

**U.S.A. NATIONAL KARATE-DO  
FEDERATION, INC.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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# Monson & Bass

INC., P.S.

CERTIFIED PUBLIC ACCOUNTANTS

3500 188th S.W., Suite 234, Lynnwood, WA 98037-4716

425/778-5232, Fax: 425/771-5632

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
U.S.A. National Karate-Do Federation, Inc.  
Seattle, Washington

We were engaged to audit the accompanying statement of financial position - modified cash basis, of U.S.A. National Karate-Do Federation, Inc. (a Washington corporation) as of December 31, 2006, and the related statements of activities, functional expenses and cash flows - modified cash basis, for the year then ended. These financial statements are the responsibility of the Organization's management.

Because of inadequacies in the Organization's accounting records, we were unable to satisfy ourselves about the amount of membership and tournament fees totaling \$479,185 and tournament costs of \$69,248.

Since the Organization was not able to provide corroborating evidence in support of the accompanying financial statements and we were not able to apply other auditing procedures to satisfy ourselves as to whether the financial statements are presented in accordance with a modified cash basis of accounting, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

  
Monson & Bass Inc., P.S.

November 9, 2007

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC**  
**STATEMENT OF FINANCIAL POSITION-MODIFIED CASH BASIS**  
**DECEMBER 31, 2006**

**ASSETS**

|  |                       |                                 |
|--|-----------------------|---------------------------------|
| <b>Cash</b>                            |                       | <b>\$ 72,854</b>                |
| <b>Inventory</b>                       |                       | <b>3,008</b>                    |
| <b>Furniture and equipment:</b>        |                       |                                 |
| <b>Office equipment</b>                | <b>\$ 67,836</b>      |                                 |
| <b>Office furniture &amp; fixtures</b> | <b>7,721</b>          |                                 |
| <b>Athletic equipment</b>              | <b>75,435</b>         |                                 |
|  | <u><b>150,992</b></u> |                                 |
| <b>Less accumulated depreciation</b>   | <b>(110,940)</b>      | <u><b>40,052</b></u>            |
| <b>Total assets</b>                    |                       | <u><u><b>\$ 115,914</b></u></u> |

**LIABILITIES AND NET ASSETS**

|   |  |                                 |
|---|--|---------------------------------|
| <b>NET ASSETS</b>                       |  |                                 |
| <b>Unrestricted</b>                     |  | <u><b>115,914</b></u>           |
| <b>Total net assets</b>                 |  | <u><u><b>115,914</b></u></u>    |
| <br>                                    |  |                                 |
| <b>Total liabilities and net assets</b> |  | <u><u><b>\$ 115,914</b></u></u> |

See accompanying notes to financial statements.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC  
STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

|   |                   |
|---|-------------------|
| <b>SUPPORT AND REVENUE</b>                        |                   |
| <b>Public Support:</b>                            |                   |
| Contributions                                     | \$ 22,513         |
| Total public support                              | <u>22,513</u>     |
| <b>Revenue</b>                                    |                   |
| Membership fees                                   | 156,161           |
| Tournament fees                                   | 330,835           |
| Gross profit on merchandise sales of \$54,978     | 15,262            |
| Total revenue                                     | <u>502,258</u>    |
| <b>TOTAL SUPPORT AND REVENUE</b>                  | <u>524,771</u>    |
| <b>EXPENSES</b>                                   |                   |
| Program services                                  | 417,623           |
| Management and general                            | 90,734            |
| <b>TOTAL EXPENSES</b>                             | <u>508,357</u>    |
| <b>CHANGE IN UNRESTRICTED NET ASSETS</b>          | 16,414            |
| <b>UNRESTRICTED NET ASSETS, beginning of year</b> | <u>99,500</u>     |
| <b>UNRESTRICTED NET ASSETS, end of year</b>       | <u>\$ 115,914</u> |

See accompanying notes to financial statements.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC**  
**STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS**  
**FOR THE YEAR DECEMBER 31, 2006**

