

**USA SURFING**  
**Financial Statements**  
**For the Year Ended December 31, 2018**



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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, 2018, 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, 2018, 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-Matter**

As described in Note A to the financial statements, USA Surfing, Inc., during the year ended December 31, 2018, adopted Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*.

### **Emphasis-of-Other-Matter**

As described in Note I, 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.

*McMillen & Company, PLLC*

Colorado Springs

June 8, 2020

USA SURFING, INC.  
Statement of Financial Position  
December 31, 2018

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 6,050
Prepaid expenses	<u>4,938</u>
Total current assets	10,988
FIXED ASSETS:	
Equipment	10,031
Less: accumulated depreciation	<u>(1,310)</u>
Equipment - net	<u>8,721</u>
TOTAL ASSETS	<u>\$ 19,709</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 31,929
Due to related party	4,941
Due to USOPC	122,180
Deferred revenue	<u>26,098</u>
Total current liabilities	185,148
NET ASSETS (DEFICIENCY):	
Without donor restrictions	(181,389)
With donor restrictions	<u>15,950</u>
Total net assets (deficiency)	<u>(165,439)</u>
TOTAL LIABILITIES AND NET ASSETS	<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, 2018

	Without Donor Restrictions	With Donor Restrictions	Totals
<b>REVENUE:</b>			
Events	\$ 169,015	\$	\$ 169,015
USOPC grants, net of contingency of \$122,180 and including the value-in-kind at \$14,490	135,854	32,590	168,444
Corporate sponsorship, net external commissions of \$18,797	135,552		135,552
Membership dues	28,546		28,546
Contributions	1,320		1,320
Other value-in-kind revenue	2,707		2,707
Other income (loss)	(7,515)		(7,515)
Satisfied program restrictions	16,640	(16,640)	
Total revenue	482,119	15,950	498,069
<b>EXPENSES:</b>			
Program services	496,542		496,542
Supporting services	115,562		115,562
Total expenses	612,104		612,104
CHANGE IN NET ASSETS	(129,985)	15,950	(114,035)
NET ASSETS (DEFICIENCY), beginning of year	(51,404)		(51,404)
NET ASSETS (DEFICIENCY), end of year	\$ (181,389)	\$ 15,950	\$ (165,439)

See Notes to Financial Statements

USA SURFING, INC.  
Statement of Functional Expenses  
For the Year Ended December 31, 2018

	<u>Program Services</u>		Total Program Expenses	<u>Supporting Services</u>	
	Teams	Events		General & Administrative	Total Expenses
Advertising	\$	\$ 8,357	\$ 8,357	\$ 1,615	\$ 9,972
Bank charges		38	38	2,147	2,185
Coaching	40,351		40,351		40,351
Commissions (external) & other fees				18,797	18,797
Computer & internet		380	380	3,145	3,525
Credit card processing				853	853
Depreciation expense	1,310		1,310		1,310
Director salary & commissions	14,400	36,000	50,400	29,141	79,541
Events supplies		13,433	13,433	4,356	17,789
Insurance		2,690	2,690	4,830	7,520
Judges	275	46,991	47,266	1,325	48,591
Meals & entertainment	13,540	11,549	25,089	2,013	27,102
Membership dues				3,200	3,200
Miscellaneous	517	842	1,359	8,604	9,963
Other events costs		15,909	15,909		15,909
Outside services				21,247	21,247
Permits	1,670	44,366	46,036	2,200	48,236
Photography	3,880	11,120	15,000		15,000
Rent				9,407	9,407
Staffing		85,014	85,014	525	85,539
Team entry fees	10,100		10,100		10,100
Team supplies	642		642		642
Travel	90,484	12,246	102,730	17,201	119,931
Trophies		8,978	8,978	145	9,123
Uniform	6,970		6,970	551	7,521
Utilities				350	350
Value-in-kind expenses		14,490	14,490	2,707	17,197
	184,139	312,403	496,542	134,359	630,901
Less: commissions (external) & other fees				(18,797)	(18,797)
Total expenses, as reported on the statement of activities	<u>\$ 184,139</u>	<u>\$ 312,403</u>	<u>\$ 496,542</u>	<u>\$ 115,562</u>	<u>\$ 612,104</u>

See Notes to Financial Statements

USA SURFING, INC.  
Statement of Cash Flows  
For the Year Ended December 31, 2018

