

**UNITED STATES RACQUETBALL
ASSOCIATION, INC.**

Financial Statements

For the Period Ended December 31, 2004

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INDEPENDENT AUDITORS' REPORT

Board of Directors
United States Racquetball
Association, Inc.

We have audited the accompanying statements of financial position of United States Racquetball Association, Inc. (a nonprofit corporation) as of December 31, 2004 and the related statements of activities and changes in net assets, and cash flows for the year 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 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 United States Racquetball Association, Inc. as of December 31, 2004, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of program services and of supporting services for the year ended December 31, 2004 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Waugh & Goodwin, LLP

June 10, 2005

UNITED STATES RACQUETBALL ASSOCIATION, INC.
Statement of Financial Position
December 31, 2004

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 215,747
Accounts receivable	87,558
Inventory	<u>47,992</u>
Total current assets	351,297
FURNITURE AND EQUIPMENT:	
Land	37,072
Building	210,078
Office furniture and equipment	102,659
Portable court	122,000
Less accumulated depreciation	<u>(275,279)</u>
Furniture and equipment - net	196,530
OTHER ASSETS:	
Investments (Note B)	31,487
Loan fees, less amortization of \$2,475	<u>1,650</u>
Total other assets	<u>33,137</u>
TOTAL ASSETS	<u>\$ 580,964</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 468,124
Deposits payable	500
Accrued liabilities	6,171
Current portion of note payable (Note C)	18,781
Deferred revenue	<u>16,350</u>
Total liabilities	509,926
NOTE PAYABLE (Note C)	311,844
NET ASSETS:	
Unrestricted	(274,531)
Temporarily restricted (Note D)	<u>33,725</u>
Total net assets	<u>(240,806)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 580,964</u>

See Notes to Financial Statements

UNITED STATES RACQUETBALL ASSOCIATION, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
REVENUE:			
National events	\$ 478,399	\$	\$ 478,399
Corporate sponsorship	433,905		433,905
Membership dues	326,946		326,946
Racquetball magazine	183,494		183,494
Contributions	137,719	5,455	143,174
USOC grants	122,500		122,500
In-kind revenue	85,746		85,746
Rental and miscellaneous income	24,336		24,336
Merchandise sales	13,659		13,659
Less cost of goods sold	(1,752)		(1,752)
USOC joint marketing agreement	13,000		13,000
Royalties	12,964		12,964
Fundraising campaign	12,412		12,412
Interest and other programs		1,324	1,324
Net assets released from restrictions	<u>18,769</u>	<u>(18,769)</u>	
Total revenue	1,862,097	(11,990)	1,850,107
EXPENSES:			
Program services:			
National events	808,276		808,276
Development programs	433,417		433,417
Racquetball magazine	256,366		256,366
Membership	147,931		147,931
International events	<u>81,452</u>		<u>81,452</u>
Total program services	1,727,442		1,727,442
Supporting services:			
National office	130,973		130,973
Fundraising	55,254		55,254
Board of Directors	<u>41,537</u>		<u>41,537</u>
Total supporting services	<u>227,764</u>		<u>227,764</u>
Total expenses	<u>1,955,206</u>		<u>1,955,206</u>
CHANGE IN NET ASSETS	(93,109)	(11,990)	(105,099)
NET ASSETS, beginning of year	<u>(181,422)</u>	<u>45,715</u>	<u>(135,707)</u>
NET ASSETS, end of year	<u>\$ (274,531)</u>	<u>\$ 33,725</u>	<u>\$ (240,806)</u>

See Notes to Financial Statements

UNITED STATES RACQUETBALL ASSOCIATION, INC.
Statement of Cash Flows
For the Year Ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (105,099)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	27,574
Changes in assets and liabilities:	
Increase in accounts receivable	(24,405)
Decrease in inventory	29,944
Increase in accrued liabilities	5,329
Increase in accounts payable	228,435
Increase in deferred revenue	<u>11,410</u>
Total adjustments	<u>278,287</u>
Net cash provided by operating activities	173,188
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of property and equipment	(4,440)
Disposal of property and equipment	1,752
Increase in investments	<u>(1,288)</u>
Net cash used by investing activities	(3,976)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Decrease in note payable	(17,119)
Decrease in loan acquisition costs	<u>825</u>
Net cash used by financing activities	<u>(16,294)</u>
NET INCREASE IN CASH	152,918
CASH AND CASH EQUIVALENTS, beginning of year	<u>62,829</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 215,747</u>

See Notes to Financial Statements

UNITED STATES RACQUETBALL ASSOCIATION, INC.

