

USA TAEKWONDO, INC.

**Financial Statements &
Supplementary Schedules**

For the Years Ended December 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of USA Taekwondo, Inc. as of December 31, 2011 and 2010, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USA Taekwondo, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note G to the financial statements, the Corporation has suffered recurring losses from operations and has a deficiency in net assets, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note G. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of program services and of supporting services for the year ended December 31, 2011 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 taken as a whole.

Waugh & Goodwin, LLP

June 5, 2012

USA TAEKWONDO, INC.
 Statements of Financial Position
 December 31, 2011 and 2010

	<u>ASSETS</u>	
	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,398	\$ 42,596
Accounts receivable, net (Note A)	422,779	185,175
Inventory (Note A)	32,323	32,323
Prepaid expenses	<u> </u>	<u>30,119</u>
Total current assets	483,500	290,213
FURNITURE AND EQUIPMENT (Note A):		
Athletic equipment	195,245	195,245
Office furniture and equipment	143,251	141,324
Transportation equipment	7,285	6,785
Less accumulated depreciation	<u>(290,251)</u>	<u>(268,194)</u>
Furniture and equipment - net	<u>55,530</u>	<u>75,160</u>
TOTAL ASSETS	<u>\$ 539,030</u>	<u>\$ 365,373</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 364,911	\$ 263,238
Accrued liabilities	33,164	50,797
Due to USOC (Note B)	157,630	72,751
Line of credit (Note C)	95,000	95,000
Deferred revenue (Note D)	<u>184,692</u>	<u>166,277</u>
Total current liabilities	835,397	648,063
NET ASSETS:		
Unrestricted deficiency	<u>(296,367)</u>	<u>(282,690)</u>
Total net assets	<u>(296,367)</u>	<u>(282,690)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 539,030</u>	<u>\$ 365,373</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.
 Statements of Activities and Changes in Net Assets
 For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
REVENUE:		
Events	\$ 1,601,842	\$ 1,565,692
Membership	560,331	496,684
Sponsorship and royalties	501,093	284,904
USOC (Note B)	397,755	475,416
Dan office	178,409	130,054
Other revenue	22,413	18,591
Contributions	5,548	617
Advertising	<u>4,058</u>	<u>4,125</u>
Total revenue	3,271,449	2,976,083
EXPENSES:		
Program services:		
Competitions and events	1,898,310	1,627,314
Membership	249,484	231,800
Athletes, coaching and referees	234,363	341,933
Dan programs	<u>134,014</u>	<u>122,866</u>
Total program services	2,516,171	2,323,913
Supporting services:		
National office	747,046	741,135
Board of directors	<u>21,909</u>	<u>24,890</u>
Total supporting services	<u>768,955</u>	<u>766,025</u>
Total expenses	<u>3,285,126</u>	<u>3,089,938</u>
CHANGE IN NET ASSETS	(13,677)	(113,855)
NET ASSETS, beginning of year	<u>(282,690)</u>	<u>(168,835)</u>
NET ASSETS, end of year	<u>\$ (296,367)</u>	<u>\$ (282,690)</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.
 Statements of Cash Flows
 For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (13,677)	\$ (113,855)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	22,057	22,828
Changes in assets and liabilities:		
Increase in accounts receivable	(237,604)	46,495
Increase in inventory		(32,323)
Decrease in prepaid expenses	30,119	33,954
Increase in accounts payable	101,673	(1,457)
Increase in due to USOC	84,879	(14,405)
Decrease in accrued liabilities	(17,633)	(7,839)
Increase in deferred revenue	<u>18,415</u>	<u>10,647</u>
Total adjustments	<u>1,906</u>	<u>57,900</u>
Net cash used by operating activities	(11,771)	(55,955)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	<u>(2,427)</u>	<u>(64,563)</u>
Net cash used by investing activities	(2,427)	(64,563)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in line of credit	<u> </u>	<u>95,000</u>
Net cash provided by financing activities	<u> </u>	<u>95,000</u>
NET DECREASE IN CASH	(14,198)	(25,518)
CASH AND CASH EQUIVALENTS, beginning of year	<u>42,596</u>	<u>68,114</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 28,398</u>	<u>\$ 42,596</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.
Notes to Financial Statements
For the Years Ended December 31, 2011 and 2010

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.

