

**UNITED STATES BOWLING CONGRESS, INC.**  
Arlington, Texas

**FINANCIAL STATEMENTS**  
July 31, 2011 and 2010

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## Independent Auditor's Report

Board of Directors  
United States Bowling Congress, Inc.  
Arlington, Texas

We have audited the accompanying statements of financial position of United States Bowling Congress, Inc. as of July 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the United States Bowling Congress, Inc.'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 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 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 United States Bowling Congress, Inc. as of July 31, 2011 and 2010, 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 of America.

*Clifton Gunderson LLP*

Milwaukee, Wisconsin  
November 14, 2011

**UNITED STATES BOWLING CONGRESS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
July 31, 2011 and 2010

**ASSETS**

|                                    | <u>2011</u>          | <u>2010</u>          |
|------------------------------------|----------------------|----------------------|
| <b>CURRENT ASSETS</b>              |                      |                      |
| Cash and cash equivalents          | \$ 15,089,815        | \$ 6,158,289         |
| Investments, at fair value         | 2,728,226            | 4,854,244            |
| Accounts receivable                | 618,885              | 1,638,872            |
| Due from related parties           | 564,544              | 1,462,409            |
| Inventory                          | 965,619              | 1,116,213            |
| Prepaid expenses and other         | <u>585,464</u>       | <u>674,151</u>       |
| Total current assets               | <u>20,552,553</u>    | <u>15,904,178</u>    |
| <b>INVESTMENTS</b>                 |                      |                      |
| Assets held for sale               | 1,754,064            | 1,932,394            |
| Investment in New Era Bowling, LLC | <u>7,768,761</u>     | <u>8,086,444</u>     |
| Total investments                  | <u>9,522,825</u>     | <u>10,018,838</u>    |
| <b>PROPERTY AND EQUIPMENT</b>      |                      |                      |
| Building and building improvements | 59,096               | 59,096               |
| Furniture and fixtures             | 13,847,762           | 13,113,293           |
| Tournament equipment               | 10,658,523           | 10,582,324           |
| Vehicles                           | <u>66,965</u>        | <u>66,965</u>        |
| Total, at cost                     | 24,632,346           | 23,821,678           |
| Less accumulated depreciation      | <u>16,803,969</u>    | <u>16,020,807</u>    |
| Total property and equipment       | <u>7,828,377</u>     | <u>7,800,871</u>     |
| <b>OTHER ASSETS</b>                | <u>-</u>             | <u>70,882</u>        |
| <b>TOTAL ASSETS</b>                | <u>\$ 37,903,755</u> | <u>\$ 33,794,769</u> |

## LIABILITIES AND NET ASSETS

|   | <u>2011</u>          | <u>2010</u>          |
|---|----------------------|----------------------|
| <b>CURRENT LIABILITIES</b>  |                      |                      |
| Accounts payable  | \$ 3,658,165         | \$ 3,226,742         |
| Due to related parties  | 398,127              | 121,932              |
| Accrued liabilities   | 718,990              | 751,676              |
| Accrued tournament prize checks   | 8,922,914            | 9,259,478            |
| Current portion of deferred revenue -<br>national tournaments               | 6,267,204            | 5,320,313            |
| Current portion of deferred revenue -<br>membership dues and other          | 566,779              | 759,314              |
| Current portion of deferred compensation                                    | <u>34,431</u>        | <u>32,539</u>        |
| Total current liabilities   | <u>20,566,610</u>    | <u>19,471,994</u>    |
| <b>LONG-TERM LIABILITIES</b>  |                      |                      |
| Deferred revenue - national tournaments, less current<br>portion above      | -                    | 1,166,000            |
| Deferred revenue - membership dues and other,<br>less current portion above | 55,635               | 71,631               |
| Deferred compensation, less current portion above                           | 88,325               | 126,131              |
| Postretirement benefit obligation   | <u>1,719,542</u>     | <u>2,032,536</u>     |
| Total long-term liabilities   | <u>1,863,502</u>     | <u>3,396,298</u>     |
| Total liabilities   | <u>22,430,112</u>    | <u>22,868,292</u>    |
| <b>NET ASSETS</b>   |                      |                      |
| Unrestricted  | 15,085,475           | 10,538,309           |
| Permanently restricted  | <u>388,168</u>       | <u>388,168</u>       |
| Total net assets  | <u>15,473,643</u>    | <u>10,926,477</u>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                                     | <u>\$ 37,903,755</u> | <u>\$ 33,794,769</u> |

The accompanying notes are an integral part of the financial statements.