Notes to Financial Statements

For the Year Ended December 31, 2004

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The United States Racquetball Association, Inc. (Association) is a nonprofit educational organization designed to foster the development of the sport of racquetball in the United States.

The Association qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes. The Association is not a private foundation.

Depreciation

Property and equipment are recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of gifts. Depreciation is recorded using the straight-line method over estimated useful lives of 5 to 10 years for furniture and equipment and 25 years for the building.

Depreciation expense amounted to \$27,574 for the year ended December 31, 2004.

Membership Dues

Membership dues are recognized as revenue upon receipt.

Contributions

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Association receives a substantial amount of services donated by individuals in carrying out its programs. In accordance with requirements of SFAS No. 116, no amounts have been reflected in the financial statements for those services.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

Cash and cash equivalents consist of the Association's checking and money market accounts.

Inventory

Inventory consists of racquets, balls, clothing, gift service items and videotapes and is valued at the lower of cost or market.

Supplemental Cash Flow Disclosures

For purposes of the statements of cash flows, cash and cash equivalents are defined as demand deposits and short-term investments with an initial maturity of three months or less.

Cash flows from operating activities reflect interest paid of \$14,283 for the year ending December 31, 2004.

Use of Estimates

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, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

B. INVESTMENTS

Investments are carried at market value and consist of the following at December 31, 2004:

Money market fund	\$ 12,655
NM Household Finance Corp., 6.15% bonds	3,167
NM Household Finance Corp., 7.4% bonds	<u>15,665</u>
Investments at market	<u>\$ 31,487</u>
Investments at cost	<u>\$ 30,531</u>

Notes to Financial Statements

C. NOTE PAYABLE

Note payable consists of the following at December 31, 2004:

Mortgage payable to Bank One secured by real property at 1685 W. Uintah. The note requires monthly payments of \$3,405, including interest at 6.85%, through December, 2006. \$ 330,625

Less current portion (18,781)
 Total \$ 311,844

Future minimum payments for the years ended December 31 are as follows:

2005	\$ 18,781
2006	311,844

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31, 2004:

Scholarship fund	\$ 32,729
National Junior Team	151
National Adult Team	720
Disabled Wheelchair Racquetball Association	<u>125</u>
	<u>\$ 33,725</u>

The scholarship fund represents contributions restricted by the donors for use in the scholarship program. The funds are maintained in the Association's investment accounts as described in Note B.

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the year ended December 31, 2004, net assets were released from restrictions by satisfying the following purposes:

Foundation	\$ 13,810
National Junior Team	4,459
Hall of Fame	<u>500</u>
	<u>\$ 18,769</u>

Notes to Financial Statements

E. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2004, the United States Olympic Committee (USOC) provided grants to the Association under the base funding and performance pool funding programs in the amount of \$117,500. The Association also received in-kind payments from the USOC of \$4,867 and \$5,000 in international relations grants during the year ended December 31, 2004.

In addition, the Association renewed its joint marketing agreement with the USOC on March 30, 2002. The term of the agreement is through December 31, 2004. The Association received \$13,000 during the year ended December 31, 2004.

F. RETIREMENT PLAN

The Association sponsors a tax sheltered annuity pension plan. To be eligible, an employee must have two years of continuous employment. Total pension expense for the year ended December 31, 2004 was \$20,520.

G. DEFICIENCY IN NET ASSETS

As reflected in the accompanying statement of financial position, the Corporation had a deficiency of net assets at December 31, 2004 of \$246,293. In order to reduce this deficiency in 2005, the Association has taken the following actions:

- Sold the Association's office building at a significant gain.
- Reduced occupancy costs by approximately \$3,000 per month.
- Eliminated four staff positions which will save approximately \$90,000 in wages and benefits.
- Raised over \$120,000 in contributions during the first five months of 2005.
- Implemented a policy of requiring the junior and adult US Teams to pay their own travel expenses.

