



**INTERNATIONAL SURFING ASSOCIATION**

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**For a Better Surfing Future**

**INTERNATIONAL SURFING ASSOCIATION, INC.**

Audited Financial Statements  
For the Year Ended December 31, 2018

# INTERNATIONAL SURFING ASSOCIATION, INC.

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For the Year Ended December 31, 2018

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Certified Public Accountants  
And Business Advisors

Members:  
American Institute of CPAs  
AICPA Division of CPA Firms  
Private Companies Practice  
Section

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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, 2018 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.

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, 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.

A handwritten signature in cursive script that reads "Selman LLP".

September 4, 2019  
Santa Ana, California

# INTERNATIONAL SURFING ASSOCIATION, INC.

Statement of Financial Position

December 31, 2018

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## ASSETS

### Current assets:

Cash and cash equivalents	\$ 489,317
Accounts receivable, net	305,655
Inventory	1,685
Prepaid expenses and other current assets	<u>10,475</u>

Total current assets 807,132

### Property and equipment:

Furniture and equipment	10,998
Leasehold improvements	40,791
Computer equipment	<u>26,333</u>

Property and equipment 78,122

Less: accumulated depreciation and amortization 71,667

Total property and equipment, net 6,455

### Other assets:

Accounts receivable, net	80,863
Deposits	2,000
Investment in Waterman League Group Limited	<u>100,000</u>

Total other assets 182,863

Total assets \$ 996,450

## LIABILITIES AND NET ASSETS

### Current liabilities:

Accounts payable	\$ 95,149
Deferred revenue	10,000
Event deposits	32,329
Other accrued expenses	<u>29,207</u>

Total current liabilities 166,685

**Net assets, without donor restrictions:** 829,765

Total liabilities and net assets \$ 996,450

# INTERNATIONAL SURFING ASSOCIATION, INC.

Statement of Activities  
For the Year Ended December 31, 2018

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	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and revenue:</b>			
Development programs	\$ 677,249	\$ -	\$ 677,249
Event revenue	1,655,834	-	1,655,834
Membership dues	45,600	-	45,600
Grants	62,000	-	62,000
Other income	166,358	-	166,358
Interest income	278	-	278
	<hr/>	<hr/>	<hr/>
Total support and revenue	2,607,319	-	2,607,319
<b>Expenses:</b>			
Program services	1,983,418	-	1,983,418
Management and general	620,615	-	620,615
Interest expense	2,981	-	2,981
	<hr/>	<hr/>	<hr/>
Total expenses	2,607,014	-	2,607,014
Change in net assets	305	-	305
Net assets, beginning of year	829,460	-	829,460
	<hr/>	<hr/>	<hr/>
Net assets, end of year	<u>\$ 829,765</u>	<u>\$ -</u>	<u>\$ 829,765</u>

# INTERNATIONAL SURFING ASSOCIATION, INC.

Statement of Functional Expenses  
For the Year Ended December 31, 2018

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	Program Services	Management and General	Total
Advertising and promotion	\$ 38,047	\$ -	\$ 38,047
Bank charges	15,424	11,515	26,939
Depreciation and amortization	342	8,489	8,831
Development programs	203,562	-	203,562
Dues and subscriptions	-	6,586	6,586
Employee benefits	32,456	21,638	54,094
Event expense	1,177,997	-	1,177,997
Filing fees	-	3,938	3,938
Insurance	5,063	3,375	8,438
Miscellaneous expense	11,394	3,586	14,980
Office and facilities rent	44,330	29,553	73,883
Office supplies	19,439	8,594	28,033
Payroll taxes	23,597	15,731	39,328
Professional fees	7,343	251,049	258,392
Program supplies	16,601	-	16,601
Repairs and maintenance	503	335	838
Salaries and wages	339,715	226,477	566,192
Telephone	6,159	4,106	10,265
Travel and mileage	41,446	25,643	67,089
Total functional expenses	<u>\$ 1,983,418</u>	<u>\$ 620,615</u>	<u>\$ 2,604,033</u>

