



**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

December 31, 2010 and 2009

USA DIVING, INC.

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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, 2010 and 2009, 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, 2010 and 2009, 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
May 20, 2011

USA DIVING, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

ASSETS

| | 2010 | 2009 |
|---|------------------------------|------------------------------|
| CURRENT ASSETS | | |
| Cash | \$ 103,530 | \$ 357,221 |
| Investments | 297,913 | 265,301 |
| Accounts receivable | 41,390 | 11,359 |
| Due from US Diving Foundation | 48,759 | 53,320 |
| Prepaid expenses and inventories | 108,193 | 63,967 |
| Total Current Assets | <u>599,785</u> | <u>751,168</u> |
| PROPERTY AND EQUIPMENT | | |
| Furniture and equipment | 343,572 | 318,061 |
| Website costs | 20,000 | 20,000 |
| Less: Accumulated depreciation and amortization | <u>(288,124)</u> | <u>(256,701)</u> |
| Total Property and Equipment | <u>75,448</u> | <u>81,360</u> |
| TOTAL ASSETS | <u><u>\$ 675,233</u></u> | <u><u>\$ 832,528</u></u> |

LIABILITIES AND NET ASSETS

| | | |
|---|------------------------------|------------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 107,918 | \$ 139,203 |
| Accrued salaries | 50,779 | 44,462 |
| Deferred revenue | 118,455 | 113,184 |
| Refundable advances on grants | - | 82,000 |
| Total Current Liabilities | <u>277,152</u> | <u>378,849</u> |
| UNRESTRICTED NET ASSETS | <u>398,081</u> | <u>453,679</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 675,233</u></u> | <u><u>\$ 832,528</u></u> |

See accompanying notes.

USA DIVING, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2010 and 2009

| | 2010 | 2009 |
|---|-------------------|-------------------|
| REVENUE AND SUPPORT | | |
| US Diving Foundation | \$ 414,283 | \$ 335,973 |
| USOC grants | 947,725 | 689,315 |
| Membership dues | 254,335 | 251,285 |
| Corporate licensing, sponsorships, and broadcast | 620,356 | 836,755 |
| National and regional events | 120,379 | 103,841 |
| Safety | 37,400 | 20,406 |
| Investment income | 33,574 | 58,011 |
| Other income | 47,586 | 30,111 |
| Total Revenue and Support | <u>2,475,638</u> | <u>2,325,697</u> |
| EXPENSES | | |
| Member services | 219,983 | 255,322 |
| Competitive programs | 1,670,438 | 1,368,608 |
| General and administrative | 640,815 | 610,562 |
| Total Expenses | <u>2,531,236</u> | <u>2,234,492</u> |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | (55,598) | 91,205 |
| NET ASSETS | | |
| Beginning of Year | <u>453,679</u> | <u>362,474</u> |
| End of Year | <u>\$ 398,081</u> | <u>\$ 453,679</u> |

See accompanying notes.

USA DIVING, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009

| | 2010 | 2009 |
|--|-------------------------|-------------------------|
| OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ (55,598) | \$ 91,205 |
| Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 31,422 | 33,238 |
| Unrealized gain on investments | (41,498) | (59,063) |
| Realized loss on investments | 13,306 | 6,428 |
| Non-cash donation of equipment | (6,408) | (15,000) |
| (Increase) decrease in certain current assets: | | |
| Accounts receivable | (30,031) | 35,936 |
| Due from US Diving Foundation | 4,561 | 149,328 |
| Prepaid expenses | (44,226) | (26,020) |
| Increase (decrease) in certain current liabilities: | | |
| Accounts payable | (31,285) | (32,569) |
| Accrued salaries | 6,317 | 12,879 |
| Deferred revenue | 5,271 | 39,244 |
| Refundable advances on grants | (82,000) | 82,000 |
| Net Cash Provided (Used) by Operating Activities | <u>(230,169)</u> | <u>317,606</u> |
| INVESTING ACTIVITIES | | |
| Purchases of equipment | (19,102) | (6,205) |
| Cash reinvested | (4,420) | (5,376) |
| Net Cash Used by Investing Activities | <u>(23,522)</u> | <u>(11,581)</u> |
| NET INCREASE (DECREASE) IN CASH | (253,691) | 306,025 |
| CASH | | |
| Beginning of Year | <u>357,221</u> | <u>51,196</u> |
| End of Year | <u><u>\$103,530</u></u> | <u><u>\$357,221</u></u> |
| SUPPLEMENTAL DISCLOSURES | | |
| Noncash investing activities: | | |
| Contribution of equipment | \$ 6,408 | \$ 15,000 |

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.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standard Board. Accordingly, USA Diving is required to report information regarding its financial position and activities on the accrual basis according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. 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.

USOC Grants: USOC provides funding to USA Diving for specifically approved programs through advances or reimbursements.

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 2010 or 2009. Sponsors and 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 was \$109,122 in 2010 and \$170,923 in 2009, respectively, and 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Valuation and Income Recognition: USA Diving's investments are stated 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 2 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are reflected in the statement of activities. The cost of securities used to compute realized gains and losses is determined on a specific identification basis.

