

USA TAEKWONDO, INC.
Financial Statements
For the Year Ended December 31, 2007

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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, 2007 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, 2006 financial statements and, in our report dated March 2, 2007, 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, 2007, 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, 2007 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

April 17, 2008

USA TAEKWONDO, INC.
Statement of Financial Position
December 31, 2007
(With Comparative Amounts for 2006)

	<u>ASSETS</u>	
	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 17,996	\$ 25,893
Accounts receivable	8,643	51,967
Due from USOC		18,035
Prepaid expenses	<u>20,711</u>	<u>109,147</u>
Total current assets	47,350	205,042
FURNITURE AND EQUIPMENT:		
Athletic equipment	136,657	141,762
Office furniture and equipment	111,866	109,401
Transportation equipment	6,785	6,785
Less accumulated depreciation	<u>(196,397)</u>	<u>(169,910)</u>
Furniture and equipment - net	58,911	88,038
LONG-TERM INVESTMENTS	32,250	64,610
NOTES RECEIVABLE	<u> </u>	<u>6,908</u>
TOTAL ASSETS	<u>\$ 138,511</u>	<u>\$ 364,598</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 357,742	\$ 217,843
Accrued liabilities	49,949	96,184
Deferred revenue	139,212	63,447
Current portion of long-term debt	<u> </u>	<u>34,906</u>
Total current liabilities	546,903	412,380
NET ASSETS:		
Unrestricted	(468,994)	(108,384)
Temporarily restricted	<u>60,602</u>	<u>60,602</u>
Total net assets	<u>(408,392)</u>	<u>(47,782)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 138,511</u>	<u>\$ 364,598</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2007
(With Comparative Totals for 2006)

	Unrestricted	Temporarily Restricted	2007 Totals	2006 Totals
REVENUE:				
Events	\$ 1,350,130	\$	\$ 1,350,130	\$ 1,400,518
Membership	477,436		477,436	507,851
USOC	354,482		354,482	318,907
Dan office	246,737		246,737	276,975
Sponsorship	165,570		165,570	122,150
Other revenue	75,908		75,908	196,306
Merchandise and royalties	68,655		68,655	114,740
Investment income	7,640		7,640	7,344
Contributions	3,350		3,350	
Advertising	1,650		1,650	2,500
Total revenue	2,751,558		2,751,558	2,947,291
EXPENSES:				
Program services:				
Competitions and events	1,734,965		1,734,965	1,532,056
Membership	361,692		361,692	307,712
Athletes, coaching and referees	261,063		261,063	274,010
Dan programs	155,370		155,370	165,504
Total program services	2,513,090		2,513,090	2,279,282
Supporting services:				
National office	587,264		587,264	576,673
Board of directors	11,814		11,814	29,551
Total supporting services	599,078		599,078	606,224
Total expenses	3,112,168		3,112,168	2,885,506
CHANGE IN NET ASSETS	(360,610)		(360,610)	61,785
NET ASSETS, beginning of year	(108,384)	60,602	(47,782)	(109,567)
NET ASSETS, end of year	\$ (468,994)	\$ 60,602	\$ (408,392)	\$ (47,782)

See Notes to Financial Statements

USA TAEKWONDO, INC.
Statement of Cash Flows
For the Year Ended December 31, 2007
(With Comparative Amounts for 2006)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (360,610)	\$ 61,785
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	28,371	31,109
Changes in assets and liabilities:		
Decrease in accounts receivable	43,324	2,597
Decrease in note receivable	6,908	
Decrease in due from USOC	18,035	(18,035)
Decrease in prepaid expenses	88,436	(7,225)
Increase in accounts payable	139,899	135,373
Decrease in accrued liabilities	(46,235)	34,089
Increase in deferred revenue	<u>75,765</u>	<u>(40,878)</u>
Total adjustments	<u>354,503</u>	<u>137,030</u>
Net cash provided (used) by operating activities	(6,107)	198,815
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in investments	32,360	(64,610)
Acquisition of furniture and equipment	(2,465)	(18,170)
Disposal of furniture and equipment	<u>3,221</u>	<u> </u>
Net cash provided (used) by investing activities	33,116	(82,780)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in long-term debt	<u>(34,906)</u>	<u>(189,861)</u>
Net cash used by financing activities	<u>(34,906)</u>	<u>(189,861)</u>
NET DECREASE IN CASH	(7,897)	(73,826)
CASH AND CASH EQUIVALENTS, beginning of year	<u>25,893</u>	<u>99,719</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 17,996</u>	<u>\$ 25,893</u>

See Notes to Financial Statements

USA TAEKWONDO, INC.
Notes to Financial Statements
For the Year Ended December 31, 2007

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 qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax. The Corporation is not a private foundation.

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, 2007 and 2006 was \$28,371 and \$31,109, 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.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. 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.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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, 2006, from which the summarized information was derived.

Notes to Financial Statements

B. LONG-TERM INVESTMENTS

Long-term investments are recorded at market value and consist of units in a pooled portfolio managed by the United States Olympic Foundation (USOF). At December 31, 2007, the USOF portfolio consisted of the following types of securities:

Domestic equities	36.28%
International equities	20.50
Alternative investments	19.53
Domestic bonds	15.85
Cash and cash equivalents	7.77
Convertibles	<u>0.07</u>
	<u>100.00%</u>

Investment income for the years ended December 31, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Interest and dividends	\$ 1,329	\$ 4,539
Realized gains	6,946	1,689
Unrealized gains (losses)	<u>(635)</u>	<u>1,116</u>
Total investment income	<u>\$ 7,640</u>	<u>\$ 7,344</u>

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, 2007 and 2006 consist of the following project categories:

	<u>2007</u>	<u>2006</u>
NGB funding	\$ 347,800	\$ 297,350
International relations	6,682	3,522
Contingency grant	<u> </u>	<u>18,035</u>
	<u>\$ 354,482</u>	<u>\$ 318,907</u>

In addition to the grant amounts above, the USOC made direct athlete support payments in the amount of \$300,000 and \$288,000 for the years ended December 31, 2007 and 2006, respectively.

