

**USA TAEKWONDO, INC.**

**Financial Statements &  
Supplementary Schedules**

**For the Year Ended December 31, 2008**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of USA Taekwondo, Inc. as of December 31, 2008, and the related statements of activities and changes in net assets, and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Corporation's December 31, 2007 financial statements and, in our report dated April 17, 2008, we expressed an unqualified opinion on those financial statements.

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 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 audit provides 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, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of program services and of supporting services for the year ended December 31, 2008 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Waugh & Goodwin, LLP*

March 3, 2009

USA TAEKWONDO, INC.  
Statement of Financial Position  
December 31, 2008  
(With Comparative Amounts for 2007)

	<u>ASSETS</u>	
	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 60,204	\$ 17,996
Accounts receivable	47,360	8,643
Prepaid expenses	<u>19,465</u>	<u>20,711</u>
Total current assets	127,029	47,350
<b>FURNITURE AND EQUIPMENT:</b>		
Athletic equipment	136,657	136,657
Office furniture and equipment	125,132	111,866
Transportation equipment	6,785	6,785
Less accumulated depreciation	<u>(226,427)</u>	<u>(196,397)</u>
Furniture and equipment - net	42,147	58,911
<b>LONG-TERM INVESTMENTS</b>	<u>                    </u>	<u>32,250</u>
<b>TOTAL ASSETS</b>	<u>\$ 169,176</u>	<u>\$ 138,511</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 383,097	\$ 357,742
Accrued liabilities	48,940	49,949
Deferred revenue	<u>140,420</u>	<u>139,212</u>
Total current liabilities	572,457	546,903
<b>NET ASSETS:</b>		
Unrestricted	(403,281)	(468,994)
Temporarily restricted	<u>                    </u>	<u>60,602</u>
Total net assets	<u>(403,281)</u>	<u>(408,392)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 169,176</u>	<u>\$ 138,511</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.

Statement of Activities and Changes in Net Assets  
 For the Year Ended December 31, 2008  
 (With Comparative Totals for 2007)

	Unrestricted	Temporarily Restricted	2008 Totals	2007 Totals
<b>REVENUE:</b>				
Events	\$ 1,290,227	\$	\$ 1,290,227	\$ 1,350,130
Membership	517,846		517,846	477,436
USOC	430,605		430,605	354,482
Dan office	246,188		246,188	246,737
Sponsorship	165,526		165,526	165,570
Other revenue	74,496		74,496	75,908
Merchandise and royalties	62,397		62,397	68,655
Advertising	4,352		4,352	1,650
Contributions	2,790		2,790	3,350
Investment income (loss)	(10,576)		(10,576)	7,640
Satisfied program restrictions	60,602	(60,602)		
Total revenue	2,844,453	(60,602)	2,783,851	2,751,558
<b>EXPENSES:</b>				
Program services:				
Competitions and events	1,423,211		1,423,211	1,734,965
Athletes, coaching and referees	354,678		354,678	261,063
Dan programs	176,466		176,466	155,370
Membership	109,903		109,903	361,692
Total program services	2,064,258		2,064,258	2,513,090
Supporting services:				
National office	705,666		705,666	587,264
Board of directors	8,816		8,816	11,814
Total supporting services	714,482		714,482	599,078
Total expenses	2,778,740		2,778,740	3,112,168
CHANGE IN NET ASSETS	65,713	(60,602)	5,111	(360,610)
NET ASSETS, beginning of year	(468,994)	60,602	(408,392)	(47,782)
NET ASSETS, end of year	\$ (403,281)	\$	\$ (403,281)	\$ (408,392)

