

CONTENTS

UNITED STATES BIATHLON ASSOCIATION, INC.

June 30, 2010

Independent Auditors' Report.....	1
Financial Statements	
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Cash Flows.....	4
Statements of Functional Expenses.....	5
Notes to Financial Statements.....	7

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INDEPENDENT AUDITORS' REPORT

Board of Directors
United States Biathlon Association, Inc.
New Gloucester, Maine

We have audited the accompanying statements of financial position of United States Biathlon Association, Inc. (a non-profit organization) as of June 30, 2010 and 2009, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Association'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 of America. Those standards require that we plan and perform the audits 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 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 the United States Biathlon Association, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Dawson, Smith, Purvis & Bassett, P.A.

Portland, Maine
October 12, 2010

STATEMENTS OF FINANCIAL POSITION

UNITED STATES BIATHLON ASSOCIATION, INC.

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,961	\$ 1,793
Accounts receivable	28,904	805
Inventory	2,827	1,421
Prepaid expenses	62,981	19,695
TOTAL CURRENT ASSETS	<u>96,673</u>	<u>23,714</u>
PROPERTY AND EQUIPMENT		
Office furniture and equipment	28,659	23,231
Vehicles	74,450	74,450
Training equipment	109,046	80,389
	<u>212,155</u>	<u>178,070</u>
Less accumulated depreciation	146,473	116,361
NET PROPERTY AND EQUIPMENT	<u>65,682</u>	<u>61,709</u>
OTHER ASSETS		
Security deposit	1,399	1,399
Investments	51,734	46,244
TOTAL OTHER ASSETS	<u>53,133</u>	<u>47,643</u>
TOTAL ASSETS	<u>\$ 215,488</u>	<u>\$ 133,066</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Cash overdraft	\$ -	\$ 2,532
Note payable-line of credit	100,000	100,000
Accounts payable	144,247	26,244
Credit cards payable	88,914	82,927
Accrued expenses	39,277	44,553
Deferred revenue	62,773	72,596
Advance from Maine Winter Sports Center	55,000	-
Advance from United States Olympic Committee	75,000	-
Current portion of notes payable	10,280	13,927
TOTAL CURRENT LIABILITIES	<u>575,491</u>	<u>342,779</u>
NOTES PAYABLE, net of current portion	6,212	16,836
ADVANCE FROM UNITED STATES OLYMPIC COMMITTEE, net of current portion	74,500	-
DEFICIENCY IN NET ASSETS		
Unrestricted	<u>(440,715)</u>	<u>(226,549)</u>
TOTAL LIABILITIES AND DEFICIENCY IN NET ASSETS	<u>\$ 215,488</u>	<u>\$ 133,066</u>

See accompanying notes.

STATEMENTS OF ACTIVITIES

UNITED STATES BIATHLON ASSOCIATION, INC.

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
UNRESTRICTED NET ASSETS:		
REVENUES, GAINS AND OTHER SUPPORT		
United States Olympic Committee	\$ 1,063,672	\$ 944,700
International Biathlon Union	127,889	118,315
Contributions	86,026	62,858
Sponsorships and marketing agreements	403,069	338,085
In-kind supplies and services	583,532	325,148
Interest and dividends	999	1,127
Unrealized gains (losses) on investments	7,540	(10,445)
Realized losses on sale of investments	(3,049)	(2,264)
Membership dues	25,229	21,560
Fundraising income	48,272	50,625
Vancouver Hospitality Program	50,304	-
Miscellaneous income	8,146	18,040
Foreign currency (loss) gain	(2,857)	3,871
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>2,398,772</u>	<u>1,871,620</u>
EXPENSES		
Program services:		
Team trials, training and competition	1,736,348	1,287,350
Development programs	397,343	302,889
Total program expenses	<u>2,133,691</u>	<u>1,590,239</u>
Support services:		
General and administrative	292,950	254,643
Marketing and development	186,297	76,529
Total support services	<u>479,247</u>	<u>331,172</u>
TOTAL EXPENSES	<u>2,612,938</u>	<u>1,921,411</u>
CHANGE IN NET ASSETS	(214,166)	(49,791)
Deficiency in net assets at beginning of year	<u>(226,549)</u>	<u>(176,758)</u>
DEFICIENCY IN NET ASSETS AT END OF YEAR	<u>\$ (440,715)</u>	<u>\$ (226,549)</u>

Certain prior year items have been reclassified to permit comparability.
See accompanying notes.

