

**USA SURFING, INC.**  
**Financial Statements**  
**For the Year Ended December 31, 2019**



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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, 2019, 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, 2019, 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 the Corporation will continue as a going concern. As discussed in Note G to the financial statements, the Corporation 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 caused significant global disruption in commercial and noncommercial activities. The disruption may 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 the Corporation's 2018 financial statements, and our report dated June 8, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*McMillen & Company, PLLC*  
Colorado Springs, Colorado  
October 30, 2020

USA SURFING, INC.  
Statement of Financial Position  
December 31, 2019  
(With Summarized Comparative Amounts for 2018)

	<u>ASSETS</u>	
	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 477	\$ 6,050
Prepaid expenses	<u>18,319</u>	<u>4,938</u>
Total current assets	18,796	10,988
<b>NONCURRENT PREPAID EXPENSES</b>	54,530	
<b>FIXED ASSETS:</b>		
Equipment	54,966	10,031
Less: accumulated depreciation	<u>(4,211)</u>	<u>(1,310)</u>
Equipment - net	<u>50,755</u>	<u>8,721</u>
<b>TOTAL ASSETS</b>	<u>\$ 124,081</u>	<u>\$ 19,709</u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 21,778	\$ 31,929
Due to related party	48,379	4,941
Due to USOPC	148,609	122,180
Deferred revenue	<u>115,968</u>	<u>26,098</u>
Total current liabilities	334,734	185,148
<b>NET ASSETS (DEFICIENCY):</b>		
Without donor restrictions	(210,653)	(181,389)
With donor restrictions	<u>15,950</u>	<u>15,950</u>
Total net assets (deficiency)	<u>(210,653)</u>	<u>(165,439)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 124,081</u>	<u>\$ 19,709</u>

See Notes to Financial Statements

USA SURFING, INC.  
Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2019  
(With Summarized Comparative Totals for 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Totals</u>	<u>2018 Totals</u>
REVENUE:				
USOPC grants, net of return contingency and including value-in-kind of \$14,940	\$ 244,001	\$	\$ 244,001	\$ 168,444
Corporate sponsorship, net external commissions of \$54,221 and \$18,797	229,518		229,518	135,552
Events	172,809		172,809	169,015
Other value-in-kind revenue	97,047		97,047	2,707
Contributions	38,164		38,164	1,320
Membership dues	27,370		27,370	28,546
Licensing income	4,415		4,415	
Other income (loss)	(7,457)		(7,457)	(7,515)
Satisfied program restrictions	<u>15,950</u>	<u>(15,950)</u>	<u></u>	<u></u>
Total revenue	821,817	(15,950)	805,867	498,069
EXPENSES:				
Program services	607,821		607,821	496,542
Supporting services	<u>243,260</u>	<u></u>	<u>243,260</u>	<u>115,562</u>
Total expenses	<u>851,081</u>	<u></u>	<u>851,081</u>	<u>612,104</u>
CHANGE IN NET ASSETS	(29,264)	(15,950)	(45,214)	(114,035)
NET ASSETS (DEFICIENCY), beginning of year	<u>(181,389)</u>	<u>15,950</u>	<u>(165,439)</u>	<u>(51,404)</u>
NET ASSETS (DEFICIENCY), end of year	<u>\$ (210,653)</u>	<u>\$</u>	<u>\$ (210,653)</u>	<u>\$ (165,439)</u>

See Notes to Financial Statements

USA SURFING, INC.  
Statement of Functional Expenses  
For the Year Ended December 31, 2019

