

USA SURFING, INC.
Financial Statements
For the Year Ended December 31, 2020



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
USA Surfing, Inc.
San Clemente, California

We have audited the accompanying financial statements of USA Surfing, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USA Surfing, Inc. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that USA Surfing, Inc. the Corporation will continue as a going concern. As discussed in Note G to the financial statements, USA Surfing, Inc. has a deficiency in unrestricted net assets and an ongoing uncertainty in outlook that raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note G. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Emphasis-of-Other-Matter

As described in Note H, in March 2020, the World Health Organization declared a pandemic related to a fast-spreading novel strain of coronavirus. The outbreak has caused significant global disruption in commercial and noncommercial activities. The disruption may continue to have a significant impact on future financial performance; however, the ultimate impact of this global concern cannot be determined. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited USA Surfing, Inc.'s 2019 financial statements, and our report dated October 30, 2020, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McMillen & Company, PLLC
Colorado Springs, Colorado
April 21, 2021

USA SURFING, INC.
Statement of Financial Position
December 31, 2020
(With Summarized Comparative Amounts for 2019)

	<u>ASSETS</u>	
	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 140,508	\$ 477
Accounts receivable	23,251	
Prepaid expenses	<u>74,934</u>	<u>18,319</u>
Total current assets	238,693	18,796
NONCURRENT PREPAID EXPENSES		54,530
FIXED ASSETS:		
Equipment	64,603	54,966
Less: accumulated depreciation	<u>(11,392)</u>	<u>(4,211)</u>
Equipment - net	<u>53,211</u>	<u>50,755</u>
TOTAL ASSETS	<u>\$ 291,904</u>	<u>\$ 124,081</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 6,685	\$ 21,778
Accrued liabilities	15,342	
Due to related party		48,379
Due to USOPC	148,609	148,609
Deferred revenue	<u>213,597</u>	<u>115,968</u>
Total current liabilities	384,233	334,734
NET ASSETS (DEFICIENCY):		
Without donor restrictions	<u>(92,329)</u>	<u>(210,653)</u>
Total net assets (deficiency)	<u>(92,329)</u>	<u>(210,653)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 291,904</u>	<u>\$ 124,081</u>

See Notes to Financial Statements

USA SURFING, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2020
(With Summarized Comparative Totals for 2019)

	2020 Totals	2019 Totals
REVENUE:		
USOPC grants, net of return contingency and including value-in-kind of \$2,082 and \$14,940	\$ 321,637	\$ 244,001
Corporate sponsorship, net external commissions of \$64,206 and \$54,221	285,135	229,518
Other value-in-kind revenue	102,040	97,047
Events	54,076	172,809
Other fundraising	15,002	
Contributions	12,725	38,164
Membership dues	11,909	27,370
Other grants	10,006	
Licensing income	7,141	4,415
Other income (loss)		(7,457)
Total revenue	819,671	805,867
EXPENSES:		
Program services	464,816	607,821
Supporting services	236,531	243,260
Total expenses	701,347	851,081
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	118,324	(29,264)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	0	(15,950)
NET ASSETS (DEFICIENCY), beginning of year	(210,653)	(165,439)
NET ASSETS (DEFICIENCY), end of year	\$ (92,329)	\$ (210,653)

See Notes to Financial Statements

USA SURFING, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2020

	Program Services			Supporting Services	Total Expenses
	Teams	Events	Total Program Expenses	General & Administrative	
Salaries & wages	\$ 48,100	\$ 115,022	\$ 163,122	\$ 46,010	\$ 209,132
Travel	10,650	53,453	64,103	6,706	70,809
Commissions (external) & other fees				64,206	64,206
Leasing expenses	14,352	34,321	48,673	13,730	62,403
Advertising				40,334	40,334
Value-in-kind expenses	30,000		30,000	2,082	32,082
Outside services	15,154	3,349	18,503	9,910	28,413
Staffing		27,806	27,806		27,806
Accounting fees				21,225	21,225
Fundraising services & direct costs				17,073	17,073
Shipping & handling	16,860		16,860		16,860
Meals & entertainment	12,916	3,703	16,619	91	16,710
Insurance				17,390	17,390
Judges		14,000	14,000		14,000
Supplies	7,775	3,782	11,557	1,443	13,000
Miscellaneous	754	85	839	11,701	12,540
Legal & professional fees				12,850	12,850
Payroll Taxes	2,938	7,026	9,964	2,811	12,775
Coaching	11,360		11,360	(471)	10,889
Photography & videography	4,617	4,652	9,269		9,269
Computer & internet	25		25	8,321	8,346
Rent				8,200	8,200
Depreciation expense				7,182	7,182
Permits		7,117	7,117		7,117
Team entry fees	3,550	3,480	7,030		7,030
High Performance (HPC)	6,752		6,752		6,752
Uniform	188		188	5,957	6,145
Membership dues				2,500	2,500
Bank & credit card charges				1,396	1,396
Trophies		958	958		958
Other events costs		71	71	90	161
	185,991	278,825	464,816	300,737	765,553
Less: commissions (external) & other fees				(64,206)	(64,206)
Total expenses, as reported on the statement of activities	\$ 185,991	\$ 278,825	\$ 464,816	\$ 236,531	\$ 701,347