**UNITED STATES BOWLING CONGRESS, INC.**  
**STATEMENT OF ACTIVITIES**  
Year Ended July 31, 2011

|   | <u>Unrestricted</u>  | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|---|----------------------|-----------------------------------|----------------------|
| <b>REVENUES</b>   |                      |                                   |                      |
| Membership dues   | \$ 21,660,031        | \$ -                              | \$ 21,660,031        |
| Merchandise sales   | 1,545,853            | -                                 | 1,545,853            |
| Workshops and seminars  | 222,881              | -                                 | 222,881              |
| Special events, booths, and concessions   | 1,214,752            | -                                 | 1,214,752            |
| Tournament entry and prize fees   | 14,460,968           | -                                 | 14,460,968           |
| Tournament and conventions subsidy  | 2,220,000            | -                                 | 2,220,000            |
| Brackets  | 1,396,963            | -                                 | 1,396,963            |
| Advertising   | 85,828               | -                                 | 85,828               |
| Royalty   | 771,434              | -                                 | 771,434              |
| Sponsorship   | 945,563              | -                                 | 945,563              |
| Contributions   | 86,398               | -                                 | 86,398               |
| Investment income   | 131,529              | -                                 | 131,529              |
| Other   | 549,098              | -                                 | 549,098              |
| Total revenues  | <u>45,291,298</u>    | <u>-</u>                          | <u>45,291,298</u>    |
| <b>EXPENSES</b>   |                      |                                   |                      |
| Salaries  | 8,710,900            | -                                 | 8,710,900            |
| Fringe benefits   | 1,753,361            | -                                 | 1,753,361            |
| Training, professional memberships and tuition                                      | 126,160              | -                                 | 126,160              |
| Temporary agency services   | 2,777,323            | -                                 | 2,777,323            |
| Professional services   | 2,633,032            | -                                 | 2,633,032            |
| Supplies  | 979,338              | -                                 | 979,338              |
| Resale merchandise  | 1,284,851            | -                                 | 1,284,851            |
| Prizes  | 8,438,358            | -                                 | 8,438,358            |
| Awards  | 2,869,694            | -                                 | 2,869,694            |
| Telephone   | 229,681              | -                                 | 229,681              |
| Postage and freight   | 1,499,813            | -                                 | 1,499,813            |
| Facilities  | 1,049,308            | -                                 | 1,049,308            |
| Equipment maintenance and repairs   | 411,554              | -                                 | 411,554              |
| Depreciation  | 961,493              | -                                 | 961,493              |
| Printing  | 586,278              | -                                 | 586,278              |
| Promotion, sponsorships and programs  | 1,080,453            | -                                 | 1,080,453            |
| Travel  | 1,317,119            | -                                 | 1,317,119            |
| Insurance   | 305,462              | -                                 | 305,462              |
| Contributions   | 484,823              | -                                 | 484,823              |
| Lineage and construction  | 2,672,657            | -                                 | 2,672,657            |
| Miscellaneous   | 252,610              | -                                 | 252,610              |
| Total expenses  | <u>40,424,268</u>    | <u>-</u>                          | <u>40,424,268</u>    |
| Change in net assets from operations  | 4,867,030            | -                                 | 4,867,030            |
| <b>EQUITY IN NET LOSS OF NEW ERA BOWLING, LLC</b>                                   | (437,046)            | -                                 | (437,046)            |
| <b>CHANGE IN POSTRETIREMENT BENEFIT<br/>OBLIGATION, OTHER THAN PERIODIC EXPENSE</b> | <u>117,182</u>       | <u>-</u>                          | <u>117,182</u>       |
| <b>CHANGE IN NET ASSETS</b>   | 4,547,166            | -                                 | 4,547,166            |
| <b>NET ASSETS, BEGINNING OF YEAR</b>  | <u>10,538,309</u>    | <u>388,168</u>                    | <u>10,926,477</u>    |
| <b>NET ASSETS, END OF YEAR</b>  | <u>\$ 15,085,475</u> | <u>\$ 388,168</u>                 | <u>\$ 15,473,643</u> |

The accompanying notes are an integral part of the financial statements.

