

**USA TAEKWONDO, INC.**  
**Financial Statements**  
**For the Year Ended December 31, 2005**

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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, 2005 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, 2004 financial statements and, in our report dated February 18, 2005, 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, 2005, 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, 2005 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*

February 9, 2006

USA TAEKWONDO, INC.  
Statement of Financial Position  
December 31, 2005  
(With Comparative Amounts for 2004)

	<u>ASSETS</u>	
	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 99,719	\$ 410,313
Accounts receivable	54,564	72,886
Due from USOC		3,000
Prepaid expenses	<u>101,922</u>	<u>20,231</u>
Total current assets	256,205	506,430
<b>FURNITURE AND EQUIPMENT:</b>		
Athletic equipment	153,546	140,093
Office furniture and equipment	112,211	135,461
Transportation equipment	6,785	
Less accumulated depreciation	<u>(171,566)</u>	<u>(206,075)</u>
Furniture and equipment - net	100,976	69,479
<b>NOTES RECEIVABLE</b>	<u>6,908</u>	<u>6,908</u>
<b>TOTAL ASSETS</b>	<u>\$ 364,089</u>	<u>\$ 582,817</u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 82,470	\$ 145,207
Accrued liabilities	62,094	44,443
Deferred revenue	104,325	34,995
Current portion of long-term debt	<u>224,767</u>	<u>180,000</u>
Total current liabilities	473,656	404,645
<b>LONG-TERM DEBT</b>		<u>274,767</u>
Total liabilities	473,656	679,412
<b>NET ASSETS:</b>		
Unrestricted	(170,169)	(157,697)
Temporarily restricted	<u>60,602</u>	<u>61,102</u>
Total net assets	<u>(109,567)</u>	<u>(96,595)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 364,089</u>	<u>\$ 582,817</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.  
Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2005  
(With Comparative Totals for 2004)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2005 Totals</u>	<u>2004 Totals</u>
<b>REVENUE:</b>				
Events	\$ 1,271,713	\$	\$ 1,271,713	\$ 913,184
Membership	575,470		575,470	699,261
USOC	444,520		444,520	434,695
Dan office	247,355		247,355	330,031
Sponsorship	96,840		96,840	95,652
Merchandise and royalties	87,818		87,818	9,649
Other programs	23,769		23,769	28,469
Contributions	184		184	2,228
Advertising	175		175	400
Investment income	161		161	8,517
Grant				25,000
Satisfied program restrictions	<u>500</u>	<u>(500)</u>	<u></u>	<u></u>
Total revenue	2,748,505	(500)	2,748,005	2,547,086
<b>EXPENSES:</b>				
Program services:				
Competitions and events	1,392,831		1,392,831	1,010,074
Membership	333,942		333,942	268,131
Athletes, coaching and referees	289,649		289,649	259,901
Dan programs	<u>166,144</u>	<u></u>	<u>166,144</u>	<u>203,999</u>
Total program services	2,182,566		2,182,566	1,742,105
Supporting services:				
National office	561,569		561,569	527,743
Board of directors	<u>16,842</u>	<u></u>	<u>16,842</u>	<u>33,379</u>
Total supporting services	<u>578,411</u>	<u></u>	<u>578,411</u>	<u>561,122</u>
Total expenses	<u>2,760,977</u>	<u></u>	<u>2,760,977</u>	<u>2,303,227</u>
CHANGE IN NET ASSETS	(12,472)	(500)	(12,972)	243,859
NET ASSETS, beginning of year	<u>(157,697)</u>	<u>61,102</u>	<u>(96,595)</u>	<u>(340,454)</u>
NET ASSETS, end of year	<u>\$ (170,169)</u>	<u>\$ 60,602</u>	<u>\$ (109,567)</u>	<u>\$ (96,595)</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.  
Statement of Cash Flows  
For the Year Ended December 31, 2005  
(With Comparative Amounts for 2004)