See Notes to Financial Statements

USA SURFING, INC.
Statement of Cash Flows
For the Year Ended December 31, 2020
(With Summarized Comparative Amounts for 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 118,324	\$ (45,214)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Capitalized non-cash contributions	(9,638)	(37,500)
Depreciation	7,182	2,901
(Increase) decrease in operating assets:		
Accounts receivable	(23,251)	
Prepaid expenses	(2,085)	(67,911)
Increase (decrease) in operating liabilities:		
Accounts payable	(15,093)	(10,151)
Accrued liabilities	15,342	
Due to related party	(48,379)	43,438
Due to USOPC		26,429
Deferred revenue	<u>97,629</u>	<u>89,870</u>
Total adjustments	<u>21,707</u>	<u>47,076</u>
Net cash provided by operating activities	140,031	1,862
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of equipment, cash		<u>(7,435)</u>
Net cash used by investing activities		<u>(7,435)</u>
NET INCREASE (DECREASE) IN CASH	140,031	(5,573)
CASH AND CASH EQUIVALENTS, beginning of year	<u>477</u>	<u>6,050</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 140,508</u>	<u>\$ 477</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
In-kind contributions:		
Acquisition of equipment, non-cash	<u>\$ (9,638)</u>	<u>\$ (37,500)</u>
TOTAL NON-CASH INVESTING AND FINANCING ACTIVITIES	<u>\$ (9,638)</u>	<u>\$ (37,500)</u>

See Notes to Financial Statements

USA SURFING, INC.
Notes to Financial Statements
For the Year Ended December 31, 2020

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

USA Surfing, Inc. (the Corporation) is the national governing body for the sport of surfing, making it responsible for the promotion and development of the sport in the United States of America. USA Surfing, Inc. incorporated in March 2017, in the State of California. Later in 2017, it acquired recognition as the national governing body for the sport of surfing by completing its application for recognition with the United States Olympic & Paralympic Committee (USOPC), after its predecessor entity, Surfing America, Inc., dissolved and abandoned its assets and liabilities.

Method of Accounting

The financial statements of USA Surfing, Inc. have been prepared on the accrual basis of accounting.

Basis of presentation

The financial statement presentation follows the recommendations of accounting principles generally accepted in the United States of America (GAAP).

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions: net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation.
- Net assets with donor restrictions: net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires that

is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents

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

Accounts Receivable

The Corporation states accounts receivable, if any, at the amount management expects to collect from balances outstanding at year-end.

Revenue Recognition

The Corporation has analyzed the provisions of the Financial Accounting Standard Board's (FASB) ASC Topic 606, *Revenue from Contracts with Customers*. The Corporation's revenue recognition policies are as follows:

- Event and sponsorship revenue - event and sponsorship revenue are recognized in the amount that reflects the consideration that the Corporation is entitled to in exchange for substantially fulfilling performance obligations specific to each contract. Sponsorships are recognized as revenue in the period in which the Corporation satisfies its performance obligation to its sponsors. The Corporation's performance obligations for sponsorship revenue are to provide promotion and advertising opportunities as arranged under each contract.
- Membership dues - membership dues revenue is recognized in the amount that reflects the consideration that the Corporation is entitled to in exchange for providing membership services. Dues are recognized as revenue in the period in which the Corporation satisfies its performance obligation to its members. A performance

obligation is a promise in a contract to transfer a distinct good or service to a customer, as defined by ASC 606. The Corporation's performance obligation for membership dues revenue is to provide membership services and benefits accessible only to its members.

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. However, restricted contributions are reported as an increase in net assets without donor restrictions if the restriction is satisfied in the same reporting period in which the support is recognized. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions - temporary in nature, are reclassified to net assets without donor restrictions and reported in the statement of activities as amounts released from restriction.

Depreciation

Assets are recorded at cost or fair market value, if donated, and depreciated using the straight-line method over estimated useful lives.

