

USA TAEKWONDO, INC.

**Financial Statements &
Supplementary Schedules**

For the Year Ended December 31, 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
USA Taekwondo, Inc.
Colorado Springs, Colorado

We have audited the accompanying statement of financial position of USA Taekwondo, Inc. as of December 31, 2009, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's December 31, 2008 financial statements and, in our report dated March 3, 2009, we expressed an unqualified opinion on those financial statements.

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 USA Taekwondo, Inc. as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of program services and of supporting services for the year ended December 31, 2009 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Waugh & Goodwin, LLP

July 15, 2010

USA TAEKWONDO, INC.
Statement of Financial Position
December 31, 2009
(With Comparative Amounts for 2008)

	<u>ASSETS</u>	
	<u>2009</u>	<u>2008</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 68,114	\$ 60,204
Accounts receivable	231,670	47,360
Prepaid expenses	<u>64,073</u>	<u>19,465</u>
Total current assets	363,857	127,029
FURNITURE AND EQUIPMENT:		
Athletic equipment	142,982	136,657
Office furniture and equipment	129,024	125,132
Transportation equipment	6,785	6,785
Less accumulated depreciation	<u>(245,366)</u>	<u>(226,427)</u>
Furniture and equipment - net	<u>33,425</u>	<u>42,147</u>
TOTAL ASSETS	<u>\$ 397,282</u>	<u>\$ 169,176</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 351,851	\$ 383,097
Accrued liabilities	58,636	48,940
Deferred revenue	<u>155,630</u>	<u>140,420</u>
Total current liabilities	566,117	572,457
NET ASSETS:		
Unrestricted	<u>(168,835)</u>	<u>(403,281)</u>
Total net assets	<u>(168,835)</u>	<u>(403,281)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 397,282</u>	<u>\$ 169,176</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2009
(With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
REVENUE:		
Events	\$ 1,735,474	\$ 1,290,227
Membership	428,929	517,846
Sponsorship and royalties	217,558	227,923
Dan office	343,384	246,188
USOC	329,241	430,605
Other revenue	60,279	74,496
Contributions	9,796	2,790
Advertising	2,550	4,352
Investment loss		(10,576)
Total revenue	3,127,211	2,783,851
EXPENSES:		
Program services:		
Competitions and events	1,512,128	1,423,211
Athletes, coaching and referees	287,987	354,678
Dan programs	207,631	176,466
Membership	195,478	109,903
Total program services	2,203,224	2,064,258
Supporting services:		
National office	674,822	705,666
Board of directors	14,719	8,816
Total supporting services	689,541	714,482
Total expenses	2,892,765	2,778,740
CHANGE IN NET ASSETS	234,446	5,111
NET ASSETS, beginning of year	(403,281)	(408,392)
NET ASSETS, end of year	\$ (168,835)	\$ (403,281)

See Notes to Financial Statements

USA TAEKWONDO, INC.
Statement of Cash Flows
For the Year Ended December 31, 2009
(With Comparative Amounts for 2008)

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 234,446	\$ 5,111
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,939	30,029
Changes in assets and liabilities:		
Increase in accounts receivable	(184,310)	(38,717)
Increase in prepaid expenses	(44,608)	1,246
Decrease in accounts payable	(31,246)	25,355
Increase in accrued liabilities	9,696	(1,009)
Increase in deferred revenue	<u>15,210</u>	<u>1,208</u>
Total adjustments	<u>(216,319)</u>	<u>18,112</u>
Net cash provided by operating activities	18,127	23,223
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in investments		32,250
Acquisition of property and equipment	<u>(10,217)</u>	<u>(13,265)</u>
Net cash provided (used) by investing activities	<u>(10,217)</u>	<u>18,985</u>
NET INCREASE IN CASH	7,910	42,208
CASH AND CASH EQUIVALENTS, beginning of year	<u>60,204</u>	<u>17,996</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 68,114</u>	<u>\$ 60,204</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.
Notes to Financial Statements
For the Year Ended December 31, 2009

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

USA Taekwondo, Inc. (the Corporation) is the national governing body for the sport of taekwondo, making it responsible for the conduct and administration of amateur taekwondo in the United States. The Corporation is not a private foundation.

Income Taxes

No provision for income taxes has been made in the accompanying financial statements because the Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986.

The Financial Accounting Standards Board (FASB) issued FASB ASC 740, "Income Taxes", which clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Organization's income tax returns. The Corporation adopted the standard effective January 1, 2009.

