



**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

December 31, 2008 and 2007

USA DIVING, INC.

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800 East 96th Street
Suite 500
Indianapolis, IN 46240

Tel 317.580.2000
Fax 317.580.2117

Independent Auditors' Report

Board of Directors
USA Diving, Inc.

We have audited the accompanying statements of financial position of USA Diving, Inc., a not-for-profit corporation, as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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. 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 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 USA Diving, Inc. at December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
June 17, 2009

USA DIVING, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2008 and 2007

ASSETS

	2008	2007
CURRENT ASSETS		
Cash	\$ 51,196	\$ 1,444
Investments	208,096	447,447
Accounts receivable	47,295	28,220
Due from US Diving Foundation	202,648	78,857
Prepaid expenses	37,947	48,211
Total Current Assets	547,182	604,179
PROPERTY AND EQUIPMENT		
Furniture and equipment	296,050	273,484
Website costs	20,000	20,000
Less: Accumulated depreciation and amortization	(223,463)	(194,113)
Total Property and Equipment	92,587	99,371
TOTAL ASSETS	\$ 639,769	\$ 703,550

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 171,772	\$ 36,541
Accrued salaries	31,583	115,722
Deferred revenue	73,940	268,254
Total Current Liabilities	277,295	420,517
UNRESTRICTED NET ASSETS	362,474	283,033
TOTAL LIABILITIES AND NET ASSETS	\$ 639,769	\$ 703,550

See accompanying notes.

USA DIVING, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2008 and 2007

	2008	2007
REVENUE AND SUPPORT		
US Diving Foundation	\$ 446,325	\$ 557,714
USOC grants	935,413	849,998
Membership dues	263,688	262,571
Corporate licensing and sponsorship	755,189	345,515
National and regional events	637,466	37,335
Safety	32,826	17,277
Investment income (loss)	(86,662)	54,435
Other income	48,545	17,817
Total Revenue and Support	3,032,790	2,142,662
EXPENSES		
Member services	325,597	329,280
Competitive programs	1,989,555	1,529,046
General and administrative	638,197	786,036
Total Expenses	2,953,349	2,644,362
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	79,441	(501,700)
NET ASSETS		
Beginning of Year	283,033	784,733
End of Year	\$ 362,474	\$ 283,033

See accompanying notes.

USA DIVING, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 79,441	\$ (501,700)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation and amortization	29,350	34,435
Unrealized loss on investments	96,828	16,813
Realized (gain) on investments	(1,578)	(56,876)
(Increase) decrease in certain current assets:		
Accounts receivable	(19,075)	62,617
Due from US Diving Foundation	(123,791)	98,258
Prepaid expenses	10,264	2,107
Increase (decrease) in certain current liabilities:		
Accounts payable	135,231	(935)
Accrued salaries	(84,139)	30,557
Deferred revenue	(194,314)	207,565
Net Cash (Used) by Operating Activities	<u>(71,783)</u>	<u>(107,159)</u>
INVESTING ACTIVITIES		
Proceeds from sales of investments	150,000	100,000
Purchases of equipment	(22,566)	(93,241)
Cash reinvested	(5,899)	(12,330)
Net Cash Provided (Used) by Investing Activities	<u>121,535</u>	<u>(5,571)</u>
NET INCREASE (DECREASE) IN CASH	49,752	(112,730)
CASH		
Beginning of Year	<u>1,444</u>	<u>114,174</u>
End of Year	<u>\$ 51,196</u>	<u>\$ 1,444</u>

See accompanying notes.

USA DIVING, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USA Diving, Inc. (USA Diving) is a not-for-profit corporation located in Indianapolis, Indiana. USA Diving has been designated the National Governing Body for the Olympic sport of diving by the United States Olympic Committee (USOC). USA Diving was formed to organize and administer all aspects of competitive diving in the United States. Accordingly, USA Diving registers athletes and coaches, promotes the sport of diving, sanctions competitive diving events, assembles and manages national diving teams.

Basis of Accounting: USA Diving prepares its financial statements using the accrual basis of accounting. Accrual accounting requires the recognition of revenues when they are earned and measurable in the accounting period when services are provided, and the recognition of expenses in the period in which they occur.

Estimates: Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

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 the 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 maintained by USA Diving:

- **Unrestricted Net Assets** include general and board designated assets and liabilities which may be used at the discretion of management to support the purposes and operations of USA Diving.
- **Temporarily Restricted Net Assets** include assets related to gifts with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. Unconditional promises to give that are due in future periods and are not permanently restricted are classified as temporarily restricted net assets.

USOC Funds: USOC provides funding to USA Diving for specifically approved programs through advances or reimbursements. Such revenue is recognized concurrently with the related expenses.

Contributions received, if any, that may be expended only by specific events or time as designated by the donor are recorded as temporarily restricted net assets in the accompanying financial statements.

Value In-kind and Donated Services: Contributions of services that create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation are recognized at their fair values in the period received. No such contributions were recorded in 2008 or 2007. Sponsors and the USOC provide goods and services to USA Diving. Value in-kind includes apparel and team uniforms, airline travel, and publication printing. In-kind revenue and corresponding expense recognized in 2008 and 2007 of \$304,772 and \$112,906, respectively, represent an estimate of the goods and services provided. No revenue or expense is recognized when the value of the services provided cannot be objectively or reasonably estimated.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash: USA Diving maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits. USA Diving has not experienced any losses from the bank accounts.

