

**UNITED STATES
TAEKWONDO UNION, INC.**

Financial Statements

For the Year Ended December 31, 2004

TABLE OF CONTENTS

Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5
Schedule of Program Services	9
Schedule of Supporting Services	10

INDEPENDENT AUDITORS' REPORT

Board of Directors
United States Taekwondo Union, Inc.
Colorado Springs, Colorado

We have audited the accompanying statement of financial position of United States Taekwondo Union, Inc., (a nonprofit organization) as of December 31, 2004 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.

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 United States Taekwondo Union, Inc. as of December 31, 2004 and the changes in its net assets 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, 2004 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

February 18, 2005

UNITED STATES TAEKWONDO UNION, INC.
Statement of Financial Position
December 31, 2004

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 410,313
Accounts receivable	72,886
Due from USOC	3,000
Prepaid expenses	<u>20,231</u>
Total current assets	506,430
FURNITURE AND EQUIPMENT:	
Office furniture and equipment	135,461
Athletic equipment	140,093
Less accumulated depreciation	<u>(206,075)</u>
Furniture and equipment - net	69,479
NOTES RECEIVABLE	<u>6,908</u>
TOTAL ASSETS	<u>\$ 582,817</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 145,207
Accrued liabilities	44,443
Deferred revenue	34,995
Current portion of long-term debt	<u>180,000</u>
Total current liabilities	404,645
LONG-TERM DEBT	<u>274,767</u>
Total liabilities	679,412
NET ASSETS:	
Unrestricted	(157,697)
Temporarily restricted	<u>61,102</u>
Total net assets	<u>(96,595)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 582,817</u>

See Notes to Financial Statements

UNITED STATES TAEKWONDO UNION, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
REVENUE:			
Events	\$ 913,184	\$	\$ 913,184
Membership	699,261		699,261
USOC	434,695		434,695
Dan office	330,031		330,031
Sponsorship	95,652		95,652
Other programs	28,469		28,469
Grant	25,000		25,000
Merchandise and royalties	9,649		9,649
Investment income	8,517		8,517
Contributions	900	1,328	2,228
Advertising	<u>400</u>		<u>400</u>
Total revenue	2,545,758	1,328	2,547,086
EXPENSES:			
Program services:			
Competitions & events	1,010,074		1,010,074
Membership	268,131		268,131
Athletes, coaching, referees	259,901		259,901
Dan programs	<u>203,999</u>		<u>203,999</u>
Total program services	1,742,105		1,742,105
Supporting services:			
National office	527,743		527,743
Board of directors	<u>33,379</u>		<u>33,379</u>
Total supporting services	<u>561,122</u>		<u>561,122</u>
Total expenses	<u>2,303,227</u>		<u>2,303,227</u>
CHANGE IN NET ASSETS	242,531	1,328	243,859
NET ASSETS, beginning of year	<u>(400,228)</u>	<u>59,774</u>	<u>(340,454)</u>
NET ASSETS, end of year	<u>\$ (157,697)</u>	<u>\$ 61,102</u>	<u>\$ (96,595)</u>

See Notes to Financial Statements

UNITED STATES TAEKWONDO UNION, INC.
Statement of Cash Flows
For the Year Ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 243,859
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	24,385
Changes in assets and liabilities:	
Increase in accounts receivable	(20,931)
Decrease in due from USOC	45,982
Decrease in prepaid expenses	20,353
Decrease in accounts payable	(554,233)
Increase in accrued liabilities	2,440
Decrease in deferred revenue	<u>(163,197)</u>
Total adjustments	<u>(645,201)</u>
Net cash used by operating activities	(401,342)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Decrease in investments	410,769
Disposal of furniture and equipment	15,700
Acquisition of furniture and equipment	<u>(11,553)</u>
Net cash provided by investing activities	414,916
CASH FLOWS FROM FINANCING ACTIVITIES:	
Decrease in notes receivable	67
Decrease in notes payable	(164,631)
Increase in long-term debt	<u>454,767</u>
Net cash provided by financing activities	<u>290,203</u>
NET INCREASE IN CASH	303,777
CASH AND CASH EQUIVALENTS, beginning of year	<u>106,536</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 410,313</u>

See Notes to Financial Statements

UNITED STATES TAEKWONDO UNION, INC.
Notes to Financial Statements
For the Year Ended December 31, 2004

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. During the year ended December 31, 2004, the Corporation changed its state of incorporation from Ohio to Colorado.

Supplemental Cash Flow Disclosures

Cash flows from operating activities reflect interest paid of \$6,960 for the year ended December 31, 2004.

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, 2004 was \$24,385.

Cash and Cash Equivalents

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

The Corporation maintains its cash and cash equivalents in a commercial bank. In the unlikely event of a bank failure, the Corporation could suffer a loss to the extent its deposits exceed the respective bank's insurance limits.

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. 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 year ended December 31, 2004 consist of the following project categories:

Base funding	\$ 250,000
Base funding rollover	139,695
Performance pool	43,000
International relations	<u>2,000</u>
	<u>\$ 434,695</u>

At December 31, 2004, receivables from the USOC amounted to \$3,000. Accounts payable at December 31, 2004 includes \$53,075 for amounts that the Corporation owed to the USOC. As discussed in Note D, the Corporation also has a note payable to the USOC.

