INTERNATIONAL SURFING ASSOCIATION

For a Better Surfing Future

Audited Financial Statements

INTERNATIONAL SURFING ASSOCIATION, INC.

For the Year Ended December 31, 2016

INTERNATIONAL SURFING ASSOCIATION, INC.

Contents

For the Year Ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
INTERNATIONAL SURFING ASSOCIATION, INC.
La Jolla, California

We have audited the accompanying financial statements of International Surfing Association, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2016 and the related statements of activities, 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.

Auditors' Responsibilities

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.

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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 International Surfing Association, Inc. as of December 31, 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.

Gelman LLP

August 9, 2018
Santa Ana, California

INTERNATIONAL SURFING ASSOCIATION, INC.
Statement of Financial Position
December 31, 2016

ASSETS

Current assets:	
Cash and cash equivalents	$ 638,182
Accounts receivable, net	198,094
Inventory	1,685
Prepaid expenses and other current assets	13,874
Total current assets	851,835
Property and equipment:	
Office equipment	21,707
Furniture and fixtures	10,998
Leasehold improvements	40,791
Property and equipment	73,496
Less: accumulated depreciation and amortization	51,841
Total property and equipment, net	21,655
Other assets:	
Deposits	2,000
Due from ISA Foundation	302,588
Total other assets	304,588
	$ 1,178,078

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	$ 53,088
Deferred rent payable	10,247
Deferred revenue	150,000
Event deposits	96,260
Total current liabilities	309,595
Net assets, unrestricted	868,483
	$ 1,178,078

INTERNATIONAL SURFING ASSOCIATION, INC.
Statement of Activities
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Event revenue	$ 1,641,059	$ -	$ 1,641,059
Membership dues	47,570	-	47,570
Grants	31,230	-	31,230
Other income	25,398	-	25,398
Interest income	29	-	29
Total support and revenue	1,745,286	-	1,745,286
Expenses:			
Program services	1,166,958	-	1,166,958
Management and general	241,521	-	241,521
Interest expense	1,220	-	1,220
Loss on sale of property and equipment	562	-	562
Total expenses	1,410,261	-	1,410,261
Change in net assets	335,025	-	335,025
Net assets, beginning of year	533,458	-	533,458
Net assets, end of year	$ 868,483	$ -	$ 868,483

See accompanying notes to the financial statements

INTERNATIONAL SURFING ASSOCIATION
Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services	Management and General	Total
Advertising and promotion	$ 11,785	$ -	$ 11,785
Bad debts	17,480	-	17,480
Bank charges	11,044	521	11,565
Depreciation and amortization	6,801	4,534	11,335
Dues and subscriptions	1,816	-	1,816
Employee benefits	20,101	13,400	33,501
Event expense	809,649	-	809,649
Filling fees	-	1,534	1,534
Insurance	4,098	3,735	7,833
Miscellaneous	12,960	-	12,960
Office and facilities rent	23,121	18,607	41,728
Office supplies	12,875	6,738	19,613
Payroll taxes	18,456	12,304	30,760
Professional fees	7,350	52,911	60,261
Program supplies	17,297	-	17,297
Repairs and maintenance	1,273	-	1,273
Salaries and wages	179,156	119,438	298,594
Telephone	4,078	2,719	6,797
Travel and mileage	7,618	5,080	12,698
Total functional expenses	$ 1,166,958	$ 241,521	$ 1,408,479

INTERNATIONAL SURFING ASSOCIATION

Statement of Cash Flows
For the Year Ended December 31, 2016

Cash Flows From Operating Activities:	
Net income	$ 335,025
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation and amortization	11,335
Loss on disposal of property and equipment	562
(Increase) decrease in:	
Accounts receivable, net	(55,974)
Inventory	12,186
Prepaid expenses and other current assets	(12,382)
Increase (decrease) in:	
Accounts payable and accrued expenses	(8,224)
Deferred rent payable	(7,475)
Deferred revenue	85,107
Event deposits	88,068
Net cash provided by operating activities	448,228
Cash Flows From Investing Activities:	
Purchases of property and equipment	(2,500)
Loans to ISA Foundation	(162,155)
Collections from ISA Foundation	180,752
Net cash provided by investing activities	16,097
Net increase in cash and cash equivalents	464,325
Cash and cash equivalents at December 31, 2015	173,857
Cash and cash equivalents at December 31, 2016	$ 638,182

