

**UNITED STATES RACQUETBALL
ASSOCIATION, INC.**

Financial Statements

For the Year Ended December 31, 2005

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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, 2005 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, 2005, 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, 2005 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

May 8, 2006

UNITED STATES RACQUETBALL ASSOCIATION, INC.
Statement of Financial Position
December 31, 2005
(With Comparative Amounts for 2004)

	<u>ASSETS</u>	
	<u>2005</u>	<u>2004</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 397,944	\$ 215,747
Accounts receivable	157,193	87,558
Prepaid expenses	1,650	
Inventory	<u>34,737</u>	<u>47,992</u>
Total current assets	591,524	351,297
FURNITURE AND EQUIPMENT:		
Office furniture and equipment	104,733	102,659
Portable court	122,000	122,000
Land		37,072
Building		210,078
Less accumulated depreciation	<u>(193,111)</u>	<u>(275,279)</u>
Furniture and equipment - net	33,622	196,530
OTHER ASSETS:		
Investments (Note B)	22,449	31,487
Loan fees, less amortization		<u>1,650</u>
Total other assets	<u>22,449</u>	<u>33,137</u>
TOTAL ASSETS	<u>\$ 647,595</u>	<u>\$ 580,964</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 402,747	\$ 468,124
Accrued liabilities	4,824	6,171
Line of credit	14,385	
Deferred revenue	138,735	16,350
Current portion of note payable (Note C)	23,222	18,781
Deposits payable		<u>500</u>
Total current liabilities	583,913	509,926
NOTE PAYABLE (Note C)	15,000	311,844
NET ASSETS:		
Unrestricted	13,157	(274,531)
Temporarily restricted (Note D)	<u>35,525</u>	<u>33,725</u>
Total net assets	<u>48,682</u>	<u>(240,806)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 647,595</u>	<u>\$ 580,964</u>

See Notes to Financial Statements

UNITED STATES RACQUETBALL ASSOCIATION, INC.
Statement of Activities and Changes in Net Assets
December 31, 2005
(With Comparative Totals for 2004)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2005</u>	<u>2004</u>
REVENUE:				
Corporate sponsorship	\$ 423,150	\$	\$ 423,150	\$ 433,905
Membership dues	414,956		414,956	326,946
Entry fees	346,052		346,052	
National events	167,696		167,696	478,399
Racquetball magazine	167,034		167,034	183,494
Contributions	157,609	2,380	159,989	143,174
Gain on disposal of building	137,482		137,482	
USOC grants	100,000		100,000	122,500
Royalties	89,454		89,454	12,964
In-kind revenue	59,052		59,052	85,746
Rental and miscellaneous income	22,005		22,005	24,336
USOC joint marketing agreement	16,000		16,000	13,000
Merchandise sales	15,038		15,038	13,659
Less cost of goods sold	(9,498)		(9,498)	(1,752)
Fundraising campaign	3,887		3,887	12,412
Interest and other programs		1,365	1,365	1,324
Net assets released from restrictions	1,945	(1,945)		
Total revenue	<u>2,111,862</u>	<u>1,800</u>	<u>2,113,662</u>	<u>1,850,107</u>
EXPENSES:				
Program services:				
National events	822,553		822,553	808,276
Development programs	399,963		399,963	433,417
Racquetball magazine	218,458		218,458	256,366
Membership	184,879		184,879	147,931
International events	67,583		67,583	81,452
Total program services	<u>1,693,436</u>		<u>1,693,436</u>	<u>1,727,442</u>
Supporting services:				
National office	77,407		77,407	130,973
Board of Directors	39,098		39,098	41,537
Fundraising	14,233		14,233	55,254
Total supporting services	<u>130,738</u>		<u>130,738</u>	<u>227,764</u>
Total expenses	<u>1,824,174</u>		<u>1,824,174</u>	<u>1,955,206</u>
CHANGE IN NET ASSETS	287,688	1,800	289,488	(105,099)
NET ASSETS, beginning of year	(274,531)	33,725	(240,806)	(135,707)
NET ASSETS, end of year	<u>\$ 13,157</u>	<u>\$ 35,525</u>	<u>\$ 48,682</u>	<u>\$ (240,806)</u>

See Notes to Financial Statements

UNITED STATES RACQUETBALL ASSOCIATION, INC.