	<u>Program Services</u>		Total Program Expenses	<u>Supporting Services</u>	Total Expenses
	<u>Teams</u>	<u>Events</u>		General & Administrative	
Travel	\$ 130,685	\$ 8,968	\$ 139,653	\$ 10,810	\$ 150,463
Director salary & commissions	14,400	36,000	50,400	43,544	93,944
Staffing	500	89,089	89,589	102	89,691
Coaching	81,336		81,336		81,336
Value-in-kind expenses		14,940	14,940	59,547	74,487
Outside services	4,244	11,468	15,712	52,962	68,674
Commissions (external) & other fees				54,221	54,221
Permits	2,230	51,229	53,459	274	53,733
Judges	1,450	41,003	42,453		42,453
Meals & entertainment	13,558	8,423	21,981	15,818	37,799
Team entry fees	22,655		22,655		22,655
Supplies	2,421	18,772	21,193	611	21,804
Photography & videography	1,450	10,000	11,450	7,908	19,358
Other events costs		18,676	18,676	116	18,792
Insurance		405	405	16,434	16,839
Miscellaneous	92	1,100	1,192	11,769	12,961
Rent		1,950	1,950	8,800	10,750
Uniform	9,317		9,317	418	9,735
Trophies	78	6,796	6,874	32	6,906
Advertising	400	1,125	1,525	5,215	6,740
Computer & internet	16	80	96	5,421	5,517
Bank & credit card charges				3,479	3,479
Depreciation expense	2,901		2,901		2,901
Utilities		64	64		64
	<u>287,733</u>	<u>320,088</u>	<u>607,821</u>	<u>297,481</u>	<u>905,302</u>
Less: commissions (external) & other fees				(54,221)	(54,221)
Total expenses, as reported on the statement of activities	<u>\$ 287,733</u>	<u>\$ 320,088</u>	<u>\$ 607,821</u>	<u>\$ 243,260</u>	<u>\$ 851,081</u>

See Notes to Financial Statements

USA SURFING, INC.  
Statement of Cash Flows  
For the Year Ended December 31, 2019  
(With Summarized Comparative Amounts for 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (45,214)	\$ (114,035)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Capitalized non-cash contributions	(37,500)	
Depreciation	2,901	1,310
(Increase) decrease in operating assets:		
Prepaid expenses	(67,911)	(3,424)
Increase (decrease) in operating liabilities:		
Accounts payable	(10,151)	6,806
Due to related party	43,438	(1,139)
Due to USOPC	26,429	122,180
Deferred revenue	<u>89,870</u>	<u>4,078</u>
Total adjustments	<u>47,076</u>	<u>129,811</u>
Net cash provided by operating activities	1,862	15,776
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of equipment, cash	<u>(7,435)</u>	<u>(10,031)</u>
Net cash used by investing activities	<u>(7,435)</u>	<u>(10,031)</u>
NET INCREASE (DECREASE) IN CASH	(5,573)	5,745
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,050</u>	<u>305</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 477</u>	<u>\$ 6,050</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
In-kind contributions:		
Acquisition of equipment, non-cash	<u>\$ (37,500)</u>	<u>\$</u>
TOTAL NON-CASH INVESTING AND FINANCING ACTIVITIES	<u>\$ (37,500)</u>	<u>\$</u>

See Notes to Financial Statements



USA SURFING, INC.  
Notes to Financial Statements  
For the Year Ended December 31, 2019

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.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard implements a single, comprehensive framework for recognition of all revenue earned from customers. The topic's framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating the transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For certain entities, including USA Surfing, Inc., the standard is effective for fiscal years beginning after December 15, 2018, notwithstanding extensions available under relief from COVID-19 (Note H). During the year ended December 31, 2019, USA Surfing, Inc. adopted ASU 2014-19 using the full retrospective adoption method. In accordance with transition guidance, the entity elected to retroactively adjust only those contracts that did not meet the definition of a completed contract at the date of initial application. This guidance did not significantly impact the timing of the

## Notes to Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### New Accounting Pronouncements - continued

Corporation's revenue recognition.

In June 2018, the FASB issued standard ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard provides a more robust framework for determining whether an entity should account for a transaction as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. During the year ended December 31, 2019, USA Surfing, Inc. adopted this standard on a modified prospective basis for contracts not yet completed as of, or entered into subsequent to, the beginning of the fiscal year. The adoption did not result in a material change to how the entity accounts for revenue from contributions, grants, and contracts.

