

FINANCIAL STATEMENTS

The United States Soccer Federation
Years Ended March 31, 2006 and 2005

The United States Soccer Federation

Financial Statements

Years Ended March 31, 2006 and 2005

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Report of Independent Auditors

The National Board of Directors
The United States Soccer Federation

We have audited the accompanying statements of financial position of The United States Soccer Federation (the Federation) as of March 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Federation'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. We were not engaged to perform an audit of the Federation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Federation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 The United States Soccer Federation at March 31, 2006 and 2005, 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.

Ernst & Young LLP

May 12, 2006

The United States Soccer Federation
Statements of Financial Position

	March 31	
	2006	2005
Assets		
Current assets:		
Cash	\$ 1,901,458	\$ 563,471
Cash held in escrow	1,143,289	1,023,504
Accounts receivable, net of allowances for doubtful accounts of \$30,000 in 2006 and 2005	3,103,138	2,354,010
Temporarily restricted contributions receivable – player development grant	5,500,000	–
Prepaid expenses and advances	1,531,935	730,089
Short-term investments	20,635,394	26,941,865
Total current assets	33,815,214	31,612,939
Temporarily restricted contributions receivable – player development grant	–	5,320,435
Investments:		
Undesignated	13,544,412	3,127,580
Designated	1,076,826	917,980
Property and equipment, net of accumulated depreciation	4,816,948	5,092,961
Total assets	\$ 53,253,400	\$ 46,071,895
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,473,352	\$ 4,748,331
Deferred revenue:		
Sponsorship	1,875,000	1,875,000
Other	1,534,125	1,130,650
Total current liabilities	9,882,477	7,753,981
Deferred compensation	1,055,521	831,239
Contribution payable – Hall of Fame grant	200,000	–
Net assets:		
Unrestricted:		
Undesignated	29,341,124	27,281,969
Designated – player development	7,274,278	4,884,271
	36,615,402	32,166,240
Temporarily restricted assets	5,500,000	5,320,435
Total net assets	42,115,402	37,486,675
Total liabilities and net assets	\$ 53,253,400	\$ 46,071,895

See accompanying notes.

The United States Soccer Federation

Statements of Activities

	Years Ended March 31	
	2006	2005
Changes in unrestricted net assets		
Revenues:		
Registration and affiliation fees:		
Youth	\$ 3,907,220	\$ 3,976,542
Adult	509,020	490,738
Professional	689,910	642,000
Referee	2,056,955	980,163
Coaches	214,192	232,706
	7,377,297	6,322,149
Annual general meeting	47,610	37,895
Sponsorship, television, licensing, and royalties	14,720,385	12,432,929
International game revenues	2,007,479	1,554,088
Olympic Committee funding	1,091,750	1,221,747
Coaching school courses	849,250	787,400
Investment revenues (including net unrealized gains of \$393,391 and \$83,410 in 2006 and 2005, respectively)	1,777,381	671,781
National Teams' game revenues	10,553,078	12,690,875
Open Cup	188,004	182,202
Other	884,033	443,447
	39,496,267	36,344,513
Expenses:		
Management expenses	6,204,100	5,084,302
National Board of Directors' and committees' expenses	342,765	341,420
Annual general meeting expenses	254,700	164,332
Coaching program	1,672,362	1,520,672
Referee program	1,834,022	1,469,012
National Teams	22,503,869	24,744,149
World Cup	1,832,376	-
Open Cup	402,911	414,143
	35,047,105	33,738,030
Increase in unrestricted net assets	4,449,162	2,606,483
Changes in temporarily restricted net assets		
Increase (decrease) in temporarily restricted net assets – contribution from foundation for player development	179,565	(18,598)
Increase in net assets	4,628,727	2,587,885
Net assets at beginning of year	37,486,675	34,898,790
Net assets at end of year	\$ 42,115,402	\$ 37,486,675

See accompanying notes.