Income Taxes

No provision for income taxes has been made in the accompanying financial statements because the Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986.

The Financial Accounting Standards Board (FASB) issued FASB ASC 740, "Income Taxes", which clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Corporation's income tax returns.

The Corporation's income tax filings are subject to audit by various taxing authorities. The Corporation's open audit periods are 2008 to 2011. The Corporation believes that its operations have been conducted in accordance with its tax-exempt status.

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, 2011 and 2010 was \$22,057 and \$22,828, respectively.

Cash and Cash Equivalents

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

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Approximately 34% of the Corporation's receivables are due from one source. An allowance for doubtful accounts in the amount of \$0 and \$36,000 is recorded at December 31, 2011 and 2010, respectively.

Inventory

Inventory at December 31, 2011 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.

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.

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.

In-kind Revenue

Sponsorship income in the form of in-kind goods such as clothing and airfare are reported as revenue and expense in the fiscal year they are received.

Functional Allocation of Expenses

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

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Prior-Year Comparisons

Certain reclassifications have been made to the prior-year amounts in order to conform to the current year financial statement format.

Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through June 5, 2012, the date that the financial statements were available to be issued.

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, 2011 and 2010 consist of the following project categories:

	<u>2011</u>	<u>2010</u>
NGB funding	\$ 456,815	\$ 458,900
VIK rent	6,933	11,564
International relations		4,952
Less amount to be repaid	<u>(65,993)</u>	<u> </u>
	<u>\$ 397,755</u>	<u>\$ 475,416</u>

In addition to the grant amounts above, the USOC made direct athlete support payments of \$200,000 for each of the years ended December 31, 2011 and 2010.

Notes to Financial Statements

B. RELATED PARTY TRANSACTIONS - Continued

At December 31, 2011 and 2010, no amounts were due from the USOC. The Corporation owed the USOC \$157,630 and \$72,751 at December 31, 2011 and 2010, 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 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 entered into a lease agreement with the USOC during 2010 for office space which expires April 30, 2015. No amount is charged for common areas, however, \$6,933 has been reflected in the financial statements as a value-in-kind cost and revenue for the Corporation's share of common area facilities. 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.

In 2007 the Corporation entered into a content license agreement with the USOC. The term of the agreement is July 1, 2007 through December 31, 2012. Funding for the years ended December 31, 2011 and 2010 was \$75,000 each year. This amount is included in sponsorship 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, 2011 and 2010, 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.

C. LINE OF CREDIT

The Corporation has a line of credit with a commercial bank in the amount of \$95,000. This line of credit bears interest prime plus 3%. The rate at December 31, 2011 was 6.25%. The line of credit matured in November 2011, but has been extended into 2012 and the Corporation will negotiate the renewal terms of this line of credit with the bank during 2012. At December 31, 2011 and 2010, the Corporation had \$95,000 outstanding under this line of credit.

Notes to Financial Statements

D. DEFERRED REVENUE

Deferred revenue at December 31, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Athlete membership dues	\$ 107,486	\$ 113,490
Life memberships	35,358	34,250
National team trials	18,295	
Other	12,500	7,705
US Open	9,235	4,215
Non-competitor membership dues	1,818	2,392
Club dues	<u> </u>	<u>4,225</u>
	<u>\$ 184,692</u>	<u>\$ 166,277</u>

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

E. LEASES

As mentioned in Note B, the Corporation leases certain office facilities from the USOC.

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

2012	\$ 18,048
2013	18,048
2014	18,048
2015	6,016

F. PENSION PLAN

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

During the years ended December 31, 2011 and 2010, the Corporation contributed \$10,214 and \$11,968, respectively, to the plan.