Investments in marketable securities are carried at fair value in accordance with the valuation hierarchy established by Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (see Note 2). Realized and unrealized gains and losses are reflected in the statement of activities.

Accounts Receivable represent uncollateralized obligations due to USA Diving and generally payable within 30 days of the billing date. Accounts receivable are stated at the amount billed by USA Diving. On a periodic basis, USA Diving evaluates its receivables and establishes an allowance for doubtful accounts, if necessary, based on historical collection experience, economic conditions and management's evaluation of collectibility of outstanding balances. At December 31, 2008 and 2007, USA Diving considered all receivables to be fully collectible; accordingly, no allowance for doubtful accounts was provided.

Property and Equipment: Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost, except for donated items, which are recorded at fair market value at the date of donation. USA Diving provides for depreciation on the straight-line method at rates designed to depreciate the cost of assets over estimated useful lives as follows:

Furniture and equipment	3-7 years
Website costs	5 years

Support and Revenue: Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue in net assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Deferred Revenue: Amounts received pursuant to sponsorship agreements, event agreements, or prepaid membership dues are recorded as deferred revenue and recognized in subsequent periods.

Tax Status: USA Diving is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is also exempt from state income taxes. Accordingly, no provision for federal and state taxes on revenue and income has been recorded in the financial statements.

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, USA Diving has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. Under SFAS 157, if the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets or liabilities whose values are based on unadjusted quoted prices available in active markets for identical assets or liabilities.

Level 2 – Financial assets or liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Financial assets or liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management’s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

At December 31, 2008, the fair value of the Company’s investments, by level within the fair value hierarchy, was as follows:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Money market funds		\$ 25,845		\$ 25,845
Bonds	\$ 29,883			29,883
Equities	95,620			95,620
Alternative investments	_____	_____	<u>\$ 56,748</u>	<u>56,748</u>
Total	<u>\$ 125,503</u>	<u>\$ 25,845</u>	<u>\$ 56,748</u>	<u>\$ 208,096</u>

Following is a summary of the changes in the fair value of investments categorized as Level 3 for the year ended December 31, 2008:

	Alternative Investments
Balance at beginning of year	\$ 57,038
Total gains and losses (realized/unrealized):	
Included in earnings	(19,520)
Purchases, issuances, and settlements	<u>19,230</u>
Balance at end of year	<u>\$ 56,748</u>

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The United States Olympic Foundation (USOF) maintains an undivided interest in a pool of assets for the benefit of USOC members. At December 31, 2008 and 2007, the total cost and fair value of such investments were as follows:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Pooled Investment Fund-USOF	<u>\$304,924</u>	<u>\$208,096</u>	<u>\$464,260</u>	<u>\$447,447</u>

During the years ended December 31, 2008 and 2007, investment income (loss) consisted of the following:

	2008	2007
Interest and dividend income	\$ 8,588	\$ 14,372
Net realized gains	1,578	56,876
Net unrealized (losses)	<u>(96,828)</u>	<u>(16,813)</u>
	<u>\$(86,662)</u>	<u>\$ 54,435</u>

NOTE 3 - RELATED PARTY TRANSACTIONS

USA Diving is the sole member of US Diving Foundation (the Foundation); however, USA Diving does not have a majority voting interest in electing the Foundation's board of directors. The purpose of the Foundation is to benefit, perform the functions of, and carry out the educational and charitable purposes of USA Diving. The Foundation also makes grants to various not-for-profit and for-profit organizations in carrying out the mission of USA Diving. Amounts due to USA Diving from the Foundation at December 31, 2008 and 2007 were \$202,648 and \$78,857, respectively.

The Foundation also participates and has an undivided interest in the USOF investment pool that manages USA Diving's investments. The Foundation's undivided interest in the USOF investment pool was \$3,212,845 and \$4,805,853 at December 31, 2008 and 2007, respectively.

USA Diving is a member of the USOC, a federally-chartered nonprofit organization charged with governing and supporting United States Olympic and Paralympic governing bodies. Included in USOC grants are in-kind amounts of \$64,170 and \$48,906 in 2008 and 2007, respectively.

NOTE 4 - PENSION PLAN

USA Diving sponsors a defined contribution pension plan for its eligible employees who have attained the age of 20 and have completed two years of service. Contributions to the Plan from USA Diving are discretionary and thus no future liability exists. Contributions were \$63,970 and \$70,145 in 2008 and 2007, respectively.

NOTE 5 - RENT COMMITMENT

During 2008, USA Diving entered into a noncancellable operating lease for office space, which expires in 2020. The future minimum rental payments are as follows:

Payable In	Rental Payments
2009	\$ 52,619
2010	52,619
2011	53,639
2012	53,639
2013	54,659
Thereafter	<u>394,847</u>
Total	<u>\$662,022</u>

Total rent expense was \$38,112 and \$25,760 during 2008 and 2007, respectively.

NOTE 6 - GRANTS

Grants from the USOC amounted to 46% and 40% of all support and revenue in 2008 and 2007, respectively. Grants from the US Diving Foundation amounted to 15% and 26% of all support and revenue in 2008 and 2007, respectively.

NOTE 7 - TERMINATION AGREEMENT

In May 2007, USA Diving entered into a termination agreement with a former employee. Terms of this agreement called for payments of \$192,160 in 2007 and \$84,860 in 2008. There are no other amounts due under the agreement. As part of the agreement, the former employee forfeited his right to payment of unused vacation benefits of \$74,597.