CouchSurfing

Financial Statements
with
Independent Auditors' Report

Year Ended December 31, 2010

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LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
CouchSurfing International Inc.
San Francisco, California

We have audited the accompanying statement of financial position of CouchSurfing International Inc. (the Corporation) as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CouchSurfing International Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lautze & Lautze

San Francisco, California
June 2, 2011

COUCHSURFING INTERNATIONAL INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2010

ASSETS		
Cash and cash equivalents	$	192,295
Certificate of deposit		135,063
Prepaid expenses		8,527
Trademarks, net		28,042
Total assets	$	363,927
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$	20,800
Accrued expenses		37,974
Accrued salaries		21,150
Total liabilities		79,924
Commitments		
Net assets - unrestricted		284,003
Total liabilities and net assets	$	363,927

See notes to financial statements.

COUCHSURFING INTERNATIONAL INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2010

Revenue and other support:	
Donations	$ 1,907,274
Sublease income	35,870
Interest income	2,098
Other revenue	1,296
Total revenue and other support	1,946,538
Expenses:	
Program services	1,484,752
Management and general	486,138
Total expenses	1,970,890
Change in net assets	(24,352)
Net assets - unrestricted	
Beginning of year	308,355
End of year	$ 284,003

See notes to financial statements.

COUCHSURFING INTERNATIONAL INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2010

	Program Services	Management and General	Total
Professional services	$ 516,298	$ 164,851	$ 681,149
Salaries and benefits	513,921	135,284	649,205
Bank and credit card processing fees	93,014	30,783	123,797
Occupancy	77,051	25,692	102,743
Travel	64,990	25,338	90,328
Verification supplies and other related expenses	85,323	-	85,323
Equipment maintenance	79,741	-	79,741
Payroll taxes	-	54,501	54,501
Office expenses	16,045	10,272	26,317
Website hosting fees	25,473	381	25,854
Insurance	-	16,435	16,435
Other expenses	6,550	7,908	14,458
Utilities	6,273	3,885	10,158
Payroll processing	-	7,549	7,549
Amortization	-	2,314	2,314
Taxes	73	945	1,018
Total expenses	$ 1,484,752	$ 486,138	$ 1,970,890

COUCHSURFING INTERNATIONAL INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2010

Cash flows from operating activities:		
Change in net assets	$	(24,352)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Reinvested interest income		(1,307)
Amortization		2,314
(Increase) decrease in assets:		
Prepaid expenses		36
Deposits		24,088
Increase (decrease) in liabilities:		
Accounts payable		(22,319)
Accrued expenses		37,974
Accrued salaries		21,150
Net cash provided by operating activities		37,584
Net increase in cash and cash equivalents		37,584
Cash and cash equivalents:		
Beginning of year		154,711
End of year	$	192,295

See notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

CouchSurfing International Inc. (the Corporation), founded in 2004, is an international non-profit network that connects travelers with locals in over 230 countries and territories around the world. The Corporation provides a system for members to come together for cultural exchange, friendship, and learning experiences.

The Corporation's mission statement is as follows:

> *Our mission as an organization is to create inspiring experiences: cross-cultural encounters that are fun, engaging, and illuminating. These experiences take many forms. CouchSurfing's initial focus was on hosting and "surfing" (staying with a local as a guest in their home). Alongside these core experiences, we now also facilitate a growing array of activities and events.*
>
> *We have a vision of a world where everyone can explore and create meaningful connections with the people and places they encounter. Each CouchSurfing experience shared by our members brings us closer to that vision.*

The Corporation is incorporated in New Hampshire as a nonprofit and is qualified to do business in California. The Corporation is not tax exempt under federal or state law and donations to the Corporation are not tax deductible.

According to the Corporation's Articles of Agreement of a New Hampshire Non-Profit Corporation:

> *The Corporation shall not carry on any other activities not permitted to be carried on (a) by an organization exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (IRC), or corresponding section of any future federal tax code, or (b) by any organization, contributions to which are deductible under §170(c)(2) of the IRC, or corresponding section of any future federal tax code.*
>
> *In the event of dissolution, the residual assets of the Corporation will be turned over to one or more organizations which themselves are exempt as organizations described in §501(c)(3) and §170(c)(2) of the IRC of 1986 or corresponding sections of any prior or future IRC, or to the Federal, State, or local government for exclusive public purpose.*

Basis of Accounting

The Corporation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

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

Basis of Presentation

Classification of Net Assets

Accounting principles generally accepted in the United States of America require that the Corporation 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. Accordingly, the net assets of the Corporation are classified and reported as described below:

Unrestricted: Those net assets and activities which represent the portion of expendable funds that are available to support the Corporation's operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily Restricted: Those net assets and activities which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently Restricted: Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

The Corporation does not presently have any net assets or activities meeting the definition of temporarily restricted or permanently restricted.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Corporation considers all highly liquid investments with a maturity of three months of less when purchased to be cash equivalents.

