

UNITED STATES BIATHLON ASSOCIATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2006

UNITED STATES BIATHLON ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
United States Biathlon Association, Inc.
Colchester, Vermont

We have audited the accompanying statement of financial position of United States Biathlon Association, Inc. (a nonprofit organization) as of June 30, 2006, and the related statements of activities, cash flows, and functional expenses 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. The prior year summarized information has been derived from the United States Biathlon Association's 2005 financial statements and, in our report dated September 9, 2005 and December 1, 2005, we expressed an unqualified opinion on those statements.

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 the United States Biathlon Association, Inc. as of June 30, 2006, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Jmm & Associates

September 21, 2006

JMM & ASSOCIATES ■ CERTIFIED PUBLIC ACCOUNTANTS

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UNITED STATES BIATHLON ASSOCIATION, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2006

(WITH COMPARATIVE TOTALS FOR 2005)

ASSETS

	Winter Biathlon	Summer Biathlon	2006 Total	2005 Total
CURRENT ASSETS				
Cash	\$ 3,939	\$ -	\$ 3,939	\$ 104,053
Accounts receivable, net of allowance	15,842	-	15,842	6,440
Pledges receivable, current portion	337,045	-	337,045	311,442
Inventory	950	-	950	3,306
Prepaid expenses	6,950	-	6,950	12,774
TOTAL CURRENT ASSETS	364,726	-	364,726	438,015
PROPERTY AND EQUIPMENT				
Office furniture and equipment	14,793	-	14,793	16,745
Training equipment	6,883	-	6,883	6,883
	21,676	-	21,676	23,628
Less accumulated depreciation	(15,777)	-	(15,777)	(17,577)
TOTAL PROPERTY AND EQUIPMENT	5,899	-	5,899	6,051
OTHER ASSETS				
Cash - restricted	7,158	-	7,158	5,304
Security deposit	1,399	-	1,399	-
Pledges receivable, net of current portion and discount	1,106,111	-	1,106,111	1,136,065
Investments	255,142	-	255,142	294,268
TOTAL OTHER ASSETS	1,369,810	-	1,369,810	1,435,637
TOTAL ASSETS	\$ 1,740,435	\$ -	\$ 1,740,435	\$ 1,879,703

See accompanying notes.

LIABILITIES AND NET ASSETS

	Winter Biathlon	Summer Biathlon	2006 Total	2005 Total
CURRENT LIABILITIES				
Accounts payable	\$ 60,296	\$ -	\$ 60,296	\$ 38,277
Accrued expenses	-	-	-	48,426
Due to (from) other program	(1,439)	1,439	-	-
Line of credit	79,037	-	79,037	39,717
TOTAL CURRENT LIABILITIES	<u>137,894</u>	<u>1,439</u>	<u>139,333</u>	<u>126,420</u>
NET ASSETS				
Unrestricted:				
Undesignated	(107,023)	(1,439)	(108,462)	(52,782)
Net investment in property and equipment	5,899	-	5,899	6,051
Board-designated for long-term investment	198,007	-	198,007	263,007
Subtotal - unrestricted	96,883	(1,439)	95,444	216,276
Temporarily restricted	1,505,658	-	1,505,658	1,537,007
TOTAL NET ASSETS	<u>1,602,541</u>	<u>(1,439)</u>	<u>1,601,102</u>	<u>1,753,283</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,740,435</u>	<u>\$ -</u>	<u>\$ 1,740,435</u>	<u>\$ 1,879,703</u>

See accompanying notes.

UNITED STATES BIATHLON ASSOCIATION, INC.