Note 1 – Summary of Significant Accounting Policies

Nature of Operations - International Surfing Association, Inc. ("ISA") is a non-profit organization recognized by the International Olympic Committee ("IOC") as the world's governing authority for surfing, body boarding and all wave riding sports. ISA is dedicated to the development of these sports worldwide and provides guidance and advice to its members around the world on matters such as competition, judging, coaching, surfing schools, anti doping and drug testing and other areas supporting the development of the sport. ISA is also a member of the Association of IOC Recognized International Sports Federations (ARISF), the World Anti-Doping Agency (WADA), Sport Accord, and the International World Games Association, (IWGA).

Use of Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reporting amounts of assets and liabilities and disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Financial Statement Presentation - The Organization reports information regarding its financial position and activities according to the three classes of net assets:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Organization.

Temporarily Unrestricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met by actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions received and expended in the same period are recorded as unrestricted support. At December 31, 2016, the Organization did not have any temporarily restricted net assets.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions requiring that the amounts contributed be invested in perpetuity. The investment income generated from these funds is available for general support of the Organization's programs and operations. At December 31, 2016, the Organization did not have any permanently restricted net assets.

Cash and Cash Equivalents – The Organization considers all liquid debt instruments and short-term investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable - Accounts receivable are recorded when earned and consisted primarily of membership dues, income from promoting and hosting events, and other income earned but not yet received. Normal accounts receivable are due 30 days after the issuance of the invoices, or as specified by the individual customer terms. Customer account balances with invoices dated over 45 days old are considered past due. Accounts receivable are reported net of an allowance for doubtful accounts. Management estimated the allowance based on the percentage of historical bad debts and individual circumstances. Individual account receivables are charged to the allowance for doubtful accounts based on management's evaluation of outstanding receivables. At December 31, 2016, the allowance for doubtful accounts was approximately $13,500.

Note 1 – Summary of Significant Accounting Policies (Continued)

Property and Equipment, and Related Depreciation and Amortization - Property and equipment are stated at cost. Major renewals and improvements are charged to the property accounts while replacements, maintenance, and repairs which do not extend the estimated useful lives of the respective assets are expensed currently.

At the time property and equipment is sold or otherwise disposed of, the cost basis and related accumulated depreciation and amortization accounts are relieved of the applicable amounts and any gain or (loss) is recorded.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives of the assets are as follows:

Assets	Estimated Useful Lives
Office equipment	3 – 5 years
Furniture and fixtures	5 years
Leasehold improvements	Lease term

Depreciation and amortization expense related to property and equipment was approximately $11,300 for the year ended December 31, 2016.

Impairment of Long-Lived Assets – The Organization regularly reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future cash flows is less than the carrying amount of the asset, the Organization recognizes an impairment loss. Management determined that a provision for impairment losses was not required for the year ended December 31, 2016.

Revenue Recognition - Revenue is recognized upon performance of the service or event timing less the allowance of applicable discounts. The Organization's revenue is derived primarily from membership dues and fees for promoting and hosting events. All revenues are considered unrestricted, unless specifically restricted by the donors.

Deferred Revenue - Reflects the advance payments received by the Organization for services or events to be performed or held subsequent to the balance sheet date and is presented in the financial statements net of any related direct costs.

Expense Allocations - The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statement of activities and presented in detail in the statement of functional expenses. Accordingly, certain costs have been allocated among those activities based on the estimated percentage attributable to those activities.

<u>Note 1 – Summary of Significant Accounting Policies</u> (Continued)

Fair Value Measurements – The Organization, when required, measures and discloses certain financial assets and liabilities under the established framework for determining fair value. That framework provides 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 standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

There are no assets or liabilities currently measured using level 1, 2 or level 3 inputs.

The carrying values of cash and cash equivalents, accounts receivable, other assets and accounts payable and other liabilities approximate their fair values due to their short-term nature.

Provision for Income Taxes - The Organization is exempt from federal income tax under Section 501(c)(4) of the Internal Revenue Code and corresponding provisions of the Revenue and Taxation Code of California. However, if the Organization has income from certain activities not directly related to its' tax-exempt purpose, it is subject to taxation as unrelated business income. The Organization had no unrelated business income for the year ended December 31, 2016.