Notes to Financial Statements

G. GOING CONCERN

As reflected in the accompanying statement of financial position, The Corporation has a deficiency of net assets at December 31, 2011 of (\$296,367). In order to reduce this deficiency, the Corporation is taking the following actions:

- During 2011, the Corporation underwent significant restructuring at the National Office. Permanent reductions have been made to overhead costs, the benefits of which will be realized in 2012 and future years.
- The Corporation's 2012 operating budget projects a surplus in excess of \$300,000. The Corporation is actively monitoring expenses in order to achieve these projected results and year to date the Corporation is successful in performing better than the year to date budget.
- In 2011, the Corporation was successful in reducing the net loss realized in 2010 by over \$100,000. The Corporation was able to achieve this goal by taking steps to cut unnecessary spending and generate additional revenues. These measures continue in 2012.
- Improving internal processes to follow up in a timely manner on all past due receivables in order to improve collections.
- Closely monitoring the budget adopted by the Board of Directors in comparison to actual expenditures and taking steps to prevent cost overruns.
- Exploring other sources of revenue including grants, donations and board fundraising responsibilities.
- Reducing program and administration expenses and increasing revenues in order to accumulate reserves.
- Serious consideration will be given to raising membership dues as rates have been stagnant for over ten years.

USA TAEKWONDO, INC.
Schedule of Program Services
For the Year Ended December 31, 2011

	Competitions and Events	Membership	Athletes, Coaching and Referees	Dan Programs	Total
Advertising	\$ 27,425	\$	\$	\$	\$ 27,425
Awards & grants	78,672				78,672
Catering & decorating	220,265				220,265
Contract services, honoraria & temporary help	224,839		11,300		236,139
Dues, fees & subscriptions	20,919			98,053	118,972
Employee benefits	15,699	13,937		303	29,939
Equipment & space rental	186,658				186,658
Gear & equipment	71,223				71,223
Ground transportation & parking	53,682		184		53,866
Insurance	60,444	53,216			113,660
Interest expense		136			136
Miscellaneous expense	29,720	29,069	55	406	59,250
Online registration fees	15,648	41,500			57,148
Payroll taxes	12,602	5,514		2,368	20,484
Pension expense	3,487	8,302		787	12,576
Postage & shipping	31,679	4,951	16	2,440	39,086
Printing & publications	19,691	10,141		480	30,312
Referees & coaching	240,053				240,053
Salaries	75,199	66,306	68,822	28,466	238,793
Scholarships	8,000				8,000
Supplies	66,526	14,386	815	711	82,438
Telephone	16,367	2,026			18,393
Travel, airfare, lodging, per diem	419,512		153,171		572,683
	<u>\$ 1,898,310</u>	<u>\$ 249,484</u>	<u>\$ 234,363</u>	<u>\$ 134,014</u>	<u>\$ 2,516,171</u>

USA TAEKWONDO, INC.
Schedule of Supporting Services
For the Year Ended December 31, 2011

	<u>National Office</u>	<u>Board of Directors</u>	<u>Total</u>
Awards	\$ 240	\$	\$ 240
Bank charges & credit card fees	109,872		109,872
Contract services, honoraria & temporary help	99,313		99,313
Depreciation	22,057		22,057
Dues, fees & subscriptions	1,720		1,720
Employee benefits	27,840		27,840
Ground transportation & parking	1,404		1,404
Insurance	74,906		74,906
Interest expense	6,829		6,829
Legal fees	61,459	17,325	78,784
Miscellaneous expense	303		303
Payroll taxes	19,223		19,223
Pension expense	10,214		10,214
Postage & shipping	6,411		6,411
Printing & publications	7,356		7,356
Professional fees	10,746		10,746
Equipment & space rental	25,473		25,473
Salaries	218,078		218,078
Supplies	4,921	71	4,992
Telephone, internet & IT	20,235	963	21,198
Travel, airfare & lodging	18,446	3,550	21,996
	<u>\$ 747,046</u>	<u>\$ 21,909</u>	<u>\$ 768,955</u>