

THE TONY HAWK FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

**WITH INDEPENDENT AUDITOR'S
REPORT THEREON**

THE TONY HAWK FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Tony Hawk Foundation
Vista, California

We have audited the accompanying statements of financial position of The Tony Hawk Foundation (the Foundation) (a California nonprofit public benefit corporation) as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years 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 from 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 The Tony Hawk Foundation as of December 31, 2017 and 2016, 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.

MM & Company, LLP

MM & Company, LLP

Santa Ana, California

June 28, 2018

THE TONY HAWK FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$ 2,980,247	\$ 3,643,929
Investments	17,807	17,905
Contributions receivable	167,118	32,993
Inventory	8,505	11,186
Prepaid expense	1,029	-
Property and equipment, net of accumulated depreciation	<u>13,311</u>	<u>13,068</u>
 Total Assets	 <u>\$ 3,188,017</u>	 <u>\$ 3,719,081</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 40,309	\$ 42,980
Accrued expenses	36,663	26,926
Program grants payable	<u>546,304</u>	<u>576,304</u>
Total liabilities	<u>623,276</u>	<u>646,210</u>
 Commitment	 -	 -
Net Assets:		
Unrestricted	1,990,084	2,314,610
Temporarily restricted	<u>574,657</u>	<u>758,261</u>
Total net assets	<u>2,564,741</u>	<u>3,072,871</u>
 Total Liabilities and Net Assets	 <u>\$ 3,188,017</u>	 <u>\$ 3,719,081</u>

THE TONY HAWK FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Unrestricted Net Assets:		
Support and revenues:		
Contributions	\$ 264,932	\$ 556,884
Special events proceeds, net of direct costs	185,431	579,650
In-kind donations	-	7,500
Merchandise sales	675	-
Interest income	448	344
Dividend income	2,131	-
Unrealized gain (loss) on investments	(854)	3,444
Net assets released from restriction	<u>183,604</u>	<u>124,164</u>
Total unrestricted support and revenues	<u>636,367</u>	<u>1,271,986</u>
Expenses:		
Program services	802,804	652,280
Supporting services:		
Management and general	66,562	57,557
Fundraising	<u>91,527</u>	<u>71,824</u>
Total expenses	<u>960,893</u>	<u>781,661</u>
Change in unrestricted net assets	<u>(324,526)</u>	<u>490,325</u>
Temporarily Restricted Net Assets:		
Contributions	-	750,000
Net assets released from restriction	<u>(183,604)</u>	<u>(124,164)</u>
Change in temporarily restricted net assets	<u>(183,604)</u>	<u>625,836</u>
Increase (Decrease) in Net Assets	(508,130)	1,116,161
Net Assets – Beginning of Year	<u>3,072,871</u>	<u>1,956,710</u>
Net Assets – End of Year	<u>\$ 2,564,741</u>	<u>\$ 3,072,871</u>

**THE TONY HAWK FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

2017

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Bank Service Charge	\$ 531	\$ 529	\$ 529	\$ 1,589
Commission	3,000	-	3,000	6,000
Contract Labor	75	-	425	500
Depreciation Expense	4,162	145	532	4,839
Grants	175,000	-	-	175,000
Contributions	33,000	-	-	33,000
Insurance	46,200	3,222	5,211	54,633
Internet Access	892	31	114	1,037
Miscellaneous	2,903	1,620	1,901	6,424
Office Expense	30,089	10,848	2,207	43,144
Payroll	365,777	32,745	53,385	451,907
Postage and Delivery	4,295	453	24	4,772
Printing	5,983	-	1,994	7,977
Professional Fees	38,269	7,657	6,699	52,625
Publicity	99	-	-	99
Rent	37,800	3,990	210	42,000
Swag Donations	12,407	-	3,102	15,509
Telephone	2,826	942	942	4,710
Travel	13,022	1,736	2,604	17,362
Video Production	8,494	-	2,831	11,325
Website Expense	17,980	2,644	5,817	26,441
Total Program and Supporting Services Expenses	\$ 802,804	\$ 66,562	\$ 91,527	\$ 960,893

See accompanying notes.

**THE TONY HAWK FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

2016

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Auction Online Fees	\$ 11	\$ -	\$ 43	\$ 54
Bank Service Charge	241	240	240	721
Commission	2,975	-	2,975	5,950
Contract Labor	900	-	5,100	6,000
Depreciation Expense	3,058	107	391	3,556
Grants	193,000	-	-	193,000
Contributions	9,226	-	-	9,226
Insurance	33,190	2,635	3,155	38,980
Internet Access	616	21	79	716
Miscellaneous	4,402	4,355	2,217	10,974
Office Expense	18,217	5,196	1,895	25,308
Payroll	250,583	29,024	34,986	314,593
Postage and Delivery	8,804	929	49	9,782
Printing	8,745	-	2,915	11,660
Professional Fees	28,042	7,082	6,562	41,686
Publicity	3,132	-	-	3,132
Rent	28,800	3,040	160	32,000
Swag Donations	19,881	-	-	19,881
Telephone	2,091	697	697	3,485
Travel	11,895	1,586	2,379	15,860
Video Production	6,488	-	2,163	8,651
Website Expense	17,983	2,645	5,818	26,446
Total Program and Supporting Services Expenses	\$ 652,280	\$ 57,557	\$ 71,824	\$ 781,661

See accompanying notes.

