INTERNATIONAL SURFING ASSOCIATION

For a Better Surfing Future

Audited Financial Statements

INTERNATIONAL SURFING ASSOCIATION, INC.

For the Year Ended December 31, 2017

INTERNATIONAL SURFING ASSOCIATION, INC.
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For the Year Ended December 31, 2017

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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, 2017 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, 2017, 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

September 11, 2018
Santa Ana, California

INTERNATIONAL SURFING ASSOCIATION, INC.
Statement of Financial Position
December 31, 2017

ASSETS

Current assets:	
Cash and cash equivalents	$ 831,408
Accounts receivable	166,346
Inventory	1,685
Prepaid expenses and other current assets	26,628
Total current assets	1,026,067
Property and equipment:	
Furniture and equipment	10,998
Leasehold improvements	40,791
Computer equipment	21,707
Property and equipment	73,496
Less: accumulated depreciation and amortization	62,836
Total property and equipment, net	10,660
Other assets:	
Deposits	2,000
Investment in Waterman League Group Limited	100,000
Total other assets	102,000
Total assets	$ 1,138,727

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	$ 81,343
Deferred revenue	180,600
Event deposits	29,824
Other accrued expenses	17,500
Total current liabilities	309,267
Net Assets, Unrestricted:	829,460
Total liabilities and net assets	$ 1,138,727

INTERNATIONAL SURFING ASSOCIATION, INC.

Statement of Activities

For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Development programs	$ 552,520	$ -	$ 552,520
Event revenue	1,472,725	-	1,472,725
Membership dues	43,200	-	43,200
Grants	66,270	-	66,270
Other income	122,415	-	122,415
Interest income	27	-	27
Total support and revenue	2,257,157	-	2,257,157
Expenses:			
Program services	1,546,289	-	1,546,289
Management and general	569,169	-	569,169
Interest expense	986	-	986
Total expenses	2,116,444	-	2,116,444
Change in net assets before the net contribution resulting from the merger	140,713	-	140,713
Net contribution resulting from the merger of ISA	868,483	-	868,483
Change in net assets	1,009,196	-	1,009,196
Net assets, beginning of year	(179,736)	-	(179,736)
Net assets, end of year	$ 829,460	$ -	$ 829,460

INTERNATIONAL SURFING ASSOCIATION, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2017

	Program Services	Management and General	Total
Advertising and promotion	$ 31,741	$ -	$ 31,741
Bad debts	15,526	-	15,526
Bank charges	-	31,678	31,678
Depreciation and amortization	-	10,995	10,995
Development programs	171,487	-	171,487
Dues and subscriptions	3,205	-	3,205
Employee benefits	25,546	17,031	42,577
Event expense	826,301	-	826,301
Filing fees	85	1,133	1,218
Insurance	5,792	3,864	9,656
Miscellaneous expense	4,375	6,337	10,712
Office and facilities rent	29,889	26,978	56,867
Office supplies	15,188	10,125	25,313
Payroll taxes	22,016	14,677	36,693
Professional fees	10,403	214,456	224,859
Program supplies	39,939	-	39,939
Repairs and maintenance	-	2,030	2,030
Salaries and wages	301,085	200,723	501,808
Telephone	6,923	4,615	11,538
Travel and mileage	36,788	24,527	61,315
Total functional expenses	$ 1,546,289	$ 569,169	$ 2,115,458

INTERNATIONAL SURFING ASSOCIATION, INC.

