

Waugh & Associates, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors  
United States Taekwondo Union, Inc.

We were engaged to audit the accompanying statement of financial position of United States Taekwondo Union, Inc. as of December 31, 2002 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.

Because of inadequacies in the Corporation's accounting records, we were unable to form an opinion regarding the amounts recorded for event revenue, program expenses and supporting service expenses in the accompanying statements of activities and changes in net assets.

Since event revenue, program expenses and supporting service expenses materially affect the determination of financial position, results of operations and cash flows, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the financial statements referred to in the first paragraph.

*Waugh & Associates, P.C.*  
August 29, 2003

UNITED STATES TAEKWONDO UNION, INC.  
Statement of Financial Position  
December 31, 2002

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 143,716
Accounts receivable	3,956
Employee advances and loans	29,714
Prepaid expenses	<u>45,243</u>
Total current assets	222,629
LONG-TERM INVESTMENTS (Note B)	330,995
FURNITURE AND EQUIPMENT:	
Office furniture and equipment	149,029
Athletic equipment	130,894
Less accumulated depreciation	<u>(166,426)</u>
Furniture and equipment - net	<u>113,497</u>
TOTAL ASSETS	<u>\$ 667,121</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 390,255
Deferred revenue (Note D)	219,128
Accrued liabilities	61,237
Note payable (Note E)	130,900
Current portion of lease payable (Note G)	<u>8,775</u>
Total liabilities	810,295
NET ASSETS:	
Unrestricted	(198,918)
Temporarily restricted (Note H)	<u>55,744</u>
Total net assets	<u>(143,174)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 667,121</u>

See Notes to Financial Statements

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See Notes to Financial Statements

UNITED STATES TAEKWONDO UNION, INC.  
Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2002

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
<b>REVENUE:</b>			
Membership	\$ 1,114,077	\$	\$ 1,114,077
Event revenue	896,017		896,017
Dan Promotions	379,122		379,122
USOC grants (Note C)	234,531		234,531
Corporate sponsorships	182,500		182,500
Clinics and seminars	179,852		179,852
USOC joint marketing agreement (Note C)	78,000		78,000
Sanctions	61,334		61,334
Merchandise sales	40,601		40,601
Cost of goods sold	(42,424)		(42,424)
Advertising	5,670		5,670
Contributions	5,078	230	5,308
Miscellaneous revenue	2,068		2,068
Investment loss	(27,383)		(27,383)
<b>Total revenue</b>	<b>3,109,043</b>	<b>230</b>	<b>3,109,273</b>
<b>EXPENSES:</b>			
<b>Program services:</b>			
Competitions & events	1,667,935		1,667,935
Membership	495,980		495,980
Player development	398,941		398,941
Coaching development	99,435		99,435
Referee development	42,735		42,735
<b>Total program services</b>	<b>2,705,026</b>		<b>2,705,026</b>
<b>Supporting services:</b>			
National office	495,794		495,794
Board of directors	283,708		283,708
<b>Total supporting services</b>	<b>779,502</b>		<b>779,502</b>
<b>Total expenses</b>	<b>3,484,528</b>		<b>3,484,528</b>
<b>CHANGE IN NET ASSETS</b>	<b>(375,485)</b>	<b>230</b>	<b>(375,255)</b>
<b>NET ASSETS, beginning of year</b>	<b>176,567</b>	<b>55,514</b>	<b>232,081</b>
<b>NET ASSETS, end of year</b>	<b>\$ (198,918)</b>	<b>\$ 55,744</b>	<b>\$ (143,174)</b>

See Notes to Financial Statements

UNITED STATES TAEKWONDO UNION, INC.  
Statement of Cash Flows  
For the Year Ended December 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (375,255)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	35,026
Changes in assets and liabilities:	
Decrease in accounts receivable	7,998
Increase in employee advances and loans	(29,714)
Increase in prepaid expenses	(25,710)
Decrease in inventory	16,993
Increase in accounts payable	230,694
Increase in deferred revenue	57,170
Increase in accrued liabilities	<u>39,477</u>
Total adjustments	<u>331,934</u>
Net cash used by operating activities	(43,321)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Decrease in long-term investments	33,628
Acquisition of property and equipment	<u>(80,722)</u>
Net cash used by investing activities	(47,094)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Decrease in lease payable	(7,913)
Increase in note payable	<u>91,076</u>
Net cash provided by financing activities	<u>83,163</u>
NET DECREASE IN CASH	(7,252)
CASH AND CASH EQUIVALENTS, beginning of year	<u>150,968</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 143,716</u>

See Notes to Financial Statements

UNITED STATES TAEKWONDO UNION, INC.  
Notes to Financial Statements  
For the Year Ended December 31, 2002

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

United States Taekwondo Union, 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.

