

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

FINANCIAL STATEMENTS

DECEMBER 31, 2008

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HALL, ROHN & ASSOCIATES, LLC

RICHARD F. HALL, CPA
MARK W. ROHN, CPA

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of assets, liabilities and net assets - modified cash basis of U.S.A. National Karate-Do Federation, Inc. (a nonprofit organization) as of December 31, 2008, and the related statements of revenues, expenses and other changes in net assets, functional expenses, and cash flows - modified cash basis for the year then ended. These financial statements are the responsibility of the Organization's management. 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 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.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of U.S.A. National Karate-Do Federation, Inc. as of December 31, 2008, and the changes in its net assets and its revenues, expenses and other changes in net assets and its cash flows for the year then ended on the basis of accounting described in Note 2.

Hall, Rohn and Associates

Hall, Rohn & Associates, LLC

June 5, 2009

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS –
MODIFIED CASH BASIS
December 31, 2008

ASSETS

CURRENT ASSETS

Cash	\$ 22,058
Donations Receivable	8,300
Reimbursements Receivable	<u>4,394</u>
	<u>34,752</u>

FIXED ASSETS

Office equipment	\$ 66,693
Office furniture & fixtures	7,721
Athletic equipment	<u>75,435</u>
	149,849
Less: accumulated depreciation	<u>(123,601)</u>
	<u>26,248</u>

TOTAL ASSETS

\$ 61,000

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 17,666
Credit card payable	<u>39,375</u>
	<u>57,041</u>

NET ASSETS

Unrestricted	<u>3,959</u>
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\$ 61,000

See accompanying notes to financial statements.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
 STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN NET ASSETS –
 MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2008**

SUPPORT AND REVENUE	
Contributions - cash	\$ 43,448
Contributions - services	17,681
Fundraising Income	38,690
USOC Support	68,500
Tournament fees	381,269
Membership fees	93,868
Gross profit on merchandise sales of \$19,281	7,801
Rental income	5,500
Miscellaneous	<u>7,260</u>
TOTAL SUPPORT AND REVENUE	<u>664,017</u>
EXPENSES	
Program services	572,076
Management and general	84,356
Fundraising	<u>17,094</u>
TOTAL EXPENSES	<u>673,526</u>
OTHER	
Loss on abandonment of equipment	<u>5,164</u>
CHANGE IN UNRESTRICTED NET ASSETS	(14,673)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>18,632</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 3,959</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 ENDED DECEMBER 31, 2008

		<u>Supporting Services</u>		
	<u>Total</u>	<u>Program Services</u>	<u>Mgmt and General</u>	<u>Fund Raising</u>
Accounting fees	\$ 12,336	\$ 6,168	\$ 6,168	\$ -
Bank and credit card charges	12,883	12,883	-	-
Depreciation expense	10,446	10,446	-	-
Dues and membership	4,182	3,136	1,046	-
Fundraising Expense	17,094	-	-	17,094
Insurance	73,989	72,420	1,569	-
Supplies	10,206	5,103	5,103	-
Legal services	10,671	5,335	5,336	-
Marketing and promotion	5,650	2,825	2,825	-
Miscellaneous expense	10	5	5	-
Office supplies	2,286	1,143	1,143	-
Postage	3,233	1,616	1,617	-
Printing & Publications	3,470	1,735	1,735	-
Rent and storage	42,793	21,396	21,397	-
Strategic Planning Expense	13,128	6,564	6,564	-
Travel and lodging	129,515	129,515	-	-
Telephone	3,084	1,542	1,542	-
Tournament costs	224,195	224,195	-	-
Contract services	94,355	66,049	28,306	-
	<u>\$673,526</u>	<u>\$572,076</u>	<u>\$ 84,356</u>	<u>\$ 17,094</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, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$(14,673)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities	
Depreciation	10,448
Loss on Copier Turn-In	5,164
Changes in operating assets and liabilities	
Increase in accounts receivable	(12,694)
Increase (Decrease) in accounts payable	(21,365)
Increase in credit card payable	<u>33,353</u>
Net cash provided by operating activities	<u>233</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of furniture and equipment	
Net cash used in investing activities	<u>(299)</u>
Net decrease in cash	(66)

CASH, BEGINNING OF YEAR 22,124

CASH, END OF YEAR \$ 22,058

See accompanying notes to financial statements.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

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 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 \$5,650 for the year ending December 31, 2008.

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.

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

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. 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, 2008, and therefore was not subject to federal income tax.

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 OPERATING LEASE COMMITMENT

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

Rental payments for 2008 were \$31,708 and included both storage expense paid on a month to month basis and office space including parking.

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 4 CONTINGENCIES

As of December 31, 2008, there were no lawsuits pending against the Federation.

During 2008 the Federation returned a copier in satisfaction of the remaining equipment lease. At this time, the lessor is not pursuing any damages in relation to the remaining lease term.