**UNITED STATES BOWLING CONGRESS, INC.**  
**STATEMENT OF ACTIVITIES**  
Year Ended July 31, 2010

|   | <u>Unrestricted</u>  | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|---|----------------------|-----------------------------------|----------------------|
| <b>REVENUES</b>   |                      |                                   |                      |
| Membership dues   | \$ 23,116,542        | \$ -                              | \$ 23,116,542        |
| Merchandise sales   | 2,009,051            | -                                 | 2,009,051            |
| Workshops and seminars  | 244,678              | -                                 | 244,678              |
| Special events, booths, and concessions   | 1,312,072            | -                                 | 1,312,072            |
| Tournament entry and prize fees   | 15,491,884           | -                                 | 15,491,884           |
| Tournament and conventions subsidy  | 1,827,900            | -                                 | 1,827,900            |
| Brackets  | 1,529,252            | -                                 | 1,529,252            |
| Advertising   | 346,789              | -                                 | 346,789              |
| Royalty   | 809,874              | -                                 | 809,874              |
| Sponsorship   | 564,804              | -                                 | 564,804              |
| Contributions   | 86,643               | -                                 | 86,643               |
| Investment income   | 410,154              | -                                 | 410,154              |
| Other   | 1,922,002            | -                                 | 1,922,002            |
| Total revenues  | <u>49,671,645</u>    | <u>-</u>                          | <u>49,671,645</u>    |
| <b>EXPENSES</b>   |                      |                                   |                      |
| Salaries  | 9,833,184            | -                                 | 9,833,184            |
| Fringe benefits   | 2,262,000            | -                                 | 2,262,000            |
| Training, professional memberships and tuition                                      | 126,750              | -                                 | 126,750              |
| Temporary agency services   | 3,045,653            | -                                 | 3,045,653            |
| Professional services   | 2,914,839            | -                                 | 2,914,839            |
| Supplies  | 1,296,767            | -                                 | 1,296,767            |
| Resale merchandise  | 962,000              | -                                 | 962,000              |
| Prizes  | 9,261,950            | -                                 | 9,261,950            |
| Awards  | 2,408,753            | -                                 | 2,408,753            |
| Telephone   | 203,952              | -                                 | 203,952              |
| Postage and freight   | 2,262,121            | -                                 | 2,262,121            |
| Facilities  | 1,227,214            | -                                 | 1,227,214            |
| Equipment maintenance and repairs   | 518,219              | -                                 | 518,219              |
| Depreciation  | 905,094              | -                                 | 905,094              |
| Printing  | 1,423,968            | -                                 | 1,423,968            |
| Promotion, sponsorships and programs  | 2,479,071            | -                                 | 2,479,071            |
| Travel  | 1,700,073            | -                                 | 1,700,073            |
| Insurance   | 316,049              | -                                 | 316,049              |
| Contributions   | 2,437,024            | -                                 | 2,437,024            |
| Lineage and construction  | 3,062,497            | -                                 | 3,062,497            |
| Miscellaneous   | 440,506              | -                                 | 440,506              |
| Total expenses  | <u>49,087,684</u>    | <u>-</u>                          | <u>49,087,684</u>    |
| Change in net assets from operations  | 583,961              | -                                 | 583,961              |
| <b>EQUITY IN NET LOSS OF NEW ERA BOWLING, LLC</b>                                   | (468,317)            | -                                 | (468,317)            |
| <b>CHANGE IN POSTRETIREMENT BENEFIT<br/>OBLIGATION, OTHER THAN PERIODIC EXPENSE</b> | <u>125,806</u>       | <u>-</u>                          | <u>125,806</u>       |
| <b>CHANGE IN NET ASSETS</b>   | 241,450              | -                                 | 241,450              |
| <b>NET ASSETS, BEGINNING OF YEAR</b>  | <u>10,296,859</u>    | <u>388,168</u>                    | <u>10,685,027</u>    |
| <b>NET ASSETS, END OF YEAR</b>  | <u>\$ 10,538,309</u> | <u>\$ 388,168</u>                 | <u>\$ 10,926,477</u> |

The accompanying notes are an integral part of the financial statements.

