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

Financial Statements

December 31, 2025 and 2024

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MARK J PENISTON

CPA LLC

TAX AND FINANCIAL SERVICES

Table of Contents

Independent Auditor's Report 1

Financial Statements

- Statement of Financial Position 3
- Statement of Activities 4
- Statement of Cash Flows 5
- Statement of Functional Expenses 6
- Notes to Financial Statements 8

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
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, 2025 and 2024, 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, 2025 and 2024, 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.

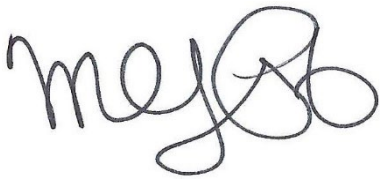
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- 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
September 1, 2026

U.S.A. National Karate-Do Federation, Inc.
Statement of Financial Position
December 31, 2025, and 2024

	2025	2024
Assets		
Current Assets		
Cash	$ 281,612	$ 259,381
Accounts receivable	30,323	100,365
Prepaid expenses	55,710	67,980
Total Current Assets	367,645	427,726
Property and Equipment		
Office equipment	137,475	129,946
Office furniture & fixtures	7,721	7,721
Athletic equipment	143,379	115,259
	288,575	252,926
Less: Accumulated Depreciation	(250,342)	(242,108)
Total Property and Equipment	38,233	10,818
Total Assets	$ 405,877	$ 438,544
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 8,556	$ 8,531
Deferred revenue	26,845	52,270
Credit card payable	21,393	39,768
Accrued liabilities	10,996	-
Total Current Liabilities	67,790	100,569
Net Assets		
Without donor restrictions	338,087	337,975
With donor restrictions	-	-
Total Net Assets	338,087	337,975
Total Liabilities and Net Assets	$ 405,877	$ 438,544

See accompanying notes to the financial statements.

U.S.A. National Karate-Do Federation, Inc.
Statement of Activities
For the Years Ended December 31, 2025 and 2024

	2025	2024
Support and Revenue		
Tournament fees	$ 1,424,868	$ 997,773
Membership fees	237,623	185,860
Merchandise sales	15,983	110,931
Trademark royalty income	42,815	44,742
Contributions	128,550	52,010
USOPC support and other related organizations	104,810	106,592
Interest income	33	42
Other income	31,639	143,631
Total Support and Revenue	1,986,321	1,641,580
Expenses		
Program services	1,897,791	1,492,893
Management and general	88,419	82,821
Total Expenses	1,986,210	1,575,714
Change in Net Assets	112	65,866
Net Assets without Donor Restrictions		
Beginning of Year	337,975	272,109
End of Year	$ 338,087	$ 337,975
Net Assets with Donor Restrictions		
Beginning of Year	-	-
End of Year	$ -	$ -
Total Net Assets	$ 338,087	$ 337,975

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, 2025 and 2024

	2025	2024
Cash Flows from Operating Activities		
Cash received from participants	$ 1,662,491	$ 1,183,632
Cash received from sponsors and donations	277,977	150,967
Cash received from merchandise sales and royalties	58,798	155,673
Cash received from miscellaneous sources	31,639	143,631
Interest received	33	42
Cash paid to employees	(177,606)	(155,839)
Cash paid for operating expenses	(1,795,452)	(1,453,571)
Net cash provided (used) by operating activities	57,880	24,535
Cash Flows from Investing Activities		
Purchase of fixed assets	(35,649)	(10,938)
Net cash provided (used) by investing activities	(35,649)	(10,938)
Net Increase (Decrease) in Cash	22,231	13,597
Cash and Cash Equivalents		
Beginning of Year	259,381	245,784
End of Year	$ 281,612	$ 259,381

See accompanying notes to the financial statements.

U.S.A. National Karate-Do Federation, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2025

	Total	Program Services	Mgmt and General
Tournament costs	$ 1,390,007	$ 1,390,007	$ -
Salaries and wages	177,606	133,205	44,401
Insurance	88,423	86,654	1,769
Dues and membership	28,411	28,411	-
Contract services	92,398	92,398	-
Bank and credit card charges	70,442	70,442	-
Accounting fees	40,761	20,381	20,380
Rent and utilities	13,323	6,661	6,662
Payroll taxes	13,944	10,458	3,486
Advertising	27,649	27,649	-
Board expenses	881	440	440
Depreciation expense	8,234	8,234	-
Miscellaneous expense	10,376	5,188	5,188
Computer systems support	6,565	6,565	-
Legal	1,505	1,129	376
Office expense	11,072	5,536	5,536
Telephone	1,800	1,620	180
Bad debt	2,813	2,813	
Travel and lodging	-	-	-
	$ 1,986,210	$ 1,897,791	$ 88,419

U.S.A. National Karate-Do Federation, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2024