**THE TONY HAWK FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ (508,130)	\$ 1,116,161
Adjustment to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	4,839	3,556
Unrealized (gain) loss on investments	98	(3,444)
Changes in operating assets and liabilities:		
(Increases) decreases in:		
Contributions receivable	(134,125)	167,367
Inventory	2,681	13,497
Prepaid expenses	(1,029)	-
Increases (decreases) in:		
Accounts payable	(2,671)	(10,363)
Accrued expenses	9,737	(29,865)
Program grants payable	(30,000)	(84,000)
Total adjustments	(150,470)	56,748
Net cash provided by (used in) operating activities	(658,600)	1,172,909
Cash Flows from Investing Activities:		
Purchase of furniture and equipment	(5,082)	(7,611)
Net cash used in investing activities	(5,082)	(7,611)
Net Change in Cash and Cash Equivalents	(663,682)	1,165,298
Cash and Cash Equivalents, Beginning of Year	3,643,929	2,478,631
Cash and Cash Equivalents, End of Year	\$ 2,980,247	\$ 3,643,929

See accompanying notes.

**THE TONY HAWK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The Tony Hawk Foundation (the Foundation) is a California nonprofit public benefit corporation which seeks to foster lasting improvements in society, with an emphasis on helping children. Through grants and other charitable donations, the Foundation supports programs focusing on the creation of public skateboard parks and other causes. The Foundation favors programs that clearly demonstrate that funds will produce tangible, ongoing, positive results.

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets generally result from unrestricted contributions and interest and dividends, less expenses, incurred in providing fundraising activities and other administrative expenses.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed restrictions that require the passage of time or the occurrence of a specific event to become available for unrestricted use.

Permanently Restricted Net Assets – Net assets are subject to donor-imposed restrictions that may be maintained permanently while permitting the Foundation to use or expense part or all of the income derived from the donated assets. At December 31, 2017 and 2016, there were no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Foundation considers all highly liquid investments with an original maturity of three months or less at date of purchase to be cash and cash equivalents.

**THE TONY HAWK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Income Tax

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and donations qualify for charitable contribution deductions under Section 170(b)(1)(A).

Unconditional Promises to Give

Unconditional promises to give are recognized as contributions in the period when a donor makes a promise to give and are recorded as assets, decreases of liabilities, or expenses depending on the form of the benefit received. Promises to give are recorded at net realizable value if they are expected to be collected within one year and at net present value if they are expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The majority of the promises to give are received from a broad base of contributors. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year end. No allowance for uncollectible promises were recorded by management at December 31, 2017 and 2016.

Investments

Investments in marketable securities with readily determinable fair values are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Support and Revenues

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Royalty revenues are earned on sales of licensed products with certain companies and are recognized based on net sales, as defined in the agreements, of all licensed products sold.

**THE TONY HAWK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Program Grants Payable and Program Grants Committed

The Foundation approves grants for programs focusing on the creation of public skateboard parks and other causes. Most of the grants are paid within 12 months from the date of Board approval. All grants payable are recorded upon approval by the Board of Directors. On occasion, issues arise in the planning of certain skateboard parks, which in turn, delay the Foundation from issuing payment on these approved grants for more than a year.

Additionally, challenge grants are issued which require the grantee to match the grant through fundraising. These challenge grants are considered conditional in nature and are not recorded until the condition is met.

Donated Services

The Foundation receives donated services from unpaid volunteers who assist in administration, fundraising and program activities. The value of contributed time is not reflected in the accompanying financial statements since the services do not require specialized skills.

In-Kind Donations

Contributed Facilities

Contributed use of the facilities for the years ended December 31, 2017 and 2016 are reflected in the accompanying statements of activities at their estimated market value of \$0 and \$7,500, respectively. As of June 1, 2016, the rent on the facilities was no longer contributed.

Use of Estimates in the 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, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

The Foundation places its temporary cash investments with high-credit quality Federal Deposit Insurance Corporation (FDIC) insured financial institutions. These temporary cash investments are insured up to \$250,000 per depositor at participating FDIC insured banks. The uninsured cash balance was \$2,732,728 and \$3,395,095 at December 31, 2017 and 2016, respectively.