STATEMENT OF ACTIVITIES

**FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)**

	<u>Winter Biathlon</u>	<u>Summer Biathlon</u>	<u>2006 Total</u>	<u>2005 Total</u>
CHANGES IN UNRESTRICTED NET ASSETS				
REVENUES, GAINS AND OTHER SUPPORT				
United States Olympic Committee	\$ 250,000	\$ -	\$ 250,000	\$ 283,725
Contributions and sponsorships	98,301	-	98,301	221,692
In-kind donations	162,934	-	162,934	284,491
World Cup - Maine	-	-	-	10,035
Interest and dividends	6,781	-	6,781	8,295
Unrealized gain on investments	135	-	135	8,623
Realized gain on investments	19,436	-	19,436	10,020
Membership dues	18,385	-	18,385	13,865
Miscellaneous income	10,985	-	10,985	7,093
Outdoor Life Network	8,960	-	8,960	72,193
Foreign currency loss	-	-	-	(154)
	<u>575,917</u>	<u>-</u>	<u>575,917</u>	<u>919,878</u>
Net assets released from restrictions	400,942	-	400,942	6,368
	<u>976,859</u>	<u>-</u>	<u>976,859</u>	<u>926,246</u>
TOTAL REVENUES, GAINS AND OTHER SUPPORT				
EXPENSES				
Program services:				
Team trials, training and competition	581,553	-	581,553	548,218
Development programs	44,927	-	44,927	131,038
Summer Biathlon	-	-	-	316
Total program expenses	<u>626,480</u>	<u>-</u>	<u>626,480</u>	<u>679,572</u>
Support services:				
General and administrative	308,166	-	308,166	193,218
Marketing and development	163,045	-	163,045	149,901
Total support services	<u>471,211</u>	<u>-</u>	<u>471,211</u>	<u>343,119</u>
TOTAL EXPENSES	<u>1,097,691</u>	<u>-</u>	<u>1,097,691</u>	<u>1,022,691</u>
CHANGE IN UNRESTRICTED NET ASSETS	(120,832)	-	(120,832)	(96,445)
BEGINNING UNRESTRICTED NET ASSETS	<u>217,715</u>	<u>(1,439)</u>	<u>216,276</u>	<u>312,721</u>
ENDING UNRESTRICTED NET ASSETS	<u>\$ 96,883</u>	<u>\$ (1,439)</u>	<u>\$ 95,444</u>	<u>\$ 216,276</u>

See accompanying notes.

UNITED STATES BIATHLON ASSOCIATION, INC.

STATEMENT OF ACTIVITIES (CONTINUED)

**FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)**

	<u>Winter Biathlon</u>	<u>Summer Biathlon</u>	<u>2006 Total</u>	<u>2005 Total</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS				
Contributions and sponsorships	\$ 93,038	\$ -	\$ 93,038	\$ 1,443,694
Promised materials and supplies	276,555	-	276,555	93,313
	<u>369,593</u>	<u>-</u>	<u>369,593</u>	<u>1,537,007</u>
Net assets released from restrictions	<u>(400,942)</u>	<u>-</u>	<u>(400,942)</u>	<u>(6,368)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(31,349)	-	(31,349)	1,530,639
BEGINNING TEMPORARILY RESTRICTED NET ASSETS	<u>1,537,007</u>	<u>-</u>	<u>1,537,007</u>	<u>6,368</u>
ENDING TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 1,505,658</u>	<u>\$ -</u>	<u>\$ 1,505,658</u>	<u>\$ 1,537,007</u>
CHANGE IN TOTAL NET ASSETS				
Unrestricted	\$ (120,832)	\$ -	\$ (120,832)	\$ (96,445)
Temporarily restricted	<u>(31,349)</u>	<u>-</u>	<u>(31,349)</u>	<u>1,530,639</u>
	<u>\$ (152,181)</u>	<u>\$ -</u>	<u>\$ (152,181)</u>	<u>\$ 1,434,194</u>

See accompanying notes.