In accordance with applicable guidance issued by the Financial Accounting Standard Board (the "FASB"), the Organization evaluates each of its income-producing activities to assess whether a tax examination would more-likely-than-not determine whether the transactions associated with the activities are tax exempt.

Accounting principles generally accepted in the United States of America require the Organization to evaluate tax positions taken by the Organization and recognize a tax liability or asset if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by taxing jurisdictions. Management has performed an analysis of potential uncertain tax positions and has determined that there are no uncertain tax positions that are more likely than not to be changed upon examination. The Organization's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in management and general expenses. With few exceptions, the Organization is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2012.

Note 1 – Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements – In May 2014, the FASB issued new accounting guidance which amended the existing accounting standards for revenue recognition. The new accounting guidance (the "Revenue Guidance") establishes principles for recognizing revenue upon the transfer of promised goods or services to customers in amounts that reflect the expected consideration received in exchange for those goods or services. The Organization continues to evaluate the impact of the Revenue Guidance on its financial statements, including the expected impact on its business processes, systems, controls, and potential differences in the timing or method of revenue recognition for its contracts. The Revenue Guidance also requires expanded disclosures regarding the nature, amount, timing and uncertainty of revenue that is recognized. The Revenue Guidance is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning December 15, 2019. Early application of the Revenue Guidance is permitted.

In February 2016, the FASB issued new accounting guidance which changes accounting requirements for leases (the "Lease Guidance"). The Lease Guidance requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the Organization's balance sheet. The Lease Guidance also requires disclosure of significant information about leasing arrangements to increase transparency and comparability among organizations. The Organization continues to evaluate the impact of the Lease Guidance on its financial statements. The Lease Guidance will be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application of the Lease Guidance is permitted.

Note 2 – Concentrations of Credit Risk

Cash and Cash Equivalents - Cash and cash equivalents are deposited with high credit quality financial institutions. The Organization maintains cash deposits with financial institutions that exceeded amounts covered by the insurance provided by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in the accounts, and management believes it is not exposed to significant risk of loss related to the excess deposits.

Accounts Receivable and Revenue - Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of accounts receivable. The Organization requires no collateral from its customers but performs ongoing credit evaluations of its customers' financial condition. Accordingly, the entire accounts receivable balance is subject to credit risk.

As of December 31, 2016, approximately 80% of the accounts receivable balance is due from three customers. For the year ended December 31, 2016, approximately 93% of revenues were received from four customers. A decision by a significant customer to decrease the amount of hosted events could have a material adverse effect on the Organization's financial position and results of operations.

Note 3 – Related Party Transactions

Under the provisions of the applicable standards set forth by the FASB under "Consolidation of Variable Interest Entities," the Organization is required to perform tests of various entities with which it has extensive related party transactions to determine whether any of the entities are variable interest entities that should be consolidated within the Organization's financial statements. As of December 31, 2016, management determined that the Organization did not have any known variable interest entities that required consolidation.

The following is a summary of the related party transactions:

Due from Affiliate - The Organization provides management support functions for its affiliate, ISA Foundation (the "ISAF"), a 501(c)(3) organization, and is reimbursed for the cost of these services. For the year ended December 31, 2016, there were approximately $162,200 of additional costs incurred and approximately $180,800 of reimbursements for the costs of those services. At December 31, 2016, there was approximately $302,600 due from ISAF.

Note 4 – Commitments

The Organization leases office space under the terms of non-cancelable operating leases expiring in December 2018, with monthly payments of approximately $4,800. Rent expense incurred under the term of the lease for the year ended December 31, 2016 was approximately $41,700.

Future minimum lease payments due under the operating lease in excess of one year are as follows:

Year Ending December 31,	
2017	$ 60,438
2018	67,251
	$ 127,689

Note 5 – Contingencies

Contingencies - In the normal course of business, the Organization is subject to legal proceedings, claims, assessments and subject to various local, state and federal environmental regulations. Management believes that these obligations will not have a material impact on the Organization's financial position or its results of operations.

Note 6 – Subsequent Events

The Organization has evaluated subsequent events through August 9, 2018, the date which the financial statements were available to be issued. Subsequent to year end, the Organization was dissolved and the assets transferred to its affiliate, ISAF. The operations of the Organization will continue through ISAF, going forward.

Management's evaluation of subsequent events has determined that there are no other events that require additional disclosures.