

**JOHNSON KIGHTLINGER & COMPANY**

**UNITED STATES OF AMERICA  
RUGBY FOOTBALL UNION, LTD.  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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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 (the Organization) as of December 31, 2010 and 2009, 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 the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, 2010 and 2009, 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 6, 2011

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 243,136	\$ 71,546
Investments (Note 2)	140,679	139,337
Contributions receivable	27,020	42,146
Accounts receivable	99,959	255,044
Inventories	-	6,395
Prepaid expenses and other	159,754	157,378
Total current assets	670,548	671,846
<b>PROPERTY AND EQUIPMENT</b>		
Equipment and furniture	257,231	210,372
Software	68,441	67,441
Website	50,000	49,999
	375,672	327,812
Accumulated depreciation	(266,366)	(193,852)
Net property and equipment	109,306	133,960
<b>OTHER ASSETS</b>		
Deposits	21,575	21,575
<b>TOTAL ASSETS</b>	\$ 801,429	\$ 827,381
<b><u>LIABILITIES AND NET DEFICIT</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 198,584	\$ 206,547
Accrued liabilities	73,472	86,977
Deferred revenue (Note 3)	1,225,122	1,230,952
Bank lines of credit (Note 6)	-	180,000
Total current liabilities	1,497,178	1,704,476
<b>COMMITMENTS (Note 5)</b>		
<b>NET DEFICIT</b>		
Unrestricted	(695,749)	(877,095)
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	\$ 801,429	\$ 827,381

See Notes to Consolidated Financial Statements

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>REVENUE AND SUPPORT</b>		
Membership dues	\$ 2,842,553	\$ 2,655,466
Grants	1,431,736	1,288,111
Sponsorship	1,005,883	2,367,443
In-kind contributions	460,000	382,184
Contributions	296,224	313,252
Coaching development and referee fees	166,893	193,436
Events	152,549	849,689
Investment income	21,144	22,146
Dues and assessments	-	14,520
Total revenue and support	6,376,982	8,086,247
<b>EXPENSES</b>		
<u>Program services</u>		
High Performance	1,567,988	1,530,779
Men's National Team	988,926	1,215,196
Game development	834,129	927,862
Women's National Teams	539,587	561,225
Membership	361,076	337,454
Events	351,585	800,199
Total program services	4,643,291	5,372,715
<u>Fund raising</u>		
Marketing and fundraising	582,614	1,903,216
<u>Supporting services</u>		
Headquarters	823,781	742,968
Media and communications	137,934	165,323
Board of directors	8,016	17,449
Total supporting services	969,731	925,740
Total expenses	6,195,636	8,201,671
<b>INCREASE (DECREASE) IN NET ASSETS</b>	181,346	(115,424)
<b>NET DEFICIT - UNRESTRICTED</b>		
Beginning of year	(877,095)	(761,671)
End of year	\$ (695,749)	\$ (877,095)

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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 181,346	\$ (115,424)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	72,514	67,236
Unrealized gain on investments	(465)	-
Changes in operating assets and liabilities:		
Receivables	170,211	372,376
Prepaid expenses and other assets	4,019	32,343
Accounts payable and accrued liabilities	(21,468)	(223,201)
Deferred revenue	(5,830)	(204,983)
Net cash provided by (used in) by operating activities	<u>400,327</u>	<u>(71,653)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in investments, net	(877)	(7,423)
Purchases of property and equipment	<u>(47,860)</u>	<u>(41,515)</u>
Net cash used in investing activities	(48,737)	(48,938)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowings (repayments) on bank lines of credit	(180,000)	110,000
<b>NET DECREASE IN CASH</b>	171,590	(10,591)
<b>CASH - BEGINNING OF YEAR</b>	71,546	82,137
<b>CASH - END OF YEAR</b>	<u>\$ 243,136</u>	<u>\$ 71,546</u>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE:</b>		
Interest paid	<u>\$ 5,245</u>	<u>\$ 5,297</u>

See Notes to Consolidated Financial Statements

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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**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 95,000 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, thirty-seven Local Area Unions and twenty-seven State Based Rugby Organizations 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). 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, 2010**

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**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, 2010 and 2009, 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 merchandise and 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, 2010 and 2009, 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, 2010**

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**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, 2010 and 2009, USA Rugby did not have any temporarily or permanently restricted net assets.

