

JOHNSON KIGHTLINGER & COMPANY

**UNITED STATES OF AMERICA
RUGBY FOOTBALL UNION, LTD.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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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 subsidiary (the Organization) as of December 31, 2011 and 2010, 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 subsidiary as of December 31, 2011 and 2010, 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
October 26, 2012

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 454,290	\$ 243,136
Investments (Note 2)	142,510	140,679
Contributions receivable	35,200	27,020
Accounts receivable	287,244	99,959
Inventories	12,565	-
Prepaid expenses and other	227,142	159,754
Total current assets	<u>1,158,951</u>	<u>670,548</u>
PROPERTY AND EQUIPMENT		
Equipment and furniture	284,782	257,231
Software	50,000	50,000
Website	68,441	68,441
	<u>403,223</u>	<u>375,672</u>
Accumulated depreciation	(332,903)	(266,366)
Net property and equipment	<u>70,320</u>	<u>109,306</u>
OTHER ASSETS		
Deposits	21,575	21,575
TOTAL ASSETS	<u>\$ 1,250,846</u>	<u>\$ 801,429</u>
<u>LIABILITIES AND NET DEFICIT</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 295,295	\$ 198,584
Accrued liabilities	61,194	73,472
Deferred revenue (Note 3)	1,620,194	1,225,122
Total current liabilities	<u>1,976,683</u>	<u>1,497,178</u>
COMMITMENTS (Note 5)		
NET DEFICIT		
Unrestricted	(725,837)	(695,749)
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 1,250,846</u>	<u>\$ 801,429</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
REVENUE AND SUPPORT		
Membership dues	\$ 3,213,641	\$ 2,842,553
Grants	1,734,411	1,431,736
Sponsorship	1,510,370	1,005,884
In-kind contributions	473,193	460,000
Contributions	203,836	296,224
Coaching development and referee fees	204,913	166,892
Events	172,463	152,549
Investment income	13,461	21,144
Total revenue and support	<u>7,526,288</u>	<u>6,376,982</u>
EXPENSES		
<u>Program services</u>		
High Performance	1,933,813	1,567,988
Men's National Team	1,457,294	988,926
Game development	1,283,944	834,129
Women's National Team	473,489	539,587
Membership	472,990	361,076
Events	414,403	351,585
Total program services	<u>6,035,933</u>	<u>4,643,291</u>
<u>Fund raising</u>		
Marketing and fundraising	540,057	582,614
<u>Supporting services</u>		
Headquarters	877,948	823,781
Media and communications	91,991	137,934
Board of directors	10,447	8,016
Total supporting services	<u>980,386</u>	<u>969,731</u>
Total expenses	<u>7,556,376</u>	<u>6,195,636</u>
CHANGE IN NET ASSETS	(30,088)	181,346
NET DEFICIT - UNRESTRICTED		
Beginning of year	<u>(695,749)</u>	<u>(877,095)</u>
End of year	<u>\$ (725,837)</u>	<u>\$ (695,749)</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (30,088)	\$ 181,346
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	66,537	72,514
Unrealized gain on investments	(1,057)	(465)
Changes in operating assets and liabilities:		
Receivables	(195,465)	170,211
Prepaid expenses and other assets	(79,953)	4,019
Accounts payable and accrued liabilities	84,433	(21,468)
Deferred revenue	395,072	(5,830)
Net cash provided by operating activities	<u>239,479</u>	<u>400,327</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments, net	(774)	(877)
Purchases of property and equipment	<u>(27,551)</u>	<u>(47,860)</u>
Net cash used in investing activities	(28,325)	(48,737)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayments) on bank lines of credit	-	(180,000)
NET INCREASE IN CASH	<u>211,154</u>	<u>171,590</u>
CASH - BEGINNING OF YEAR	<u>243,136</u>	<u>71,546</u>
CASH - END OF YEAR	<u>\$ 454,290</u>	<u>\$ 243,136</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid	<u>\$ 2,267</u>	<u>\$ 5,245</u>
In-kind contribution of materials (Note 1)	<u>\$ 473,193</u>	<u>\$ 460,000</u>

See Notes to Consolidated Financial Statements

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

United States of America Rugby Football Union, Ltd. (USA Rugby) 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. USA Rugby is an official member of the United States Olympic Committee (USOC) and the International Rugby Board (IRB). The organization has approximately 100,000 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. USA Rugby's current structure comprises seven Territorial Unions, thirty-seven Local Area Unions and thirty-six 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 USA Rugby and its subsidiary: USA Rugby Charitable Foundation ("the Foundation"). The Foundation was formed in 2002 as a Pennsylvania nonprofit corporation and is a supporting organization for USA Rugby. USA Rugby appoints the Foundation's Board of Directors.