UNITED STATES BIATHLON ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	Team Trials, Training and Competition	Develop- ment Programs	Summer Biathlon	Total Program Services
Salaries and wages	\$ 52,209	\$ -	\$ -	\$ 52,209
Separation payment	-	-	-	-
Payroll taxes and employee benefits	18,812	-	-	18,812
Subtotal - personnel	71,021	-	-	71,021
Supplies and equipment	258,654	-	-	258,654
Travel, lodging and meals	180,064	365	-	180,429
Contract labor	38,944	43,165	-	82,109
OLN TV expense	-	-	-	-
Miscellaneous	24,970	397	-	25,367
Donated legal services	-	-	-	-
Insurance	-	-	-	-
Rent and utilities	-	-	-	-
Advertising and promotion	7,638	-	-	7,638
Telephone	-	-	-	-
Bad debt expense	-	-	-	-
Legal and professional	-	-	-	-
Bank charges	-	-	-	-
Postage and shipping	-	-	-	-
Interest expense	-	-	-	-
World Cup marketing	-	-	-	-
Printing and copying	-	-	-	-
Athlete assistance	-	1,000	-	1,000
Dues and subscriptions	-	-	-	-
Awards	262	-	-	262
Repairs and maintenance	-	-	-	-
TOTAL EXPENSES BEFORE DEPRECIATION	581,553	44,927	-	626,480
DEPRECIATION	-	-	-	-
TOTAL EXPENSES	\$ 581,553	\$ 44,927	\$ -	\$ 626,480

See accompanying notes.

	General and Admini- strative	Marketing and Development	Total Support Services	2006 Total	2005 Total
Salaries and wages	\$ 45,941	\$ 73,982	\$ 119,923	\$ 172,132	\$ 248,528
Separation payment	64,615	-	64,615	64,615	-
Payroll taxes and employee benefits	7,443	20,159	27,602	46,414	60,479
Subtotal - personnel	117,999	94,141	212,140	283,161	309,007
Supplies and equipment	4,377	-	4,377	263,031	204,270
Travel, lodging and meals	10,677	3,201	13,878	194,307	264,741
Contract labor	27,079	-	27,079	109,188	42,620
OLN TV expense	-	63,563	63,563	63,563	67,153
Miscellaneous	17,104	-	17,104	42,471	48,442
Donated legal services	34,450	-	34,450	34,450	-
Insurance	25,903	-	25,903	25,903	23,464
Rent and utilities	18,048	-	18,048	18,048	9,094
Advertising and promotion	6,116	-	6,116	13,754	5,377
Telephone	10,586	-	10,586	10,586	7,418
Bad debt expense	9,650	-	9,650	9,650	5,244
Legal and professional	7,125	-	7,125	7,125	5,825
Bank charges	5,572	-	5,572	5,572	7,688
Postage and shipping	4,263	-	4,263	4,263	4,484
Interest expense	4,105	-	4,105	4,105	2,591
World Cup marketing	-	2,140	2,140	2,140	6,709
Printing and copying	1,144	-	1,144	1,144	499
Athlete assistance	-	-	-	1,000	2,200
Dues and subscriptions	885	-	885	885	1,839
Awards	-	-	-	262	509
Repairs and maintenance	-	-	-	-	50
TOTAL EXPENSES BEFORE DEPRECIATION	305,083	163,045	468,128	1,094,608	1,019,224
DEPRECIATION	3,083	-	3,083	3,083	3,467
TOTAL EXPENSES	<u>\$ 308,166</u>	<u>\$ 163,045</u>	<u>\$ 471,211</u>	<u>\$ 1,097,691</u>	<u>\$ 1,022,691</u>

See accompanying notes.

UNITED STATES BIATHLON ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)**

	<u>Winter Biathlon</u>	<u>Summer Biathlon</u>	<u>2006 Total</u>	<u>2005 Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
USOC support received	\$ 277,000	\$ -	\$ 277,000	\$ 287,069
Contributions and sponsorships received	352,845	-	352,845	355,327
Cash received for dues and fees	8,983	-	8,983	13,865
Miscellaneous income	10,985	-	10,985	6,939
Interest and dividends received	6,781	-	6,781	8,295
Cash received for OLN television project	8,960	-	8,960	72,193
Foreign currency loss	-	-	-	(154)
Cash paid for World Cup	-	-	-	(1,649)
Cash paid for goods and services	(522,416)	-	(522,416)	(443,736)
Cash paid for salaries and employee benefits	(331,587)	-	(331,587)	(309,007)
Interest paid	(4,105)	-	(4,105)	(2,591)
NET CASH USED BY OPERATING ACTIVITIES	<u>(192,554)</u>	<u>-</u>	<u>(192,554)</u>	<u>(13,449)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net change in investments	58,570	-	58,570	32,072
Purchase of equipment	(3,596)	-	(3,596)	(3,195)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>54,974</u>	<u>-</u>	<u>54,974</u>	<u>28,877</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Net change in line of credit	39,320	-	39,320	(4,151)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>39,320</u>	<u>-</u>	<u>39,320</u>	<u>(4,151)</u>
INCREASE (DECREASE) IN CASH	(98,260)	-	(98,260)	11,277
BEGINNING CASH	<u>109,357</u>	<u>-</u>	<u>109,357</u>	<u>98,080</u>
ENDING CASH	<u>\$ 11,097</u>	<u>\$ -</u>	<u>\$ 11,097</u>	<u>\$ 109,357</u>

