

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

FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Phil Hampel, CEO
U.S.A. National Karate-Do Federation, Inc.
Colorado Springs, CO 80906

Opinion

We have audited the accompanying financial statements of U.S.A. National Karate-Do Federation, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2020 and 2019 and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of U.S.A. National Karate-Do Federation, Inc. of December 31, 2020 and 2019, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of U.S.A. National Karate-Do Federation, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the

To the Board of Directors and Phil Hampel, CEO
U.S.A. National Karate-Do Federation, Inc.
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aggregate, that raise substantial doubt about U.S.A. National Karate-Do Federation, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of U.S.A. National Karate-Do Federation, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

To the Board of Directors and Phil Hampel, CEO
U.S.A. National Karate-Do Federation, Inc.
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- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about U.S.A. National Karate-Do Federation, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Rohn CPA Group, PC

Certified Public Accountants
Colorado Springs, CO

November 2, 2021

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 733,300	\$ 1,031,731
Accounts receivable	4,305	25,782
Prepaid expenses	<u>57,392</u>	<u>35,527</u>
	<u>794,997</u>	<u>1,093,040</u>
FIXED ASSETS		
Office equipment	119,633	119,633
Office furniture & fixtures	7,721	7,721
Athletic equipment	<u>105,397</u>	<u>105,397</u>
	232,751	232,751
Less: Accumulated depreciation	(<u>226,328</u>)	(<u>223,450</u>)
	<u>6,423</u>	<u>9,301</u>
TOTAL ASSETS	\$ <u><u>801,420</u></u>	\$ <u><u>1,102,341</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 26,262	\$ 19,233
Deferred revenue	-0-	21,465
Payroll taxes payable	-0-	3,462
Credit card payable	<u>1,992</u>	<u>13,384</u>
	<u>28,254</u>	<u>57,544</u>
NET ASSETS		
Unrestricted	<u>773,166</u>	<u>1,044,797</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u><u>801,420</u></u>	\$ <u><u>1,102,341</u></u>

See accompanying notes to financial statements.

	<u>2020</u>	<u>2019</u>
SUPPORT AND REVENUE		
Tournament fees	\$ 7,420	\$ 1,101,438
Membership fees	82,675	194,075
Commissions on merchandise sales	8,560	93,780
Contributions	37,989	26,637
USOC Support and other related organizations	261,604	178,476
Interest income	<u>246</u>	<u>698</u>
TOTAL SUPPORT AND REVENUE	<u>398,494</u>	<u>1,595,104</u>
EXPENSES		
Program services	565,382	1,343,603
Management and general	<u>104,743</u>	<u>104,693</u>
TOTAL EXPENSES	<u>670,125</u>	<u>1,448,296</u>
CHANGE IN UNRESTRICTED NET ASSETS	(271,631)	146,808
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>1,044,797</u>	<u>897,989</u>
UNRESTRICTED NET ASSETS, END OF YEAR	\$ <u><u>773,166</u></u>	\$ <u><u>1,044,797</u></u>

See accompanying notes to financial statements.

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from participants	\$ 111,572	\$ 1,275,437
Cash received from sponsors and donations	299,593	205,113
Cash received from sale of merchandise	8,560	93,780
Interest received	246	698
Cash paid to employees	(237,433)	(218,754)
Cash paid for operating expenses	(<u>480,969</u>)	(<u>1,217,622</u>)
Net cash provided (used) by operating activities	(<u>298,431</u>)	<u>138,652</u>
NET INCREASE (DECREASE) IN CASH	(<u>298,431</u>)	<u>138,652</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,031,731</u>	<u>893,079</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u><u>733,300</u></u>	\$ <u><u>1,031,731</u></u>

See accompanying notes to financial statements.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019**

NOTE 1 NATURE OF ORGANIZATION

The U.S.A. National Karate-Do Federation, Inc. (the Federation) was formed June 29, 1994 to promote and encourage the sport of karate. The Federation coordinates recreational and competitive amateur karate activities in the United States and other countries. During 1996, the Federation 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

Financial Statement Presentation - The Federation 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 Federation 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. As of December 31, 2020 there are temporarily restricted net assets of \$16,208, which consists of grant funds held for a specific purpose.