STATEMENTS OF CASH FLOWS

UNITED STATES BIATHLON ASSOCIATION, INC.

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (214,166)	\$ (49,791)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	30,112	38,138
Realized and unrealized (gain) loss on investments	(4,491)	12,709
Changes in operating assets and liabilities:		
Accounts receivable	(28,099)	4,253
Inventory	(1,406)	(962)
Prepaid expenses	(43,286)	(7,634)
Cash overdraft	(2,532)	2,532
Accounts payable	118,003	(18,456)
Credit cards payable	5,987	(61,364)
Accrued expenses	(5,276)	44,553
Deferred revenue	(9,823)	10,096
Total adjustments	<u>59,189</u>	<u>23,865</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(154,977)</u>	<u>(25,926)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	37,000
Reinvestment of interest and dividends	(999)	(1,127)
Purchase of equipment	(34,085)	(4,401)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(35,084)</u>	<u>31,472</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(14,271)	(17,209)
Advance from Maine Winter Sports Center	55,000	-
Advance from United States Olympic Committee	149,500	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>190,229</u>	<u>(17,209)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	168	(11,663)
Cash and cash equivalents, beginning of year	<u>1,793</u>	<u>13,456</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,961</u>	<u>\$ 1,793</u>

See accompanying notes.

STATEMENTS OF FUNCTIONAL EXPENSES

UNITED STATES BIATHLON ASSOCIATION, INC.

Years Ended June 30, 2010 and 2009

	June 30, 2010		
<u>Program Services:</u>	Team Trials, Training and Competition	Development Programs	Total Program Services
Salaries and wages	\$ 33,197	210,243	\$ 243,440
Payroll taxes and employee benefits	8,493	53,791	62,284
Subtotal - personnel	41,690	264,034	305,724
Travel, lodging and meals	450,290	101,589	551,879
Supplies and equipment	723,253	7,370	730,623
Contract labor	329,274	22,150	351,424
Health management services and supplies	25,689		25,689
Regional support		2,200	2,200
Athlete assistance	131,550		131,550
Awards	7,957		7,957
TOTAL PROGRAM SERVICES BEFORE DEPRECIATION	1,709,703	397,343	2,107,046
Depreciation	26,645		26,645
TOTAL PROGRAM SERVICES	<u>\$ 1,736,348</u>	<u>\$ 397,343</u>	<u>\$ 2,133,691</u>
			Total
<u>Support Services:</u>	General and Administrative	Marketing and Development	Support Services
Salaries and wages	\$ 79,864	35,126	\$ 114,990
Payroll taxes and employee benefits	20,433	8,987	29,420
Subtotal - personnel	100,297	44,113	144,410
Travel, lodging and meals	17,875	34,577	52,452
Supplies and equipment			-
Production expenses		26,872	26,872
Miscellaneous	6,678		6,678
Insurance	27,156		27,156
Rent and utilities	23,816		23,816
Bank charges	7,750		7,750
Telephone	13,155		13,155
Legal and professional	39,501		39,501
Fundraising expenses	20,180		20,180
Vancouver Hospitality Program		80,735	80,735
Payroll processing	1,629		1,629
Postage and shipping	8,142		8,142
Interest expense	17,194		17,194
Dues and subscriptions	4,561		4,561
Printing and copying	478		478
Repairs and maintenance	1,071		1,071
TOTAL SUPPORT SERVICES BEFORE DEPRECIATION	289,483	186,297	475,780
Depreciation	3,467		3,467
TOTAL SUPPORT SERVICES	<u>\$ 292,950</u>	<u>\$ 186,297</u>	<u>\$ 479,247</u>