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

Property and Equipment

The Corporation capitalizes acquisitions of property and equipment with a cost or value in excess of $3,000 and with an estimated useful life beyond one year. Purchased assets are recorded at cost; donated assets are recorded at estimated fair value or appraised value at the date of acquisition. Depreciation is calculated using the straight-line method based upon estimated useful lives. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statement of activities.

Intangibles

Trademarks are stated at cost and amortized using the straight-line method over an estimated useful life of 10 years. The amortization expense for the next five years is expected to be approximately $3,300 per year.

The Corporation has title to or has applied for certain trademarks. The Corporation periodically evaluates the recoverability of unamortized trademarks and will record an impairment loss to its net realizable value.

Revenue Recognition

Contributions

The Corporation recognizes all contributions in the year of receipt, regardless of compliance with restrictions. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as either temporarily restricted or permanently restricted support, depending upon the type of restriction.

The satisfaction of a donor-imposed restriction on a contribution is recognized when the corresponding expenditures are incurred or when the time restriction expires. This occurs by increasing one class of net assets and decreasing another in the statement of activities. Such transactions are recorded as *net assets released from restrictions* and are reported separately from other transactions.

Contributed Goods and Services

Donated material and equipment are recorded as contributions at their estimated value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Corporation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

Revenue Recognition (Continued)

Contributed Goods and Services (Continued)

The Corporation records contribution revenue for certain services received at the fair value of those services, if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased if not donated.

For the year ended December 31, 2010, there were no contributed services that would materially impact the financial statements as presented.

Investment Income

Realized and unrealized gain and losses and investment income (losses) derived from investment transactions are included as income in the year earned.

Sublease Income

Sublease income results from subletting facilities to employees and volunteers and is recognized as revenue in the year it is due.

Income Taxes

For Federal income tax and California franchise tax purposes, income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related to temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and net operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between reported amounts of assets and liabilities and the tax basis of the assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Corporation has adopted the accounting standard on accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and requires the affirmative evaluation that is more-likely-than-not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from tax positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. This standard also requires organizations to disclose additional quantitative and qualitative information in their financial statements about uncertain tax positions.

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

Income Taxes (continued)

The Corporation's evaluation on December 31, 2010 revealed no tax positions that would have a material impact on the financial statements. The 2008 through 2010 tax years remain subject to examination by the IRS and the New Hampshire Department of Revenue. The 2007 through 2010 tax years remain subject to examination by the California Franchise Tax Board. The Corporation does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

Concentrations of Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and certificates of deposit. The Corporation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in these accounts. Management believes it is not exposed to any significant credit risk related to concentrations.

2. TRADEMARKS

Trademarks consist of the following:

Trademarks	$ 33,056
Less accumulated amortization	(5,014)
	$ 28,042

Amortization expense on trademarks was $2,314 for the year ended December 31, 2010.

3. INCOME TAXES

The net deferred tax asset consists of the following:

Federal deferred tax asset	$	660,239
California deferred tax asset		171,662
Valuation allowance		(831,901)
Net deferred tax asset	$	-

The Corporation's deferred tax assets primarily result from net operating loss carryforwards. These deferred tax assets have been reduced by a valuation allowance because the Corporation believes the carryforwards may not be fully utilized before they expire.

The Corporation has federal and state net operating loss carryforwards totaling approximately $3,900,000 available to offset future taxable income through 2030.

4. RETIREMENT PLAN

The Corporation established an IRC §401(k) profit sharing plan for eligible employees. Eligible employees are full-time employees who have completed three months of consecutive service. All eligible employees may make voluntary contributions by salary reduction to the plan, up to the limits allowed by law. The Corporation may provide a discretionary matching contribution determined annually. No matching contributions were made to the plan for the year ended December 31, 2010.

5. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for franchise taxes for the year ended December 31, 2010 was $800.

6. SUBSEQUENT EVENTS

The Corporation has evaluated all subsequent events through June 2, 2011, the date the financial statements were available to be issued.