The United States Soccer Federation

Statements of Cash Flows

	Years Ended March 31	
	2006	2005
Operating activities		
Increase in net assets	\$ 4,628,727	\$ 2,587,885
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	364,930	382,008
Unrealized gains on investments	(393,391)	(83,410)
Change in operating assets and liabilities:		
Cash held in escrow	(119,785)	(733,557)
Accounts receivables, net	(749,128)	(442,988)
Temporarily restricted contribution receivable – player development grant	(179,565)	18,598
Prepaid expenses and advances	(801,846)	(339,804)
Accounts payable and accrued expenses	1,725,021	(414,372)
Deferred revenue	403,475	742,727
Deferred compensation	224,282	117,467
Contribution payable – Hall of Fame grant	200,000	–
Net cash provided by operating activities	<u>5,302,720</u>	<u>1,834,554</u>
Investing activities		
Purchases of investments	(16,875,966)	(7,083,035)
Sales of investments	13,000,150	5,300,000
Purchases of property and equipment	(88,917)	(1,409,058)
Net cash used in investing activities	<u>(3,964,733)</u>	<u>(3,192,093)</u>
Net increase (decrease) in cash	1,337,987	(1,357,539)
Cash at beginning of year	563,471	1,921,010
Cash at end of year	<u>\$ 1,901,458</u>	<u>\$ 563,471</u>

See accompanying notes.

The United States Soccer Federation

Notes to Financial Statements

Years Ended March 31, 2006 and 2005

1. Summary of Significant Accounting Policies

Organization

The United States Soccer Federation (the Federation) was incorporated in New York on June 29, 1914, as a nonprofit corporation. The purpose of the Federation is to promote and govern the game of soccer in the United States of America.

The Federation is affiliated with the Federation Internationale de Football Association (FIFA), which is the world-governing body of soccer and is comprised of the various national soccer associations. FIFA is responsible for promoting and organizing the game of soccer throughout the world.

The Federation is recognized as the National Governing Body of Soccer in the United States of America by FIFA and the United States Olympic Committee (USOC), as provided by the Ted Stevens Olympic and Amateur Sports Act.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investments

Investments are stated at fair market value based on quoted market prices, and realized and unrealized gains and losses are reflected in investment revenues. Investments are classified as current if they have maturities less than one year. Commercial paper and other investments with maturities less than ninety days are included in short-term investments.

Property and Equipment

Property and equipment, including leasehold improvements, are recorded at cost net of accumulated depreciation. Depreciation is provided on a straight-line basis over estimated useful lives of three to five years for computer hardware and software, furniture, equipment, and vehicles, 20 years for building and building improvements, and the shorter of the useful life or the lease term for leasehold improvements.

The United States Soccer Federation

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Revenues from coaches' registration and affiliation fees are recognized as they are received. Beginning in the year ended March 31, 2005, revenue from referee registration fees is deferred and recognized over the calendar year, which is consistent with the referee registration term. In prior periods, referee revenue was recognized when received. The Federation recognizes professional team fees in the season to which the fees relate. The Federation recognizes revenues from national team and international games in the period the game is played. The Federation recognizes Olympic Committee funding in the period it is received. The Federation recognizes revenue from coaching schools in the period in which the school session is held.

Effective January 1, 2004, the Federation entered into a new marketing representation agreement with a term ending December 2010. In accordance with this agreement, the Federation is guaranteed \$3.25 million for calendar year 2004, \$3.50 million for calendar years 2005 and 2006, \$4.00 million for calendar years 2007 and 2008, and \$4.50 million for calendar years 2009 and 2010. Most sponsorship, television, licensing, and royalty revenues (excluding NIKE) are paid to the Federation's marketing agent. After certain revenue limits are reached, additional funding above the annual guarantee can be realized based on a revenue sharing arrangement with the marketing agent. To date, no additional revenue has been realized.

