

U.S.A. National Karate-Do Federation, Inc.

Financial Statements

December 31, 2022 and 2021



MARK J PENISTON

— CPA LLC —

TAX AND FINANCIAL SERVICES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Michael Cain, CEO
U.S.A. National Karate-Do Federation, Inc.

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, 2022 and 2021, and the related statements of activities, functional expenses, 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. as of December 31, 2022 and 2021, and the changes in its 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.

Responsibilities of Management 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 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 Responsibilities for the Audit of the Financial Statements

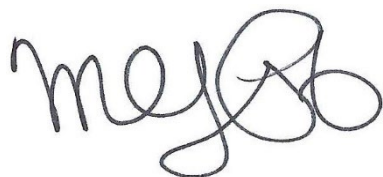
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance

with generally accepted auditing standards will always detect a material misstatement when one 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 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.
- 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.



Mark J. Peniston, CPA

Mark J. Peniston CPA LLC
Colorado Springs, CO
July 15, 2024

U.S.A. National Karate-Do Federation, Inc.
Statement of Financial Position
December 31, 2022, and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash	\$ 298,601	\$ 581,019
Accounts receivable	-	6,656
Prepaid expenses	7,648	11,316
	<u>306,249</u>	<u>598,991</u>
Fixed Assets		
Office equipment	127,759	119,633
Office furniture & fixtures	7,721	7,721
Athletic equipment	105,397	105,397
	240,877	232,751
Less: Accumulated Depreciation	<u>(236,082)</u>	<u>(227,774)</u>
	<u>4,795</u>	<u>4,977</u>
Total Assets	<u><u>\$ 311,044</u></u>	<u><u>\$ 603,968</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 3,454	\$ 167,002
Deferred revenue	-	3,625
Credit card payable	2,334	12,227
	<u>5,788</u>	<u>182,854</u>
Net Assets		
Unrestricted	305,256	421,114
Total Liabilities and Net Assets	<u><u>\$ 311,044</u></u>	<u><u>\$ 603,968</u></u>

See accompanying notes to the financial statements.

U.S.A. National Karate-Do Federation, Inc.
Statement of Activities
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Support and Revenue		
Tournament fees	\$ 679,067	\$ 502,871
Membership fees	125,881	135,355
Commissions on merchandise sales	55,072	34,683
Contributions	31,843	20,131
USOC support and other related organizations	122,508	205,787
Interest income	<u>116</u>	<u>149</u>
Total Support and Revenue	<u>1,014,487</u>	<u>898,976</u>
Expenses		
Program services	1,032,089	1,141,196
Management and general	<u>98,256</u>	<u>109,832</u>
Total Expenses	<u>1,130,345</u>	<u>1,251,028</u>
Change in Unrestricted Net Assets	(115,858)	(352,052)
Unrestricted Net Assets		
Beginning of Year	<u>421,114</u>	<u>773,166</u>
End of Year	<u><u>\$ 305,256</u></u>	<u><u>\$ 421,114</u></u>

See accompanying notes to the financial statements.

U.S.A. National Karate-Do Federation, Inc.
Statement of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Cash received from participants	\$ 804,948	\$ 635,875
Cash received from sponsors and donations	161,007	225,918
Cash received from the sale of merchandise	55,072	34,683
Interest received	116	149
Cash paid to employees	(233,623)	(232,027)
Cash paid for operating expenses	<u>(1,061,812)</u>	<u>(816,879)</u>
Net cash provided (used) by operating activities	<u>(274,292)</u>	<u>(152,281)</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	<u>(8,126)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(8,126)</u>	<u>-</u>
Net Increase (Decrease) in Cash	<u>(282,418)</u>	<u>(152,281)</u>
Cash and Cash Equivalents		
Beginning of Year	<u>581,019</u>	<u>733,300</u>
End of Year	<u><u>\$ 298,601</u></u>	<u><u>\$ 581,019</u></u>

See accompanying notes to the financial statements.

U.S.A. National Karate-Do Federation, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021

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, 2022, there are no temporarily or permanently restricted net assets.

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, 2022 and 2021 was \$10,256 and \$27,991, 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.

Contributions

Contributions are recorded when received with donor restrictions or without donor restrictions, depending on the existence or nature of any donor restrictions. When donor restrictions are met, donor restricted 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, 2022 and 2021, 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, 2022 and 2021, and therefore was not subject to federal income tax.

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, 2022 and 2021, was \$8,308 and \$1,446, respectively.

Note 3: Contingencies

As of December 31, 2022, 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, 2022 and 2021, in the amount of \$0 and \$3,625 respectively, consisted of advance sponsor and payments and tournament fees.

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, 2022, the Board of Directors has not designated any portion of the Federation's unrestricted net assets for any purpose.

Note 9: Evaluation of Subsequent Events

The Federation has evaluated subsequent events through July 15, 2024, 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, 2022

	<u>Total</u>	<u>Program Services</u>	<u>Supporting Services</u>	
			<u>Mgmt and General</u>	<u>Fund Raising</u>
Tournament costs	\$ 630,672	\$ 630,672	\$ -	\$ -
Salaries and wages	233,623	175,217	58,406	-
Insurance	65,303	63,997	1,306	-
Dues and membership	30,880	30,880	-	-
Contract services	27,000	27,000	-	-
Bank and credit card charges	25,649	25,649	-	-
Accounting fees	25,402	12,701	12,701	-
Rent	18,464	9,232	9,232	-
Payroll taxes	17,413	13,060	4,353	-
Advertising	10,256	10,256	-	-
Board expenses	9,632	4,816	4,816	-
Depreciation expense	8,308	8,308	-	-
Miscellaneous expense	7,668	3,834	3,834	-
Computer systems support	5,159	5,159	-	-
Legal	4,577	3,433	1,144	-
Office supplies	4,258	2,129	2,129	-
Telephone	3,326	2,993	333	-
Travel and lodging	2,753	2,753	-	-
Bad debt	-	-	-	-
Supplies	-	-	-	-
	<u>\$ 1,130,343</u>	<u>\$ 1,032,089</u>	<u>\$ 98,254</u>	<u>\$ -</u>

U.S.A. National Karate-Do Federation, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2021

			<u>Supporting Services</u>	
	<u>Total</u>	<u>Program Services</u>	<u>Mgmt and General</u>	<u>Fund Raising</u>
Tournament costs	\$ 718,241	\$ 718,241	\$ -	\$ -
Salaries and wages	232,027	174,020	58,007	-
Insurance	52,946	51,887	1,059	-
Accounting fees	35,748	17,873	17,875	-
Dues and membership	33,172	33,172	-	-
Advertising	27,991	27,991	-	-
Rent	26,872	13,436	13,436	-
Contract services	23,000	23,000	-	-
Travel and lodging	20,803	20,803	-	-
Payroll taxes	18,194	13,645	4,549	-
Miscellaneous expense	15,964	7,982	7,982	-
Bank and credit card charges	13,698	13,698	-	-
Legal	12,735	9,551	3,184	-
Computer systems support	5,190	5,190	-	-
Telephone	4,425	3,982	443	-
Board expenses	3,064	1,532	1,532	-
Bad debt	1,984	1,984	-	-
Office supplies	1,795	897	898	-
Supplies	1,733	866	867	-
Depreciation expense	1,446	1,446	-	-
	<u>\$ 1,251,028</u>	<u>\$ 1,141,196</u>	<u>\$ 109,832</u>	<u>\$ -</u>