

USA TAEKWONDO, INC.

**Financial Statements &
Supplementary Schedules**

For the Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
USA Taekwondo, Inc.
Colorado Springs, Colorado

We have audited the accompanying financial statements of USA Taekwondo, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USA Taekwondo, Inc., as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of program and supporting services are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Waugh & Goodwin, LLP
Colorado Springs, Colorado
May 10, 2018

USA TAEKWONDO, INC.
 Statements of Financial Position
 December 31, 2017 and 2016

	<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$	257,528	\$ 391,063
Accounts receivable, net		47,085	7,707
Due from the USOC		3,200	27,845
Inventory		32,323	32,323
Prepaid expenses		<u>74,017</u>	<u>26,061</u>
Total current assets		414,153	484,999
FURNITURE AND EQUIPMENT:			
Athletic equipment		29,757	56,313
Office furniture and equipment		42,838	25,852
Transportation equipment		14,285	14,285
Less accumulated depreciation		<u>(65,643)</u>	<u>(83,268)</u>
Furniture and equipment - net		<u>21,237</u>	<u>13,182</u>
TOTAL ASSETS	\$	<u>435,390</u>	\$ <u>498,181</u>
 <u>LIABILITIES AND NET ASSETS</u> 			
CURRENT LIABILITIES:			
Accounts payable	\$	73,035	\$ 34,196
Accrued liabilities		23,987	36,986
Due to the USOC		12,881	11,016
Current portion of deferred revenue		<u>162,921</u>	<u>217,458</u>
Total current liabilities		272,824	299,656
LONG-TERM DEFERRED REVENUE		<u>28,298</u>	<u>29,877</u>
Total liabilities		301,122	329,533
NET ASSETS:			
Unrestricted net assets		<u>134,268</u>	<u>168,648</u>
Total net assets		<u>134,268</u>	<u>168,648</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>435,390</u>	\$ <u>498,181</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.
 Statements of Activities and Changes in Net Assets
 For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE:		
Events	\$ 1,522,263	\$ 1,583,332
Membership	652,623	611,235
USOC grants	373,803	235,216
Sponsorship and royalties	343,041	467,903
Dan office	167,408	167,700
Grants and contributions	12,917	22,768
Merchandise sales net of costs of \$3,082		2,517
Total revenue	3,072,055	3,090,671
EXPENSES:		
Program services:		
Competitions and events	1,995,075	2,073,478
Membership	544,244	510,409
Athletes, coaching and referees	136,239	145,938
Total program services	2,675,558	2,729,825
Supporting services:		
General and administrative	412,877	460,006
Fundraising	18,000	21,431
Total supporting services	430,877	481,437
Total expenses	3,106,435	3,211,262
CHANGE IN NET ASSETS	(34,380)	(120,591)
NET ASSETS, beginning of year	168,648	289,239
NET ASSETS, end of year	\$ 134,268	\$ 168,648

See Notes to Financial Statements

USA TAEKWONDO, INC.
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (34,380)	\$ (120,591)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	10,858	16,216
(Increase) decrease in assets:		
Accounts receivable, net	(39,378)	310,542
Due from the USOC	24,645	(18,215)
Prepaid expenses	(47,956)	(12,600)
Increase (decrease) in liabilities:		
Accounts payable	38,839	(62,792)
Due to the USOC	1,865	(16,874)
Accrued liabilities	(12,999)	9,745
Deferred revenue	<u>(56,116)</u>	<u>81,641</u>
Total adjustments	<u>(80,242)</u>	<u>307,663</u>
Net cash provided (used) by operating activities	(114,622)	187,072
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	<u>(18,913)</u>	<u>(7,000)</u>
Net cash used by investing activities	<u>(18,913)</u>	<u>(7,000)</u>
NET INCREASE (DECREASE) IN CASH	(133,535)	180,072
CASH AND CASH EQUIVALENTS, beginning of year	<u>391,063</u>	<u>210,991</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 257,528</u>	<u>\$ 391,063</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

USA Taekwondo, Inc. (the Corporation) is the national governing body for the sport of taekwondo, making it responsible for the conduct and administration of amateur taekwondo in the United States. The Corporation is not a private foundation.

Cash and Cash Equivalents

Cash and cash equivalents consist of the Corporation's checking account.

The Corporation maintains its cash and cash equivalents in a commercial bank. In the unlikely event of a bank failure, the Corporation could suffer a loss to the extent its deposits exceed the respective bank's insurance limits.

Accounts Receivable

Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has recorded an allowance for doubtful accounts of \$0 and \$1,482 at December 31, 2017 and 2016, respectively.