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Federation.

Advertising - The Federation expenses advertising costs as incurred. Marketing and promotion expense at December 31, 2020 and 2019 was \$17,581 and \$52,898, respectively.

Furniture and Equipment - Furniture and equipment purchased by the Federation are recorded at cost. The Federation 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 FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions - Contributions are recorded when received as with donor restrictions or without donor restrictions, depending on the existence or nature of any donor restrictions. When donor restrictions are met, donor restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as satisfied program restrictions. Donations of property and equipment are recorded at their fair value, based on management's estimates.

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.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand and short-term investments with maturities of three months or less.

Accounts Receivable - Accounts receivable is stated at the amount the Federation expects to collect from balances outstanding at year end. Based on management's assessment of the outstanding balances, it has determined an allowance for doubtful accounts for the years ended December 31, 2020 and 2019, is not necessary.

Federal Income Tax - The Federation is exempt from Federal income taxation under Internal Revenue Code Section 501(c)(3), except for unrelated business income tax. The Federation had no unrelated business income for the years ended December 31, 2020 and 2019, and therefore was not subject to federal income tax.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Furniture and Equipment - Property, furniture and equipment purchased by the Federation are recorded at cost. The Federation follows the practice of capitalizing all donated fixed

assets at fair market value. The Federation capitalizes assets expected to last more than one year. Depreciation is provided on the Modified Accelerated Cost Recovery System (MACRS) method based on the following estimated useful lives:

	<u>Years</u>
Office furniture and equipment	5-7
Athletic equipment	5-7

Depreciation expense for the years ended December 31, 2020 and 2019, was \$2,878 and \$3,525, respectively.

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 CONTINGENCIES

As of December 31, 2020, there were no lawsuits pending against the Federation.

NOTE 4 ECONOMIC DEPENDENCY

The Federation is economically dependent on the worldwide interest and participation in the art of Karate as well as sponsor of the US Olympic Committee to sustain its operations at current levels.

NOTE 5 DEFERRED REVENUE

Deferred revenue at December 31, 2020 and 2019, in the amount of \$0 and \$21,465, respectively, consisted of advance sponsor and payments and tournament fees.

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U.S.A. NATIONAL KARATE-DO FEDERATION, INC. NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

NOTE 6 LIQUIDITY OF ASSETS AND LIABILITIES

Assets and liabilities are classified as either current or long-term depending on the timeframe of their liquidity. Current assets are readily available and highly liquid. Long-term assets

are expected to be held for at least one year. Current liabilities are expected to be met within one year. Long-term liabilities are expected to be met in one year or more.

The Federation does not have any temporary or permanent donor restrictions, and thus does not need to reserve any resources for specific restrictions.

Cash and cash equivalents consist of cash held in FDIC insured bank and savings accounts.

The Federation repairs and maintains all long-term assets to ensure each last for a typical useful life.

NOTE 7 CONCENTRATIONS OF CREDIT RISK

The Federation may be subject to credit risk of its cash, which is placed with high credit-quality financial institutions. The Federal Deposit Insurance Corporation ("FDIC") covers up to \$250,000 for substantially all depository accounts. From time to time, the Federation may have amounts on deposit in excess of FDIC limits. Management believes the Federation is not exposed to any significant credit risk on cash.

NOTE 8 BOARD DESIGNATED NET ASSETS

At December 31, 2020, the Board of Directors has not designated any portion of the Federation's unrestricted net assets for any purpose.