Player Registration Fees

All member organizations of the Federation who register players are required to pay a player registration fee, which is determined by whether a player is registered as a youth or an adult player. Fees paid to the Federation are \$1.00 for each youth player registered, and \$2.00 for each adult player registered. The revenue for these fees is recognized when collected.

2. Sponsorship Revenue

In October 1997, the Federation and NIKE entered into a sponsorship and license agreement (the Agreement) with a term of 10 years. This Agreement was amended effective January 2004 with a revised termination date of December 31, 2014. In accordance with the Agreement, the Federation receives annual compensation in the form of cash which is recognized evenly over the calendar year to which the compensation relates and performance bonus payments which are recognized when earned. The agreement also calls for NIKE to provide the Federation with equipment annually, which is recognized as revenue and an offsetting expense when the

The United States Soccer Federation

Notes to Financial Statements (continued)

2. Sponsorship Revenue (continued)

equipment is received and put into use by the Federation. In addition, the Agreement calls for the Federation to receive a commitment bonus which is designated for specific programs. The commitment bonus is due to the Federation in specified amounts during the term of the Agreement and is recognized as revenue by the Federation when it is eligible to receive the funds and the funds have been used for their designated purpose. Revenue under the Agreement totaled \$10,969,000 for the year ended March 31, 2006, which includes \$2,000,000 of commitment bonus and \$1,469,000 of equipment. Revenue under the Agreement totaled \$8,720,000 for the year ended March 31, 2005, which includes \$1,195,000 of equipment.

3. Investments

Investments, at market value, are comprised of the following:

	March 31	
	2006	2005
Equity securities	\$ 3,438,720	\$ —
Corporate securities	806,649	—
Mortgage-backed securities	1,746,244	—
Commercial paper	20,275,557	23,965,894
Government securities	3,981,498	2,975,971
United States Olympic Foundation portfolio	3,518,867	3,127,580
American funds – deferred compensation plan assets	1,076,826	917,980
Other	412,271	—
	<u>\$ 35,256,632</u>	<u>\$ 30,987,425</u>

Investment revenues consist of the following:

	March 31	
	2006	2005
Investment income, dividends, and interest	\$ 1,157,964	\$ 515,433
Net realized gains	226,026	72,938
Net change in unrealized appreciation of long-term investments	393,391	83,410
	<u>\$ 1,777,381</u>	<u>\$ 671,781</u>

The United States Soccer Federation

Notes to Financial Statements (continued)

3. Investments (continued)

The Federation's investment in the United States Olympic Foundation (the USOC Foundation) portfolio represents the Federation's proportionate share of the Foundation's pooled investment portfolio, which consists of a wide variety of investment instruments. The Federation's investment includes unrealized appreciation of \$738,504 and \$678,758 at March 31, 2006 and 2005, respectively.

During the year ended March 31, 2006, the Federation modified its investment policy for investments other than its investment in the USOC Foundation to allow the Federation to diversify its portfolio and to invest in securities with maturity dates beyond one year. On October 3, 2005, the Federation transferred \$10 million from its commercial paper investment account to an investment account in which the portfolio included equities, government-backed securities, corporate securities, and mortgage-backed securities. This portfolio at March 31, 2006, included unrealized appreciation of \$270,510.

4. Property and Equipment

A summary of property and equipment follows:

	March 31	
	2006	2005
Building	\$ 417,759	\$ 417,759
Building improvements	48,311	48,311
Furniture and equipment	1,541,621	1,454,904
Vehicles	44,000	44,000
Leasehold improvements (<i>Note 6</i>)	4,838,100	4,835,900
	<u>6,889,791</u>	<u>6,800,874</u>
Less accumulated depreciation	2,072,843	1,707,913
	<u>\$ 4,816,948</u>	<u>\$ 5,092,961</u>

5. Income Taxes

The Federation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is only subject to federal or state income taxes on specific types of income from activities which are unrelated to its exempt purpose. The Federation had no income from unrelated activities and has no income taxes due at March 31, 2006.