See Notes to Financial Statements

USA TAEKWONDO, INC.  
Statement of Cash Flows  
For the Year Ended December 31, 2008  
(With Comparative Amounts for 2007)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 5,111	\$ (360,610)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	30,029	28,371
Changes in assets and liabilities:		
Increase in accounts receivable	(38,717)	43,324
Decrease in prepaid expenses	1,246	88,436
Decrease in note receivable		6,908
Increase in due from USOC		18,035
Increase in accounts payable	25,355	139,899
Decrease in accrued liabilities	(1,009)	(46,235)
Increase in deferred revenue	<u>1,208</u>	<u>75,765</u>
Total adjustments	<u>18,112</u>	<u>354,503</u>
Net cash provided (used) by operating activities	23,223	(6,107)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in investments	32,250	32,360
Acquisition of furniture and equipment	(13,265)	(2,465)
Disposal of furniture and equipment		<u>3,221</u>
Net cash provided by investing activities	18,985	33,116
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in long-term debt		<u>(34,906)</u>
Net cash used by financing activities		<u>(34,906)</u>
NET INCREASE (DECREASE) IN CASH	42,208	(7,897)
CASH AND CASH EQUIVALENTS, beginning of year	<u>17,996</u>	<u>25,893</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 60,204</u>	<u>\$ 17,996</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.  
Notes to Financial Statements  
For the Year Ended December 31, 2008

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 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. The Corporation is not a private foundation.

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, 2008 and 2007 was \$30,029 and \$28,371, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of the Corporation's checking account. At various times during the year, the Corporation's bank balance exceeded the federally insured limits. In the unlikely event of a bank failure, the Corporation might only be able to recover the amounts insured.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

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.

## 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.

#### 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.

#### 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

The financial statements include certain prior-year summarized comparative information in total but not by net asset or functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended December 31, 2007, from which the summarized information was derived.



## Notes to Financial Statements

### B. LONG-TERM INVESTMENTS

Long-term investments consisting of units in a pooled portfolio managed by the United States Olympic Foundation (USOF) were liquidated during the year ended December 31, 2008.

Investment income for the years ended December 31, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 315	\$ 1,329
Realized gains	(10,891)	6,946
Unrealized gains (losses)	<u>                    </u>	<u>(635)</u>
Total investment income (loss)	<u>\$ (10,576)</u>	<u>\$ 7,640</u>

### C. 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, 2008 and 2007 consist of the following project categories:

	<u>2008</u>	<u>2007</u>
NGB funding	\$ 414,105	\$ 347,800
International relations	4,000	6,682
Contingency grant	<u>12,500</u>	<u>                    </u>
	<u>\$ 430,605</u>	<u>\$ 354,482</u>

In addition to the grant amounts above, the USOC made direct athlete support payments in the amount of \$100,000 and \$300,000 for the years ended December 31, 2008 and 2007, respectively.

At December 31, 2008 and 2007, no amounts were due from the USOC. Accounts payable at December 31, 2008 and 2007 includes \$50,615 and \$28,368, respectively, for amounts that the Corporation owed to the USOC.

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

The USOC also provides the Corporation with certain office facilities at no cost. No amount has been reflected in the financial statements as a cost or revenue for such facilities, other than the partial rent paid for office space at \$73 per month.

## Notes to Financial Statements

### C. RELATED PARTY TRANSACTIONS - Continued

The Corporation entered into a joint marketing agreement with the USOC in November, 2004. The term of the original agreement was January 1, 2005 through December 31, 2008.

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. Under the terms of the content license agreement the joint marketing agreement was terminated. The Corporation received signing bonuses of \$25,000 for each of the years ended December 31, 2008 and 2007 under the terms of this agreement. In addition to the signing bonuses, funding for the years ended December 31, 2008 and 2007 was \$72,000 each year. These amounts are 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, 2008 and 2007, 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.

### D. DEFERRED REVENUE

Deferred revenue at December 31, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
Athlete membership dues	\$ 50,499	\$ 45,715
Life memberships	33,782	25,417
2008 Junior Worlds	23,380	31,970
US Open	12,240	8,980
Team trials	6,996	
Coaching seminars	6,300	
Club dues	3,240	13,815
Non-competitor membership dues	1,839	1,815
State associations	1,400	1,000
Event registration	400	500
Other	344	
Vendor revenue	<u>                    </u>	<u>10,000</u>
	<u>\$ 140,420</u>	<u>\$ 139,212</u>

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

Notes to Financial Statements

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2007 consisted of funds donated for a National Training Center. The Corporation does not have any plans in the foreseeable future to build or purchase a training center building. Donors were contacted to obtain approval to use these funds for operations, therefore, the entire balance of the temporarily restricted net assets were released from restriction during the year ended December 31, 2008 and reported in the accompanying statement of activities as satisfied program restrictions.