|                          | <u>Total</u>      | <u>Program<br/>Services</u> | <u>Supporting Services</u>        |                     |
|--------------------------|-------------------|-----------------------------|-----------------------------------|---------------------|
|                          |                   |                             | <u>Management<br/>and General</u> | <u>Fund Raising</u> |
| Accounting fees          | \$ 3,945          | -                           | \$ 3,945                          | \$ -                |
| Bad checks               | 4,100             | 4,100                       | -                                 | -                   |
| Bank charges             | 13,621            | 13,621                      | -                                 | -                   |
| Contributions and awards | 75,703            | 75,703                      | -                                 | -                   |
| Depreciation expense     | 15,639            | 15,639                      | -                                 | -                   |
| Dues and membership      | 2,270             | 2,270                       | -                                 | -                   |
| Insurance                | 108,440           | 108,440                     | -                                 | -                   |
| Interest expense         | 947               | -                           | 947                               | -                   |
| Legal services           | 64,340            | 32,170                      | 32,170                            | -                   |
| Marketing and promotion  | 1,898             | 1,898                       | -                                 | -                   |
| Miscellaneous expense    | 440               | 440                         | -                                 | -                   |
| Office supplies          | 37,062            | 37,062                      | -                                 | -                   |
| Postage                  | 19,003            | 9,502                       | 9,501                             | -                   |
| Rent and storage         | 51,597            | 25,799                      | 25,798                            | -                   |
| Taxes and licenses       | 5,357             | 4,357                       | 1,000                             | -                   |
| Telephone                | 9,547             | 4,774                       | 4,773                             | -                   |
| Tournament costs         | 69,248            | 69,248                      | -                                 | -                   |
| Wages - support staff    | 25,200            | 12,600                      | 12,600                            | -                   |
|                          | <u>\$ 508,357</u> | <u>\$ 417,623</u>           | <u>\$ 90,734</u>                  | <u>\$ -</u>         |

See accompanying notes to financial statements.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

|   |           |
|---|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |           |
| Change in net assets  | \$ 16,414 |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: |           |
| Depreciation  | 15,639    |
| Changes in operating assets and liabilities   |           |
| Decrease in inventory   | 14,195    |
| Decrease in accounts payable  | (2,984)   |
| Net cash provided by operating activities   | 43,264    |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |           |
| Purchase of furniture and equipment   | (2,233)   |
| Net cash used in investing activities   | (2,233)   |
| Net increase in cash  | 41,031    |
| CASH, beginning of year   | 31,823    |
| CASH, end of year   | \$ 72,854 |

See accompanying notes to financial statements.

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.  
NOTES TO FINANCIAL STATEMENTS

**NOTE 1 – NATURE OF ORGANIZATION**

The U.S.A. National Karate-Do Federation, Inc. (the Organization) was formed June 29, 1994 to promote and encourage the sport of karate. The Organization coordinates recreational and competitive amateur karate activities in the United States and other countries. During 1996, the Organization became the national governing body of the sport and is a member of the U.S.A. National Olympic Committee.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting** - The Organization uses the modified cash basis of accounting to prepare its financial statements. Under this method of accounting, certain revenue and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred.

**Financial Statement Presentation** – The Organization presents its financial statements using Statement of Financial Accounting Standards (SFAS) No. 117 “Financial Statements of Not-for-Profit Organizations.” Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There are no temporarily or permanently restricted net assets.

**Advertising** – The Organization expenses advertising costs as incurred. Marketing and promotion expense was \$1,898 for the year ending December 31, 2006.

**Inventory** – Inventory is comprised of resale merchandise and is stated at the lower of cost (determined by the first-in, first-out method) or market.

**Furniture and Equipment** – Furniture and equipment purchased by the Organization are recorded at cost. The Organization follows the practice of capitalizing all donated fixed assets at fair market value. Depreciation is provided on the straight-line method based on the estimated useful lives of three to ten years.

**Contributed Services** – Contributions of services that require specialized skills, provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation would normally be recorded at their fair value, based on management’s estimates, in the period received. However, volunteer services have not been reported in the financial statements because they did not meet the documentation criteria for recognition under SFAS No. 116, “Accounting for Contributions Received and Contributions Made”.

**Federal Income Tax** – The Organization is exempt from Federal income taxation under Internal Revenue Code Section 501(c)(3), except for unrelated business income tax. The Organization had no unrelated business income for the year ended December 31, 2006, and therefore was not subject to federal income tax.

**Use of Estimates** – Management uses estimates and assumptions in preparing financial statements in accordance with the modified cash basis of accounting. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.



**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – RELATED PARTY TRANSACTIONS**

The Organization received donated secretarial services from a corporation owned by the former president of the Federation. The president has donated significant time to the Organization, however the Organization has not recognized revenue and expenses from contributed services of the Executive Director.

**NOTE 4 – OPERATING LEASE COMMITMENT**

On October 24, 2005, the Organization entered into a 36-month operating lease for office space. The lease expires on October 31, 2008.

Minimum annual rent payments are as follows:

| <u>Year</u> | <u>Amount</u>    |
|-------------|------------------|
| 2007        | 33,700           |
| 2008        | 31,000           |
|             | <u>\$ 64,700</u> |

Rental payments for 2006 were \$51,597 and included both storage expense paid on a month to month basis and office space including parking.

**NOTE 5 – CONTINGENCIES**

As of October 11, 2007, there is one lawsuit pending, Ronald Smith vs. USA-NKF. Mr. Smith is seeking dissolution of the organization and has made specific allegations against the former Executive Director. The Organization has filed counterclaims against Mr. Smith.

The outcome of the aforementioned claims and counterclaims is uncertain and cannot be reasonably estimated. The organization is counsel will likely waive legal fees beyond those recoverable by Mr. Smith and his attorneys.