Statement of Cash Flows

December 31, 2005

(With Comparative Amounts for 2004)

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 289,488	\$ (105,099)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on disposal of building	(137,482)	
Depreciation	19,954	27,574
Changes in assets and liabilities:		
Increase in accounts receivable	(69,635)	(24,405)
Decrease in inventory	13,255	29,944
Increase in prepaid expenses	(1,650)	
Increase (decrease) in accrued liabilities	(1,347)	5,329
Increase (decrease) in accounts payable	(65,377)	228,435
Decrease in deposits payable	(500)	
Increase in line of credit	14,385	
Increase in deferred revenue	<u>122,385</u>	<u>11,410</u>
Total adjustments	<u>(106,012)</u>	<u>278,287</u>
Net cash provided by operating activities	183,476	173,188
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(2,074)	(4,440)
Proceeds from sale of building	282,512	1,752
(Increase) decrease in investments	<u>9,038</u>	<u>(1,288)</u>
Net cash provided (used) by investing activities	289,476	(3,976)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in note payable	(292,405)	(17,119)
Decrease in loan acquisition costs	<u>1,650</u>	<u>825</u>
Net cash used by financing activities	<u>(290,755)</u>	<u>(16,294)</u>
NET INCREASE IN CASH	182,197	152,918
CASH AND CASH EQUIVALENTS, beginning of year	<u>215,747</u>	<u>62,829</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 397,944</u>	<u>\$ 215,747</u>

See Notes to Financial Statements

UNITED STATES RACQUETBALL ASSOCIATION, INC.

Notes to Financial Statements

For the Year Ended December 31, 2005

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.

Property and Equipment

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. Equipment is depreciated using the straight-line method over useful lives of 5 to 10 years. Depreciation expense for the years ended December 31, 2005 and 2004 amounted to \$19,954 and \$27,574, respectively.

Membership Dues

Membership dues consist of one-year and two-year registrations. One-year memberships are recognized as revenue upon receipt. Two-year memberships are recognized ratably over the membership period.

Allowance for Doubtful Accounts

The Corporation considers its accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

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.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions - continued

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.

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 \$28,330 and \$14,283 for the years ended December 31, 2005 and 2004, respectively.

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.

Prior-Year Comparisons

The financial statements include certain prior-year summarized comparative information in total but not by net asset or functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2004, from which the summarized information was derived.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Prior-Year Comparisons - continued

Certain reclassifications have been made to the prior year amounts in order to conform to the current year financial statement format.

B. INVESTMENTS

Investments are carried at market value and consist of the following at December 31, 2005:

	<u>2005</u>	<u>2004</u>
Money market fund	\$ 4,109	\$ 12,655
NM Household Finance Corp., 6.15% bonds	3,065	3,167
NM Household Finance Corp., 7.4% bonds	<u>15,275</u>	<u>15,665</u>
Investments at market	<u>\$ 22,449</u>	<u>\$ 31,487</u>
Investments at cost	<u>\$ 21,869</u>	<u>\$ 30,531</u>

C. NOTE PAYABLE

Notes payable consists of the following at December 31, 2005:

	<u>2005</u>	<u>2004</u>
Note payable to the National Master's Association, with no terms stated.	\$ 10,000	\$
Ten-year note payable to Otto Dietrich, unsecured. The note requires no payments until the sixth year, at which time interest only payments of 5% will be due. The note is due in full at the ten-year term.	5,000	
One-year note payable to First Bank secured by personal property. The note requires monthly payments of \$615, plus interest at 8.25%, through August, 2006. A balloon payment of \$20,123 will be due on August 16, 2006.	23,222	

Notes to Financial Statements

C. NOTE PAYABLE - Continued

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%. The note was fully paid off in March 2005.

	<u>330,625</u>
	38,222
Less current portion	<u>(23,222)</u>
Total	<u>\$ 15,000</u> <u>\$ 311,844</u>

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

2006	\$ 23,222
2007	0
2008	0
2009	0
2010	0
Future years	<u>15,000</u>
	<u>\$ 38,222</u>

D. LINE OF CREDIT AGREEMENT

The Association has a \$25,000 line of credit agreement with a commercial bank which expires August 16, 2006. The line of credit bears interest at 2.0% over prime and is secured by inventory and equipment. At December 31, 2005, outstanding borrowings under the line of credit agreement were \$14,385. Total interest paid during the year on this line of credit was \$431.