Inventory

Inventory at December 31, 2017 and 2016, consists of a motorcycle which is held for sale.

Prepaid Expenses and Deferred Charges

Event expenses paid for in a fiscal year prior to the occurrence of a scheduled event are deferred and recognized as expenses in the fiscal year in which such events occur.

Depreciation

Furniture and equipment are recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of gifts. Depreciation is recorded for office, transportation and athletic equipment using the straight-line method over an estimated useful life of five to ten years. Depreciation expense for the years ended December 31, 2017 and 2016, was \$10,858 and \$16,216, respectively.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences

Employees of the Corporation earn a vested right to compensation for unused vacation. Accordingly, the Corporation has made an accrual for vacation compensation that employees have earned but not taken.

Membership Registrations

Membership registrations consist of annual and life registrations and are recognized as revenue when earned.

Contributions

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of donated assets. When a restriction expires, that is, when a stipulated time restriction ends, or a 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.

Donated Services

The Corporation recognizes donated services that create or enhance non-financial assets or that require specialized skills and would typically need to be purchased if not provided by donation. For the years ended December 31, 2017 and 2016, there were no donated services recorded.

A number of volunteers donated time to the Corporation's program services; however, the estimated value was not recorded, because they did not meet the criteria described above.

In-kind Revenue

Sponsorship income in the form of in-kind goods such as clothing, equipment, medals and airfare are reported as revenue and expense in the fiscal year they are received. The Corporation recorded \$38,269 and \$67,408 of in-kind revenue for the years ended December 31 2017 and 2016, respectively.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Tax

The Corporation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax. Accordingly, no income tax provision has been recorded.

The Corporation's form 990, Return of Organization Exempt from Income Tax, is subject to examination by various taxing authorities, generally for three years after the date it was filed. Management of the Corporation believes that it does not have any uncertain tax positions that are material to the financial statements.

Supplemental Cash Flow Information

During the years ended December 31, 2017 and 2016, the Corporation did not pay any interest or income taxes.

Functional Allocation of Expenses

Certain costs and expenses are allocated among the various programs and supporting service expenses based on salary and related expenses.

Use of Estimates

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

Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through May 10, 2018, the date that the financial statements were available to be issued.

Notes to Financial Statements

B. RELATED PARTY TRANSACTIONS

The United States Olympic Committee (USOC) provides grants to the Corporation for sports development, international competition and team preparation. Total grants from the USOC for the years ended December 31, 2017 and 2016, consist of the following project categories:

	<u>2017</u>	<u>2016</u>
NGB funding	\$ 347,488	\$ 125,020
Other grants	18,804	77,685
VIK rent	7,511	7,511
Challenge grant	<u> </u>	<u>25,000</u>
	<u>\$ 373,803</u>	<u>\$ 235,216</u>

In addition to the grant amounts above, the USOC made direct athlete support payments of \$100,000 and \$207,000 for the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, \$3,200 and \$27,845, respectively, was due from the USOC. The Corporation owed the USOC \$12,881 and \$11,016 at December 31, 2017 and 2016, respectively.

In addition to the amounts above, the USOC provides additional funding in the form of value in kind. These amounts are included in sponsorship revenue and as expenses in the statement of activities.

The Corporation is economically dependent upon grants from the USOC in order to maintain its programs at current levels.

The Corporation extended a lease agreement with the USOC during 2015 for office space which expires on April 30, 2020. No amount is charged for common areas, however, \$7,511 has been reflected in the financial statements as value in kind revenue and cost for the Corporation's share of common area facilities for each of the years ending December 31, 2017 and 2016. As part of this agreement, administrative services at the building's front desk are provided at no charge by one of the Corporation's employees one day per week.

The Corporation previously entered into a digital licensing agreement with the USOC, and the term of the agreement was January 1, 2013 through December 31, 2016. During the year ending December 31, 2017, the Corporation entered into an amendment extending this agreement through December 31, 2020. The Corporation received \$75,000 during each of the years ended December 31, 2017 and 2016.

Notes to Financial Statements

B. RELATED PARTY TRANSACTIONS - Continued

These amounts are included in sponsorship and royalties in the statement of activities.

Board members may also serve in other capacities for the Corporation and as such may be reimbursed for their out of pocket expenses and compensated for their time. During the years ended December 31, 2017 and 2016, members of the Board served in capacities as coaches or referees in which they were reimbursed for actual costs incurred or their travel costs were paid directly by the Corporation, and they were compensated for their time in accordance with normal compensation practices of the Corporation.

