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

We have audited the accompanying statement of financial position of U.S.A. National Karate-Do Federation, Inc. (a nonprofit organization) as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows 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.

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, 2009, 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.

Hall, Rohn & Associates, LLC

May 18, 2010
U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2009

ASSETS

CURRENT ASSETS
Cash $ 4,659
Unconditional promises to give 25,000
Prepaid expenses 8,961

FIXED ASSETS
Office equipment 68,658
Office furniture & fixtures 7,721
Athletic equipment 75,435

Less: accumulated depreciation (135,656)

TOTAL ASSETS $ 54,778

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES
Accounts payable $ 35,785
Credit card payable 36,533
Payroll taxes payable 3,084
Deferred revenue 5,000

NET ASSETS
Unrestricted (25,624)

$ 54,778

See accompanying notes to financial statements.

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U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

SUPPORT AND REVENUE
Tournament fees $ 500,250
Membership fees  113,103
USOC Support  44,000
Commissions on merchandise sales  34,907
Miscellaneous  11,950
Contributions - services  6,575
Gross profit on merchandise sales of $6,264  4,679
Contributions - cash  1,326

TOTAL SUPPORT AND REVENUE  716,790

EXPENSES
Program services  677,121
Management and general  69,252
Fundraising  -0-

TOTAL EXPENSES  746,373

CHANGE IN UNRESTRICTED NET ASSETS  ( 29,583)

UNRESTRICTED NET ASSETS, BEGINNING OF YEAR  3,959

UNRESTRICTED NET ASSETS, END OF YEAR $( 25,624)

See accompanying notes to financial statements.
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<table>
<thead>
<tr>
<th></th>
<th>Supporting Services</th>
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<tr>
<td></td>
<td>Program Services</td>
<td>Mgmt and General</td>
<td>Fund Raising</td>
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<tr>
<td>Total</td>
<td>$11,355</td>
<td>$5,677</td>
<td>$5,678</td>
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<td>Accounting fees</td>
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<td>Information technology</td>
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<td>Rent and storage</td>
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<td>Supplies</td>
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<td>Tournament costs</td>
<td>$465,084</td>
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</table>

|                              | $746,373            | $677,121 | $69,252 | $-0- |
U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES
Change in net assets $(29,583)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities
Depreciation 12,059
Changes in operating assets and liabilities
Increase in accounts receivable (12,308)
Increase in prepaid expenses (8,961)
Increase in accounts payable 18,119
Decrease in credit card payable (2,844)
Increase in other current liabilities 8,084
Net cash provided by operating activities (15,434)

CASH FLOWS FROM INVESTING ACTIVITIES
Purchase of furniture and equipment
Net cash used in investing activities (1,965)
Net decrease in cash (17,399)

CASH, BEGINNING OF YEAR 22,058

CASH, END OF YEAR $4,659

See accompanying 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

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 $5,696 for the year ending December 31, 2009.

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.
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, 2009, 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 CONTINGENCIES

As of December 31, 2009, there were no lawsuits pending against the Federation.

During 2008, the Federation received unconditional contributions from donors, which were largely used towards a tournament in Japan. There is a low threat of litigation for the use of remaining funds towards Federation expenses other than the Japan tournament.