Use of Estimates in Preparation of Financial Statements

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 revenue and expenses. Actual results could differ from those estimates.

Functional Expenses

The costs of providing various programs and other activities have been presented on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Personnel expenses are allocated on the basis of estimates of time and effort spent by personnel in the various program and supporting services made by the Corporation's management.

Income Tax

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. Accordingly, no income tax provision has been recorded.

The Corporation's Form 990, Return of Organization Exempt from Income Tax, is subject to examination by various taxing authorities, generally for three years after the date of filing. Management of the Corporation believes that it does not have any uncertain tax positions that are material to the financial statements.

Supplemental Cash Flow Information

During the year ended December 31, 2020, the Corporation did not pay any income taxes or interest.

Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through April 21, 2021, the date that the financial statements were available to be issued.

B. AVAILABLE RESOURCES AND LIQUIDITY

The Corporation regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Corporation has cash and cash equivalents and accounts receivable as current sources of liquidity at its disposal; however, the funds are not enough to cover its current liabilities balance.

The Corporation operates under an approved budget and anticipates collecting sufficient revenue in the future to cover general expenditures over the next 12 months not covered by donor-restricted resources.

C. CONTINGENT EVENT AND OPERATING COSTS

USA Surfing, Inc. obtained recognition from the USOPC and the International Surfing Association (ISA) in 2017. At that time, the Corporation's predecessor that represented amateur surfing in the United States of America, Surfing America, Inc., was

USA Surfing, Inc.
Notes to Financial Statements
December 31, 2020

defunct. As part of its efforts to obtain recognition as the sport's representative in the United States of America, the Corporation occasionally pays amounts previously owed and now abandoned by Surfing America, Inc. to unrelated suppliers and local event organizers as current costs of doing business. The Corporation incurred additional operating costs of \$0 and \$10,000 for the years ending December 31, 2020 and 2019, respectively, relating to these amounts owed by Surfing America, Inc.

D. DEFERRED REVENUE

The Corporation has recorded \$213,597 and \$115,968 of deferred revenue as of December 31, 2020 and 2019, respectively, consisting of membership, event, and sponsorship related amounts collected in advance of satisfying respective performance obligations.

E. RELATED PARTY TRANSACTIONS, PAYABLES, CONTINGENCY, AND SUBSEQUENT EVENT

The USOPC provided grants to the Corporation as follows for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
High performance	\$ 175,545	\$ 234,060
Administration	105,000	
COVID assistance grant	36,415	
Shared services grant	33,000	7,700
Fundraising support	14,250	
Communication support	9,400	8,400
Strategic planning grant		5,000
Airlines vouchers	2,082	14,490
Other grants	750	2,431
Less: Actual payback balance	(54,805)	
Less: contingency for return of funds		(26,429)
Total	<u>\$ 321,637</u>	<u>\$ 245,652</u>

Upon examination by the USOPC and the Corporation, the USOPC and the Corporation determined that \$54,805 and \$26,429 of the 2020 and 2019 grant funds, respectively, were either not expensed or not utilized for intended purposes or in the intended year. Therefore, the USOPC has required a return of

G. GOING CONCERN

As reflected in the accompanying statement of financial position, the Corporation had a deficiency of net assets without donor restrictions at December 31, 2020, of \$92,329.

In order to reduce the deficiency of net assets, noted in previous years and ongoing, Management and the Board of Directors are pursuing the following actions:

- Members of the Board of Directors have been actively seeking contributions.
- Improved internal processes and maintained financial records in a timely manner.
- Adopted a budget by the Board of Directors and closely monitored it in comparison to actual expenditures and have taken steps to prevent cost overruns.
- Have been actively exploring other sources of revenue including corporate sponsorship and grants.
- Reduced administrative expenses.

With continued pursuit of the actions listed above, Management and the Board of Directors continue to strive for improvement in the economic outlook of the Corporation.

H. COVID-19 PANDEMIC

In March 2020, the World Health Organization declared a pandemic related to the fast-spreading COVID-19 virus. As a result of the global attention and concern arising from this disease, many event organizers have taken measures that are considered appropriate responses to limit the spread of the disease such as postponing events, including the 2020 Olympics and Paralympics. Impacts to the Corporation included disruptions or restrictions on the Corporation's ability to perform services and/or conduct events, which possibly impedes its ability to secure sponsorships and other funding. However, the Corporation has been able to maintain commitments from many sponsors. The Corporation received special USOPC funding (Note E) to mitigate the financial damage from COVID-19.