The United States Soccer Federation

Notes to Financial Statements (continued)

6. Commitments and Contingencies

The Federation is from time to time involved in litigation that arises in the ordinary conduct of its business. The Federation believes that any such litigation will not have a material adverse impact on the financial position or the results of operations other than amounts which have been accrued for as of March 31, 2006.

The Federation receives cash deposits (escrow funds) from the organizers of impending international games. After the international games to which the deposits relate are played and game reports filed, the Federation distributes the deposits plus other fees received to the appropriate recipients. These funds are distributed based on a predetermined percentage of the total ticket sales for each respective international game.

One of the principal recipients of such distributions is the Federation. Escrow fund balances at March 31, 2006 and 2005 are \$1,143,289 and \$1,023,504, respectively.

On January 1, 2003, the Federation entered into a new employment agreement with the Men's National Team Head Coach. The term of this agreement is January 1, 2003 through December 31, 2006. This agreement provides for base compensation of \$41,667 per month through December 31, 2006. The agreement further provides for various incentive compensation based on the performance of the National Team. Incentive compensation earned during fiscal 2006 and 2005 was \$390,000 and \$75,000 respectively. In the case of termination without cause by USSF, base compensation is guaranteed through 2006.

On April 6, 2005, the Federation entered into an employment agreement with the new Women's National Team Head Coach. The term of this agreement is April 6, 2005 through December 31, 2007. This agreement provides for base compensation of \$15,000 per month through December 31, 2006 and \$15,800 per month from January 1, 2007 to December 31, 2007. The agreement further provides for various incentive compensation based on the performance of the Women's National Team in the Olympics and the FIFA Women's World Cup. In case of termination without cause, the Federation is obligated to pay the lesser of base compensation due for the next 365 days or the base compensation for the unexpired portion of the term.

The United States Soccer Federation

Notes to Financial Statements (continued)

6. Commitments and Contingencies (continued)

On December 19, 2005, the Federation entered into a collective bargaining agreement with the United States National Soccer Team Players Association (the Players Association) which is the labor organization representing members of the Men's National Team. The agreement is retroactive to January 1, 2003 and will be in effect until December 31, 2010. The impact of the retroactive effective date that had not already been accrued for was immaterial to the Federation's financial results in the year ended March 31, 2006. The agreement governs all aspects of the relationship between the members of the Men's National Team and the Federation including compensation to the members of the Men's National Team. The compensation due to members of the Men's National Team will vary each year depending on the number of appearances, participation in tournaments, and the success of the team. The team may receive additional compensation based on its qualification for, participation in, and success in the World Cup tournament.

On January 12, 2006, the Federation entered into a collective bargaining agreement with the Women's National Team Players Association which is the labor organization representing members of the Women's National Team. The agreement is retroactive to January 1, 2005 and will be in effect until December 31, 2012. The impact of the retroactive effective date that had not already been accrued for was immaterial to the Federation's financial results in the year ended March 31, 2006. The agreement governs all aspects of the relationship between the members of the Women's National Team and the Federation including compensation to the members of the Women's National Team. The compensation due to members of the Women's National Team will vary each year depending on the number of appearances, participation in tournaments, and the success of the team. The team may receive additional compensation based on its qualification for, participation in, and success in the World Cup and Olympic tournaments.

On June 15, 2001, an employment agreement was entered into with the CEO/Secretary General, effective July 1, 2001 through June 30, 2005. This agreement was renewed in March 2004, extending the term through June 30, 2011. The agreement requires an annual salary of \$330,000 and annual incentive bonuses of up to 20% of annual base salary to be determined by the Federation's President and guarantees full payment through the end of the contract, in total, in case of termination by the Federation. In addition, the contract provides that an additional 20% of base salary is recorded as deferred compensation and will be paid in the form of options granted pursuant to the U.S. Soccer Federation Option Plan (the Plan) or other similar plan.