**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 \$460,000 and \$382,184 in 2010 and 2009, 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.

The federal income tax returns of the Company for fiscal year 2008, 2009, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

**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 included the following assets measured on a recurring basis using Level 1 inputs:

	<u>2010</u>	<u>2009</u>
Cash equivalents – money market funds	\$ 18,558	6,995
Publicly traded securities	122,121	132,342
	<u>\$ 140,679</u>	<u>\$ 139,337</u>

Changes in unrealized gains or losses relating to publicly traded securities are included in investment income on the accompanying statements of activities.

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Value (Continued)**

Assets and liabilities measured at fair value also included the following assets measured on a nonrecurring basis using Level 3 inputs:

	<u>2010</u>	<u>2009</u>
Investment – USA Sevens, LLC (above and Note 4)	\$ -	\$ -
Investment – Churchill Cup Rugby, LP (above)	-	-
	<u>\$ -</u>	<u>\$ -</u>

The value of assets measured using Level 3 inputs did not change during 2010 or 2009.

**Subsequent Events**

Management has evaluated subsequent events through September 6, 2011, the date the financial statements were available to be issued.

**NOTE 2 – INVESTMENTS**

Investments consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Money market	\$ 18,558	\$ 6,995
U.S. government securities	119,482	103,015
Corporate bonds	2,639	29,327
	<u>\$ 140,679</u>	<u>\$ 139,337</u>

**NOTE 3 – DEFERRED REVENUE**

Deferred revenue consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Membership	\$ 1,179,594	\$ 1,107,337
Sponsorship	40,000	90,000
Grants	-	32,440
Other	5,528	1,175
	<u>\$ 1,225,122</u>	<u>\$ 1,230,952</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 2010 and 2009, USA Rugby received the \$150,000 and \$50,000 fees noted above.

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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**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 2014. Rent expense totaled \$91,603 and \$107,652 in 2010 and 2009, respectively.

Minimum future lease commitments under these leases were as follows at December 31, 2010:

2011	95,998
2012	84,772
2013	66,019
2014	<u>33,657</u>
	<u>\$ 280,446</u>

**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, 2010:

2011	505,000
2012	275,000
2013	275,000
2014	275,000
2015 and later	<u>550,000</u>
	<u>\$ 1,880,000</u>

**NOTE 6 – BANK 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 the LIBOR index plus 4.309%, and expired on June 15, 2011. Borrowings under the lines of credit totaled \$-0- at December 31, 2010 and \$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 \$8,890 and \$9,605 in 2010 and 2009, respectively.

**NOTE 8 – MAJOR CONTRIBUTORS**

USA Rugby receives significant financial support from the International Rugby Board (IRB) and another sponsor. IRB support totaled \$1,431,736 and \$1,388,555 in 2010 and 2009, respectively. The major sponsor contributed \$-0- and \$1,715,000 in 2010 and 2009, respectively. These two contributors provided 22% and 38% of USA Rugby's total support in 2010 and 2009, respectively.

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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**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.

**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 is seeking damages of approximately \$912,000 plus attorney fees and expenses. The vendor also claims the damages should be doubled or trebled. The legal premise they are basing it upon allows for recoupment of legal fees. The case is currently in the discovery phase. USA Rugby management disputes the vendor's claims and intends to vigorously defend the action. Management has attempted unsuccessfully to settle the matter out of court. During 2010 and 2009, USA Rugby incurred legal fees of \$27,296 and \$21,665, respectively. The accompanying financial statements do not include any liability for this dispute as the case is not developed enough to reasonably determine whether USA Rugby has, in fact, incurred a loss for these claims. The attorney fees for this matter have been expensed as incurred.