

USA TRACK & FIELD, INC.

FINANCIAL STATEMENTS

December 31, 2007

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CONTENTS

| | |
|---------------------------------------|---|
| REPORT OF INDEPENDENT AUDITORS | 1 |
| FINANCIAL STATEMENTS | |
| STATEMENT OF FINANCIAL POSITION | 2 |
| STATEMENT OF ACTIVITIES | 3 |
| STATEMENT OF CASH FLOWS | 4 |
| NOTES TO FINANCIAL STATEMENTS..... | 5 |



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
USA Track & Field, Inc.
Indianapolis, Indiana

We have audited the accompanying statement of financial position of USA Track & Field, Inc. (USATF) as of December 31, 2007, and the related statement of activities and cash flow for the year then ended. These financial statements are the responsibility of the USATF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides 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. as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Indianapolis, Indiana
July 11, 2008

USA TRACK & FIELD, INC
STATEMENT OF FINANCIAL POSITION
December 31, 2007

| | <u>2007</u> |
|---------------------------------------|---------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 3,703,063 |
| Accounts receivable, net | 1,151,385 |
| Inventory | 316,836 |
| Prepaid expenses and other assets | 1,188,478 |
| Property and equipment, net | <u>135,858</u> |
| | <u>\$ 6,495,620</u> |
| LIABILITIES AND NET ASSETS | |
| Liabilities | |
| Accounts payable and accrued expenses | \$ 1,606,586 |
| Deferred revenue | <u>2,154,018</u> |
| Total liabilities | <u>3,760,604</u> |
| Net Assets | |
| Unrestricted | 2,701,165 |
| Temporarily restricted | <u>33,851</u> |
| Total net assets | <u>2,735,016</u> |
| | <u>\$ 6,495,620</u> |

See accompanying notes to financial statements

USA TRACK & FIELD, INC
STATEMENT OF ACTIVITIES
Year ended December 31, 2007

| | <u>2007</u> |
|---|---------------------|
| UNRESTRICTED NET ASSETS | |
| Revenue and support: | |
| Sponsorships, net | \$ 8,014,045 |
| United States Olympic Committee grants | 2,277,906 |
| Events and athlete programs | 1,091,089 |
| Member-based programs | 2,050,768 |
| Merchandise sales | 570,419 |
| Other revenue | 446,562 |
| Net assets released from restriction | <u>266,001</u> |
| Total revenue and support | 14,716,790 |
| Expenses | |
| Program expenses | |
| Elite athlete competitions | 6,432,559 |
| Elite athlete support and development | 2,769,800 |
| Grass roots programs | 922,869 |
| Member-based programs | 1,876,527 |
| Program support | 1,150,571 |
| Cost of goods sold | <u>344,046</u> |
| Total program expenses | 13,496,372 |
| Administration and governance | <u>881,533</u> |
| Total expenses | <u>14,377,905</u> |
| Change in unrestricted net assets | 338,885 |
| TEMPORARILY RESTRICTED NET ASSETS | |
| Contributions | 234,372 |
| Interest income | 500 |
| Net assets released from restriction | <u>(266,001)</u> |
| Change in temporarily restricted net assets | <u>(31,129)</u> |
| Total change in net assets | 307,756 |
| Net assets at beginning of year, as originally reported | 2,577,056 |
| Prior period adjustment | <u>(149,796)</u> |
| Net assets at beginning of year, as restated | <u>2,427,260</u> |
| Net assets at end of year | <u>\$ 2,735,016</u> |