The Corporation's income tax filings are subject to audit by various taxing authorities. The Corporation's open audit periods are 2005 - 2008. The Corporation believes that its operations have been conducted in accordance with its tax-exempt status.

Depreciation

Furniture and equipment are recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of gifts. Depreciation is recorded for office, transportation and athletic equipment using the straight-line method over an estimated useful life of five to ten years. Depreciation expense for the years ended December 31, 2009 and 2008 was \$18,939 and \$30,029, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of the Corporation's checking account. At various times during the year, the Corporation's bank balance exceeded the federally insured limits. In the unlikely event of a bank failure, the Corporation might only be able to recover the amounts insured.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Approximately 54 % of the Corporation's receivables are related to a single event and are due from one source. These funds are held in a government trust fund and are designated for this event. Management has thoroughly reviewed the transactions relating to this receivable, and in their opinion, this amount is fully collectible. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Prepaid Expenses and Deferred Charges

Event expenses paid for in a fiscal year prior to the occurrence of a scheduled event are deferred and recognized as expenses in the fiscal year in which such events occur.

Compensated Absences

Employees of the Corporation earn a vested right to compensation for unused vacation. Accordingly, the Corporation has made an accrual for vacation compensation that employees have earned but not taken.

Contributions

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In-kind Revenue

Sponsorship income in the form of in-kind goods such as clothing and airfare are reported as revenue and expense in the fiscal year they are received.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Functional Allocation of Expenses

Certain costs and expenses are allocated among the various programs and supporting service expenses based on salary and related expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Prior-Year Comparisons

The financial statements include certain prior-year summarized comparative information in total but not by net asset or functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through July 15, 2010, the date that the financial statements were available to be issued.

B. LONG-TERM INVESTMENTS

Long-term investments consisting of units in a pooled portfolio managed by the United States Olympic Foundation (USOF) were liquidated during the year ended December 31, 2008.

Investment loss for the year ended December 31, 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$	\$ 315
Realized losses	<u> </u>	<u>(10,891)</u>
Total investment loss	<u>\$</u>	<u>\$ (10,576)</u>

Notes to Financial Statements

C. RELATED PARTY TRANSACTIONS

The United States Olympic Committee (USOC) provides grants to the Corporation for sports development, international competition and team preparation. Total grants from the USOC for the years ended December 31, 2009 and 2008 consist of the following project categories:

	<u>2009</u>	<u>2008</u>
NGB funding	\$ 322,841	\$ 414,105
International relations	6,400	4,000
Contingency grant	<u> </u>	<u>12,500</u>
	<u>\$ 329,241</u>	<u>\$ 430,605</u>

In addition to the grant amounts above, the USOC made direct athlete support payments in the amount of \$161,000 and \$100,000 for the years ended December 31, 2009 and 2008, respectively.

At December 31, 2009 and 2008, no amounts were due from the USOC. Accounts payable at December 31, 2009 and 2008 includes \$87,156 and \$50,615, respectively, for amounts that the Corporation owed to the USOC.

In addition to the amounts above, the USOC provides additional funding in the form of value in kind. These amounts are included in sponsorship revenue in the statement of activities.

The Association is economically dependent upon grants from the USOC in order to maintain its programs at current levels.

The USOC also provides the Corporation with certain office facilities at no cost. No amount has been reflected in the financial statements as a cost or revenue for such facilities, other than the partial rent paid for office space at \$80 per month. Subsequent to December 31, 2009, the USOC moved the Corporation to new office space. The monthly rental amount that the USOC will charge the Corporation for this new space has not yet been determined.

In 2007 the Corporation entered into a content license agreement with the USOC. The term of the agreement is July 1, 2007 through December 31, 2012. The Corporation received a signing bonus of \$25,000 for the year ended December 31, 2008 under the terms of this agreement. In addition to the signing bonus, funding for the years ended December 31, 2009 and 2008 was \$75,000 and \$72,000, respectively. These amounts are included in sponsorship in the statement of activities.

Notes to Financial Statements

C. RELATED PARTY TRANSACTIONS - Continued

Board members may also serve in other capacities for the Corporation and as such may be reimbursed for their out of pocket expenses and compensated for their time. During the years ended December 31, 2009 and 2008, members of the board served in capacities as coaches or referees in which they were reimbursed for actual costs incurred or their travel costs were paid directly by the Corporation, and they were compensated for their time in accordance with normal compensation practices of the Corporation.