U.S.A. NATIONAL KARATE-DO FEDERATION, INC. NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

NOTE 10 RECOGNITION OF FUNDS RECEIVED UNDER PAYCHECK PROTECTION PROGRAM (PPP)

On May 1, 2020 the Federation received funds through the government Paycheck Protection Program (PPP) in the amount of \$38,346.52. During the period immediately after receiving the funds and through the fiscal year end, the Federation met the PPP's eligibility criteria for forgiveness of the full loan

amount of \$38,346.52. The Federation analogize to *IAS 20, Accounting for Government Grants and Disclosure of Government Assistance*. IAS 20 allows a not-for-profit entity to recognize forgivable loans as grant income and to recognize the expenses for the related costs for which the grants are intended to compensate. Therefore, the Federation has recognized the PPP loan funds as grant income and the related expenses in subsequent categories and reasonably expects the full amount of the loan to be forgiven during the subsequent fiscal year.

NOTE 9 EVALUATION OF SUBSEQUENT EVENTS

The Federation has evaluated subsequent events through November 2, 2021, the date which the financial statements were available to be issued.

NOTE 10 FUNCTIONAL EXPENSES

The costs of the Federation's programs and activities have been reported on a functional basis in the Statement of Functional Expenses. Expenses are charged to each program based on direct expenses incurred. Any program expenses not directly chargeable to a program are allocated based on indirect cost allocations.

SUPPLEMENTARY INFORMATION

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Total</u>	<u>Program Services</u>	<u>Supporting Services Mgmt and General</u>	<u>Fund Raising</u>
Salaries and wages	237,433	178,075	59,358	-0-
Tournament costs	\$ 177,484	\$ 177,484	\$ -0-	\$ -0-
Insurance	66,894	65,556	1,338	-0-
Accounting fees	29,776	14,887	14,889	-0-

Rent	24,849	12,424	12,425	-0-
Contract services	21,500	21,500	-0-	-0-
Legal	20,719	15,539	5,180	-0-
Dues and membership	20,143	20,143	-0-	-0-
Payroll taxes	18,611	13,958	4,653	-0-
Advertising	17,581	17,581	-0-	-0-
Board expenses	9,041	4,520	4,521	-0-
Computer systems support	5,084	5,084	-0-	-0-
Bank and credit card charges	4,640	4,640	-0-	-0-
Travel and lodging	4,532	4,532	-0-	-0-
Telephone	3,499	3,149	350	-0-
Depreciation expense	2,878	2,878	-0-	-0-
Supplies	2,273	1,136	1,137	-0-
Office supplies	1,461	730	731	-0-
Bad debt	1,405	1,405	-0-	-0-
Miscellaneous expense	322	161	161	-0-
	<u>\$ 670,125</u>	<u>\$ 565,382</u>	<u>\$ 104,743</u>	<u>\$ -0-</u>

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U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Total</u>	<u>Program Services</u>	<u>Supporting Services Mgmt and General</u>	<u>Fund Raising</u>
Tournament costs	\$ 897,901	\$ 897,901	\$ -0-	\$ -0-
Salaries and wages	218,754	164,065	54,689	-0-
Insurance	83,465	81,796	1,669	-0-
Advertising	52,898	52,898	-0-	-0-
Bank and credit card charges	28,983	28,983	-0-	-0-
Rent	27,567	13,783	13,784	-0-
Contract services	22,000	22,000	-0-	-0-
Payroll taxes	17,781	13,336	4,445	-0-
Legal	16,464	12,348	4,116	-0-

Board expenses	15,116	7,558	7,558	-0-
Dues and membership	11,973	11,973	-0-	-0-
Accounting fees	11,405	5,702	5,703	-0-
Office supplies	9,846	4,923	4,923	-0-
Travel and lodging	8,397	8,397	-0-	-0-
Miscellaneous expense	8,357	4,179	4,178	-0-
Supplies	6,532	3,266	3,266	-0-
Computer systems support	3,714	3,714	-0-	-0-
Telephone	3,618	3,256	362	-0-
Depreciation expense	<u>3,525</u>	<u>3,525</u>	<u>-0-</u>	<u>-0-</u>
	<u>\$ 1,448,296</u>	<u>\$ 1,343,603</u>	<u>\$ 104,693</u>	<u>\$ -0-</u>