**UNITED STATES BOWLING CONGRESS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended July 31, 2011 and 2010**

|  | <u>2011</u>          | <u>2010</u>         |
|--|----------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                      |                     |
| Change in net assets   | \$ 4,547,166         | \$ 241,450          |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities |                      |                     |
| Depreciation   | 961,493              | 905,094             |
| Provision for bad debts  | 53,173               | 50,484              |
| Decrease in postretirement benefit obligation  | (312,994)            | (280,387)           |
| Net realized and unrealized gains on investments   | (103,983)            | (257,470)           |
| Loss on forgiveness of note receivable   | -                    | 1,200,000           |
| Equity in net loss of New Era Bowling, LLC   | 437,046              | 468,317             |
| Effects of changes in operating assets and liabilities   |                      |                     |
| Accounts receivable  | 966,814              | (320,268)           |
| Due from related parties   | 897,865              | (489,628)           |
| Inventory  | 150,594              | (732,369)           |
| Prepaid expenses and other   | 159,569              | (2,000)             |
| Accounts payable   | 431,423              | 1,194,170           |
| Due to related parties   | 276,195              | (176,274)           |
| Accrued liabilities  | (32,686)             | (158,531)           |
| Accrued tournament prize checks  | (336,564)            | (2,052,984)         |
| Scholarship awards payable   | -                    | (10,642,521)        |
| Deferred compensation  | (35,914)             | (27,376)            |
| Deferred revenue   | <u>(427,640)</u>     | <u>(536,909)</u>    |
| Net cash provided by (used in) operating activities  | <u>7,631,557</u>     | <u>(11,617,202)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                      |                     |
| Sales of investments   | 2,230,001            | 11,088,695          |
| Purchases of investments   | -                    | (14,486,372)        |
| Capital contributions to New Era Bowling, LLC  | (119,363)            | (1,853,600)         |
| Purchases of property and equipment  | <u>(810,669)</u>     | <u>(868,130)</u>    |
| Net cash provided by (used in) investing activities  | <u>1,299,969</u>     | <u>(6,119,407)</u>  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>  | 8,931,526            | (17,736,609)        |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>  | <u>6,158,289</u>     | <u>23,894,898</u>   |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>  | <u>\$ 15,089,815</u> | <u>\$ 6,158,289</u> |

The accompanying notes are an integral part of the financial statements.

**UNITED STATES BOWLING CONGRESS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The United States Bowling Congress, Inc. (USBC) was incorporated on June 3, 2004, in the state of Wisconsin, for the purposes of developing interest and participation in the sport of bowling, overseeing competition, and providing programs and services to its membership. USBC's revenues are derived primarily from membership dues and tournament entry fees. USBC's fiscal year ends on July 31. Significant accounting policies followed by USBC are presented below.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash Equivalents**

USBC considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Investments**

Investments are reported at fair value. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses on investments are included in the statements of activities.

**Accounts Receivable**

Accounts receivable are uncollateralized obligations. Accounts receivable are stated at the invoice amount. Payments of accounts receivable are applied to the specific invoices identified on the remittance advice or, if unspecified, to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific accounts and the aging of the accounts receivable. If there is a deterioration of credit worthiness, or actual defaults are higher than the historical experience, management's estimates of recoverability of amounts due USBC could be adversely affected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts. The allowance for doubtful accounts was \$53,173 and \$82,732 at July 31, 2011 and 2010, respectively.

**UNITED STATES BOWLING CONGRESS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Inventory**

Inventory consists of resale merchandise and awards and is valued at the lower of cost or market with cost determined on a first-in, first-out (FIFO) basis.

**Risks and Uncertainties**

USBC utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect USBC's account balances and the amounts reported in the financial statements.

**Investment in New Era Bowling, LLC**

USBC owns a 50% interest in New Era Bowling, LLC (New Era). The investment is accounted for using the equity method. Under the equity method, the investment is carried at cost, adjusted for USBC's proportionate share of undistributed earnings or losses.

**Property and Equipment**

Property and equipment are stated at cost and depreciated on the straight-line method over their estimated useful lives, which range from three to thirty years.