D. DEFERRED REVENUE

Deferred revenue at December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Athlete membership dues	\$ 82,252	\$ 50,499
Life memberships	32,714	33,782
Junior Worlds	23,510	23,380
US Open	10,265	12,240
Non-competitor membership dues	6,724	1,839
Other	165	344
Team trials		6,996
Coaching seminars		6,300
Club dues		3,240
State associations		1,400
Event registration		400
	<u>\$ 155,630</u>	<u>\$ 140,420</u>

Dues for life memberships are deferred and recognized as revenue over a 20 year period.

E. OPERATING LEASE COMMITMENTS

The Corporation leases storage space under a month-to-month operating lease. Total rent expense related to this lease agreement was \$2,304 for each of the years ended December 31, 2009 and 2008.

The Corporation also leases a copier under an operating lease that expires in February, 2010. The monthly payment for this lease is \$710, including taxes.

Future minimum rental payments for this lease for the years ending December 31, 2010 are \$1,420.

Notes to Financial Statements

F. DEFICIENCY IN NET ASSETS

As reflected in the accompanying statement of financial position, The Association has a deficiency of net assets at December 31, 2009 of \$166,726. In order to reduce this deficiency, The Corporation is taking the following actions:

- Implementing internal processes to follow up in a timely manner on all past due receivables in order to improve collections.
- Closely monitor the budget adopted by the Board of Directors in comparison to actual expenditures and take steps to prevent cost overruns.
- Exploring other sources of revenue including grants, donations and board fundraising responsibilities.
- Reducing program and administration expenses and increasing revenues in order to start accumulating reserves.
- Serious consideration should be given to raising membership dues as rates have been stagnant for over ten years.

USA TAEKWONDO, INC.
Schedule of Program Services
For the Year Ended December 31, 2009

	Competitions and Events	Athletes, Coaching and Referees	Dan Programs	Membership	Total
Travel, airfare, lodging, per diem	\$ 461,416	\$ 17,463	\$ 1,259	\$ 379	\$ 480,517
Salaries	122,819	76,347	17,452	58,889	275,507
Contract services, honoraria and temporary help	253,434	6,250	11,353	3,700	274,737
Catering and decorating	216,298				216,298
Equipment and space rental	199,319				199,319
Awards and grants	31,917	160,500		4,118	196,535
Dues, fees and subscriptions	1,411		165,507	133	167,051
Insurance	45,957			48,735	94,692
Online registration fees	13,419			40,000	53,419
Postage and shipping	37,150	9	5,551	8,804	51,514
Supplies	34,426	1,187	1,279	12,147	49,039
Employee benefits	15,337	9,204	1,998	8,990	35,529
Payroll taxes	9,900	7,237	1,917	5,545	24,599
Ground transportation and parking	21,347	300			21,647
Printing and publications	13,134	120	1,315	85	14,654
Telephone	7,914	4,461		952	13,327
Gear and equipment	10,509				10,509
Pension expense	2,053	4,909		2,981	9,943
Miscellaneous expense	5,279			20	5,299
Rental and maintenance of equipment	4,446				4,446
Advertising	4,643				4,643
	<u>\$ 1,512,128</u>	<u>\$ 287,987</u>	<u>\$ 207,631</u>	<u>\$ 195,478</u>	<u>\$ 2,203,224</u>

USA TAEKWONDO, INC.
Schedule of Supporting Services
For the Year Ended December 31, 2009

	National Office	Board of Directors	Total
Salaries	\$ 256,346	\$	\$ 256,346
Bank charges and credit card fees	93,280		93,280
Insurance	79,069		79,069
Employee benefits	46,625		46,625
Travel, airfare and lodging	24,085	13,354	37,439
Professional fees	35,349		35,349
Payroll taxes	24,654		24,654
Printing and publications	23,917		23,917
Depreciation and amortization	18,939		18,939
Pension expense	13,862		13,862
Postage and shipping	13,101		13,101
Rental and maintenance of equipment	12,671		12,671
Supplies	8,700	75	8,775
Telephone, internet and IT	6,584	585	7,169
Dues, fees and subscriptions	5,298		5,298
Interest expense	4,013		4,013
Contract services, honoraria and temporary help	3,202		3,202
Ground transportation and parking	2,264	705	2,969
Awards and grants	2,010		2,010
Miscellaneous expense	453		453
Advertising	400		400
	<u>\$ 674,822</u>	<u>\$ 14,719</u>	<u>\$ 689,541</u>