At December 31, 2007 and 2006, receivables from the USOC amounted to \$0 and \$18,035, respectively. Accounts payable at December 31, 2007 and 2006 includes \$28,368 and \$7,019, respectively, for amounts that the Corporation owed to the USOC.

Notes to Financial Statements

C. RELATED PARTY TRANSACTIONS - continued

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 \$73 per month.

The Corporation entered into a joint marketing agreement with the USOC in November, 2004. The term of the original agreement was January 1, 2005 through December 31, 2008. The Corporation received \$72,000 for the year ended December 31, 2006.

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. Under the terms of the content license agreement the joint marketing agreement was terminated. The Corporation received a signing bonus of \$25,000 for the year ended 2007 under the terms of this agreement. The Corporation received an additional \$25,000 bonus in January, 2008 under this agreement. Amounts are included in sponsorship in the Statement of Activities.

D. PREPAID EXPENSES

The Corporation entered into a three-year contract which allows them to utilize online membership and registration software. The full price of the contract was recorded as a prepaid expense and was recognized over the term of the contract.

Notes to Financial Statements

E. DEFERRED REVENUE

Deferred revenue at December 31, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Athlete membership dues	\$ 45,715	\$ 12,215
2008 Junior Worlds	31,970	
Life memberships	25,417	19,007
Club dues	13,815	905
Vendor revenue	10,000	
US Open	8,980	6,180
Non-competitor membership dues	1,815	340
State associations	1,000	
Event registration	500	500
Tournament deposits	<u> </u>	<u>24,300</u>
	<u>\$ 139,212</u>	<u>\$ 63,447</u>

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

F. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31, 2007:

Building Fund -	
National Training Center	<u>\$ 60,602</u>

G. 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 and \$3,619, respectively, for the years ended December 31, 2007 and 2006.

The Corporation also leases a copier under operating leases that expire 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 are as follows:

2008	\$ 8,520
2009	8,520
2010	1,420

USA TAEKWONDO, INC.
Schedule of Program Services
For the Year Ended December 31, 2007

	Competitions & Events	Membership	Athletes, Coaching & Referees	Dan Programs	Total
Advertising	\$	\$ 50	\$	\$ 2,184	\$ 2,234
Airfare, auto, lodging & per diem	445,605	247	6,090	133	452,075
Athlete medical	112,136		120		112,256
Bank charges & credit card fees	43,076	15,881	619	5,036	64,612
Business meals & entertainment	44,322		418	25	44,765
Catering & decorating	218,788				218,788
Contract services, honoraria & temporary help	188,696	33,600	233		222,529
Depreciation	11,562				11,562
Dues, fees & subscriptions	15,310			105,440	120,750
Equipment & space rental	172,431				172,431
Gear & equipment	53,807	1,080			54,887
Gifts, medals & awards	23,718				23,718
Grants & support	6,500		170,500		177,000
Ground transportation, car rentals & parking	25,144		731		25,875
Insurance	500	111,984			112,484
Online registration fees	45,196	97,000	928		143,124
Other expenses	1,274	112	1,419	3,233	6,038
Payroll taxes & employee benefits	30,331	18,172	14,263	8,747	71,513
Photo, video, & artwork	2,426	3,201			5,627
Printing, duplication & postage	72,688	36,685	1,459	5,271	116,103
Salaries & wages	108,004	40,979	58,606	25,301	232,890
Security	28,449				28,449
Supplies	33,894	1,137	641		35,672
Telephone, internet & USOC IT	47,380	1,564	5,036		53,980
Lodging & meals	3,728				3,728
	<u>\$ 1,734,965</u>	<u>\$ 361,692</u>	<u>\$ 261,063</u>	<u>\$ 155,370</u>	<u>\$ 2,513,090</u>

USA TAEKWONDO, INC.
Schedule of Supporting Services
For the Year Ended December 31, 2007

	<u>National Office</u>	<u>Board of Directors</u>	<u>Total</u>
Accounting, legal & other professional fees	\$ 51,306	\$ 1,000	\$ 52,306
Advertising	250		250
Airfare, lodging & per diem	13,243	8,034	21,277
Bad debt expense	6,908		6,908
Bank charges & credit card fees	4,472		4,472
Business meals & entertainment	5,751	775	6,526
Contract services, honoraria & temporary help	20,423		20,423
Depreciation	16,809		16,809
Dues, fees & subscriptions	1,345		1,345
Equipment & space rental	16,333		16,333
Gifts, medals & awards	2,381		2,381
Ground transportation, car rentals & parking	978	421	1,399
Insurance	16,989		16,989
Interest expenses	2,188		2,188
Maintenance & repairs	150		150
Other expenses	34	897	931
Payroll taxes & employee benefits	85,391		85,391
Printing, duplication & postage	33,767	6	33,773
Salaries & wages	278,955		278,955
Supplies	12,570	258	12,828
Telephone, internet & USOC IT	16,831	423	17,254
Lodging & meals	190		190
	<u>\$ 587,264</u>	<u>\$ 11,814</u>	<u>\$ 599,078</u>