#### 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,

## Notes to Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Basis of Presentation - continued

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*, and has concluded that no material changes are necessary to conform with the new standard. 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.

## Notes to Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Revenue Recognition - continued

- 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 satisfied program restrictions.

#### 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 assumption 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.

## Notes to Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### 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, 2019, 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 October 30, 2020, 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 as a current source of liquidity at its disposal; however, the funds are not enough to cover its current liabilities balance.

## Notes to Financial Statements

### B. AVAILABLE RESOURCES AND LIQUIDITY - Continued

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 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 \$10,000 and \$13,575 for the years ending December 31, 2019 and 2018, respectively, relating to these amounts owed by Surfing America, Inc.

### D. DEFERRED REVENUE

The Corporation has recorded \$115,968 and \$26,098 of deferred revenue as of December 31, 2019 and 2018, respectively, consisting of membership, event, and sponsorship related amounts collected in advance of satisfying respective performance obligations.

### E. RELATED PARTY TRANSACTIONS AND PAYABLES

The USOPC provided grants to the Corporation as follows for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
NGB Acrobat Combat Sport	\$ 234,060	\$ 234,060
Airline vouchers	14,940	14,490
Communication Support	8,400	6,950
Shared Services grant	7,700	
Strategic Planning grant	5,000	
Other grants	2,431	1,984
Consulting Special grant		18,000

Notes to Financial Statements

E. RELATED PARTY TRANSACTIONS AND PAYABLES - Continued

Board Training		7,640
Supplemental grant		7,500
Less: contingency for return of funds	<u>(26,429)</u>	<u>(122,180)</u>
Total	<u>\$ 246,102</u>	<u>\$ 168,444</u>

Upon examination by the USOPC and the Corporation, the USOPC and the Corporation determined that \$26,429 and \$122,180 of the 2019 and 2018 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 those funds. The Corporation reduced grant revenue for each year, respectively, in response to the required return of these amounts.

During the year ended December 31, 2019, the Corporation also borrowed funds from its CEO and accrued part of his unpaid salary at year end; the total amount owed to the CEO at 2019 year end was \$48,379.

F. NET ASSETS WITH DONOR RESTRICTIONS: TEMPORARY IN NATURE

Temporarily restricted net assets are available for the following purpose as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Special grants	\$	\$ 9,000
Communication support program	<u>                    </u>	<u>6,950</u>
Total	<u>\$</u>	<u>\$ 15,950</u>

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the years ended December 31, 2019 and 2018, temporary restrictions were released for the following purposes:

	<u>2019</u>	<u>2018</u>
Special grants	\$ 9,000	\$ 9,000
Communication support program	6,950	
Board training	<u>                    </u>	<u>7,640</u>
Total	<u>\$ 15,950</u>	<u>\$ 16,640</u>

## Notes to Financial Statements

### 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, 2019, of \$210,589. For the year ended December 31, 2019, the Corporation reports a deficiency in change in net assets without donor restrictions of \$29,200 and a deficiency of \$15,950 in change in net assets with donor restrictions resulting in a total deficiency of \$45,150.

In order to reduce the deficiency of net assets noted in previous years and ongoing deficiency in net assets, 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 administration 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. SUBSEQUENT EVENT

In March 2020, the World Health Organization declared a pandemic related to a fast-spreading novel strain of coronavirus. As a result of the global attention and concern arising from this disease (COVID-19), many event organizers have taken measures that are considered appropriate responses to limit the spread of the disease, such as postponing events.

Potential impacts to the Corporation include disruptions or restrictions on the Corporation's ability to perform services and/or conduct events, which could inhibit its ability to



## Notes to Financial Statements

### H. SUBSEQUENT EVENTS - Continued

secure sponsorships and other funding. Furthermore, the financial impacts of COVID-19 on the Corporation's sponsors and grantors are unknown.

Management continues to evaluate options for appropriate response to this global concern within the context of its operations and events. However, the impact of the COVID-19 outbreak is unknown.