See accompanying notes.

UNITED STATES BIATHLON ASSOCIATION, INC.

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	Winter Biathlon	Summer Biathlon	2006 Total	2005 Total
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES				
Change in net assets	\$ (152,181)	\$ -	\$ (152,181)	\$ 1,434,194
Adjustments to reconcile change in net assets to net cash used by operating activities:				
Depreciation	3,083	-	3,083	3,467
Bad debt expense	-	-	-	5,244
Unrealized gain on investments	(135)	-	(135)	(8,623)
Realized gain on investments	(19,436)	-	(19,436)	(10,020)
Reinvested gains on investments	-	-	-	(5,566)
Amortized discounts	(27,713)	-	(27,713)	-
(Increase) decrease in:				
Accounts receivable	(9,402)	-	(9,402)	37,694
Grants receivable	-	-	-	3,344
Pledges receivable	32,064	-	32,064	(1,447,507)
Inventory	2,356	-	2,356	9,334
Prepaid expenses	5,824	-	5,824	16
Security deposit	(1,399)	-	(1,399)	-
Increase (decrease) in:				
Accounts payable	22,811	-	22,811	(66,046)
Accrued expenses	(48,426)	-	(48,426)	31,020
Total adjustments	(40,373)	-	(40,373)	(1,447,643)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (192,554)</u>	<u>\$ -</u>	<u>\$ (192,554)</u>	<u>\$ (13,449)</u>

See accompanying notes.

UNITED STATES BIATHLON ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(WITH COMPARATIVE TOTALS FOR 2005)

1) SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

United States Biathlon Association, Inc. (the Association), with offices in Vermont and Maine, was incorporated in 1980. The Association acts as the national governing body for the sport of biathlon in compliance with the Amateur Sports Act of 1978 and the Constitution and Bylaws of the United States Olympic Committee, and acts as the member of the Union International de Pentathlon Modern et Biathlon (UIPMB) for biathlon in the United States.

Effective January 1, 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. In 2005 the Association made the decision to discontinue the Summer Biathlon program.

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 permanently restricted net assets as of June 30, 2006 and 2005.

The Association reports its financial statements according to its two significant programs, Winter and Summer Biathlon. Common expenses are allocated between the two programs using fixed percentages. Amounts due between programs represent expenses paid by one program on behalf of the other.

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 from athletes for equipment and supplies. The Association uses the allowance method to account for uncollectible accounts receivable. The allowance is based on management's estimate of possible bad debts. The allowance for doubtful accounts was \$0 and \$5,244 at June 30, 2006 and 2005, respectively. Bad debt expense was \$9,650 and \$5,244 in 2006 and 2005, respectively.

UNITED STATES BIATHLON ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(WITH COMPARATIVE TOTALS FOR 2005)

1) SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and investments

The Association reports covered investments in the Statement of Financial Position at fair market value with any realized or unrealized gains and losses reported in the Statement of Activities. Covered investments include all debt and equity securities held by the Association except permanently restricted securities, such as an endowment fund.

For purposes of the Statement of Cash Flows, the Association considers all unrestricted, highly-liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

The Association maintains most of its cash in a Vermont bank. Accounts at each bank are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. The amount on deposit in excess of the amount insured by the FDIC was \$0 and \$13,378 as of June 30, 2006 and 2005, respectively.

