

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

FINANCIAL STATEMENTS

DECEMBER 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Phil Hampel, CEO
U.S.A. National Karate-Do Federation, Inc.
Colorado Springs, CO 80906

We have audited the accompanying financial statements of the U.S.A. National Karate-Do Federation, Inc. which comprise the statements of financial position as of December 31, 2019, and 2018 and the related statements of activities, functional expenses and cash flows for the year 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.

Auditor's 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.

To the Board of Directors and Phil Hampel, CEO
U.S.A. National Karate-Do Federation, Inc.
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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 U.S.A. National Karate-Do Federation, Inc. as of December 31, 2019, and 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Rohn CPA Group, PC

Certified Public Accountants
Colorado Springs, CO

November 9, 2020

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,031,731	\$ 893,079
Accounts receivable	25,782	5,706
Prepaid expenses	<u>35,527</u>	<u>950</u>
	<u>1,093,040</u>	<u>899,735</u>
FIXED ASSETS		
Office equipment	119,633	119,633
Office furniture & fixtures	7,721	7,721
Athletic equipment	<u>105,397</u>	<u>105,397</u>
	232,751	232,751
Less: Accumulated depreciation	(223,450)	(219,925)
	<u>9,301</u>	<u>12,826</u>
	\$ <u>1,102,341</u>	\$ <u>912,561</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 19,233	\$ -0-
Deferred revenue	21,465	-0-
Wages payable	-0-	5,832
Payroll taxes payable	3,462	5,077
Credit card payable	<u>13,384</u>	<u>3,663</u>
	<u>57,544</u>	<u>14,572</u>
NET ASSETS		
Unrestricted	<u>1,044,797</u>	<u>897,989</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,102,341</u>	\$ <u>912,561</u>

See accompanying notes to financial statements.

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
SUPPORT AND REVENUE		
Tournament fees	\$ 1,101,438	\$ 927,079
Membership fees	194,075	171,000
Commissions on merchandise sales	93,780	52,411
Contributions	26,637	19,741
USOC Support and other related organizations	178,476	180,952
Interest income	<u>698</u>	<u>401</u>
TOTAL SUPPORT AND REVENUE	<u>1,595,104</u>	<u>1,351,584</u>
EXPENSES		
Program services	1,343,602	1,203,558
Management and general	<u>104,694</u>	<u>83,148</u>
TOTAL EXPENSES	<u>1,448,296</u>	<u>1,286,706</u>
CHANGE IN UNRESTRICTED NET ASSETS	146,808	64,878
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>897,989</u>	<u>833,111</u>
UNRESTRICTED NET ASSETS, END OF YEAR	\$ <u><u>1,044,797</u></u>	\$ <u><u>897,989</u></u>

See accompanying notes to financial statements.

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from participants	\$ 1,275,437	\$ 1,101,326
Cash received from sponsors and donations	205,113	200,693
Cash received from sale of merchandise	93,780	52,411
Interest received	698	401
Cash paid to employees	(218,754)	(179,193)
Cash paid for operating expenses	(<u>1,217,622</u>)	(<u>1,107,726</u>)
Net cash provided (used) by operating activities	<u>138,652</u>	<u>67,912</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of office equipment	<u>-0-</u>	(<u>4,080</u>)
Net cash provided (used) by investing activities	<u>-0-</u>	(<u>4,080</u>)
NET INCREASE (DECREASE) IN CASH	<u>138,652</u>	<u>63,832</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>893,079</u>	<u>829,247</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u><u>1,031,731</u></u>	\$ <u><u>893,079</u></u>

See accompanying notes to financial statements.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018**

NOTE 1 NATURE OF ORGANIZATION

The U.S.A. National Karate-Do Federation, Inc. (the Federation) was formed June 29, 1994 to promote and encourage the sport of karate. The Federation coordinates recreational and competitive amateur karate activities in the United States and other countries. During 1996, the Federation 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

Financial Statement Presentation - The Federation 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 Federation 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 as of December 31, 2019.

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Federation.

Advertising - The Federation expenses advertising costs as incurred. Marketing and promotion expense at December 31, 2019 and 2018 was \$52,898 and \$26,162, respectively.

Furniture and Equipment - Furniture and equipment purchased by the Federation are recorded at cost. The Federation 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.

Contributions - Contributions are recorded when received as with donor restrictions or without donor restrictions, depending on the existence or nature of any donor restrictions. When donor restrictions are met, donor restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as satisfied program restrictions. Donations of property and equipment are recorded at their fair value, based on management's estimates.

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand and short-term investments with maturities of three months or less.

Accounts Receivable - Accounts receivable is stated at the amount the Federation expects to collect from balances outstanding at year end. Based on management's assessment of the outstanding balances, it has determined an allowance for doubtful accounts for the years ended December 31, 2019 and 2018, is not necessary.

Federal Income Tax - The Federation is exempt from Federal income taxation under Internal Revenue Code Section 501(c)(3), except for unrelated business income tax. The Federation had no unrelated business income for the years ended December 31, 2019 and 2018, and therefore was not subject to federal income tax.

