

USA TAEKWONDO, INC.

**Financial Statements &
Supplementary Schedules**

For the Years Ended December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

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, 2012 and 2011, and the related statements of activities, functional expenses, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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, 2012 and 2011, 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.

Other-Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program and supporting services on pages 12 and 13 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.

Emphasis-of-matter Regarding Going Concern

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 in prior years 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.

Waugh & Goodwin, LLP

Colorado Springs, Colorado
February 15, 2013

USA TAEKWONDO, INC.
 Statements of Financial Position
 December 31, 2012 and 2011

	<u>ASSETS</u>	
	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 122,333	\$ 28,398
Accounts receivable	181,541	422,779
Inventory	32,323	32,323
Prepaid expenses	<u>8,370</u>	<u> </u>
Total current assets	344,567	483,500
FURNITURE AND EQUIPMENT:		
Athletic equipment	196,947	195,245
Office furniture and equipment	148,682	143,251
Transportation equipment	7,285	7,285
Less accumulated depreciation	<u>(305,973)</u>	<u>(290,251)</u>
Furniture and equipment - net	<u>46,941</u>	<u>55,530</u>
TOTAL ASSETS	<u>\$ 391,508</u>	<u>\$ 539,030</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 105,441	\$ 364,911
Accrued liabilities	27,153	33,164
Due to USOC	273,069	157,630
Line of credit	50,000	95,000
Deferred revenue	<u>168,113</u>	<u>184,692</u>
Total current liabilities	623,776	835,397
NET ASSETS:		
Unrestricted deficiency	<u>(232,268)</u>	<u>(296,367)</u>
Total net assets	<u>(232,268)</u>	<u>(296,367)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 391,508</u>	<u>\$ 539,030</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.
 Statements of Activities and Changes in Net Assets
 For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUE:		
Events	\$ 1,155,794	\$ 1,601,842
Membership	536,271	560,331
USOC grants	514,559	397,755
Grants and contributions	315,918	5,548
Sponsorship and royalties	203,186	501,093
Dan office	152,191	178,409
Other revenue	24,834	22,413
Advertising	6,910	4,058
Loss on sale of asset	<u>(2,051)</u>	<u> </u>
Total revenue	2,907,612	3,271,449
EXPENSES:		
Program services:		
Competitions and events	1,728,230	1,898,310
Membership	309,038	383,498
Athletes, coaching and referees	<u>100,613</u>	<u>234,363</u>
Total program services	2,137,881	2,516,171
Supporting services:		
National office	691,249	747,046
Board of directors	<u>14,383</u>	<u>21,909</u>
Total supporting services	<u>705,632</u>	<u>768,955</u>
Total expenses	<u>2,843,513</u>	<u>3,285,126</u>
CHANGE IN NET ASSETS	64,099	(13,677)
NET ASSETS, beginning of year	<u>(296,367)</u>	<u>(282,690)</u>
NET ASSETS, end of year	<u>\$ (232,268)</u>	<u>\$ (296,367)</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.
 Statements of Cash Flows
 For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 64,099	\$ (13,677)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	18,170	22,057
Loss on sale of asset	2,051	
Changes in assets and liabilities:		
Decrease in accounts receivable	241,238	(237,604)
Increase in prepaid expenses	(8,370)	30,119
Decrease in accounts payable	(259,470)	101,673
Increase in due to USOC	115,439	84,879
Decrease in accrued liabilities	(6,011)	(17,633)
Decrease in deferred revenue	<u>(16,579)</u>	<u>18,415</u>
Total adjustments	<u>86,468</u>	<u>1,906</u>
Net cash provided (used) by operating activities	150,567	(11,771)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of asset	4,070	
Acquisition of property and equipment	<u>(15,702)</u>	<u>(2,427)</u>
Net cash used by investing activities	(11,632)	(2,427)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in line of credit	<u>(45,000)</u>	
Net cash used by financing activities	<u>(45,000)</u>	
NET INCREASE (DECREASE) IN CASH	93,935	(14,198)
CASH AND CASH EQUIVALENTS, beginning of year	<u>28,398</u>	<u>42,596</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 122,333</u>	<u>\$ 28,398</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.
Notes to Financial Statements
For the Years Ended December 31, 2012 and 2011

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 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 Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2009 to 2012 are subject to examination by various taxing authorities, generally for three years after the date they were filed. Management of the Corporation believes that it does not have any uncertain tax positions that are material to the financial statements.

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, 2012 and 2011 was \$18,170 and \$22,057, 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. At December 31, 2011, approximately 34% of the Corporation's receivables were due from one source. Management maintained ongoing dialog with this source, and anticipated full collection of the amount outstanding. However, during the year ended December 31, 2012, management became aware of additional facts and determined that the likelihood of collection was diminished. Due to these circumstances, the entire receivable was written off as a bad debt during 2012. This amount is included in national office expenses in the accompanying financial statements. An allowance for doubtful accounts in the amount of \$0 was recorded at December 31, 2012 and 2011.

