

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

**FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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Monson & Bass

INC., P.S.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
U.S.A. National Karate-Do Federation, Inc.
Seattle, Washington

We were engaged to audit the accompanying statement of financial position of U.S.A. National Karate-Do Federation, Inc. (a Washington corporation) as of December 31, 2004, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management.

Because we were not engaged as auditors until after the end of the year, we were not present to observe the taking of physical inventories at December 31, 2004 (stated at \$31,727), and we were unable to satisfy ourselves concerning inventory quantities on hand at those dates by means of other auditing procedures.

Additionally, because of inadequacies in the Organization's accounting records, we were unable to satisfy ourselves about the amount of contributed services of \$359,000, membership and tournament fees totaling \$398,345, in-kind expenses of \$359,000 and tournament costs of \$196,332.

The inventory balances as of December 31, 2004 materially affect the determination of financial position, activities, and cash flows. The Organization was not able to provide evidence or corroborating evidence in support of the accompanying financial statements and we were not able to apply other auditing procedures to satisfy ourselves as to whether the financial statements are presented in accordance with generally accepted accounting principles. Therefore, 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.


Monson & Bass Inc., P.S.

November 9, 2007

U.S.A. NATIONAL KARATE-DO FEDERATION, INC
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2004

ASSETS

Grant receivable		\$ 30,562
Inventory		31,727
Prepaid insurance		36,807
Furniture and equipment:		
Office equipment	78,985	
Office furniture & fixtures	7,721	
Athletic equipment	73,202	
	<u>159,908</u>	
Less accumulated depreciation	(89,196)	
Furniture and equipment, net		70,712
Deposits		<u>2,708</u>
 Total assets		 <u><u>\$ 172,516</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Checks written against future deposits	\$ 6,759
Accounts payable	<u>8,959</u>
 Total liabilities	 <u>15,718</u>

NET ASSETS

Unrestricted	<u>156,798</u>
 Total liabilities and net assets	 <u><u>\$ 172,516</u></u>

See accompanying notes to financial statements.

U.S.A. NATIONAL KARATE-DO FEDERATION, INC
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

SUPPORT AND REVENUE - UNRESTRICTED

Public Support:

USOC Grant	\$ 120,000
Contributions	76,570
Contributed services	<u>359,000</u>

Total public support	<u>555,570</u>
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Revenue

Membership fees	142,579
Tournament fees	255,766
Marketing royalties	13,000
Gain (Loss) on disposal of fixed assets	(882)
Gross profit on merchandise sales of \$68,072	<u>22,174</u>

Total revenue	<u>432,637</u>
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TOTAL SUPPORT AND REVENUE	<u>988,207</u>
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EXPENSES

Program services	1,052,032
Management and general	4,500
Fund raising	<u>1,500</u>

TOTAL EXPENSES	<u>1,058,032</u>
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CHANGE IN UNRESTRICTED NET ASSETS	(69,825)
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UNRESTRICTED NET ASSETS, beginning of year	<u>226,623</u>
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UNRESTRICTED NET ASSETS, end of year	<u><u>\$ 156,798</u></u>
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See accompanying notes to financial statements.

U.S.A. NATIONAL KARATE-DO FEDERATION, INC
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR DECEMBER 31, 2004

			<u>Supporting Services</u>	
	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>
Accounting fees	\$ 3,040	\$ 3,040	\$ -	\$ -
Administrative services	30,000	24,000	4,500	1,500
Bad checks	380	380	-	-
Bank charges	8,774	8,774	-	-
Contributions and awards	85,424	85,424	-	-
Depreciation expense	21,130	21,130	-	-
Dues and membership	2,445	2,445	-	-
Executive director	80,000	80,000	-	-
Insurance	174,293	174,293	-	-
Legal services	48,674	48,674	-	-
Marketing and promotion	60,862	60,862	-	-
Medical services	62,000	62,000	-	-
Miscellaneous expense	8,559	8,559	-	-
Office supplies	29,690	29,690	-	-
Postage	27,311	27,311	-	-
Professional services	97,000	97,000	-	-
Rent and storage	45,660	45,660	-	-
Repairs and maintenance	3,735	3,735	-	-
Taxes and licenses	5,628	5,628	-	-
Telephone	39,195	39,195	-	-
Tournament costs	196,332	196,332	-	-
Wages - support staff	27,900	27,900	-	-
	<u>\$ 1,058,032</u>	<u>\$ 1,052,032</u>	<u>\$ 4,500</u>	<u>\$ 1,500</u>