Accounts Receivable represent uncollateralized obligations due to USA Diving and are 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 collectability of outstanding balances.

Inventories are stated at the lower of cost or market, with cost being determined using the average cost method.

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.

Refundable Advances: Amounts received pursuant to grants for which either goods or services have yet to be provided, or for which donor conditions have yet to be met are recorded as refundable advances and recognized in period in which these conditions are met.

Tax Status: USA Diving is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision or liability for income taxes has been included in the financial statements. In addition, USA Diving has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the years ended December 31, 2010 and 2009.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USA Diving files U.S. federal and state of Indiana tax returns. USA Diving is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2007.

Financial Allocation of Expenses: The costs of USA Diving programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Subsequent Events: USA Diving has evaluated the financial statements for subsequent events occurring through May 20, 2011, the date the financial statements were available to be issued.

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

USA Diving has categorized its assets and liabilities that are measured at fair value, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. If the inputs used to measure the assets and liabilities 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 assets and liabilities. Assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

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

Level 2 – 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 – 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, 2010 and 2009, USA Diving’s investments that are measured at fair value on a recurring basis were categorized as follows:

| | Level 3 | Total |
|---|------------------|------------------|
| 2010 | | |
| Pooled investments at U.S. Olympic Foundation | <u>\$297,913</u> | <u>\$297,913</u> |
| Total | <u>\$297,913</u> | <u>\$297,913</u> |
| 2009 | | |
| Pooled investments at U.S. Olympic Foundation | <u>\$265,301</u> | <u>\$265,301</u> |
| Total | <u>\$265,301</u> | <u>\$265,301</u> |

The fair value of the investments held at United States Olympic Foundation (USOF) was based on USA Diving’s proportionate share of the investments held within the pooled fund. There have been no changes in the methodologies used at December 31, 2010 and 2009.

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a summary of the changes in the fair value of Level 3 investments measured on the recurring basis for the years ended December 31, 2010 and 2009:

| | 2010 | 2009 |
|---|------------------|-------------------|
| Beginning balance | \$265,301 | \$ 208,096 |
| Change in value recognized in the statement of activities | <u>32,612</u> | <u>57,205</u> |
| Ending balance | <u>\$297,913</u> | <u>\$ 265,301</u> |

At December 31, 2010 and 2009, the total cost and fair value of investments were as follows:

| | 2010 | | 2009 | |
|---|------------------|-------------------|------------------|-------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Pooled investments at U.S. Olympic Foundation | <u>\$256,415</u> | <u>\$297,913</u> | <u>\$206,242</u> | <u>\$265,301</u> |

During the years ended December 31, 2010 and 2009, investment income consisted of the following:

| | 2010 | 2009 |
|------------------------------|------------------|------------------|
| Interest and dividend income | \$ 5,382 | \$ 5,376 |
| Net realized losses | (13,306) | (6,428) |
| Net unrealized gains | <u>41,498</u> | <u>59,063</u> |
| | <u>\$ 33,574</u> | <u>\$ 58,011</u> |

As of December 31, 2010 and 2009, the U.S. Olympic Foundation portfolio consisted of the following investments as a percentage of total investments:

| | 2010 | 2009 |
|---------------------------|-------------|-------------|
| Treasury Bills | 3.8% | 4.6% |
| Fixed income investments: | | |
| Government Agency bonds | 12.1% | 17.0% |
| Mutual funds: | | |
| Large cap funds | 20.9% | 21.2% |
| Small cap funds | 7.1% | 6.7% |
| International funds | 20.4% | 17.3% |
| Alternative investments: | | |
| Public real assets | 13.6% | 13.0% |
| Hedge funds | 19.7% | 18.9% |
| Other | 2.4% | 1.3% |

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, 2010 and 2009 were \$48,759 and \$53,320, 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 \$4,169,115 and \$3,994,160 at December 31, 2010 and 2009, respectively.

USA Diving is a member of 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 \$28,116 in 2010 and \$48,535 in 2009.

Grants from USOC amounted to 39% and 23% of all support and revenue in 2010 and 2009, respectively. Grants from the Foundation amounted to 17% and 11% of all support and revenue in 2010 and 2009, respectively.

NOTE 4 - PENSION PLAN

USA Diving sponsors a 401(k) plan (Plan) for its eligible employees. The Plan requires that USA Diving make certain minimum contributions to eligible employees on an annual basis. USA Diving may make additional discretionary contributions and employee contributions are permitted. All contributions are 100% vested immediately. USA Diving contributions to the 401(k) plan were \$31,387 in 2010 and \$42,911 in 2009.

NOTE 5 - RENT COMMITMENT

USA Diving has a long-term noncancellable operating lease for office space, which expires in 2020. At December 31, 2010, the future minimum rental payments are as follows:

| Payable In | Rental Payments |
|-------------------|------------------------|
| 2011 | \$ 53,639 |
| 2012 | 53,639 |
| 2013 | 54,659 |
| 2014 | 54,659 |
| 2015 | 55,678 |
| Thereafter | <u>284,510</u> |
| Total | <u>\$556,784</u> |

Total rent expense was \$63,225 in 2010 and \$56,411 in 2009.