Maintenance, repairs and replacements are generally included as expenses of operations during the year in which the expense is incurred. Cost of replacements, which constitute improvements or extend the life of the respective assets, are recorded as additions to property and equipment.

**Impairment of Long-lived Assets**

USBC reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

**UNITED STATES BOWLING CONGRESS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Revenue Recognition**

Deferred revenue - national tournaments consists of tournament subsidies and tournament entry fees. These amounts are recognized as revenue in the period in which the event is held or the related expenses are incurred.

Deferred revenue - membership dues and other consists primarily of membership dues. These amounts are recognized in the fiscal year in which the individual receives the privileges that membership offers.

**Net Assets**

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. However, donor restricted contributions whose restrictions are met during the same year are directly reported as increases in unrestricted net assets. The net assets of USBC and changes therein are classified and reported as follows:

**Unrestricted net assets**

These represent net assets that are not subject to external donor-imposed restrictions.

**Permanently restricted net assets**

These represent net assets that are subject to donor-imposed stipulations requiring that the principal be invested in perpetuity and that only income be expended for SMART scholarship awards.

**Income Tax Status**

The Internal Revenue Service (IRS) has issued a determination letter dated October 5, 2004, granting USBC an exemption from federal income tax under IRS Code Section 501(c)(3). However, income received from certain activities is subject to income tax as unrelated business income. No income tax expense has been recorded in the financial statements as cumulative unrelated business net operating loss carryforwards would offset any current tax liability. In addition, a 100% valuation allowance has been provided against the deferred tax asset resulting from the net operating loss carryforwards. Management is not aware of any items that could cause revocation of the tax-exempt status.

The federal and state income tax returns of USBC for 2008, 2009, and 2010 are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed.

**UNITED STATES BOWLING CONGRESS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE 2 - INVESTMENTS**

Investments consist of the following at July 31, 2011 and 2010:

|                            | <u>2011</u>         | <u>2010</u>         |
|----------------------------|---------------------|---------------------|
| Investments - undesignated |                     |                     |
| Bonds                      | \$ -                | \$ 229,448          |
| Mutual funds               | <u>2,728,226</u>    | <u>4,624,796</u>    |
| <b>Total investments</b>   | <u>\$ 2,728,226</u> | <u>\$ 4,854,244</u> |

Investment income for the years ended July 31, 2011 and 2010 is as follows:

|                                   | <u>2011</u>       | <u>2010</u>       |
|-----------------------------------|-------------------|-------------------|
| Interest and dividends            | \$ 27,546         | \$ 152,684        |
| Net realized and unrealized gains | <u>103,983</u>    | <u>257,470</u>    |
| <b>Total investment income</b>    | <u>\$ 131,529</u> | <u>\$ 410,154</u> |

**NOTE 3 - FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under generally accepted accounting principles are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**UNITED STATES BOWLING CONGRESS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2011 and 2010**

**NOTE 3 - FAIR VALUE MEASUREMENTS** (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds are valued at quoted market prices, which represent the net asset value of shares held by USBC at year end.

Bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while USBC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, USBC's assets at fair value as of July 31, 2011:

|                                   | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>        |
|-----------------------------------|---------------------|----------------|----------------|---------------------|
| Mutual funds                      |                     |                |                |                     |
| Money market                      | \$ 2,000,000        | \$ -           | \$ -           | \$ 2,000,000        |
| Small cap                         | 270,344             | -              | -              | 270,344             |
| Large cap                         | 221,434             | -              | -              | 221,434             |
| Balanced                          | <u>236,448</u>      | <u>-</u>       | <u>-</u>       | <u>266,448</u>      |
| <b>Total assets at fair value</b> | <u>\$ 2,728,226</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 2,728,226</u> |