The United States Soccer Federation

Notes to Financial Statements (continued)

6. Commitments and Contingencies (continued)

The Federation established the Plan, effective January 1, 1999, which covers the CEO/Secretary General as designated by the Executive Committee. The Plan is designed to accumulate retirement funds for the Executive Director/Secretary General. The Plan allows the participant to defer up to 100% of his deferred compensation for the right to buy a variety of mutual funds at a discount equal to the deferred compensation he would have otherwise received. The Plan is administered by the Federation. The fair value of the underlying securities purchased to cover the options was \$1,055,521 and \$831,239 at March 31, 2006 and 2005, respectively. Effective May 8, 2002, the Internal Revenue Service (IRS) issued regulations that allowed options granted May 8, 2002, and prior to be afforded tax treatment under Section 83. Options granted after this date would not be afforded tax treatment under Section 83. Consequently, a Mega Option was awarded on May 8, 2002, to be vested over the remaining term of the Executive Director/Secretary General's original employment agreement. This Mega Option will be 100% vested at June 30, 2006. Until such time as the IRS regulations are amended or changed, no further options of this type will be granted.

The Federation has negotiated sponsorship contracts and training facility agreements with various entities pursuant to which such entities provide cash, equipment, and/or practice facilities for national teams and other activities over agreed-upon periods. The Federation is required to fulfill various obligations for the benefit of its sponsors and other entities under the sponsorship contracts. These obligations are recognized in the Federation's financial statements as they are incurred.

The Federation has entered into a long-term agreement with Anschutz Southern California Sports Complex for the building of the National Training Center. The agreement consists of a building lease with an annual lodging guarantee. It became effective February 20, 2002, and will continue for 25 years from that date. Improvements to be paid for by the Federation total \$6 million and will be paid in five equal installments. As of March 31, 2006, the lodging component of the agreement is not in place. As of March 31, 2006, the Federation had made payments totaling approximately \$4.8 million. These amounts have all been capitalized as leasehold improvements, which will be amortized over the shorter of the useful life of the improvement or the life of the lease. The due date of the final payment was June 2005. Since the dorms remain incomplete and the complex is one field short of what the agreement called for, the Federation is withholding the final payment.

The United States Soccer Federation

Notes to Financial Statements (continued)

6. Commitments and Contingencies (continued)

Future minimum lease payments under leases with terms in excess of one year are as follows at March 31, 2006:

2007	\$ 311,522
2008	299,382
2009	265,707
2010	256,080
2011	250,000
Thereafter	3,982,886
	<u>\$ 5,365,577</u>

Rental expense was \$257,788 and \$293,000 for the years ended March 31, 2006 and 2005, respectively.

7. Related Parties

The U.S. Soccer Foundation (Soccer Foundation) was organized on June 10, 1991, as a 501(c)(3) organization to assume the net assets of World Cup USA 1994. The Soccer Foundation's purpose is to manage the surplus funds from World Cup USA 1994 in order to create a permanent legacy for soccer in the United States through the funding of projects designed for long-term growth of the game in support of the Federation's vision to make soccer a preeminent sport recognized for excellence in participation, spectator appeal, international competition, and gender equity. The Federation and the Soccer Foundation share seven board members. The Federation routinely enters into transactions for the benefit of the Soccer Foundation and is subsequently reimbursed.

The Women's World Cup 2003 Organizing Committee, Inc. was organized on May 27, 2003, to stage and execute the 2003 Women's World Cup (WWC) on behalf of FIFA (the owner of the event) due to the event being canceled in China as a result of the SARS virus. The Federation and the WWC share three board members. One WWC board member is a Federation employee. The Women's World Cup 2003 Organizing Committee, Inc. is expected to be officially dissolved within the next twelve months.