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 market value at the date of the contribution.

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.

Advertising

Advertising and promotion costs are charged to operations when incurred. Advertising expense was \$13,754 and \$5,377 for the years ended June 30, 2006 and 2005, respectively.

UNITED STATES BIATHLON ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(WITH COMPARATIVE TOTALS FOR 2005)

1) SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost at the date of acquisition. Donations of property and equipment are recorded as support at their estimated fair value. Donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is computed by the straight-line method over the estimated useful lives.

The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments costing greater than \$500 are capitalized. Depreciation expense was \$3,083 and \$3,467 for 2006 and 2005, respectively.

Donated services and materials

The Association receives noncash contributions in the form of volunteers performing duties to support activities. No amounts have been reflected in the statements for donated services as no objective basis is available to measure the value of such services.

In-kind donations consist of clothing, ammunition, skis, boots and poles. In-kind donations are recorded at fair market value when received. In-kind donations also include legal services provided to assist in the revision of the Association's Bylaws to be in compliance with United States Olympic Committee and Federal guidelines.

2) PLEDGES RECEIVABLE

Pledges receivable consists of several promises to give received by the Association in the form of money and donated supplies. Pledges receivable consists of the following:

	<u>2006</u>	<u>2005</u>
Time-restricted promises	\$ 1,197,500	\$ 1,478,129
Restricted to support athletes	341,878	93,313
	<u>1,539,378</u>	<u>1,571,442</u>
Unamortized discount	(96,222)	(123,935)
Total pledges receivable	<u>\$ 1,443,156</u>	<u>\$ 1,447,507</u>

UNITED STATES BIATHLON ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(WITH COMPARATIVE TOTALS FOR 2005)

2) PLEDGES RECEIVABLE (continued)

Pledges receivable are due in:

Less than one year	\$ 337,045
One to five years	<u>1,106,111</u>
	<u>\$ 1,443,156</u>

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 4%.

3) INVESTMENTS

The Winter Biathlon records all of the Association's investments. The Association is a participant in an investment pool with the United States Olympic Foundation. The total pool consists of the following at:

	<u>Market</u>	<u>Cost</u>	<u>Unrealized Gain</u>
June 30, 2006	<u>\$ 257,380,674</u>	<u>\$ 218,011,441</u>	<u>\$ 39,369,233</u>
June 30, 2005	<u>\$ 245,221,711</u>	<u>\$ 205,112,539</u>	<u>\$ 40,109,172</u>

The United States Biathlon Association, Inc.'s portion of the investment pool and other investments are composed of the following at market value as of June 30:

	<u>2006</u>	<u>2005</u>
Domestic equities	\$ 101,258	\$ 128,449
Domestic bonds	53,052	67,909
Non-traditional managers	34,271	26,699
International equities	44,791	46,201
Cash and equivalents	17,701	20,924
Real estate	<u>-</u>	<u>29</u>
Total of investment pool	251,073	290,211
Brokerage firm - domestic bonds	<u>4,069</u>	<u>4,057</u>
	<u>\$ 255,142</u>	<u>\$ 294,268</u>

UNITED STATES BIATHLON ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

3) INVESTMENTS (continued)

Investment return is summarized as follows for the year ended June 30:

	<u>2006</u>	<u>2005</u>
Interest and dividend income - winter	\$ 6,781	\$ 8,295
Realized gains on sale of investments	19,436	10,020
Unrealized gains on investments	135	8,623
	<u>\$ 26,352</u>	<u>\$ 26,938</u>

4) LINE OF CREDIT

The Association had a \$50,000 line of credit agreement at the Chittenden Bank, which bore interest at Citibank prime (7% at June 30, 2005) and was due to mature in March 2006. Under the terms of the agreement, U.S. Olympic Foundation Pool Assets were pledged as collateral. In January 2006, the Chittenden Bank agreement was replaced with one at TD BankNorth for \$100,000. The line of credit held at the Chittenden Bank was paid off with funds from the TD BankNorth line. The TD BankNorth line of credit bears interest at a variable rate based on the TD BankNorth Base Rate plus 1.5% points (9.75% at June 30, 2006). The outstanding balances of the line of credit at June 30, 2006 and 2005 were \$79,037 and \$39,717, respectively.