	Total	Program Services	Mgmt and General
Tournament costs	$ 1,034,026	$ 1,034,026	$ -
Salaries and wages	155,839	116,879	38,960
Insurance	72,550	71,099	1,451
Dues and membership	28,261	28,261	-
Contract services	99,857	99,857	-
Bank and credit card charges	48,515	48,515	-
Accounting fees	28,892	14,446	14,446
Rent and utilities	13,556	6,778	6,778
Payroll taxes	12,259	9,194	3,065
Advertising	37,878	37,878	-
Board expenses	706	353	353
Depreciation expense	1,009	1,009	-
Miscellaneous expense	19,232	9,616	9,616
Computer systems support	4,534	4,534	-
Legal	3,395	2,546	849
Office expense	14,455	7,227	7,228
Telephone	750	675	75
Travel and lodging	-	-	-
	$ 1,575,714	$ 1,492,893	$ 82,821

U.S.A. National Karate-Do Federation, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2025 and 2024

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 United States Olympic & Paralympic Committee (USOPC).

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Federation have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Federation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions consist of resources that are available for the Federation's general operations and are not subject to donor-imposed restrictions. Net assets with donor restrictions consist of resources whose use is limited by donor-imposed time or purpose restrictions or that are required to be maintained in perpetuity.

At December 31, 2025 and 2024, the Federation had no net assets with donor restrictions.

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 reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and reported amounts of revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Federation considers cash on hand, demand deposits, and short-term investments with original maturities of three months or less to be cash and cash equivalents.

Accounts Receivable and Credit Losses

Accounts receivable are stated at the amounts management expects to collect. Management evaluates the collectibility of accounts receivable based on historical experience, specific information about individual receivables, current economic conditions, and reasonable and supportable forecasts.

An allowance for credit losses is recorded when necessary to reduce receivables to the amounts expected to be collected. Receivables determined to be uncollectible are charged against the allowance when that determination is made. Management determined that no allowance for credit losses was necessary at December 31, 2025 or 2024.

Revenue Recognition

Tournament fees are recognized at the point in time when the related tournament or event is conducted. Membership fees are recognized over the applicable membership period.

Sponsorship and other support arrangements are evaluated to determine whether they represent contributions or reciprocal exchange transactions. Revenue from exchange transactions is recognized when the Federation satisfies its related performance obligations.

Amounts received before the related performance obligations are satisfied are reported as deferred revenue. Deferred revenue consists primarily of advance tournament registration and sponsorship payments.

Merchandise Sales and Royalty Income

The Federation sells merchandise directly at its tournaments. Revenue from merchandise sales is recognized at the point in time when the merchandise is transferred to the customer. The Federation controls the merchandise before sale and reports merchandise revenue and the related cost of merchandise sold on a gross basis.

The Federation has granted Century Martial Arts the exclusive right to use the Federation’s logo on designated merchandise. Under this arrangement, the Federation earns royalties based on a percentage of Century Martial Arts’ sales of merchandise bearing the Federation’s logo. Royalty income is recognized as the related sales occur, based on sales reports provided by Century Martial Arts.

The Federation generally purchases merchandise shortly before its tournaments and does not maintain a material amount of merchandise inventory. Merchandise remaining on hand is stated at the lower of cost and net realizable value. Merchandise inventory was not material at December 31, 2025 or 2024.

Contributions

Unconditional contributions are recognized when received or promised and are classified as support with or without donor restrictions based on the existence and nature of donor-imposed restrictions.

Conditional contributions are not recognized until the conditions on which they depend have been substantially met. Amounts received before applicable conditions are satisfied are reported as refundable advances.

Contributions with donor restrictions that are satisfied in the same reporting period in which the contribution is recognized are reported as support without donor restrictions. When a donor restriction is satisfied in a subsequent period, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions and reported as net assets released from restrictions.

Contributed Nonfinancial Assets and Services

Contributed property and equipment are recognized at fair value on the date of donation. Contributed services are recognized when the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not contributed.

Contributed nonfinancial assets are recognized without donor restrictions unless their use is limited by explicit donor-imposed restrictions.

Federal Income Tax

The Federation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for taxes on unrelated business income. The Federation had no unrelated business income for the years ended December 31, 2025 and 2024.

The Federation recognizes the financial statement effects of a tax position only when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. A tax position meeting this recognition threshold is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Management determined that the Federation had no material uncertain tax positions at December 31, 2025 or 2024.

Property, Furniture, and Equipment

Property and equipment purchased by the Federation are recorded at cost. Donated property and equipment are recorded at fair value on the date of donation. Expenditures for additions and improvements that extend an asset’s useful life are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed using an accelerated method over the following estimated useful lives:

	Years
Office furniture and equipment	5-7
Athletic equipment	5-7

Depreciation expense was $8,234 and $1,009 for the years ended December 31, 2025 and 2024, respectively.