See accompanying notes to financial statements.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (69,825)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation	21,130
Loss on disposal of equipment	882
Changes in operating assets and liabilities	
Increase in accounts receivable	(30,562)
Decrease in inventory	16,500
Decrease in prepaid expenses and deposit	6,307
Increase in accounts payable	5,974
Increase in checking account overdraft	6,759
Net cash used by operating activities	<u>(42,835)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of furniture and equipment	<u>(2,869)</u>
Net cash used in investing activities	<u>(2,869)</u>

Net decrease in cash (45,704)

CASH, beginning of year 45,704

CASH, end of year \$ -

See accompanying notes to financial statements.

**U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION

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

Advertising – The Organization expenses advertising costs as incurred. Marketing and promotion expense was \$60,862 for the year ending December 31, 2004.

Inventory – Inventory is comprised of resale merchandise and is stated at the lower of cost (determined by the first-in, first-out method) or market.

Furniture and Equipment – Furniture and equipment purchased by the Organization are recorded at cost. The Organization 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.

Revenue Recognition – Contributions and unrestricted gifts are recognized as income when received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted contributions whose restrictions are met in the same reporting period are included in unrestricted support.

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, are recorded at their fair value, based on management’s estimates, in the period received. Some volunteer services have not been reported in the financial statements because they did not meet the criteria for recognition under SFAS No. 116, “Accounting for Contributions Received and Contributions Made”.

Federal Income Tax – The Organization is exempt from Federal income taxation under Internal Revenue Code Section 501(c)(3), except for unrelated business income tax. The Organization had no unrelated business income for the year ended December 31, 2004, and therefore was not subject to federal income tax.

Use of Estimates – Management uses estimates and assumptions in preparing financial statements in accordance with the generally accepted accounting principles. 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.

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – RELATED PARTY TRANSACTIONS

The Organization received donated secretarial services from a corporation owned by the former Executive Director of the Organization. The Executive Director has donated significant time to the Organization, and the Organization has recognized revenue and expenses from those contributed services.

NOTE 4 – OPERATING LEASE COMMITMENT

On February 29, 2000, the Organization exercised its right to extend the operating lease for office space for a period of five (5) years. The lease expires on February 28, 2005.

Minimum annual rent payments are as follows:

<u>Year</u>	<u>Amount</u>
2005	\$ 8,360
	<u>\$ 8,360</u>

Rental payments for 2004 were \$45,660 and included both storage expense paid on a month to month basis and office space including parking.

NOTE 5 – CONTRIBUTED SERVICES

The following represents the breakdown by category of contributed services at December 31, 2005:

Legal Services	\$ 40,000
Medical Services	62,000
Professional Services	97,000
Executive Director	80,000
Marketing and Promotion	50,000
Administrative Services	<u>24,000</u>
	353,000
<u>Management and General</u>	
Administrative Services	4,500
<u>Fund Raising</u>	
Administrative Services	<u>1,500</u>
Total contributed Services	<u>\$ 359,000</u>

U.S.A. NATIONAL KARATE-DO FEDERATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – CONTINGENCIES

As of October 11, 2007, there is one lawsuit pending, Ronald Smith vs. USA-NKF. Mr. Smith is seeking dissolution of the organization and has made specific allegations against the former Executive Director. The Organization has filed counterclaims against Mr. Smith.

The outcome of the aforementioned claims and counterclaims is uncertain and cannot be reasonably estimated. The organization is counsel will likely waive legal fees beyond those recoverable by Mr. Smith and his attorneys.

NOTE 7 – SUBSEQUENT EVENTS

Subsequent to year end the Organization was notified that it was no longer eligible for USOC grants.