two lines of credit from commercial banks. The first is unsecured, allows borrowings up to \$150,000, carries interest at prime plus 1.5%, and is due on demand. The other was secured by all business assets, allowed borrowings up to \$275,000, carried interest at prime plus 4.264%, and expired on June 6, 2010. Borrowings under the lines of credit totaled \$180,000 at December 31, 2009.

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. USA Rugby made matching contributions to the Plan totaling \$9,605 and \$7,296 in 2009 and 2008, respectively.

NOTE 8 – MAJOR CONTRIBUTORS

USA Rugby receives significant financial support from the International Rugby Board (IRB) and another sponsor. IRB support totaled \$1,388,555 and \$1,898,191 in 2009 and 2008, respectively. The major sponsor contributed \$1,715,000 and \$1,900,000 in 2009 and 2008, respectively. These two contributors provided 38% and 47% of USA Rugby's total support in 2009 and 2008, respectively.

NOTE 9 – LITIGATION

USA Rugby is involved in certain litigation that arose 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 practice is to expense legal fees as services are rendered in connection with legal matters, and to accrue for liabilities when payment is probable.

Wrongful Death

USA Rugby was named defendant in two wrongful death cases in which the plaintiffs have also named other defendants. 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 USA Rugby has no liability in these matters and that its insurance policies will cover legal fees and any awards that might go to the plaintiffs and, accordingly, has recorded no liability for these matters in the accompanying financial statements.

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 9 – LITIGATION (Continued)

Vendor Dispute

On March 30, 2009, a former vendor filed suit against USA Rugby, claiming various contractual breaches by USA Rugby with respect to a supply agreement that was terminated in 2008. The vendor's complaint does not specify the amount of damages sought. 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 unsuccessfully to settle matter out of court. The accompanying balance sheets include accrued liability totaling \$28,335 and \$50,000 related to this dispute at December 31, 2009 and 2008, respectively. During 2009 USA spent \$21,665 defending this matter.

Rugby Clothing Trademark

In 2006, U.S. Sports Association, LLC (US Sports) filed a petition to cancel registration of a trademark owned by USA Rugby for certain rugby clothing. US Sports claimed it owned the trademark because USA Rugby had abandoned its use in the marketplace. USA Rugby disputed the claim, and in April 2009, the parties reached an amicable resolution under which US Sports withdrew its action.