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (12,972)	\$ 243,859
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	29,957	24,385
Changes in assets and liabilities:		
Decrease in accounts receivable	18,322	(20,931)
Decrease in due from USOC	3,000	45,982
Decrease in prepaid expenses	(81,691)	20,353
Decrease in accounts payable	(62,737)	(554,233)
Increase in accrued liabilities	17,651	2,440
Increase in deferred revenue	<u>69,330</u>	<u>(163,197)</u>
Total adjustments	<u>(6,168)</u>	<u>(645,201)</u>
Net cash used by operating activities	(19,140)	(401,342)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in investments		410,769
Disposal of furniture and equipment		15,700
Acquisition of furniture and equipment	<u>(61,454)</u>	<u>(11,553)</u>
Net cash provided (used) by investing activities	(61,454)	414,916
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in notes receivable		67
Decrease in notes payable		(164,631)
Decrease in long-term debt	<u>(230,000)</u>	<u>454,767</u>
Net cash provided (used) by financing activities	<u>(230,000)</u>	<u>290,203</u>
NET INCREASE (DECREASE) IN CASH	(310,594)	303,777
CASH AND CASH EQUIVALENTS, beginning of year	<u>410,313</u>	<u>106,536</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 99,719</u>	<u>\$ 410,313</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.  
Notes to Financial Statements  
For the Year Ended December 31, 2005

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. During the year ended December 31, 2004, the Corporation changed its state of incorporation from Ohio to Colorado and effective January 1, 2005, all of the net assets of United States Taekwondo Union were merged into USA Taekwondo, Inc.

Supplemental Cash Flow Disclosures

Cash flows from operating activities reflect interest paid of \$126 and \$6,960 for the years ended December 31, 2005 and 2004, respectively.

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, 2005 and 2004 was \$29,957 and \$24,385, 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

No allowance for doubtful accounts is considered necessary.

## 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.

#### 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, 2004, from which the summarized information was derived.



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, 2005 and 2004 consist of the following project categories:

	<u>2005</u>	<u>2004</u>
Base funding	\$ 250,000	\$ 250,000
Base funding rollover		139,695
Performance pool	188,500	43,000
Coaching grants	6,020	
International relations	<u>                    </u>	<u>2,000</u>
	<u>\$ 444,520</u>	<u>\$ 434,695</u>

At December 31, 2005 and 2004, receivables from the USOC amounted to \$0 and \$3,000, respectively. Accounts payable at December 31, 2005 and 2004 includes \$25,271 and \$53,075, respectively, for amounts that the Corporation owed to the USOC. As discussed in Note D, the Corporation also has a note payable to the USOC.

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

In 2004, the Corporation was required to repay \$116,749 to the USOC for base and performance pool grants received in 2002, for which adequate supporting documentation was not available.

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.

In addition, the Corporation entered into a joint marketing agreement with the USOC in 2001 and renewed the agreement in 2005. The term of the former agreement was January 1, 2001 through December 31, 2004, and the term of the latter agreement is January 1, 2005 through December 31, 2008. The Corporation received \$72,000 and \$60,000, respectively, for the years ended December 31, 2005 and 2004. These amounts are included in sponsorship revenue in the statement of activities.

Notes to Financial Statements

C. PREPAID EXPENSES

The Corporation has a three-year contract to develop membership and online registration software. The full price of the contract is being recognized over the contract period.

D. DEFERRED REVENUE

Deferred revenue at December 31, 2005 and 2004 consists of the following:

	<u>2005</u>	<u>2004</u>
USOC joint marketing	\$ 36,000	\$
Yong Kim cup	24,300	24,300
Athlete membership dues	30,100	6,335
Event registration	4,945	
Club dues	4,000	2,940
Vendors	3,600	
Non-competitor membership dues	<u>1,380</u>	<u>1,420</u>
	<u>\$ 104,325</u>	<u>\$ 34,995</u>

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

E. LONG-TERM DEBT

The Corporation has a note payable to the USOC in the amount of \$224,767 and \$454,767 at December 31, 2005 and 2004, respectively. During 2004, the USOC had loaned \$350,000 in cash and \$104,867 in United VIK to the Corporation. During the year ended December 31, 2005, the Corporation made principal payments of \$230,000. Subsequent to December 31, 2005, the USOC agreed to forgive \$120,000 of the note with the stipulation that the funds be used to hire two national coaches.

F. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31, 2005:

Building Fund -	
National Training Center	<u>\$ 60,602</u>

During the year ended December 31, 2005, a donor requested a refund of his donation, resulting in a \$500 reduction in the temporarily restricted net assets.

Notes to Financial Statements

G. OPERATING LEASE COMMITMENTS

The Corporation leases storage space under a month-to-month operating lease. Total rent expense related to this lease agreement was \$3,413 and \$3,202, respectively, for the years ended December 31, 2005 and 2004.

The Corporation also leases a copier and water cooler under operating leases that expires in April and October 2007. The monthly payments for these leases are \$729, including taxes.

Future minimum rental payments for these leases for the years ending December 31 are as follows:

2006	9,423
2007	3,591

H. CONTINGENCIES

The Corporation has been named as a defendant in a lawsuit pertaining to the selection process for the 2004 Olympic coach position. This lawsuit is expected to go to trial during 2006. The outcome of the lawsuit cannot be predicted and therefore no amount has been accrued in these financial statements. The United States Olympic Committee has also been named as a defendant in this lawsuit and is handling the defense of this case.

USA TAEKWONDO, INC.  
Schedule of Program Services  
For the Year Ended December 31, 2005

	Competition & Events	Membership	Athletes, Coaching, Referees	Dan Programs	Total
Advertising	\$ 6,959	\$ 27,443	\$	\$	\$ 34,402
Airfare, lodging & per diem	415,754	1,225	3,888		420,867
Athlete medical	9,109				9,109
Bank charges and credit card fees	1,641	14,376	63	693	16,773
Bid fees	10,000				10,000
Business meals and entertainment	37,308	94	443		37,845
Catering and decorating	145,440				145,440
Contract services, honoraria & temporary help	158,035		4,290		162,325
Depreciation and amortization	19,207				19,207
Dues, fees & subscriptions	3,319			125,845	129,164
Equipment and space rental	242,854				242,854
Gifts, medals and awards	40,709		57		40,766
Grants and support	13,500		201,111		214,611
Ground transportation, car rentals & parking	18,886	7	20		18,913
Insurance	6,864	115,386			122,250
Maintenance and repairs	221				221
Other expenses	1,411	3			1,414
Payroll taxes and employee benefits	26,801	8,800	7,668	7,757	51,026
Photo, video, and artwork	950				950
Printing, duplication & postage	67,899	37,503	4,121	2,741	112,264
Professional fees	19,904	55,057	19,904		94,865
Refunds	70				70
Salaries and wages	120,190	48,082	45,627	28,748	242,647
Security	7,095				7,095
Staff development and training	500				500
Supplies	11,850			360	12,210
Telephone, internet & USOC IT	6,355	25,966	2,457		34,778
	<u>\$ 1,392,831</u>	<u>\$ 333,942</u>	<u>\$ 289,649</u>	<u>\$ 166,144</u>	<u>\$ 2,182,566</u>

USA TAEKWONDO, INC.  
Schedule of Supporting Services  
For the Year Ended December 31, 2005

	National Office	Board of Directors	Total
Advertising	\$ 33	\$ 602	\$ 635
Airfare, lodging & per diem	4,851	7,123	11,974
Bank charges and credit card fees	16,731		16,731
Business meals and entertainment	1,435	1,012	2,447
Contract services, honoraria & temporary help	550		550
Depreciation and amortization	10,750		10,750
Dues, fees & subscriptions	957		957
Equipment and space rental	16,733	2,924	19,657
Gifts, medals and awards	299		299
Ground transportation, car rentals & parking	1,824	667	2,491
Insurance	27,843		27,843
Interest expense	126		126
Maintenance and repairs	577		577
Other expenses	2,343		2,343
Payroll taxes and employee benefits	47,584		47,584
Photo, video and artwork	457		457
Printing, duplication & postage	18,055	912	18,967
Professional fees	202,394		202,394
Refunds	500		500
Salaries and wages	172,819		172,819
Security	25		25
Staff development and training	327		327
Supplies	13,408		13,408
Telephone, internet & USOC IT	20,948	3,602	24,550
	<u>\$ 561,569</u>	<u>\$ 16,842</u>	<u>\$ 578,411</u>