

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

FINANCIAL STATEMENTS

DECEMBER 31, 2007

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# HALL, ROHN & ASSOCIATES, LLC

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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, 2007, 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, 2007, 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

August 27, 2008

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.  
 STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS -  
 MODIFIED CASH BASIS  
 December 31, 2007

**ASSETS**

**CURRENT ASSETS**

Cash \$ 22,124

**FIXED ASSETS**

Office equipment \$ 78,938

Office furniture & fixtures 7,721

Athletic equipment 75,435

162,094

Less: accumulated depreciation (120,533)

41,561

**TOTAL ASSETS**

\$ 63,685

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable \$ 39,031

Credit card payable 6,022

45,053

**NET ASSETS**

Unrestricted 18,632

\$ 63,685

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, 2007**

**SUPPORT AND REVENUE**

Contributions - cash	\$ 5,000
Contributions - services	39,210
Tournament fees	498,086
Membership fees	163,820
Gross profit on merchandise sales of \$23,123	13,101
Rental income	5,500
Miscellaneous	<u>5,400</u>

TOTAL SUPPORT AND REVENUE 730,117

**EXPENSES**

Program services	721,902
Management and general	<u>105,497</u>

TOTAL EXPENSES 827,399

**CHANGE IN UNRESTRICTED NET ASSETS** ( 97,282)

**UNRESTRICTED NET ASSETS, BEGINNING OF YEAR** 115,914

**UNRESTRICTED NET ASSETS, END OF YEAR** \$ 18,632

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, 2007

		<u>Supporting Services</u>		
	<u>Total</u>	<u>Program Services</u>	<u>Mgmt and General</u>	<u>Fund Raising</u>
Accounting fees	\$ 27,237	\$ 13,618	\$ 13,619	\$ -
Bank and credit card charges	12,659	12,659	-	-
Depreciation expense	9,595	9,595	-	-
Dues and membership	2,733	2,050	683	-
Insurance	146,269	146,269	-	-
Supplies	12,346	6,173	6,173	-
Legal services	35,423	17,712	17,711	-
Marketing and promotion	420	210	210	-
Miscellaneous expense	169	84	85	-
Office supplies	18,744	9,371	9,373	-
Postage	9,045	4,522	4,523	-
Rent and storage	58,581	29,291	29,290	-
Travel and lodging	235,266	235,266	-	-
Telephone	4,635	2,317	2,318	-
Tournament costs	182,290	182,290	-	-
Contract services	<u>71,987</u>	<u>50,475</u>	<u>21,512</u>	<u>-</u>
	<u>\$827,399</u>	<u>\$721,902</u>	<u>\$105,497</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, 2007**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ (97,282)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities	
Depreciation	9,595
Changes in operating assets and liabilities	
Decrease in inventory	3,008
Increase in accounts payable	39,030
Increase in credit card payable	<u>6,021</u>
Net cash provided by operating activities	<u>(39,628)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of furniture and equipment	
Net cash used in investing activities	<u>(11,102)</u>
Net decrease in cash	(50,730)
<b>CASH, BEGINNING OF YEAR</b>	<u>72,854</u>
<b>CASH, END OF YEAR</b>	<u>\$ 22,124</u>

See accompanying notes to financial statements.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**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 \$420 for the year ending December 31, 2007.

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, 2007**

**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, 2007, 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 expires on October 31, 2008.

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

**NOTE 3 OPERATING LEASE COMMITMENT (continued)**

Minimum annual rent payments are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 31,000

Rental payments for 2007 were \$38,285 and included both storage expense paid on a month to month basis and office space including parking.

**NOTE 4 CONTINGENCIES**

As of December 31, 2007, there were two lawsuits pending against the Federation. The first lawsuit is seeking dissolution of the Organization and has specific allegations against the former Executive Director. A countersuit has been filed by the Federation. As of the date of this report this suit has been settled and no money was awarded to the plaintiff. Another suit was pending against the Federation alleging racial discrimination. Since the year ended this suit was settled and a settlement was paid to the defendants from the Federation's liability insurance company.