Inventory

Inventory at December 31, 2012 and 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.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 February 15, 2013, 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, 2012 and 2011 consist of the following project categories:

	<u>2012</u>	<u>2011</u>
NGB funding	\$ 429,026	\$ 456,815
Other grants	78,600	
VIK rent	6,933	6,933
Less amount to be repaid	<u> </u>	<u>(65,993)</u>
	<u>\$ 514,559</u>	<u>\$ 397,755</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, 2012 and 2011.

Notes to Financial Statements

B. RELATED PARTY TRANSACTIONS - Continued

At December 31, 2012 and 2011, no amounts were due from the USOC. The Corporation owed the USOC \$273,069 and \$157,630 at December 31, 2012 and 2011, 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, 2012 and 2011 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, 2012 and 2011, 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 \$250,000. This line of credit bears interest prime plus 3%. The rate at December 31, 2012 was 6.25%. The line of credit matures on June 10, 2013. At December 31, 2012 and 2011, the Corporation had \$50,000 and \$95,000 outstanding under this line of credit, respectively.

Notes to Financial Statements

D. DEFERRED REVENUE

Deferred revenue at December 31, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Athlete membership dues	\$ 111,268	\$ 107,486
Life memberships	35,661	35,358
National team trials	11,085	18,295
US Open	8,955	9,235
Non-competitor membership dues	1,144	1,818
Other	_____	12,500
	<u>\$ 168,113</u>	<u>\$ 184,692</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:

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, 2012 and 2011, the Corporation contributed \$19,414 and \$10,214, 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, 2012 of (\$232,268). In order to reduce this deficiency, the Corporation is taking the following actions:

- During 2011, the Corporation underwent a significant restructuring at the National Office. Permanent reductions have been made to overhead costs, the benefits of which have been realized in 2012 and will continue to impact future years.
- In 2012, the Corporation was successful in generating an excess of revenue over expenses for the first time in 3 years. The Corporation was able to achieve this goal by taking steps to cut unnecessary spending and generate additional revenues. These measures will continue in 2013. In addition, the Corporation continues to reduce liabilities that had been incurred in previous years.
- 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. As disclosed in Note A, national office expenses for 2012 include the write off of over \$183,000 in bad debts for uncollectible receivables from previous years. Administrative costs for 2012 were reduced by over 30% from the prior year.
- 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, 2012

	<u>Competitions and Events</u>	<u>Membership</u>	<u>Athletes, Coaching and Referees</u>	<u>Total</u>
Advertising	\$ 29,118	\$	\$	\$ 29,118
Awards & grants	29,692	242	686	30,620
Contract services, honoraria & temporary help	60,168	265	11,740	72,173
Dues, fees & subscriptions	55,861	100,496		156,357
Employee benefits	10,034	9,024	3,145	22,203
Equipment & space rental	290,021	7,519		297,540
Gear & equipment	59,644		13,072	72,716
Insurance	2,085	57,357		59,442
Miscellaneous expense	7,776	1,565	1,653	10,994
Online registration fees	8,230			8,230
Payroll taxes	9,005	8,119	2,830	19,954
Pension expense	5,702	5,141	1,792	12,635
Postage & shipping	29,964	3,088	5	33,057
Printing & publications	5,677	9,104	427	15,208
Referees & coaching	240,900			240,900
Salaries	104,489	94,208	32,837	231,534
Scoring	113,951			113,951
Security services	17,998			17,998
Supplies	26,610	5,633	310	32,553
Telephone, internet & IT	29,945	7,277	99	37,321
Travel, airfare, lodging, per diem	591,360		32,017	623,377
	<u>\$ 1,728,230</u>	<u>\$ 309,038</u>	<u>\$ 100,613</u>	<u>\$ 2,137,881</u>

USA TAEKWONDO, INC.
Schedule of Supporting Services
For the Year Ended December 31, 2012

	<u>National Office</u>	<u>Board of Directors</u>	<u>Total</u>
Awards	\$ 25,800	\$	\$ 25,800
Bank charges & credit card fees	78,849		78,849
Bad debt expense	183,193		183,193
Depreciation	18,170		18,170
Dues, fees & subscriptions	2,776		2,776
Employee benefits	9,607		9,607
Insurance	67,357	7,500	74,857
Interest expense	5,209		5,209
Legal fees	25,724		25,724
Miscellaneous expense	1,412		1,412
Payroll taxes	10,706		10,706
Pension expense	6,779		6,779
Postage & shipping	9,372		9,372
Printing & publications	233		233
Professional fees	83,926		83,926
Equipment & space rental	14,073		14,073
Salaries	124,235		124,235
Security		200	200
Supplies	4,208	68	4,276
Telephone, internet & IT	8,934	2,179	11,113
Travel, airfare & lodging	10,686	4,436	15,122
	<u>\$ 691,249</u>	<u>\$ 14,383</u>	<u>\$ 705,632</u>