The United States Soccer Federation

Notes to Financial Statements (continued)

7. Related Parties (continued)

The National Soccer Hall of Fame at Oneonta, New York, Inc. (Hall of Fame) operates the national soccer museum, maintains the historical archives of American soccer, promotes soccer through educational programs and newsletters, and provides facilities for soccer events. The Hall of Fame is an organization exempt from income taxes pursuant to section 501(c)(3) of the Internal Revenue Code. The Federation and the Hall of Fame share five board members. In June 2005, the Federation entered into an agreement with the Hall of Fame for the Federation to provide administrative and operational support, as well as to provide operating funds in the event of losses and capital funds for investment in the Hall of Fame. The administrative and operational support will include the Federation incurring certain operating expenses on behalf of the Hall of Fame. These expenses will be recorded by the Federation as incurred. The operating funds will be provided only in the event of the Hall of Fame incurring losses for its fiscal year ending April 30, and may not exceed \$100,000 in year one; \$75,000 in year two, and \$50,000 in year three. If the full amount is not required to operate at a break-even amount, the unused portion is not carried over to the following year. The Federation will record the expense related to providing these operating funds as it is informed of the amount of the annual operating loss by the Hall of Fame. For the Hall of Fame's fiscal year ended April 30, 2006, the Federation provided funding of \$30,000 for the Hall of Fame to break-even. The capital funds are not to exceed \$100,000 per year for three years. For the first year of the agreement, the Hall of Fame secured a capital contribution from an outside party to cover the capital budget for that year and will not be requesting the \$100,000 for the first year. The Federation has recorded the commitment to provide capital funds for the next two years as a contribution payable. The agreement expires in May 2008, however can be extended by the Federation for two additional years. In the event of the extension, the Federation would agree to fund operating losses in the fourth year up to \$25,000 and would provide \$100,000 in each of the fourth and fifth years for additional capital improvements at the Hall of Fame. The Federation must provide notice to the Hall of Fame of its intention to either extend or terminate the agreement no later than 120 days from the expiration of the agreement.

8. Contributions Receivable

On October 14, 2000, the Soccer Foundation's board of directors (board) approved a grant of \$6 million to be paid over five years, restricted for the purpose of player development. To date, the Federation has received \$500,000. The remainder is recorded as a receivable from the Foundation and as temporarily restricted assets. As the grant agreement expires in May 2006, the Federation has classified the receivable as current. If the agreement is not extended, then the USSF expects to collect the outstanding receivable in 2006.

The United States Soccer Federation

Notes to Financial Statements (continued)

8. Contributions Receivable (continued)

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Included in contributions receivable are the following unconditional promises to give:

	March 31	
	2006	2005
Unconditional promises to give before unamortized discount	\$ 5,500,000	\$ 5,500,000
Less unamortized discount	-	179,565
Net unconditional promises to give	\$ 5,500,000	\$ 5,320,435
Amounts due in:		
Less than one year	\$ 5,500,000	\$ -
One to five years	-	5,320,435
	\$ 5,500,000	\$ 5,320,435

9. National Teams

National Teams' expenses are as follows:

	March 31	
	2006	2005
Management	\$ 573,256	\$ 545,795
Coaching	1,687,455	1,750,506
Youth	5,903,999	5,341,503
Women's National Team	3,181,485	7,551,573
Men's National Team	9,254,244	7,680,809
Olympic Team/Under 23	-	-
FUTSAL	-	277,200
National Training Center	433,990	401,942
Equipment and supplies	1,469,440	1,194,821
	22,503,869	24,744,149
World Cup	1,832,376	-
	\$24,336,245	\$ 24,744,149

The United States Soccer Federation

Notes to Financial Statements (continued)

10. Defined-Contribution Plan

The Federation has a 401(k) defined-contribution plan that is available to all full-time employees who have met certain length-of-service requirements. The plan provides for deferred salary contributions by the plan participants and discretionary matching contributions by the Federation up to a maximum of 2% of eligible compensation. The matching contribution has not been provided in the past six years. In addition, the Federation makes a Safe Harbor contribution of 3% of eligible compensation. Contributions by the Federation were \$140,483 and \$146,866 for the years ended March 31, 2006 and 2005, respectively.