5) LEASES

The Association rented office space in Colchester, Vermont from a third party under an operating lease that expired in April 2006. After April 2006, the lease was month to month. In January 2006, the Association entered into an agreement to lease space in New Gloucester, Maine. Total rent expense was \$16,901 and \$9,094 for 2006 and 2005, respectively. Future lease commitments for years ending June 30 are as follows:

2007	\$ 17,000
2008	17,500
2009	18,000
2010	18,600
2011	11,000
	<u>\$ 82,100</u>

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6) BOARD-DESIGNATED FUNDS

During 1988, the Board designated \$300,000 of the Association's share of the U.S. Olympic Foundation investment fund to be invested permanently. In addition, the Board designated that one-half of the earnings on the investments be reinvested in the Board-designated net assets. The Board authorized borrowings of \$65,000 and \$40,000 on their investments in 2006 and 2005, respectively. The balances of the Board-designated net assets were \$198,007 and \$263,007 for June 30, 2006 and 2005, respectively.

7) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available to support a future period or a specific activity not completed by the Association:

	<u>2006</u>	<u>2005</u>
Corporate sponsorship	\$ 1,098,218	\$ 1,263,842
United States Olympic Committee - marketing	130,615	179,852
Donated materials	276,825	93,313
	<u>\$ 1,505,658</u>	<u>\$ 1,537,007</u>

All temporarily restricted net assets are related to the Winter programs for both years.

8) CONCENTRATION OF CREDIT RISK

The Winter program of the Association receives a substantial portion of its operating revenue from the United States Olympic Committee. Total revenues from this source amounted to \$250,000 and \$283,725 in 2006 and 2005, respectively, which represented 25.6% and 11.5% of Winter's revenues for each year.

In December 2004, the Winter program obtained a sponsorship agreement from a corporation in the amount of \$1,500,000, payable in installments of \$62,500 at the beginning of each quarter until December 2010. The total receivable is recorded at a discount in temporarily restricted net assets. Total revenues from this source amounted to \$1,385,213 in 2005, which represented 56% of Winter's revenues for the year.

9) RELATED PARTY

The Association holds several events and shares in the cost of a development team coach at the Maine Winter Sports Center, a nonprofit organization in Fort Kent, Maine. The president and a member of the Board of Directors of Maine Winter Sports Center serve on the Board of Directors of United States Biathlon Association, Inc. The Association made payments totaling \$16,332 and \$41,570 in 2006 and 2005, respectively, and had a liability of \$0 and \$2,970 to the organization at June 30, 2006 and 2005, respectively.

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10) SEPARATION PAYMENT

The Association's Executive Committee, based on guidance from the USBA Board of Directors, tasked the USBA legal counsel to create a separation agreement that met the directives of the USBA Board, and was also agreeable to the former Executive Director of the USBA. The agreement was effective December 31, 2005 and provided for payment of one year's salary, \$60,000, and payout of unused vacation, \$4,615.

11) UNASSERTED CLAIMS

In 2005, United States Biathlon Association, Inc.'s legal counsel had advised the Association of three possible claims that may have been asserted against the Association, that the likelihood of each assertion was probable and the outcome of each would be unfavorable and material to the financial condition of the Association. The claims were as follows:

First, a potential claim that the Association did not comply with the federally-mandated membership requirements of a National Governing Body (NGB), as set forth in the Ted Stevens Olympic and Amateur Sports Act at June 30, 2005;

Second, a potential claim that the Association did not comply with many of the requirements of the USOC Bylaws, as they pertain to National Governing Bodies (NGB) at June 30, 2005;

Third, a potential claim that at June 30, 2005 the Association did not comply with the USOC's "Governance Guidelines" for NGBs, adopted by the USOC Board of Directors on April 30, 2005 .