Statement of Cash Flows
For the Year Ended December 31, 2017

Cash Flows From Operating Activities:	
Change in net assets before changes related to the merger	$ 140,713
Adjustments to reconcile change in net assets before changes related to merger to net cash provided by operating activities	
Depreciation and amortization	10,995
(Increase) decrease in:	
Accounts receivable	57,228
Prepaid expenses	(12,754)
Increase (decrease) in:	
Accounts payable and accrued expenses	(21,785)
Deferred rent payable	(10,247)
Deferred revenue	20,600
Event deposits	(66,436)
Net cash provided by operating activities	118,314
Cash Flows From Investing Activities:	
Cash received in merger	638,181
Investment in Waterman League Group Limited	(100,000)
Net cash provided by investing activities	538,181
Net increase in cash and cash equivalents	656,495
Cash and cash equivalents at December 31, 2016	174,913
Cash and cash equivalents at December 31, 2017	$ 831,408

Supplemental Disclosure of Non-Cash Investing and Financing Activities

During the year ended December 31, 2017, the Organization merged with the Organization formerly known as International Surfing Association, Inc. In conjunction with the merger, liabilities were assumed and a net contribution was received.

Fair value of non-cash assets received, accounts receivable and property and equipment	$ 539,897
Cash received	638,181
Fair value of liabilities assumed, accounts payable and accrued expenses and deferred revenue	(309,595)
Net contribution received in merger	$ 868,483

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 of 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).

Effective January 1, 2017, the Organization formerly known as International Surfing Association, Inc. was merged with the ISA Foundation and was subsequently dissolved. Subsequent to the merger with International Surfing Association, Inc., the ISA Foundation changed its name to International Surfing Association, Inc.

The assets and liabilities contributed in conjunction with the merger were accounted for under FASB ASC 958-805.

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, 2017, 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, 2017, 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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, 2017, the allowance for doubtful accounts was approximately $14,000.

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
Furniture and equipment	3 – 5 years
Leasehold improvements	Lease term
Computer equipment	5 years

Depreciation and amortization expense related to property and equipment was approximately $11,000 for the year ended December 31, 2017.

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, 2017.

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.

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

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.

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. The Organization's investment in Waterman League Group Limited is discussed below.

Investment – The investment in the minority equity investment in Waterman League Group Limited, classified as long-term in the accompanying statement of financial position. The investment is accounted for under the cost method since the Organization does not have the ability to exercise significant influence over the investee.

Note 1 – Summary of Significant Accounting Policies (Continued)

Provision for Income Taxes – The Organization is exempt from federal income tax under Section 501(c)(3) 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, 2017.

In accordance with applicable guidance issued by the Financial Accounting Standard Board (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 2013.

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, 2017, approximately 80% of the accounts receivable balance is due from three customers. For the year ended December 31, 2017, 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 – Merger of International Surfing Association, Inc.

During the year ended December 31, 2017, revenues attributable to the merger of the Organization formerly known as International Surfing Association, Inc. and the changes in unrestricted net assets since the merger date were approximately $1,705,000 and $111,000, respectively. There were no changes in temporarily or permanently restricted net assets, nor were there any material, non-recurring proforma adjustments directly attributable to the merger included in the reported proforma revenues and changes in unrestricted, temporarily restricted or permanently restricted net assets.

Note 4 – Investment in Waterman League Group Limited

The Organization has an investment in common stock of Waterman League Group Limited, a BVI Corporation responsible for the Official Professional World Championship Tour for the Sport of Paddlesurfing (Stand Up Paddling / Paddleboarding). With the investment, Waterman League Group Limited will exclusively align with the Organization as the IOC-Recognized world governing body for the sport of surfing. The carrying amount and cost of the Organization's investment was $100,000 at December 31, 2017. The Organization has not identified any events or changes in circumstances that might have an adverse effect on the value of the investment. There were no dividends received during the year ended December 31, 2017.

Note 5 – Commitments

The Organization leases office space under the terms of a non-cancelable operating lease expiring in December 2018, with monthly payments of approximately $4,800. Rent expense incurred under the lease for the year ended December 31, 2017 was approximately $57,000.

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

Year Ending December 31,	
2018	$ 67,251

Note 6 – 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 7 – Subsequent Events

The Organization has evaluated subsequent events through September 11, 2018, the date which the financial statements were available to be issued. Management's evaluation of subsequent events has determined that there are no events that require additional disclosures.