Advertising

Advertising and promotional costs are expensed as incurred. Advertising and promotional expense totaled $27,649 and $37,878 for the years ended December 31, 2025 and 2024, respectively.

Short-Term Rental Arrangements

The Federation rents storage units and trailer-storage space under month-to-month arrangements that may be terminated without significant penalty. The Federation has elected the short-term lease accounting policy for arrangements with terms of 12 months or less. Rental payments are recognized as expense as incurred, and no right-of-use assets or lease liabilities have been recorded for these arrangements.

Note 3: Accounts Receivable

At December 31, 2024, accounts receivable included $70,865 related to the Texas Event Trust Fund program arising from an event conducted by the Federation in Fort Worth, Texas.

During 2025, the Federation received $50,772 on April 22, 2025, and $17,280 on August 29, 2025, for total collections of $68,052. The remaining balance of $2,813 was deemed uncollectible and written off as bad-debt expense during 2025.

At December 31, 2025, accounts receivable consisted of $14,341 due from the Texas Event Trust Fund related to the 2025 National Karate Championships and U.S. Junior Team Trials and a $15,982 hotel refund related to the Federation's 2025 activities in Paris. These amounts, totaling $30,323, were collected in February 2026 and January 2026, respectively. Accordingly, management determined that no allowance for credit losses was necessary at December 31, 2025.

Note 4: Commitments and Contingencies

As of December 31, 2025, and through September 1, 2026, the date on which the financial statements were available to be issued, management was not aware of any pending or threatened litigation against the Federation.

Note 5: Deferred Revenue

Deferred revenue at December 31, 2025 and 2024, in the amount of $26,845 and $52,270 respectively, consisted of advance sponsorship payments and tournament fees.

Note 6: Employee Retention Credit

During 2024, the Federation received $55,951 under the Employee Retention Credit ("ERC") program related to qualified wages and health-plan expenses incurred during 2021. The ERC is a refundable payroll tax credit established under the Coronavirus Aid, Relief, and Economic Security Act and subsequently amended by related legislation.

The Federation accounts for the ERC as a conditional contribution under ASC 958-605. Based on its evaluation of the applicable program requirements, management determined that the Federation satisfied the applicable eligibility requirements and substantially met all barriers to entitlement, including the requirements relating to the qualifying decline in gross receipts and qualified wages. Accordingly, the Federation recognized $55,951 as other income during 2024.

The ERC remains subject to examination by the Internal Revenue Service. Management believes the Federation complied with the applicable program requirements, and no liability for repayment of the credit has been recorded at December 31, 2025 or 2024.

Note 7: Economic Dependency

The Federation is economically dependent on the worldwide interest and participation in the art of Karate as well as the sponsorship of the United States Olympic & Paralympic Committee (USOPC) to sustain its operations at current levels.

Note 8: Liquidity and Availability of Financial Assets

The following reflects the Federation's financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures:

	2025	2024
Cash	$ 281,612	$ 259,381
Accounts receivable	30,323	100,365
Financial assets available within one year	311,935	359,746

At December 31, 2025 and 2024, the Federation had no donor-imposed restrictions or board designations that limited the availability of these financial assets for general expenditures.

The Federation manages its liquidity by maintaining cash balances sufficient to fund its ongoing operating requirements and by monitoring expected revenues, receivable collections, and operating expenditures. Financial assets are considered available for general expenditures when they are not subject to donor restrictions, contractual limitations, or board designations that make them unavailable for use within one year.

Note 9: Concentrations of Credit Risk

The Federation maintains cash deposits with JPMorgan Chase Bank and processes certain customer payments through third-party payment processors. Bank deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per depositor, per insured financial institution, for each account ownership category.

At December 31, 2025, deposits at JPMorgan Chase Bank totaled approximately $273,145, of which approximately $23,145 exceeded FDIC-insured limits. At December 31, 2024, deposits at JPMorgan Chase Bank totaled approximately $216,574 and did not exceed FDIC-insured limits.

Cash also included payment-processor receipts in transit of approximately $8,467 and $42,807 at December 31, 2025 and 2024, respectively. These amounts are subject to counterparty and settlement risk until transferred to the Federation's bank account and were not included in the Federation's calculation of FDIC-insured bank deposits.

The Federation has not experienced losses on its bank deposits or payment-processor balances, and management believes it is not exposed to significant credit risk.

Note 10: Board-Designated Net Assets

The Federation's Board of Directors may designate portions of net assets without donor restrictions for specific purposes. At December 31, 2025 and 2024, the Board of Directors had not designated any portion of the Federation's net assets without donor restrictions for a specific purpose.

Note 11: 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.

Note 12: Evaluation of Subsequent Events

The Federation evaluated subsequent events through September 1, 2026, the date on which the financial statements were available to be issued.