Basis of Presentation

The accompanying financial statements include the accounts of USA Rugby and its subsidiary the Foundation (collectively, the consolidated group is "USA Rugby"). All interorganizational 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, 2011

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, 2011 and 2010, 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, 2011 and 2010, no investment asset 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 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 asset 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, 2011

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, 2011 and 2010, 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, apparel, and sport drinks with a fair market value of \$473,193 and \$460,000 in 2011 and 2010, respectively. These items are reported as in-kind support and expense in the accompanying statements of activities.

Income Taxes

USA Rugby is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has no unrelated business income. The Organization has taken no tax positions it believes are unlikely to be upheld, or that might jeopardize its tax-exempt status, if examined by taxing authorities with full knowledge of all relevant information.

Accordingly, no provision for income taxes is included in the accompanying financial statements. Should its tax-exempt status be challenged in the future, all years since inception could be subject to review by the IRS. The Organization's federal information returns (Forms 990) for 2011, 2010, and 2009 are subject to examination by the IRS, generally for three years after they were filed.

In 2010, the Foundation's exempt status was revoked by the IRS for failure to timely file information returns. In January 2012, the Foundation filed the required returns and re-applied for exempt status. As of the date of these financial statements, the IRS has agreed to reinstate the Foundation effective January 3, 2012. The Foundation has accepted this decision and formal reinstatement is currently pending.

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).

**UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets and liabilities measured at fair value included the following assets measured on a recurring basis using Level 1 inputs:

	<u>2011</u>	<u>2010</u>
Cash equivalents – money market funds	\$ 46,642	18,558
Publicly traded securities	95,868	122,121
	<u>\$ 142,510</u>	<u>\$ 140,679</u>

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

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

	<u>2011</u>	<u>2010</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 2011 or 2010.

Subsequent Events

Management has evaluated subsequent events through October 26, 2012, the date the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Money market	\$ 46,642	\$ 18,558
U.S. government securities	88,521	119,482
Corporate bonds	2,553	2,639
Other	4,794	-
	<u>\$ 142,510</u>	<u>\$ 140,679</u>

NOTE 3 – DEFERRED REVENUE

Deferred revenue consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Membership	\$ 1,607,571	\$ 1,179,594
Sponsorship	-	40,000
Other	12,623	5,528
	<u>\$ 1,620,194</u>	<u>\$ 1,225,122</u>

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 2011 and 2010, 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, office equipment, and a storage unit under non-cancelable operating leases that expire between 2012 and 2014. Rent expense totaled \$94,786 and \$91,603 in 2011 and 2010, respectively.

Minimum future lease commitments under these leases were as follows at December 31, 2011:

2012	\$	84,941
2013		66,019
2014		<u>33,657</u>
	\$	<u>184,617</u>

Employment Contracts

USA Rugby has employment contract commitments with a key employee. The minimum amounts due under the contract were as follows at December 31, 2011:

2012	275,000
2013	275,000
2014	275,000
2015	275,000
2016	<u>275,000</u>
	<u>\$ 1,375,000</u>

NOTE 6 – BANK LINES OF CREDIT

USA Rugby has two lines of credit available from commercial banks. The first is a \$150,000 line that carries interest at prime plus 1.5% and is due on demand. The other is a \$275,000 line that is secured by all business assets and carries interest at LIBOR plus 4.934%. This line matures June 14, 2012. There were no outstanding borrowings under the lines of credit at December 31, 2011 and 2010.

UNITED STATES OF AMERICA RUGBY FOOTBALL UNION, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 a portion of the employee's deferral, subject to limits set by the Plan. USA Rugby made matching contributions to the Plan totaling \$7,547 and \$8,890 in 2011 and 2010, respectively.

NOTE 8 – MAJOR CONTRIBUTORS

USA Rugby receives significant financial support from the International Rugby Board (IRB). The IRB provided 21% and 18% of USA Rugby's total support in 2011 and 2010, 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 and an amount can be reasonably estimated.

Wrongful Death

USA Rugby was a named defendant in two wrongful death cases. One case was settled on December 28, 2011 whereby USA Rugby's insurance carrier paid the settlement amount of \$300,016 to the plaintiff. USA Rugby has no further obligations for this matter. The other case is still in the settlement phase and the final outcome is unclear. USA Rugby's insurance carrier is currently negotiating a settlement with the plaintiff. The legal fees to defend these actions have been 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. On March 18, 2012, a settlement with the vendor was reached. Under the terms of the settlement, USA Rugby paid the vendor \$150,000 and committed to pay an additional \$75,000 in 2013. In exchange, the vendor dismissed all of its claims against USA Rugby.

NOTE 10 – SUBSEQUENT EVENT

In January 2012 USA Rugby signed an agreement with a donor to receive \$550,000 of support in 2012. The grant is to support USA Rugby's national teams in preparation for the 2016 Olympics.