The Corporation is economically dependent on grants from the USOC in order to maintain programs at current levels.

Notes to Financial Statements

B. RELATED PARTY TRANSACTIONS - Continued

The Corporation was required to repay \$116,749 to the USOC for base and performance pool grants received in 2002, for which adequate supporting documentation was not available.

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.

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 Corporation received \$60,000 for the year ended December 31, 2004.

C. DEFERRED REVENUE

Deferred revenue at December 31, 2004 consists of the following:

Yong Kim cup	\$	24,300
Athlete membership dues		6,335
Club dues		2,940
Non-competitor membership dues		<u>1,420</u>
	\$	<u>34,995</u>

D. LONG-TERM DEBT

The Corporation has a note payable to the USOC in the amount of \$454,767. The USOC loaned \$350,000 in cash and \$104,867 in United VIK to the Corporation during 2004. The note does not bear interest and future payments are due as follows:

2005	\$	180,000
2006		<u>274,767</u>
	\$	<u>454,767</u>

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31, 2004:

Building Fund - National Training Center	\$	<u>61,102</u>
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Notes to Financial Statements

F. OPERATING LEASE COMMITMENTS

The Corporation leases storage space under a month-to-month operating lease. Total rent expense related to this lease agreement was \$3,202 for the year ended December 31, 2004.

The Corporation also leases a copier and water cooler under operating leases that expires in April and October 2007. The monthly payment for the lease is \$729, including taxes.

Future minimum rental payments for these leases for the years ending December 31 are as follows:

2005	\$	9,423
2006		9,423
2007		3,591

G. CONTINGENCIES

The Corporation has been named as a defendant in several lawsuits. In the opinion of management, these suits are either without merit or will be covered by insurance.

UNITED STATES TAEKWONDO UNION, INC.
Schedule of Program Services
For the Year Ended December 31, 2004

	<u>Competition & Events</u>	<u>Membership</u>	<u>Athletes, Coaching, Referees</u>	<u>Dan Programs</u>	<u>Total</u>
Airfare, lodging & per diem	\$ 218,658	\$	\$ 11,545	\$	\$ 230,203
Athlete medical	6,756				6,756
Bank charges and credit card fees	5,678	22,709	105	644	29,136
Business meals and entertainment	23,817		944		24,761
Catering and decorating	76,701				76,701
Contract services, honoraria & temporary help	93,862	1,320			95,182
Depreciation and amortization	15,193				15,193
Dues, fees & subscriptions	20,000			147,820	167,820
Equipment and space rental	181,705		105		181,810
Gear and equipment	15,716				15,716
Gifts, medals and awards	39,571		265		39,836
Grants and support			135,234		135,234
Ground transportation, car rentals & parking	13,560		1,182		14,742
Insurance	7,892	158,755			166,647
Interest expense			17		17
Maintenance and repairs	25		135		160
Olympic pursuit program			20,000		20,000
Other expenses	114				114
Payroll taxes and employee benefits	16,122	5,108	11,799	3,631	36,660
Photo, video, and artwork	4,557				4,557
Printing, duplication & postage	49,919	15,831	10,020	5,240	81,010
Professional fees	39,643	14,875	19,904		74,422
Refunds	3,655		50	11,785	15,490
Salaries and wages	145,533	47,367	48,400	33,131	274,431
Security	1,300				1,300
Supplies	12,906	405	196	1,052	14,559
Telephone, internet & USOC IT	10,365	1,761		696	12,822
USOC lodging/meals	6,826				6,826
	<u>\$ 1,010,074</u>	<u>\$ 268,131</u>	<u>\$ 259,901</u>	<u>\$ 203,999</u>	<u>\$ 1,742,105</u>

UNITED STATES TAEKWONDO UNION, INC.
Schedule of Supporting Services
For the Year Ended December 31, 2004

	National Office	Board of Directors	Total
Advertising	\$ 112	\$	\$ 112
Airfare, lodging & per diem	4,847	6,050	10,897
Bank charges and credit card fees	5,130		5,130
Business meals and entertainment	498		498
Contract services, honoraria & temporary help	24,371		24,371
Depreciation and amortization	9,192		9,192
Dues, fees & subscriptions	574		574
Equipment and space rental	11,633		11,633
Gifts, medals and awards	53		53
Ground transportation, car rentals & parking	9,224	50	9,274
Insurance	10,332	26,856	37,188
Interest expense	6,943		6,943
Maintenance and repairs	731	140	871
Payroll taxes and employee benefits	62,654		62,654
Printing, duplication & postage	21,435		21,435
Professional fees	187,176	150	187,326
Salaries and wages	133,640		133,640
Security		100	100
Staff development and training	250		250
Supplies	10,416	33	10,449
Telephone, internet & USOC IT	28,532		28,532
	<u>\$ 527,743</u>	<u>\$ 33,379</u>	<u>\$ 561,122</u>