	June 30, 2009		
<u>Program Services:</u>	<u>Team Trials, Training and Competition</u>	<u>Development Programs</u>	<u>Total Program Services</u>
Salaries and wages	\$ 37,639	203,675	\$ 241,314
Payroll taxes and employee benefits	8,694	47,046	55,740
Subtotal - personnel	<u>46,333</u>	<u>250,721</u>	<u>297,054</u>
Travel, lodging and meals	397,388	46,781	444,169
Supplies and equipment	435,768	3,276	439,044
Contract labor	248,643		248,643
Health management services and supplies	14,646		14,646
Regional support		2,111	2,111
Athlete assistance	109,025		109,025
Awards	1,366		1,366
TOTAL PROGRAM SERVICES BEFORE DEPRECIATION	<u>1,253,169</u>	<u>302,889</u>	<u>1,556,058</u>
Depreciation	<u>34,181</u>		<u>34,181</u>
TOTAL PROGRAM SERVICES	<u>\$ 1,287,350</u>	<u>\$ 302,889</u>	<u>\$ 1,590,239</u>
			Total
<u>Support Services:</u>	<u>General and Administrative</u>	<u>Marketing and Development</u>	<u>Support Services</u>
Salaries and wages	\$ 77,658	37,972	\$ 115,630
Payroll taxes and employee benefits	17,938	8,771	26,709
Subtotal - personnel	<u>95,596</u>	<u>46,743</u>	<u>142,339</u>
Travel, lodging and meals	26,679	21,159	47,838
Supplies and equipment	2,547		2,547
Production expenses		8,627	8,627
Miscellaneous			-
Insurance	18,565		18,565
Rent and utilities	22,251		22,251
Bank charges	7,968		7,968
Telephone	16,833		16,833
Legal and professional	12,655		12,655
Fundraising expense	19,610		19,610
Payroll processing	2,435		2,435
Postage and shipping	4,444		4,444
Interest expense	15,632		15,632
Dues and subscriptions	4,214		4,214
Printing and copying	982		982
Repairs and maintenance	275		275
TOTAL SUPPORT SERVICES BEFORE DEPRECIATION	<u>250,686</u>	<u>76,529</u>	<u>327,215</u>
Depreciation	<u>3,957</u>		<u>3,957</u>
TOTAL SUPPORT SERVICES	<u>\$ 254,643</u>	<u>\$ 76,529</u>	<u>\$ 331,172</u>

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

UNITED STATES BIATHLON ASSOCIATION, INC.

June 30, 2010 and 2009

NOTE A--SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

United States Biathlon Association, Inc. (the Association), located in New Gloucester, Maine, was incorporated in 1980. The Association acts as the national governing body for the sport of biathlon in compliance with the Ted Stevens Olympic and Amateur Sports Act and the Constitution and Bylaws of United States Olympic Committee, and acts as the member of the International Biathlon Union (IBU) for biathlon in the United States.

In January 1993, the Association assumed the administration of the Summer Biathlon program and incorporated it as an official activity of the U.S. Biathlon Association, Inc. The accompanying financial statements include the accounts of the Winter and Summer Biathlons.

Financial Statement Presentation

The accompanying financial statements were prepared using the accrual basis of accounting. The Association is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets; temporarily restricted net assets and permanently restricted net assets. The Association did not have any temporarily restricted or permanently restricted net assets at June 30, 2010.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets.

Accounts Receivable

Accounts receivable consists of amounts due under marketing and other arrangements. The Association uses the allowance method to account for uncollectible accounts receivable. The allowance is based on management's estimate of possible bad debts. There was no allowance for doubtful accounts at June 30, 2010 and 2009.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all short-term debt securities with a maturity of three months or less when purchased to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

UNITED STATES BIATHLON ASSOCIATION, INC.