The following table sets forth by level, within the fair value hierarchy, USBC's assets at fair value as of July 31, 2010:

|                                   | <u>Level 1</u>      | <u>Level 2</u>    | <u>Level 3</u> | <u>Total</u>        |
|-----------------------------------|---------------------|-------------------|----------------|---------------------|
| Mutual funds                      |                     |                   |                |                     |
| Money market                      | \$ 3,999,435        | \$ -              | \$ -           | \$ 3,999,435        |
| Small cap                         | 205,599             | -                 | -              | 205,599             |
| Large cap                         | 203,404             | -                 | -              | 203,404             |
| Balanced                          | 216,358             | -                 | -              | 216,358             |
| Bonds                             | <u>-</u>            | <u>229,448</u>    | <u>-</u>       | <u>229,448</u>      |
| <b>Total assets at fair value</b> | <u>\$ 4,624,796</u> | <u>\$ 229,448</u> | <u>\$ -</u>    | <u>\$ 4,854,244</u> |

**UNITED STATES BOWLING CONGRESS, INC.**  
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**NOTE 4 - INTERNATIONAL BOWLING MUSEUM AND HALL OF FAME (IBM&HF)**

USBC had a note receivable from IBM&HF, a related party through representation on IBM&HF's board of directors, which was interest-free and due July 31, 2011. However, during 2010, USBC forgave the note receivable. The face value of the note of \$1,821,500, was considered a contribution, and is included in contribution expense in the 2010 statement of activities. The note was unsecured.

USBC has approved and ratified a resolution stating that USBC will guarantee the continuation of the IBM&HF operations for an indefinite period of time. During the years ended July 31, 2011 and 2010, USBC contributed \$0 and \$79,017 (excluding the forgiven note receivable), respectively, to IBM&HF to help finance its operations.

**NOTE 5 - INVESTMENT IN NEW ERA BOWLING, LLC**

New Era holds title to the land and building which USBC uses as its national headquarters. Summarized financial information for New Era for the years ended July 31, 2011 and 2010 is shown below.

|                           | <u><b>2011</b></u> | <u><b>2010</b></u> |
|---------------------------|--------------------|--------------------|
| Total assets              | \$ 16,829,356      | \$ 15,888,124      |
| Total liabilities         | 1,871,978          | 83,529             |
| Net assets - unrestricted | 14,957,378         | 15,804,595         |
| Change in net assets      | (874,093)          | (936,634)          |

USBC, along with Bowling Proprietors' Association of America, Inc. (BPAA), has guaranteed a \$4,000,000 bank line of credit for New Era. If New Era defaults on its loan payments, the bank has the right to demand payment in full from USBC and BPAA. The guarantee expires on the scheduled due date of the note, which is June 30, 2012. The maximum potential amount of future payments under the guarantee is \$4,000,000, which is the maximum borrowing under the agreement. No liability is included in the accompanying statements of financial position related to the guarantee. There are no formal recourse provisions and USBC does not hold any collateral which would permit it to recover all or a portion of any amounts which might ultimately be paid under the guarantee.

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**NOTE 6 - POSTRETIREMENT BENEFIT OBLIGATION**

USBC provides defined benefit postretirement health benefits to certain current and former employees. Covered employees became eligible for these benefits at retirement after meeting minimum age and service requirements. USBC's unfunded cost that existed at August 1, 1995, is being accrued primarily in a straight-line manner that results in full accrual in 20 years.

The postretirement health care plan is unfunded. The following reconciles the change in accumulated benefit obligation and the amounts included in the statements of financial position at July 31:

|  | <u>2011</u>                | <u>2010</u>                |
|--|----------------------------|----------------------------|
| Benefit obligation at beginning of year          | \$ 2,032,536               | \$ 2,312,923               |
| Service cost                                     | 5,212                      | 5,172                      |
| Interest cost                                    | 96,975                     | 128,263                    |
| Benefits paid                                    | (178,880)                  | (194,624)                  |
| Actuarial gain                                   | <u>(236,301)</u>           | <u>(219,198)</u>           |
| <b>Accrued postretirement benefit obligation</b> | <b><u>\$ 1,719,542</u></b> | <b><u>\$ 2,032,536</u></b> |

In accordance with generally accepted accounting principles, all previously unrecognized actuarial gains or losses are reflected in the statements of financial position. The plan items not yet recognized as a component of periodic plan expenses, but included as a charge to change in net assets at July 31, are:

|                      | <u>2011</u>                | <u>2010</u>                |
|----------------------|----------------------------|----------------------------|
| Prior service credit | \$ (515,900)               | \$ (605,622)               |
| Net actuarial gain   | <u>(392,260)</u>           | <u>(185,356)</u>           |
| <b>Total</b>         | <b><u>\$ (908,160)</u></b> | <b><u>\$ (790,978)</u></b> |