# INTERNATIONAL SURFING ASSOCIATION, INC.

Statement of Cash Flows  
For the Year Ended December 31, 2018

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## Cash Flows From Operating Activities:

Change in net assets	\$ 305
Adjustments to reconcile change in net assets to cash (used in) operating activities	
Depreciation and amortization	8,831
(Increase) decrease in:	
Accounts receivable, net	(220,172)
Prepaid expenses and other current assets	16,153
Increase (decrease) in:	
Accounts payable	13,806
Deferred revenue	(170,600)
Event deposits	2,505
Other accrued expenses	11,707
	<u>                    </u>
Net cash (used in) operating activities	<u>(337,465)</u>
<b>Cash Flows From Investing Activities:</b>	
Purchases of property and equipment	<u>(4,626)</u>
	<u>                    </u>
Net cash (used in) investing activities	<u>(4,626)</u>
Net (decrease) in cash and cash equivalents	(342,091)
Cash and cash equivalents at December 31, 2017	<u>831,408</u>
Cash and cash equivalents at December 31, 2018	<u><u>\$ 489,317</u></u>



# INTERNATIONAL SURFING ASSOCIATION, INC.

Notes to the Financial Statements  
For the Year Ended December 31, 2018

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## **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”).

**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 two classes of net assets:

**Without Donor Restrictions** – 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.

**With Donor Restrictions** – Net assets that are subject to donor imposed restrictions that will be satisfied by action of the Organization or by passage of time. At December 31, 2018, the Organization did not have any net assets with donor restrictions.

**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. Accounts receivable expected to be collected in excess of one year after the financial statement date are considered long-term. Accounts receivable are generally due 30 days after the issuance of the invoices, or as specified by the individual customer terms, other than amounts considered long-term. 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, 2018, the allowance for doubtful accounts was approximately \$61,000.

**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.

# INTERNATIONAL SURFING ASSOCIATION, INC.

Notes to the Financial Statements  
For the Year Ended December 31, 2018

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## **Note 1 – Summary of Significant Accounting Policies (Continued)**

**Property and Equipment, and Related Depreciation and Amortization (Continued)** – 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 are 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:

<u>Assets</u>	<u>Estimated Useful Lives</u>
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 \$8,800 for the year ended December 31, 2018.

**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, 2018.

**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 without donor restrictions, 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.

# INTERNATIONAL SURFING ASSOCIATION, INC.

Notes to the Financial Statements  
For the Year Ended December 31, 2018

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## **Note 1 – Summary of Significant Accounting Policies (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. The Organization's investment in Waterman League Group Limited is discussed below.

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

**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, 2018.

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.

# INTERNATIONAL SURFING ASSOCIATION, INC.

Notes to the Financial Statements  
For the Year Ended December 31, 2018

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## **Note 1 – Summary of Significant Accounting Policies (Continued)**

**Uncertain Income Tax Positions** – 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 2014.

**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.

# INTERNATIONAL SURFING ASSOCIATION, INC.

Notes to the Financial Statements  
For the Year Ended December 31, 2018

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## **Note 2 – Concentrations of Credit Risk (Continued)**

**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, 2018, approximately 73% of the accounts receivable balance is due from three sponsors. For the year ended December 31, 2018, approximately 60% of revenues were received from four sponsors. A decision by a significant sponsor 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 – Investment in Waterman League Group Limited**

The Organization has an investment in the 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, 2018. The Organization's management 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, 2018.

## **Note 4 – Commitments**

The Organization leases office space under the terms of a non-cancelable operating lease expiring in December 2021, with monthly payments of approximately \$4,700. Rent expense incurred under the lease for the year ended December 31, 2018 was approximately \$74,000.

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

<u>Year Ending December 31,</u>	
2019	\$ 56,549
2020	59,875
2021	<u>63,202</u>
	<u>\$ 179,626</u>

# INTERNATIONAL SURFING ASSOCIATION, INC.

Notes to the Financial Statements  
For the Year Ended December 31, 2018

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## **Note 5 – 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 September 4, 2019, 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.