Property, Furniture and Equipment - Property, furniture and equipment purchased by the Federation are recorded at cost. The Federation follows the practice of capitalizing all donated fixed assets at fair market value. The Federation capitalizes assets expected to last more than one year. Depreciation is provided on the Modified Accelerated Cost Recovery System (MACRS) method based on the following estimated useful lives:

	<u>Years</u>
Office furniture and equipment	5-7
Athletic equipment	5-7

Deprecation expense for the years ended December 31, 2019 and 2018, was \$3,525 and \$8,618, respectively.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates - Management uses estimates and assumptions in preparing its financial statements. 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.

NOTE 3 CONTINGENCIES

As of December 31, 2019, there were no lawsuits pending against the Federation.

NOTE 4 ECONOMIC DEPENDENCY

The Federation is economically dependent on the worldwide interest and participation in the art of Karate as well as sponsor of the US Olympic Committee to sustain its operations at current levels.

NOTE 5 DEFERRED REVENUE

Deferred revenue at December 31, 2019 and 2018, in the amount of \$21,465 and \$0, respectively, consisted of advance sponsor and payments and tournament fees.

NOTE 6 LIQUIDITY OF ASSETS AND LIABILITIES

Assets and liabilities are classified as either current or long-term depending on the timeframe of their liquidity. Current assets are readily available and highly liquid. Long-term assets are expected to be held for at least one year. Current liabilities are expected to be met within one year. Long-term liabilities are expected to be met in one year or more.

The Federation does not have any temporary or permeant donor restrictions, and thus does not need to reserve any resources for specific restrictions.

Cash and cash equivalents consist of cash held in FDIC insured bank and savings accounts.

The Federation repairs and maintains all long-term assets to ensure each last for a typical useful life.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018**

NOTE 7 CONCENTRATIONS OF CREDIT RISK

The Federation may be subject to credit risk of its cash, which is placed with high credit-quality financial institutions. The Federal Deposit Insurance Corporation ("FDIC") covers up to \$250,000 for substantially all depository accounts. From time to time, the Federation may have amounts on deposit in excess of FDIC limits. Management believes the Federation is not exposed to any significant credit risk on cash.

NOTE 8 BOARD DESIGNATED NET ASSETS

At December 31, 2019, the Board of Directors has not designated any portion of the Federation's unrestricted net assets for any purpose.

NOTE 9 EVALUATION OF SUBSEQUENT EVENTS

The Federation has evaluated subsequent events through November 9, 2020, the date which the financial statements were available to be issued.

NOTE 10 FUNCTIONAL EXPENSES

The costs of the Federation's programs and activities have been reported on a functional basis in the Statement of Functional Expenses. Expenses are charged to each program based on direct expenses incurred. Any program expenses not directly chargeable to a program are allocated based on indirect cost allocations.

SUPPLEMENTARY INFORMATION

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Total</u>	<u>Program Services</u>	<u>Supporting Services</u>	
			<u>Mgmt and General</u>	<u>Fund Raising</u>
Tournament costs	\$ 897,901	\$ 897,901	\$ -0-	\$ -0-
Salaries and wages	218,754	164,065	54,689	-0-
Insurance	83,465	81,796	1,669	-0-
Advertising	52,898	52,898	-0-	-0-
Bank and credit card charges	28,983	28,983	-0-	-0-
Rent	27,567	13,783	13,784	-0-
Contract services	22,000	22,000	-0-	-0-
Payroll taxes	17,781	13,336	4,445	-0-
Legal	16,464	12,348	4,116	-0-
Board expenses	15,116	7,558	7,558	-0-
Dues and membership	11,973	11,973	-0-	-0-
Accounting fees	11,405	5,702	5,703	-0-
Office supplies	9,846	4,923	4,923	-0-
Travel and lodging	8,397	8,397	-0-	-0-
Miscellaneous expense	8,357	4,179	4,178	-0-
Supplies	6,532	3,266	3,266	-0-
Computer systems support	3,714	3,714	-0-	-0-
Telephone	3,618	3,256	362	-0-
Depreciation expense	3,525	3,525	-0-	-0-
	<u>\$ 1,448,296</u>	<u>\$ 1,343,603</u>	<u>\$ 104,693</u>	<u>\$ -0-</u>

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Total</u>	<u>Program Services</u>	<u>Supporting Services</u>	
			<u>Mgmt and General</u>	<u>Fund Raising</u>
Tournament costs	\$ 846,428	\$ 846,428	\$ -0-	\$ -0-
Salaries and wages	179,193	134,395	44,798	-0-
Insurance	78,820	77,244	1,576	-0-
Advertising	26,162	26,162	-0-	-0-
Bank and credit card charges	26,379	26,379	-0-	-0-
Rent	25,993	12,996	12,997	-0-
Contract services	17,000	17,000	-0-	-0-
Payroll taxes	14,734	11,050	3,684	-0-
Legal	11,510	8,632	2,878	-0-
Board expenses	9,353	4,676	4,677	-0-
Dues and membership	9,929	9,929	-0-	-0-
Accounting fees	13,398	6,698	6,700	-0-
Office supplies	6,327	3,163	3,164	-0-
Travel and lodging	5,103	5,103	-0-	-0-
Miscellaneous expense	2,530	1,265	1,265	-0-
Supplies	2,247	1,123	1,124	-0-
Computer systems support	132	132	-0-	-0-
Telephone	2,850	2,565	285	-0-
Depreciation expense	8,618	8,618	-0-	-0-
	<u>\$ 1,286,706</u>	<u>\$ 1,203,558</u>	<u>\$ 83,148</u>	<u>\$ -0-</u>