Net postretirement benefit expense (credit) for the years ended July 31, 2011 and 2010, included the following components:

|  | <u>2011</u>               | <u>2010</u>             |
|--|---------------------------|-------------------------|
| Service cost                                       | \$ 5,212                  | \$ 5,172                |
| Interest cost                                      | 96,975                    | 128,263                 |
| Actuarial gains                                    | <u>(119,119)</u>          | <u>(93,392)</u>         |
| <b>Postretirement health care expense (credit)</b> | <b><u>\$ (16,932)</u></b> | <b><u>\$ 40,043</u></b> |

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**NOTE 6 - POSTRETIREMENT BENEFIT OBLIGATION** (continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

|           |            |
|-----------|------------|
| 2012      | \$ 205,000 |
| 2013      | 194,000    |
| 2014      | 181,000    |
| 2015      | 165,000    |
| 2016      | 147,000    |
| 2017-2021 | 699,000    |

The assumptions used to develop the net postretirement benefit expense and the present value of the benefit obligation is as follows:

|   | <u>2011</u> | <u>2010</u> |
|---|-------------|-------------|
| Discount rate                                 | 5.50%       | 6.25%       |
| Health care cost trend rate for the next year | 6.50%       | 6.69%       |

The health care cost trend rate assumption has a significant effect on the amounts reported. The health care cost trend rate used to value the accumulated postretirement benefit obligation is assumed to decrease by approximately 1.50% over the next three years to an ultimate rate of 5.00%.

**NOTE 7 - RETIREMENT PLANS**

USBC participates in a 401(k) retirement plan (along with BPAA, IBM&HF, and The Bowling Foundation) available to all employees who have reached the age of 21 and completed one month of service. However, employer contributions do not begin until the employee has completed one year of service. Employees may contribute to their accounts up to the annual amount allowed by law. USBC matches 100% of the first 3% of employee contributions, plus 50% of the next 2% of the employee's contribution.

USBC also sponsors a defined contribution 403(b) plan available to certain employees who have reached the age of 21 and completed one year of service. USBC makes contributions to employee accounts in amounts ranging from 3.5% to 13.0% of an employee's compensation based on their age and years of service.

Total contribution expense recorded under the plans was \$254,844 and \$203,282 for the years ended July 31, 2011 and 2010, respectively.

USBC has a deferred compensation agreement with a former employee, which provides benefits upon retirement or disability. Upon death, benefits are payable to beneficiaries. Monthly payments are being made in the amount of \$3,375 and will continue through November 2014.

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**NOTE 8 - EXPENSES BY FUNCTIONAL CLASSIFICATION**

|   | <u>2011</u>         | <u>2010</u>         |
|---|---------------------|---------------------|
| Program services                                      |                     |                     |
| Membership services                                   | \$ 5,957,308        | \$ 5,359,902        |
| Public relations, marketing and industry relationship | 3,970,908           | 3,014,509           |
| Publications  | -                   | 2,493,117           |
| Management information systems                        | 3,708,871           | 4,709,355           |
| Equipment specifications                              | 516,369             | 608,691             |
| Tournaments   | 17,732,802          | 19,223,350          |
| Other   | <u>3,400,326</u>    | <u>5,790,593</u>    |
| Total program services                                | 35,286,584          | 41,199,517          |
| Management and general                                | <u>5,137,684</u>    | <u>7,888,167</u>    |
| <b>Total</b>  | <u>\$40,424,268</u> | <u>\$49,087,684</u> |

**NOTE 9 - CASH FLOW DISCLOSURES**

During 2010, USBC transferred the SMART cash and cash equivalents and investments and corresponding liability to a separate organization (see Note 12). The amount of assets and liabilities transferred was approximately \$34,000,000, of which \$21,800,000 were assets classified as investments.