June 30, 2010 and 2009

NOTE A--SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Investments

The Association reports investments in the Statement of Financial Position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note C for discussion of fair value measurements.

Realized or unrealized gains and losses are reported in the Statement of Activities.

Income Taxes

The Association qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes under Section 501(a) of the Internal Revenue Code. In addition, it has been granted public charity status for contributions under Section 509(a) of the Internal Revenue Code.

Inventory

The Association maintains an inventory of various souvenir and gift items with the Biathlon logo, held for sale to the public. The Association also maintains supplies held for sale to athletes. Inventory is stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Contributed items are carried in inventory at their fair value at the date of the contribution.

Deferred Revenue

Income received in advance under the terms of the Association's marketing agreements is deferred. Revenue is recognized as services are provided under the terms of the agreements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

In-Kind Services and Materials

The Association receives ammunition, clothing, ski equipment, and other products in exchange for marketing rights with certain vendors. The Association also receives some legal services on a pro-bono basis. The value of these in-kind products and services are recorded at the estimated value at which the Association would have paid for those items.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

UNITED STATES BIATHLON ASSOCIATION, INC.

June 30, 2010 and 2009

NOTE A--SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Property and Equipment

The Organization records property and equipment at cost, or fair market value if donated. Costs that do not significantly increase the useful life of an asset are charged to repairs and maintenance. Depreciation is computed using modified accelerated cost recovery method over the useful lives of the assets. Depreciation expense for the years ended June 30, 2010 and 2009 were \$30,112 and \$38,138, respectively.

Subsequent Events

The Organization has evaluated all subsequent events through October 12, 2010, the date the financial statements were available to be issued.

NOTE B--INVESTMENTS

The Association is a participant in an investment pool with the United States Olympic Foundation. The total pool consisted of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Market	\$ 209,540,688	\$ 197,170,656
Cost	240,080,310	241,705,028
Unrealized loss	(30,539,622)	(44,534,372)

The United States Biathlon Association, Inc.'s portion of the investment pool at market value is comprised of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Domestic equities	\$ 14,636	\$ 13,314
Domestic bonds	7,600	6,849
Non-traditional managers	18,453	13,304
International equities	9,178	8,555
Cash and cash equivalents	1,567	4,208
Convertibles	300	14
Total of investment pool	<u>\$ 51,734</u>	<u>\$ 46,244</u>

NOTES TO FINANCIAL STATEMENTS--CONTINUED

UNITED STATES BIATHLON ASSOCIATION, INC.

June 30, 2010 and 2009

NOTE B--INVESTMENTS--Continued

Investment return is summarized as follows for the year ended June 30, 2010 and 2009:

	2010	2009
Interest and dividend income	\$ 999	\$ 1,127
Realized losses on sale of investments	(3,049)	(2,264)
Unrealized gains (losses) on investments	7,540	(10,445)
	<u>\$ 5,490</u>	<u>\$ (11,582)</u>

NOTE C--FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable assets or liabilities (level 3 measurements). The three levels of the fair value measurements under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2010 and 2009.

Interest in investment pool with the United States Olympic Foundation : Valued based on the Association's ownership percentage of the underlying assets held by the Foundation.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

UNITED STATES BIATHLON ASSOCIATION, INC.

June 30, 2010 and 2009

NOTE C--FAIR VALUE MEASUREMENTS--Continued

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within fair value hierarchy, the plan's assets at fair value as of June 30, 2010 and 2009:

Assets at Fair Value as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pooled interest	<u>\$ -</u>	<u>\$ 51,734</u>	<u>\$ -</u>	<u>\$ 51,734</u>

Assets at Fair Value as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pooled interest	<u>\$ -</u>	<u>\$ 46,244</u>	<u>\$ -</u>	<u>\$ 46,244</u>

NOTE D--LINE OF CREDIT

The Association has a line of credit with TD Banknorth under which it may borrow up to \$100,000. The line of credit bears interest at 4.75% at June 30, 2010. Under the terms of the agreement, inventory and accounts receivable are held as collateral. The amount drawn on the line of credit at June 30, 2010 and 2009 was \$100,000.