UNITED STATES RACQUETBALL ASSOCIATION, INC.
Schedule of Program Services
For the Year Ended December 31, 2004

	National <u>Events</u>	Development <u>Programs</u>	Racquetball <u>Magazine</u>	<u>Membership</u>	International <u>Events</u>	<u>Total</u>
Advertising	\$ 4,599					\$ 4,599
Agency discount			42,312			42,312
Airfare	16,460	44,410	1,011		4,434	66,315
Athlete assistance		12,250				12,250
Awards	71,958	312				72,270
Bad debt	200		1,328			1,528
Bank charges	5,778	11,331	983	670	1,294	20,056
Banquet	22,487					22,487
Computer programming	1,000	5,058		204		6,262
Contract labor	128,246	17,275	25,000	11,460		181,981
Cost of goods		7,529				7,529
Court rentals	97,349					97,349
Decorating	11,824					11,824
Duplication	448	888		191		1,527
Employee benefits	24					24
Entertainment	30,201	179			5,000	35,380
Finance charge	2,558	3,822	879	599	1,158	9,016
Fundraising	4,476					4,476
Gifts	2,015	100				2,115
Grants to states	16,261	4,750				21,011
Ground transportation	1,030	1,588	194		45	2,857
Hospitality	20,106					20,106
Insurance	17,721	26,824	6,092	54,385	8,024	113,046
Interest	1,027	1,552	296	212	390	3,477
Lease	353	527	121	83	160	1,244
Legal/accounting	3,807	7,111	1,765	725	1,401	14,809
Meals/housing	5,882	22,333	436			28,651
Media/publicity	28,570	4,400				32,970
Mileage	8	12	3	2	4	29
Miscellaneous	9,955	10,136	1,801	28	84	22,004
Mortgage interest	5,697	8,513	1,959	1,335	2,580	20,084
Payroll taxes	7,937	11,859	2,728	1,860	3,594	27,978
Pictures	2,026		984			3,010
Postage	1,173	2,427	25,223	3,066	478	32,367
Printing	14,696	10,312	78,861	4,551	16	108,436

Promotions	101	4,263			1,571	5,935
Rebates		13,117		41,868		54,985
Referee payments	30,610					30,610
Refund	4,932	142				5,074
Rent	41,505	179				41,684
Repairs & maintenance	1,851	7,186	465	317	612	10,431
Retirement	4,912	7,340	1,689	1,151	2,224	17,316
Salaries	101,905	152,261	35,032	23,880	46,142	359,220
Shirts	41,397	369				41,766
Supplies	12,054	4,200	385	201	388	17,228
Telephone	7,720	2,930	1,865	385	714	13,614
Trash	207	309	71	48	94	729
Uniforms		3,623				3,623
UPS	11,982	9,827	1,178	361	379	23,727
Utilities	1,470	2,197	505	345	666	5,183
VIK	11,758	9,976	23,200	4		44,938
	<u>\$ 808,276</u>	<u>\$ 433,417</u>	<u>\$ 256,366</u>	<u>\$ 147,931</u>	<u>\$ 81,452</u>	<u>\$ 1,727,442</u>

UNITED STATES RACQUETBALL ASSOCIATION, INC.

Schedule of Supporting Services

For the Year Ended December 31, 2004

	National Office	Fundraising	Board of Directors	Total Supporting Services
Advertising	\$ 137	\$	\$	\$ 137
Airfare		270	781	1,051
Awards	75			75
Bad debt	13,459			13,459
Bank charges	1,267	287	310	1,864
Banquet			6,580	6,580
Computer programming	39			39
Depreciation/amortization	28,399			28,399
Duplication			185	185
Education/seminars			30	30
Employee benefits	719			719
Finance charge	1,134	256	278	1,668
Ground transportation		30		30
Hospitality			720	720
Insurance	8,122	1,777	7,387	17,286
Interest	382	86	94	562
Lease	156	35	38	229
Legal/accounting	2,630	310	336	3,276
Meals/housing		350		350
Mileage	3	1	1	5
Miscellaneous	3,347	12	13	3,372
Mortgage interest	2,525	571	619	3,715
Payroll taxes	3,517	796	862	5,175
Postage	459	259	185	903
Printing	16	1,354	4	1,374
Promotions	85	659		744
Property tax	143			143
Rent			120	120
Repairs & maintenance	599	135	147	881
Retirement	2,177	492	534	3,203
Salaries	50,650	10,216	11,067	71,933
Supplies	1,684	86	94	1,864
Telephone	657	149	3,811	4,617
Trash	92	21	22	135
UPS	330	196	279	805
Utilities	652	147	160	959
VIK	<u>13,005</u>	<u>36,759</u>	<u>6,880</u>	<u>56,644</u>
	<u>\$ 136,460</u>	<u>\$ 55,254</u>	<u>\$ 41,537</u>	<u>\$ 233,251</u>