

FINANCIAL STATEMENTS

USA Track & Field, Inc.  
Years Ended December 31, 2006 and 2005  
With Report of Independent Auditors

USA Track & Field, Inc.

Financial Statements

Years Ended December 31, 2006 and 2005

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## Report of Independent Auditors

The Board of Directors  
USA Track & Field, Inc.

We have audited the accompanying statements of financial position of USA Track & Field, Inc. as of December 31, 2006 and 2005, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included 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 Company'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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USA Track & Field, Inc. at December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

May 24, 2007

USA Track & Field, Inc.

Statements of Financial Position

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,739,785	\$ 4,264,150
Accounts receivable, net	1,148,200	454,772
Inventory	293,419	242,968
Other current assets	732,615	223,946
Total current assets	<u>4,914,019</u>	5,185,836
Property and equipment	1,071,552	1,061,450
Accumulated depreciation	(888,309)	(824,198)
Net property and equipment	<u>183,243</u>	237,252
Total assets	<u><u>\$ 5,097,262</u></u>	<u><u>\$ 5,423,088</u></u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,123,273	\$ 1,103,335
Deferred revenue	1,396,933	1,468,405
Total current liabilities	<u>2,520,206</u>	2,571,740
Net assets:		
Unrestricted	2,512,076	2,830,913
Temporarily restricted	64,980	20,435
Total net assets	<u>2,577,056</u>	2,851,348
Total liabilities and net assets	<u><u>\$ 5,097,262</u></u>	<u><u>\$ 5,423,088</u></u>

*See accompanying notes.*

USA Track & Field, Inc.

Statements of Activities and Changes in Net Assets

	<b>Year Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Unrestricted net assets</b>		
Revenue and support:		
Sponsorships, net	\$ 7,437,474	\$ 6,406,676
United States Olympic Committee grants	2,211,736	2,486,086
Events and athlete programs	1,232,996	1,196,107
Member-based programs	1,774,133	1,752,366
Other revenue	1,014,372	952,131
	<u>13,670,711</u>	<u>12,793,366</u>
Expenses:		
Elite athlete competitions	5,947,286	5,273,662
Elite athlete support and development	2,999,056	2,332,659
Grass roots programs	836,268	648,293
Member-based programs	1,770,463	1,704,991
Program support	1,220,452	1,050,243
Administration and governance	1,216,023	1,101,890
	<u>13,989,548</u>	<u>12,111,738</u>
(Decrease) increase in unrestricted net assets	(318,837)	681,628
<b>Temporarily restricted net assets</b>		
Contributions	303,850	10,789
Interest income	403	393
Net assets released from restriction	(259,708)	(10,000)
Increase in temporarily restricted net assets	<u>44,545</u>	<u>1,182</u>
(Decrease) increase in net assets	(274,292)	682,810
Net assets at beginning of year	2,851,348	2,168,538
Net assets at end of year	<u>\$ 2,577,056</u>	<u>\$ 2,851,348</u>

*See accompanying notes.*

USA Track & Field, Inc.

Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Operating activities</b>		
(Decrease) increase in net assets	\$ (274,292)	\$ 682,810
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	64,111	42,076
Change in operating assets and liabilities:		
Accounts receivable, net	(693,428)	(263,676)
Inventory	(50,451)	(7,189)
Other current assets	(508,669)	(2,648)
Accounts payable and accrued expenses	19,938	(111,449)
Deferred revenue	(71,472)	385,961
Net cash (used in) provided by operating activities	<u>(1,514,263)</u>	<u>725,885</u>
<b>Investing activities</b>		
Acquisitions of property and equipment	<u>(10,102)</u>	<u>(175,802)</u>
Net (decrease) increase in cash and cash equivalents	(1,524,365)	550,083
Cash and cash equivalents at beginning of year	4,264,150	3,714,067
Cash and cash equivalents at end of year	<u>\$ 2,739,785</u>	<u>\$ 4,264,150</u>

*See accompanying notes.*

# USA Track & Field, Inc.

## Notes to Financial Statements

December 31, 2006

### **1. Mission and Organization**

USA Track & Field, Inc. (USATF) is the national governing body for track and field, long-distance running, race walking, and cross-country running. USATF is the United States' representative member of the International Association of Athletics Federations (IAAF), the world governing body for athletics, as well as a Group A member of the United States Olympic Committee (USOC).

Through its national membership of over 2,000 clubs, schools, and other organizations interested in track and field, long-distance running, and race walking, USATF promotes programs of training and competition for all ages, protects the interests and eligibility of its more than 90,000 registered athletes, and establishes and maintains the sports' rules of competition.

Revenue to support these programs is generated primarily by sponsorships, USOC grants, events, and memberships.

In 2006, USATF received approximately 53% of total revenues (59% in 2005) from one sponsor and the USOC. Agreements with the sponsor include a long-term contract that extends through 2009.

As a governing body, USATF may discipline individuals or organizations for violations of its rules. Individuals or organizations who are disciplined may seek administrative and civil remedies, including arbitration or litigation.

### **2. Significant Accounting Policies**

#### **Basis of Presentation**

Revenue and expenses are reported as an increase or decrease, respectively, in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Temporarily restricted net assets are assets whose use by USATF has been limited by donors to a specific time period or purpose. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled) are reported as transfers between the applicable classes of net assets.

# USA Track & Field, Inc.

## Notes to Financial Statements (continued)

### **2. Significant Accounting Policies (continued)**

#### **Revenue Recognition**

Membership revenue is recognized ratably over the membership period. Television rights fees, gate receipts, and other event revenue, including event sponsorships, are recognized upon completion of the respective event. National sponsorships are recognized ratably over the sponsorship period.