In respect to organizational membership, the Association's legal counsel informed the Association that its Bylaws as of June 30, 2005 did not provide for the required classes of organizational representation and the requirement to have at least 20% "athlete representation" on the Association Board and all "designated committees." In addition, the Bylaws do not include an affirmative statement on nondiscrimination for participation and for the composition of the Board of Directors.

The Ted Stevens Olympic and Amateur Sports Act requires that an NGB must have the "managerial and financial capacity to plan and execute its obligations." At December 1, 2005 the Association had only one employee, the Executive Director, who resigned effective December 31, 2005, and the Association supplemented the work of its limited staff by having Board members play a managerial role. Legal counsel believed this situation was contrary to USOC Governance Guidelines which provide that an NGB must be Board-governed and staff-managed. Legal counsel found further concern with the practice of relying on the Board to carry out staff functions due to the fact that some Board members assigned to carry out the delegated staff functions suffered from actual or perceived conflicts of interest. Financially, the USBA has operated in a deficit position for the last several years. At June 30, 2005 the status of future funding from the USOC was unknown and considered likely be reduced since the Association was not in compliance with Federal law, USOC Governance Guidelines and the USOC's Bylaws applicable to NGBs.

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11) UNASSERTED CLAIMS (continued)

In addition the Sports Act requires the Association to "demonstrate that it is autonomous in the governance of its sport, in that it (A) independently decides and controls all matters central to governance; and... (C) is free from outside restraint". The Association's legal counsel believed noncompliance was evidenced by decisions made within the 2005 fiscal year by the Association's Board of Directors and/or certain officers of the Association acting independently of the Board. The Association's sponsors and potential donors, together with conflicted Board members (and those acting in concert with them), directed the outcome of managerial and Board decisions on a broad variety of matters not normally associated with sponsorships and donations.

In regards to the Governance Guidelines, the Association was not in compliance with the requirements for a minimum number of independent directors and athlete directors. Also, the Association Board did not have the following committees: (a) Audit; (b) Compensation and (c) Nominating and governance. Further, the Association Bylaws do not define clearly the role of management and the role of governance and do not provide for accountability to the Association's members and the USOC.

Regardless of the source of influence, legal counsel found it to be probable that as a result of any compliance review, or a complaint from a member, the Association would be found in violation of the Sports Act.

During 2006, the USBA Executive Committee developed and implemented the following plan to address the unasserted claims described above:

a. USBA Bylaws

- (1) The Organization's legal counsel re-wrote the USBA Bylaws into compliance with the Ted Stevens Olympic and Amateur Sports Act, the USOC Bylaws as they pertain to National Governing Bodies, the USOC Governance Guidelines and the New York Not-for-Profit Corporation Law.
- (2) The USBA Executive Committee recommended certain USOC Governance Guidelines for inclusion in the USBA Bylaws.
- (3) USBA legal counsel contacted the USOC to insure the USBA met the mandatory requirements and 20% athlete representation on its Board of Directors and in membership category voting strength.
- (4) USBA Bylaws were presented to USBA membership for final approval.

b. Autonomous in Governance

- (1) The USBA established an ad hoc Ethics committee to determine if proposed candidates can run for USBA office.
- (2) This Ethics committee reviewed candidates brought forth by the USBA Nominations committee as well as any individual who wishes to run via the petition process.
- (3) The conflict of interest issues that were raised earlier have now been resolved to the satisfaction of the Ethics Committee.

These actions were completed and newly-elected officers and approved Bylaws were in place by the USBA Board meeting in May 2006. This date was in compliance with the current USBA Bylaws for elections to be completed and new leadership to be in place after the Winter Olympic Games.

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11) UNASSERTED CLAIMS (continued)

With respect to the financial stability of the USBA, the matter was discussed with the entire Board of the USBA. In addition the new executive director obtained additional sponsors in 2006 and the Association was also awarded significantly more funding from the USOC for 2007.

12) COMMITMENTS AND CONTINGENCIES

In September 2006 the Association entered into a contract to purchase office furniture and equipment to furnish the space in New Gloucester, Maine. The total commitment is approximately \$13,000.