F. OPERATING LEASE COMMITMENTS

The Corporation leases storage space under a month-to-month operating lease. Total rent expense related to this lease agreement was \$2,304 for each of the years ended December 31, 2008 and 2007.

The Corporation also leases a copier under operating leases that expires in February, 2010. The monthly payment for this lease is \$710, including taxes.

Future minimum rental payments for this lease for the years ending December 31 are as follows:

2009	\$	8,520
2010		1,420

G. DEFICIENCY IN NET ASSETS

As reflected in the accompanying statement of financial position, The Association has a deficiency of net assets at December 31, 2008 of \$403,281. In order to reduce this deficiency, The Corporation is taking the following actions:

- Implementing internal processes to follow up in a timely manner on all past due receivables in order to improve collections.
- Closely monitor the budget adopted by the Board of Directors in comparison to actual expenditures and take steps to prevent cost overruns.
- Exploring other sources of revenue including grants and donations.
- Reducing program and administration expenses and increasing revenues in order to start accumulating reserves.

USA TAEKWONDO, INC.  
Schedule of Program Services  
For the Year Ended December 31, 2008

	Competitions and Events	Athletes, Coaching and Referees	Dan Programs	Membership	Total
Salaries	\$ 87,659	\$ 79,731	\$ 30,427	\$ 31,758	\$ 229,575
Payroll taxes	10,136	7,473	2,984	3,844	24,437
Employee benefits	10,946	8,965	5,422	7,046	32,379
Pension expense	678	4,724	1,535	695	7,632
Insurance	84,125	24			84,149
Telephone	4,768	5,537		774	11,079
Equipment and space rental	45,852				45,852
Supplies	20,875	1,202	1,397	2,880	26,354
Rental and maintenance of equipment	802				802
Printing and publications	9,515	385	1,453	13,158	24,511
Postage and shipping	46,773	634	6,644	11,616	65,667
Travel, airfare, lodging, per diem	575,990	15,616			591,606
Ground transportation and parking	15,257	554			15,811
Professional fees	452				452
Catering and decorating	119,851				119,851
Gear and equipment	28,027				28,027
Online registration fees	49,603	2,808		25,000	77,411
Awards and grants	34,526	218,600		6,000	259,126
Dues, fees and subscriptions	2,599		122,623		125,222
Miscellaneous expense	4,773	345		7,132	12,250
Hospitality	212				212
Bank charges and credit card fees	121				121
Advertising	1,000				1,000
Contract services, honoraria and temporary help	268,671	8,080	3,981		280,732
	<u>\$ 1,423,211</u>	<u>\$ 354,678</u>	<u>\$ 176,466</u>	<u>\$ 109,903</u>	<u>\$ 2,064,258</u>

USA TAEKWONDO, INC.  
Schedule of Supporting Services  
For the Year Ended December 31, 2008

	National Office	Board of Directors	Total
Salaries	\$ 269,382	\$	\$ 269,382
Insurance	122,140		122,140
Bank charges and credit card fees	79,514		79,514
Employee benefits	43,243		43,243
Depreciation and amortization	30,029		30,029
Contract services, honoraria and temporary help	29,310		29,310
Payroll taxes	22,275		22,275
Printing and publications	21,913	21	21,934
Travel, airfare and lodging	12,111	7,350	19,461
Postage and shipping	15,422	1,022	16,444
Pension expense	12,096		12,096
Rental and maintenance of equipment	10,801		10,801
Supplies	9,912		9,912
Professional fees	9,390		9,390
Telephone, internet and IT	7,158	369	7,527
Awards and grants	5,334		5,334
Dues, fees and subscriptions	2,719		2,719
Interest expense	1,734		1,734
Ground transportation and parking	722	54	776
Miscellaneous expense	461		461
	\$ 705,666	\$ 8,816	\$ 714,482