#### **Contributions**

Contributions, which include unconditional pledges, are recognized as revenue in the period received.

#### **Value In-Kind and Donated Services**

Numerous volunteers and sponsors donate their goods and services to USATF. Value in-kind includes apparel and team uniforms, office equipment, pro bono legal services, and publication printing and mailing. In-kind revenue and corresponding expense recognized in 2006 and 2005 of \$1,432,686 and \$1,532,752, respectively, represent an estimate of the goods and services provided. No revenue or expense is recognized when the value of the services provided cannot be objectively or reasonably estimated.

#### **USOC Funds**

The USOC provides funding to USATF for approved programs through either advances or reimbursements. Such revenue is recognized concurrently with the related expenses. Expenditures are recorded in the program-related accounts. The USOC also directly supports track and field athletes with cash grants and health insurance premiums. These athlete support programs are not included in USATF's statements of activities and changes in net assets.

#### **Deferred Revenue**

Amounts received pursuant to sponsorship agreements or from memberships are recorded as deferred revenue and recognized in subsequent periods when the corresponding programs are conducted or expenses are incurred.

## USA Track & Field, Inc.

### Notes to Financial Statements (continued)

#### **2. Significant Accounting Policies (continued)**

##### **Commitments**

USATF has a commitment to pay \$1.5 million through 2009 for certain obligations. During 2006, USATF negotiated a discounted prepayment schedule resulting in \$430,000 in prepaid expenses as of December 31, 2006, which is included in other current assets. As a result of this prepayment, USATF reduced operating expenses by \$30,000 in 2006 and will recognize an additional \$270,000 in savings through 2009.

##### **Cash Equivalents**

USATF considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

##### **Property and Equipment**

Property and equipment are recorded at cost at date of acquisition or fair value at date of donation in the case of in-kind gifts. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets.

##### **Board-Designated Net Assets**

In 1985, the Board of Directors established a Board Designated Investment Fund. There are no external or legal restrictions on the use of these funds, and they are accounted for as unrestricted net assets of USATF. In 1991, 1996 and 1997, the Board approved transfers from the Investment Fund to be used for operating purposes. These transfers depleted the balance of the Investment Fund. In future years, the Board intends to fund the Investment Fund from unrestricted net assets. Once replenished, the Board intends to award grants from the Investment Funds for special projects and activities.

##### **Income Tax Status**

The Internal Revenue Service has ruled that USATF qualifies under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not subject to income taxation under present income tax laws. USATF is subject to tax on the sale of merchandise which is considered unrelated to its tax-exempt purpose. Total unrelated business income tax expense was \$15,000 in 2006 and \$35,000 in 2005.

# USA Track & Field, Inc.

## Notes to Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Use of Estimates

Preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

#### Reclassifications

Certain 2005 amounts were reclassified to conform to the 2006 presentation. Such reclassifications had no effect on previously reported net assets or change in net assets.

### 3. Accounts Receivable

Accounts receivable consist of the following:

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
Amounts due from the USOC	\$ —	\$ 100,000
Amounts due from sponsors	<b>300,832</b>	119,339
Amounts due from USATF Foundation	<b>204,585</b>	164,774
Amounts due from event organizers	<b>320,000</b>	—
Amounts due from others	<b>443,686</b>	171,083
Allowance	<b>(120,903)</b>	(100,424)
	<b><u>\$ 1,148,200</u></b>	<b><u>\$ 454,772</u></b>

### 4. Deferred Revenue

Deferred revenue consists of the following:

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
Deferred sponsorship revenue	\$ <b>782,202</b>	\$ 1,007,215
Rights fees for future events	<b>366,000</b>	252,000
Deferred membership revenue and other	<b>248,731</b>	209,190
	<b><u>\$ 1,396,933</u></b>	<b><u>\$ 1,468,405</u></b>

## USA Track & Field, Inc.

### Notes to Financial Statements (continued)

#### **5. Retirement Plan**

USATF has a defined-contribution retirement plan covering all full-time employees who are at least twenty and one-half years of age and have completed at least six months of service. USATF contributions to the plan are 15% of compensation, as defined by the plan, and vest ratably over a six-year period. Retirement plan expense for 2006 and 2005 was \$258,550 and \$242,226, respectively.

#### **6. USA Track & Field Foundation, Inc.**

On March 15, 2002, the USA Track & Field Foundation, Inc. (the Foundation) was formed to attract funding and support new and innovative track and field programs and expand involvement in the sport. The Foundation is governed by an independent Board of Directors and its net assets and financial results are not included in the USATF financial statements.

Certain expenses of the Foundation are paid by USATF on behalf of the Foundation. Beginning in 2005, all direct costs incurred by USATF on behalf of the Foundation were reimbursed by the Foundation. Total expenses paid on behalf of the Foundation during 2006 and 2005 were \$195,795 and \$178,184, respectively, of which \$162,049 and \$154,774, respectively, were reimbursed by the Foundation. In addition, during 2006, the Foundation provided a \$20,000 grant to USATF designated for the “Springer Youth Travel Grants” program, which provides funding for youth athletes to travel to competitive opportunities. Similarly, during 2005, the Foundation provided a \$10,000 grant to USATF designated for the “Be A Champion” program, a youth-oriented campaign focused on fitness and anti-drug lifestyles.

#### **7. Litigation**

USATF is a defendant in certain lawsuits. Management intends to vigorously contest these cases and does not expect their outcome to have a material effect on USATF’s financial position. In addition, management believes its insurance policies are adequate. Accordingly, no provision for possible losses from unfavorable outcomes has been made in the accompanying financial statements.