NOTE E--LONG TERM DEBT

At June 30, 2010 and 2009, long-term debt consisted of the following:

	<u>2010</u>	<u>2009</u>
Note payable to Volkswagen in monthly installments of \$937 through December 2010, including interest at 5.875%; secured by a van.	\$ 4,971	\$ 14,335
Note payable to Chase Auto Finance in monthly installments of \$499 through August 2012, including interest at 7.39%; secured by a car.	11,521	16,428
	<u>16,492</u>	<u>30,763</u>
Less: current portion	<u>10,280</u>	<u>13,927</u>
	<u>\$ 6,212</u>	<u>\$ 16,836</u>

Approximate annual maturities for the subsequent five years are as follows: 2010--\$10,280; 2011--\$5,716; 2012--\$496

NOTES TO FINANCIAL STATEMENTS--CONTINUED

UNITED STATES BIATHLON ASSOCIATION, INC.

June 30, 2010 and 2009

NOTE F--CONCENTRATIONS

The Association maintains its cash balances in various financial institutions located in Portland, Maine. The balances in each bank are insured by the Federal Deposit Insurance Corporation up to \$250,000. Balances in certain accounts sometimes exceed this amount.

The Association receives a substantial portion of its operating revenue from the United States Olympic Committee (USOC). Total revenue from the USOC in 2010 and 2009 was \$1,063,672 and \$944,700, respectively, which represented 44% and 50%, respectively of the Association's revenue for each year.

NOTE G--LEASES

The Association rents office space in New Gloucester, Maine from a third party under an operating lease that expires in January 2011. The agreement calls for monthly base rent of \$1,574 per month plus an allocation of common area expenses and utilities. Total rent expense for 2010 and 2009 was \$23,816 and \$22,251, respectively.

The following is a schedule of future minimum lease payments required under the above operating lease agreement as of June 30, 2010:

Year-ending June 30, 2011	\$	9,443
Thereafter		-

NOTE H--SUPPLEMENTAL CASH FLOW DISCLOSURES

	2010	2009
<u>Noncash Investing and Financing Transactions:</u>		
Issuance of note to acquire vehicle	\$ -	\$ 24,950
<u>Interest and Income Taxes Paid:</u>		
Interest paid	\$ 17,194	\$ 15,632

NOTES TO FINANCIAL STATEMENTS--CONTINUED

UNITED STATES BIATHLON ASSOCIATION, INC.

June 30, 2010 and 2009

NOTE I--OPERATING DEFICITS AND DEFICIENCY IN WORKING CAPITAL

As shown in the accompanying financial statements, the Organization incurred operating losses of approximately \$214,000 and \$50,000 during the years ended June 30, 2010 and 2009, respectively. As of June 30, 2010 the Organization's current liabilities exceeded its current assets by \$478,800 and its total liabilities exceeded total assets by \$440,700.

Management has taken affirmative steps to address these concerns. In August 2010, the Organization signed a letter of intent to accept a \$300,000 grant through the USOC Paralympic Veterans Program to provide operational support, athlete development and athlete recruitment through June 30, 2011. These funds were received in October 2010 and represent new funds to the Organization.

Furthermore, management is working with supporters to establish the United States Biathlon Foundation. The purpose of the Foundation is to raise funds from throughout the United States to support the athletes and programs of the U.S. Biathlon Team. Management expects the Foundation to begin operations within the fiscal year ending June 30, 2011. The new grant for the Paralympic Veterans Program and the establishment of the United States Biathlon Foundation have alleviated concerns about the Organization's ability to continue as a going concern.

NOTE J--SUBSEQUENT EVENT

In July 2010, an individual charged with governance within the Organization loaned the Organization \$75,000. The loan was repaid in full on July 26, 2010.