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Scholarship fund	\$ 34,577	\$ 32,729
Campaign Hall of Fame	369	151
National Adult Team	454	720
Disabled Wheelchair Racquetball	<u>125</u>	<u>125</u>
	<u>\$ 35,525</u>	<u>\$ 33,725</u>

Notes to Financial Statements

E. TEMPORARILY RESTRICTED NET ASSETS - Continued

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 years ended December 31, 2005 and 2004, net assets were released from restrictions by satisfying the following purposes:

	<u>2005</u>	<u>2004</u>
National Junior Team	\$ 1,049	\$ 4,459
National Adult Team	266	
Hall of Fame	630	500
Foundation	<u> </u>	<u>13,810</u>
	<u>\$ 1,945</u>	<u>\$ 18,769</u>

F. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2005 and 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 \$100,000 and \$117,500, respectively. The Association also received in-kind payments from the USOC of \$5,731 and \$4,867. In 2004, the Association also received an international relations grant in the amount of \$5,000.

In addition, the Association renewed its joint marketing agreement with the USOC in 2004. The Association received \$16,000 and \$13,000 during the years ended December 31, 2005 and 2004, respectively.

G. 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 years ended December 31, 2005 and 2004 was \$18,323 and \$20,520, respectively.

H. LEASES

Effective April 1, 2005, the Association entered into a three-year lease for office space. The lease requires monthly rent payments of \$1,500. The Association also leased a storage unit for \$80 per month and a postage meter for \$122 per month.

Total rent expense under these leases amounted to \$16,468 and \$2,352 for the years ended December 31, 2005 and 2004, respectively.

UNITED STATES RACQUETBALL ASSOCIATION, INC.
Schedule of Program Services
For the Year Ended December 31, 2005

	National Events	Development Programs	Racquetball Magazine	Membership	International Events	Total
Advertising	\$ 8,567					\$ 8,567
Agency discount			45,577			45,577
Airfare	17,458	15,471				32,929
Administration	123,964	125,627	55,607	93,054	64,966	463,218
Athlete assistance		9,050				9,050
Awards	66,728	3,234		54		70,016
Bank charges	3,824					3,824
Banquet	26,628	1,000				27,628
Computer programming		2,957		14,224		17,181
Contract labor	134,131	18,470	4,333	7,227		164,161
Court rentals	93,181					93,181
Decorating	10,377					10,377
Duplication	852	796	32	387		2,067
Employee benefits	46					46
Entertainment	26,350	195				26,545
Fundraising	5,599					5,599
Gifts	110					110
Grants to states	11,897	2,000				13,897
Ground transportation	1,118	957				2,075
Hospitality	20,728					20,728
Insurance		235		38,756		38,991
Legal/accounting	1,428	824		21		2,273
Meals/housing	6,363	37,451				43,814
Media/publicity	28,972	120				29,092
Mileage		775				775
Miscellaneous	8,229	11,492		28	1,650	21,399
Pictures	2,280		700			2,980
Postage	157	1,067	21,463	4,846		27,533
Printing	9,530		65,291	23,000		97,821
Promotions	772	9,052	21	7	966	10,818
Rebates		131,885				131,885
Referee payments	26,320					26,320
Rent	33,672	198				33,870
Repairs & maintenance	1,703	5,287				6,990
Security	1,528					1,528
Shirts	29,745					29,745
Supplies	16,973	2,357		185		19,515
Telephone	5,105	276		53	1	5,435
Tournament support	76,592					76,592
Uniforms		5,431				5,431
UPS	9,859	4,706	334	37		14,936
VIK	11,767	9,050	25,100	3,000		48,917
	<u>\$ 822,553</u>	<u>\$ 399,963</u>	<u>\$ 218,458</u>	<u>\$ 184,879</u>	<u>\$ 67,583</u>	<u>\$ 1,693,436</u>

UNITED STATES RACQUETBALL ASSOCIATION, INC.
Schedule of Supporting Services
For the Year Ended December 31, 2005

	National Office	Board of Directors	Fundraising	Total Supporting Services
Administration	\$ 49,180	\$ 23,715	\$ 12,846	\$ 85,741
Airfare		427		427
Bad debt	3,993			3,993
Banquet		6,580		6,580
Depreciation/amortization	21,705			21,705
Duplication		275		275
Employee benefits	197			197
Gifts	9		137	146
Hospitality		295		295
Insurance		5,350		5,350
Legal/accounting	64			64
Meals/housing		1,584		1,584
Miscellaneous	357			357
Postage		117	87	204
Promotions	504		519	1,023
Property tax	121			121
Rent		150		150
Repairs & maintenance	1,277			1,277
Supplies		83		83
UPS		312	28	340
VIK		210	616	826
	<u>\$ 77,407</u>	<u>\$ 39,098</u>	<u>\$ 14,233</u>	<u>\$ 130,738</u>