No Board Member is compensated for their service on the Board of Directors.

C. DEFERRED REVENUE

Deferred revenue at December 31, 2017 and 2016, consists of the following:

	<u>2017</u>	<u>2016</u>
Athlete membership dues	\$ 148,083	\$ 137,927
Life memberships	31,254	32,760
National championships	10,000	
Non-competitor membership dues	1,007	845
Athlete development	875	
US Open	<u> </u>	<u>75,803</u>
	<u>\$ 191,219</u>	<u>\$ 247,335</u>

Dues for life memberships are deferred and recognized as revenue over a 20 year period.

D. LEASES

As mentioned in Note B, the Corporation leases certain office facilities from the USOC. The initial lease expired April 30, 2015 and has been extended through April 30, 2020. The new lease requires monthly payments of \$1,629 per month, with annual increases based on the regional CPI.

Notes to Financial Statements

D. LEASES - Continued

Future minimum lease payments under the terms of this lease are as follows:

2018	\$	19,552
2019		19,552
2020		6,517

E. PENSION PLAN

During the year, the Corporation had a 401(k) retirement savings plan covering eligible employees. Employees may voluntarily contribute to the plan, subject to statutory limitations. The Corporation matched up to 6% of compensation for employees.

During the years ended December 31, 2017 and 2016, the Corporation contributed \$4,444 and \$7,730, respectively, to the plan.

Effective December 2017, the Corporation terminated their 401(k) plan. Subsequent to year end, the Corporation established a SIMPLE IRA retirement savings plan to cover eligible employees as outlined in the plan document. The Corporation will contribute 2% of compensation for employees.

F. SUBSEQUENT EVENTS

Subsequent to December 31, 2017, several SafeSport allegations were made concerning the sport, potentially naming the Corporation as a party to possible litigation. Management feels that these claims are either unfounded or will be covered by insurance. No amounts have been recorded in the financial statements related to these alleged claims.

USA TAEKWONDO, INC.
Schedule of Program Services
For the Year Ended December 31, 2017

	Competitions and Events	Membership	Athletes, Coaching and Referees	Total
Advertising	\$	\$ 529	\$	\$ 529
Awards & grants	762			762
Bad debts	50			50
Consulting services		22,185	500	22,685
Contract services, honoraria & temporary help	130,744		11,737	142,481
Credit card fees & bank charges		23,275	5,447	28,722
Dues, fees & subscriptions	80,453	146,736	7,331	234,520
Employee benefits	37,811	15,125	2,269	55,205
Equipment & space rental	240,457	7,332		247,789
Fees			25,157	25,157
Gear & equipment	37,981		8,724	46,705
Ground transportation & parking	17,048		1,696	18,744
Insurance	3,075	148,078		151,153
Miscellaneous expense	39,632	15,406	4,095	59,133
Payroll taxes	23,392	9,357	1,403	34,152
Postage & shipping	26,547	7,370	20	33,937
Pension expense	2,222	889	133	3,244
Printing & publications	19,457	9,827		29,284
Referees & coaching	139,415			139,415
Salaries	311,317	124,527	18,679	454,523
Scoring	32,750			32,750
Security services	6,055			6,055
Supplies	12,706	1,782	79	14,567
Technology		5,053		5,053
Telephone, internet & IT	57,675	5,431	1,385	64,491
Travel, airfare, lodging, per diem	775,526	1,342	47,584	824,452
	<u>\$ 1,995,075</u>	<u>\$ 544,244</u>	<u>\$ 136,239</u>	<u>\$ 2,675,558</u>

USA TAEKWONDO, INC.
Schedule of Supporting Services
For the Year Ended December 31, 2017

	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Credit card fees & bank charges	\$ 6,852	\$	\$ 6,852
Contract services, honoraria & temporary help		18,000	18,000
Depreciation	10,858		10,858
Dues, fees & subscriptions	8,557		8,557
Employee benefits	20,418		20,418
Equipment & space rental	20,964		20,964
Ground transportation & parking	599		599
Insurance	12,996		12,996
Legal fees	102,910		102,910
Other professional fees	10,250		10,250
Payroll taxes	12,631		12,631
Pension expense	1,200		1,200
Postage & shipping	196		196
Printing & publications	543		543
Salaries	168,111		168,111
Security	10		10
Supplies	1,805		1,805
Telephone, internet & IT	11,619		11,619
Travel, airfare & lodging	22,358		22,358
	<u>\$ 412,877</u>	<u>\$ 18,000</u>	<u>\$ 430,877</u>