See accompanying notes to financial statements

USA TRACK & FIELD, INC
STATEMENT OF CASH FLOWS
Year ended December 31, 2007

2007

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|----------------|
| Change in net assets | \$ 307,756 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | |
| Depreciation | 47,385 |
| Changes in operating assets and liabilities | |
| Accounts receivable | (3,185) |
| Inventory | (23,417) |
| Prepaid expenses and other assets | (455,863) |
| Accounts payable and accrued expenses | 333,517 |
| Deferred revenue | <u>757,085</u> |
| Net cash provided by operating activities | <u>963,278</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|---------------------|
| Acquisitions of property and equipment | <u>-</u> |
| Net cash provided by investing activities | <u>-</u> |
| Net increase in cash and cash equivalents | 963,278 |
| Cash and cash equivalents at beginning of year | <u>2,739,785</u> |
| Cash and cash equivalents at end of year | <u>\$ 3,703,063</u> |
| Supplemental cash flows information | |
| Non-cash transactions: | |
| In-kind contributions and expense | \$ 1,336,414 |

See accompanying notes to financial statements

USA TRACK & FIELD, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 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 80,000 registered athletes, and establishes and maintains the sports' rules of competition.

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.

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

In 2007, USATF received approximately 50% of total revenues from one sponsor and the USOC. Agreements with the sponsor include a long-term contract that extends through 2009.

NOTE 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.

Income Tax Status: The Internal Revenue Service has ruled the 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. Unrelated business income tax expense totaled \$10,818 for 2007.

(Continued)

USA TRACK & FIELD, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 -SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of the 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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from these estimates.

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, and are shown net of agency commissions of \$428,221. USATF has entered into marketing agreements with sponsors and other business partners that extend until 2013. Association membership fees collected by USATF and passed through are not shown as revenues or expenses in the accompanying financial statements.

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

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.

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.

Value of 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, rent, pro bono legal services, and publication printing and mailing. In-kind revenue and corresponding expense which was recognized in 2007 of \$1,336,414, represents an estimate of the goods and services provided. This amount is included under Sponsorship revenue and Other revenue on the Statement of Activities. No revenue or expense is recognized when the value of the services provided cannot be objectively or reasonably estimated.

Functional Allocation of Expenses: The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program and administrative and governance categories based on the actual direct expenditures and cost allocations based upon estimates by management.

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

(Continued)

USA TRACK & FIELD, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 -SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable: USATF's accounts receivable balance consists of amounts billed or billable under contracts, sponsorship agreements, or for products or services provided. Interest is not charged on outstanding accounts receivable.

Allowance for Doubtful Accounts: The allowance for doubtful accounts receivable is determined by management based on USATF's historical losses, specific payer circumstances, general economic conditions, and results of collection activities.

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. Property and equipment balance as of December 31, 2007, consisting primarily of furniture, leasehold improvements, and equipment, is shown net of accumulated depreciation of \$935,694.

Net Asset Classifications: The financial statements have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 requires, among other things, that the financial statements report the changes in and total of each of the net asset classes, based upon donor restrictions, as applicable. Net assets are to be classified as unrestricted, temporarily restricted, and permanently restricted. The following classes of net assets are used to reflect donor intent:

Unrestricted Net Assets - The unrestricted net asset class includes general assets and liabilities of USATF. The unrestricted net assets may be used to support USATF's purposes and operations.

Temporarily Restricted Net Assets - The temporarily restricted net asset class includes assets of USATF related to contributions and grants with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. Net assets temporarily restricted for the use of supporting specific USATF programs total \$33,851 at December 31, 2007. Temporarily restricted net assets released from restriction during the year ended December 31, 2007 was \$266,001.

Permanently Restricted Net Assets - The permanently restricted net asset class includes assets of USTAF which the donor has stipulated be maintained in perpetuity. Donor-imposed restrictions limiting the use of the assets or its economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose. USATF did not have any permanently restricted net assets at December 31, 2007.

Prior Period Adjustment: A prior period adjustment was made as of January 1, 2007 to correct prior periods for a previously unrecorded accrued vacation liability. Accordingly, an adjustment totaling \$149,796 was made to decrease unrestricted net assets and increase liabilities as of January 1, 2007.