	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (114,035)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,310
(Increase) decrease in operating assets:	
Prepaid expenses	(3,424)
Increase (decrease) in operating liabilities:	
Accounts payable	6,806
Due to related party	(1,139)
Due to USOPC	122,180
Deferred revenue	<u>4,078</u>
Total adjustments	<u>129,811</u>
Net cash provided by operating activities	15,776
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of equipment	<u>(10,031)</u>
Net cash used by investing activities	<u>(10,031)</u>
NET INCREASE IN CASH	5,745
CASH AND CASH EQUIVALENTS, beginning of year	<u>305</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,050</u>

See Notes to Financial Statements



USA SURFING, INC.  
Notes to Financial Statements  
For the Year Ended December 31, 2018

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. The Corporation 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.

Cash and Cash Equivalents

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

Accounting Standards Updates

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Corporation has adjusted the presentation of the financial statements, accordingly. The new standards change the following aspects of the Corporation's financial statements:

- The temporarily restricted and permanently restricted net asset classes, have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements now include a presentation of expenses that describes both the functional nature of the expenses and their natural classification according to the actual usage of resources.

## Notes to Financial Statements

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

#### Accounting Standards Update - continued

- The financial statements include a new disclosure about liquidity and availability of resources (Note B).

#### 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.

#### Accounts Receivable

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

#### Depreciation

The Corporation has capitalized equipment as of December 31, 2018, in the amount of \$10,031. Assets are recorded at cost or fair market value, if donated, and depreciated using the

## Notes to Financial Statements

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

#### Depreciation - continued

straight-line method over estimated useful lives. Depreciation expense amounted to \$1,310 for the year ended December 31, 2018.

#### 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 revenues and expenses. Actual results could differ from those estimates.

#### Functional Expenses

The costs of providing the 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.

#### 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.

## Notes to Financial Statements

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

#### 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.

#### Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through June 8, 2020, the date that the financial statements were available to be issued.

#### Supplemental Cash Flow Information

During the year ended December 31, 2018, the Corporation did not pay any income taxes or interest.

#### Revenue Recognition

Membership dues are recognized ratably over the term of the membership period.

### 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.

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.

## Notes to Financial Statements

### 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, amounts previously owed and now abandoned by Surfing America, Inc. to unrelated suppliers and local event organizers are occasionally paid by the Corporation as current costs of doing business. The Corporation incurred additional operating costs of \$13,575 and \$18,535 for the years ending December 31, 2018 and 2017, respectively, relating to these amounts owed by Surfing America, Inc.

### D. DEFERRED REVENUE

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

### E. RELATED PARTY TRANSACTIONS AND CONTINGENCY

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

	<u>2018</u>
NGB Acrobat Combat Sport	\$ 234,060
Consulting Special Grant	18,000
Airline vouchers	14,490
Board Training	7,640
Supplemental grant	7,500
Communication Support	6,950
Other grants	1,984
Less: contingency for return of funds	<u>(122,180)</u>
	<u>\$ 168,444</u>

Upon examination by the USOPC and the Corporation, the USOPC and the Corporation determined that \$122,180 of the 2018 grant funds were not utilized for intended purposes, in the intended 2018 year. Therefore, the USOPC has required a refund of at least \$50,000 those funds; and, Management estimates that the remaining \$72,180 is also owed back to the USOPC. The Corporation has recorded a reduction to grant revenue for \$122,180, in response to this contingency.

## Notes to Financial Statements

### E. RELATED PARTY TRANSACTIONS AND CONTINGENCY - Continued

The Corporation also has borrowed funds from its CEO; the amounts owed are reported as due to related party on the statement of financial position.

### F. NET ASSETS WITH DONOR RESTRICTIONS: TEMPORARY IN NATURE

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

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

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

	<u>2018</u>
Special grants	\$ 9,000
Board training	<u>7,640</u>
Total	<u>\$ 16,640</u>

### 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, 2018, of \$181,389 and positive net assets with donor restrictions of \$15,950. For the year ended December 31, 2018, the Corporation reports a deficiency in change in net assets without donor restrictions of \$129,985 and a positive change in net assets with donor restrictions of \$15,950 resulting in a total deficiency of \$114,035.

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.

## Notes to Financial Statements

### G. GOING CONCERN - Continued

- 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 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.