**NOTE 10 - SIGNIFICANT ESTIMATES AND CONCENTRATIONS**

Generally accepted accounting principles require disclosure of information about certain significant estimates and current vulnerabilities due to certain concentrations. These matters include the following:

**Reserve for Self-insurance**

Under its self-insurance plan, USBC accrues the estimated expense of health care claims costs based on claims filed subsequent to year-end and an additional amount for incurred but not yet reported claims based on prior experience. Accruals for such costs of \$212,523 and \$206,428 are included in accrued liabilities at July 31, 2011 and 2010, respectively. Claims payments based on actual claims ultimately filed could differ materially from these estimates.

**Concentration of Credit Risk**

USBC maintains the majority of its cash and investments in two commercial banks. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of these limits are uninsured.

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**NOTE 11 - ASSETS HELD FOR SALE**

As a result of USBC's relocation of their operations to Arlington, Texas in November 2008, the property owned by USBC in Greendale, Wisconsin is no longer used in operations. The following is a schedule of the assets related to this property, net of accumulated depreciation, held for sale at July 31:

|                                    | <u>2011</u>         | <u>2010</u>         |
|------------------------------------|---------------------|---------------------|
| Land and land improvements         | \$ 590,299          | \$ 590,299          |
| Building and building improvements | <u>1,163,765</u>    | <u>1,342,095</u>    |
| <b>Total</b>                       | <u>\$ 1,754,064</u> | <u>\$ 1,932,394</u> |

USBC is in the process of looking for a buyer for the property. Marketing the property has produced several viable bids for the sale of the property and all negotiations for the property held for sale are for sales prices in excess of their carrying amount.

**NOTE 12 - SCHOLARSHIP AWARDS PAYABLE**

Through March 23, 2010, USBC administered a scholarship program to local associations known as Scholarship Management and Accounting Reports for Tenpins (SMART). Subsequent to that date, SMART assets and liabilities were transferred to SMART Bowling Scholarship Funding Corporation, a separate organization that was formed to operate the SMART program. USBC collected, managed, and disbursed scholarship funds for youth bowling scholarships. A scholarship awards payable was recorded for SMART payments received. USBC effectively acted as an agent for these funds, and as such no amounts were shown in the statements of activities for changes in SMART account balances. SMART assets were used to fund scholarships and were not available for the general obligations of USBC. Since the transfer of funds to the new organization, USBC has continued to provide administrative services for the operation of the SMART program.

**NOTE 13 - RELATED PARTY TRANSACTIONS**

BPAA is represented by two members on the USBC board of directors. For various shared costs, primarily related to formation of New Era, USBC has a receivable of \$261,945 and \$1,446,899 from BPAA as of July 31, 2011 and 2010, respectively. USBC also has a payable to BPAA of \$398,127 and \$74,887 as of July 31, 2011 and 2010, respectively.

USBC is represented on The Bowling Foundation's board of directors. Included in the statement of activities are contributions of \$0 and \$102,083 for the years ended July 31, 2011 and 2010, respectively, paid to The Bowling Foundation. USBC had a payable to The Bowling Foundation of \$0 and \$47,045 as of July 31, 2011 and 2010, respectively.

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**NOTE 13 - RELATED PARTY TRANSACTIONS** (continued)

USBC is represented on SMART's board of directors and provides certain shared services. USBC had a receivable from SMART for these services of \$104,793 and \$0 as of July 31, 2011 and 2010, respectively.

USBC provides certain shared services to IBM&HF. USBC had a receivable from IBM&HF for these services of \$90,785 and \$0 as of July 31, 2011 and 2010, respectively.

USBC leases its facilities from New Era under a non-cancellable operating lease agreement. The lease includes automatic extensions for one year terms until cancelled by either party. Rent payments under the lease include an annual base rent of \$1 per year and USBC's proportionate share of taxes and operating expenses in accordance with the agreement. USBC had a receivable from New Era of \$107,021 and \$0 as of July 31, 2011 and 2010, respectively.

**NOTE 14 - SUBSEQUENT EVENTS**

Management evaluated subsequent events through November 14, 2011, the date the financial statements were available to be issued. Events or transactions occurring after July 31, 2011, but prior to November 14, 2011 that provided additional evidence about conditions that existed at July 31, 2011, have been recognized in the financial statements for the year ended July 31, 2011. Events or transactions that provided evidence about conditions that did not exist at July 31, 2011, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended July 31, 2011.

This information is an integral part of the accompanying financial statements.