THE TONY HAWK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Inventory

Inventory includes items purchased or donated to be used as giveaways at events. Inventory is valued at lower of cost or net realizable value using the first-in, first-out method for cost. Donated items are valued at net realizable value at the date of donation.

Property and Equipment

Property and equipment are capitalized at cost. Property and equipment are being depreciated over their estimated useful life of five years using the straight-line method.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Recent Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU is aimed to improve the presentation of financial statements of not-for-profit entities. ASU 2016-14 replaces the current presentation of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two classes of net assets – net assets with donor restrictions and net assets without donor restrictions. In addition, the ASU requires investments return to be presented net of all related external and direct internal expenses and introduces a requirement to present expenses by nature and function, as well as an analysis of these expenses in a single location. ASU 2016-14 also requires additional disclosures regarding qualitative information on how a nonprofit entity manages its liquid available resources to meet cash needs for general expenditures within one year of the balance sheet date and quantitative information that communicates the availability of a nonprofit's financial assets to meet cash needs for general expenditures within one year of the balance sheet date. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. The Foundation is currently evaluating this standard and the impact on its financial statements and disclosures.

Subsequent Events

The Foundation has evaluated subsequent events through June 28, 2018, which was the date the financial statements were available to be issued.

THE TONY HAWK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. PROPERTY AND EQUIPMENT

The Foundation's property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Furniture and Equipment	\$ 44,923	\$ 39,841
Less: Accumulated Depreciation	<u>(31,612)</u>	<u>(26,773)</u>
Total	<u>\$ 13,311</u>	<u>\$ 13,068</u>

Depreciation expense was \$4,839 and \$3,556 for the years ended December 31, 2017 and 2016, respectively.

3. FAIR VALUE

The Foundation adopted FASB ASC 820-10, *Fair Value Measurements and Disclosures – Overall*, (ASC 820-10) with respect to its financial and non-financial assets and liabilities. ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under ASC 820-10 are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following table sets forth the Foundation's financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by ASC 820-10, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

**THE TONY HAWK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

3. FAIR VALUE (Continued)

Fair Value at December 31, 2017				
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 272,886	\$ 272,886	\$ -	\$ -
Equities	17,807	17,807	-	-
	\$ 290,693	\$ 290,693	\$ -	\$ -
Fair Value at December 31, 2016				
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 271,511	\$ 271,511	\$ -	\$ -
Equities	17,905	17,905	-	-
	\$ 289,416	\$ 289,416	\$ -	\$ -

Cash equivalents, which are included in cash and cash equivalents, are comprised of money market accounts, cash equivalents and equities and are classified within Level 1 of the fair value hierarchy since it is valued using quoted market prices.

4. PROGRAM GRANTS PAYABLE

Of the \$546,304 and \$576,304 grants payable at December 31, 2017 and 2016, \$546,304 and \$576,304, respectively, have been outstanding over 12 months. Management is confident that all issues will be resolved, and the grant payments will be made to the recipients.

Minimum future payments for grants payable are as follows:

Years Ending December 31,	Amount
2018	\$ 546,304
Total	\$ 546,304

THE TONY HAWK FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

5. SPECIAL EVENTS

Total gross revenues for special events associated with the Foundation's fundraising activities for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Gross Revenues, Including Pledges	\$ 562,220	\$ 1,063,248
Direct Costs	<u>(376,789)</u>	<u>(483,598)</u>
Net revenue	<u>\$ 185,431</u>	<u>\$ 579,650</u>

6. COMMITMENT

The Foundation leases its premises from an entity which is owned by the President of the Board of Directors under an operating lease which was amended effective May 31, 2016 and now expired on December 31, 2017. Total rent expense under this lease for the years ended December 31, 2017 and 2016 was \$42,000 and \$32,000, respectively. The rent has been donated and reflected in the statement of activities through May 31, 2016 as in-kind donations. As of June 1, 2016, the annual rent was \$42,000 and is no longer donated to the Foundation.

7. RELATED PARTY TRANSACTIONS

A principal of Hawk Management Inc. (HMI) serves on the Board of Directors of the Foundation and helps secure sponsorship for the Foundation's fundraising events. The Foundation pays HMI a 10% commission for securing sponsorships. Total commission expense paid to HMI for the years ended December 31, 2017 and 2016 was \$10,500 and \$8,500, respectively. The agreement was automatically renewed, per the agreement, in 2016 and expires on September 4, 2018.

During the year ended December 31, 2010, agreements were entered into with various related entities for providing services to the Foundation, which were formerly recorded as in-kind donations in earlier years. The payments to these related parties during the year ended December 31, 2017 and 2016 were \$127,190 and \$130,609 for accounting, design services, video production/photography, and expense reimbursements.

At December 31, 2017 and 2016, the Foundation had an outstanding balance due to HMI of \$5,500 and \$1,000, respectively.