Supplemental Cash Flow Disclosures

Cash flows from operating activities reflect interest paid of \$15,324 for the year ended December 31, 2002.

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 and athletic equipment using the straight line method over an estimated useful life of five to seven years. Depreciation expense for the year ended December 31, 2002 was \$35,026, and includes depreciation on copiers and a fax machine financed with a capital lease.

Cash and Cash Equivalents

Cash and cash equivalents consist of the Corporation's checking and savings accounts.

Accounts Receivable

No allowance for doubtful accounts is considered necessary.

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.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

B. LONG-TERM INVESTMENTS

Long-term investments are recorded at market value and consist of the following at December 31, 2002:

United States Olympic Foundation	
Investment portfolio:	\$ <u>330,995</u>

Investment income consists of the following components for the years ended December 31, 2002:

Unrealized (losses)	\$ (10,987)
Realized gains (losses)	(33,123)
Interest & dividends	<u>16,727</u>
Investment loss	\$ <u>(27,383)</u>

Notes to Financial Statements

C. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2002, the United States Olympic Committee (USOC) provided base funding grants to the Corporation of \$240,709. Also during the year ended December 31, 2002, the USOC also provided \$162,144 in performance pool funding. The Corporation is economically dependent on the grants it receives from the USOC in order to maintain programs at present levels.

The Corporation was required to repay \$35,863 for base and performance pool grant funding for amounts received in 2001. Subsequent to December 31, 2002, the USOC performed an audit of the Corporation's 2002 grants and determined that \$15,710 must be returned to the USOC for expenses disallowed. An additional \$116,749 in funding received in 2002 under the above grants will be deferred to 2004.

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 of office space at \$76 per month.

In addition, the Corporation entered into a joint marketing agreement with the USOC in 2001. The term of the agreement is January 1, 2001 through December 31, 2004. The Association received \$78,000 for the year ended December 31, 2002.

Payments to related parties during the year ended December 31, 2002 included legal fees in the amount of \$31,000 to a board member.

D. DEFERRED REVENUE

Deferred revenue at December 31, 2002 consists of the following:

Membership dues (athletes)	\$ 66,485
Club dues	13,300
Membership dues (non-competitors)	2,900
VIK revenue	7,494
USOC funding	116,749
US Open	<u>12,200</u>
	<u>\$ 219,128</u>

Notes to Financial Statements

E. NOTE PAYABLE

The Corporation has a \$200,000 line of credit agreement with a commercial bank. The agreement provides for interest at 2.0% over prime and is due November 14, 2003. This note is secured by the Corporation's investments and business assets. As of December 31, 2002, the outstanding balance was \$130,900.

F. OPERATING LEASE COMMITMENTS

The Corporation leases storage space under a month to month lease agreement. Total rent expense related to this operating lease agreement was \$3,643 for the year ended December 31, 2002.

G. LEASE PAYABLE

During 2001, the Corporation renewed a lease for two copiers, and entered into a new lease for an additional copier and fax machine. Both leases are classified as capital leases. Accordingly, assets have been capitalized with the following net book values at December 31, 2002:

Capitalized cost	\$ 26,696
Accumulated depreciation	<u>(13,439)</u>
Net book value	<u>\$ 13,257</u>

Depreciation expense for this equipment for the year ended December 31, 2002 was \$4,928. This depreciation is included in the total depreciation expense reflected in Note A.

The lease requires monthly installments of \$880, including interest at 20%. The total outstanding principal balance at December 31, 2002 was \$8,775. Subsequent to December 31, 2002, this equipment was traded in on 3 new leased copiers.

The principal portion of future scheduled lease payments is as follows:

2003	8,775
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H. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31, 2002:

Building Fund - National Training Center	<u>\$ 55,744</u>
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Notes to Financial Statements

I. INADEQUACY OF ACCOUNTING RECORDS

During the year ended December 31, 2002, the Corporation experienced a significant turnover of office personnel. A portion of this turnover occurred in the accounting department, resulting in a heavy reliance upon temporary personnel.

A partial summary of the inadequacies in the accounting records is as follows:

1. A substantial number of vendor invoices could not be located.
2. The cancelled checks for the months of September through December could not be located.
3. The amount of event revenue could not be independently verified.
4. Expense reports could not be located to support the business purpose of certain expenses reimbursed to Board members.
5. A significant number of transactions were misposted in the general ledger.