(Continued)

USA TRACK & FIELD, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 3 - ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following at December 31:

| | <u>2007</u> |
|--------------------------------|---------------------|
| USOC | \$ 28,210 |
| Sponsors | 667,693 |
| USATF Foundation | 120,000 |
| Event organizers | 227,683 |
| Others | <u>144,866</u> |
| | 1,188,452 |
| Allowance or doubtful accounts | <u>(37,067)</u> |
| | <u>\$ 1,151,385</u> |

NOTE 4 - DEFERRED REVENUE

Deferred revenue consists of the following at December 31:

| | <u>2007</u> |
|---------------------------------------|---------------------|
| Deferred sponsorship revenue | \$ 712,297 |
| Rights fees for future events | 1,107,687 |
| Deferred membership revenue and other | <u>334,034</u> |
| | <u>\$ 2,154,018</u> |

NOTE 5 - OPERATING LEASES

In 2005 USATF entered into a five year operating lease for storage facilities expiring on September 15, 2010. In early 2008, USATF entered into operating leases for office and parking facilities expiring on December 31, 2020 and March 31, 2013, respectively. These 2008 leases have fluctuating rent payments. Approximate future minimum payments required under current and 2008 operating leases that have noncancelable lease terms in excess of one year are as follows:

| | |
|------------|---------------------|
| 2008 | \$ 113,570 |
| 2009 | 195,202 |
| 2010 | 183,780 |
| 2011 | 162,540 |
| 2012 | 166,026 |
| Thereafter | <u>1,139,629</u> |
| | <u>\$ 1,960,747</u> |

(Continued)

USA TRACK & FIELD, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 6 - RETIREMENT PLAN

USATF has a defined-contribution retirement plan covering full-time employees who are at least twenty and one-half years of age and have completed at least six months of service. The plan allows for employer-only contributions. 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 2007 was \$232,242.

NOTE 7 - RELATED PARTIES

USA Track & Field Foundation, Inc: The USA Track & Field Foundation, Inc. (the Foundation) was formed in 2002 to attract funding and support new and innovative track and field programs and expand involvement in the sport. The Foundation is classified under the Internal Revenue Service Code as a 501(c)(3) organization. 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. While the Foundation Board of Directors is independent of USATF, two seats on the Foundation Board are reserved for the USATF CEO and Board President. In addition, USATF provides administrative support to the Foundation and the Foundation has provided grants directly to USATF for specific programs as detailed below.

Certain expenses of the Foundation are paid by USATF on behalf of the Foundation. All direct costs incurred by USATF on behalf of the Foundation are reimbursed by the Foundation. Total expenses paid on behalf of the Foundation during 2007 were \$197,964 of which \$172,315 were reimbursed by the Foundation. Unreimbursed expenses are personnel and overhead costs of USATF staff support provided to the Foundation. During 2007, 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 2007, the Foundation provided a \$20,000 grant to USATF designated for the "Be a Champion" program, a youth-oriented campaign focused on fitness and anti-drug lifestyles.

Professional Athletics Association: The Professional Athletics Association (PAA) was formed in 2005 to support the interests of, and conduct programs on behalf of, professional track and field athletes. The PAA is classified under the Internal Revenue Service Code as a 501(c)(3) organization. The PAA is governed by an independent Board of Directors and its net assets and financial results are not included in the USATF financial statements. While the PAA Board of Directors is independent of USATF, the PAA Board is comprised of track and field athletes, a small number of which may simultaneously serve on the USATF Board of Directors. In addition, USATF provides administrative and financial support to the PAA as detailed below.

(Continued)

USA TRACK & FIELD, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 7 - RELATED PARTIES (Continued)

USATF collaborates with the PAA on certain athlete programs and provides financial support to the PAA and its programs. Total expenses incurred by USATF on PAA collaborative events were \$541,000 in 2007. In addition, USATF made a direct cash payment to the PAA of \$150,000 in 2007, and provides unreimbursed personnel and overhead support for a variety of the PAA's programs.

NOTE 8 - 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.