



INTERNATIONAL SURFING ASSOCIATION

For a Better Surfing Future

AUDITED FINANCIAL STATEMENTS

INTERNATIONAL SURFING ASSOCIATION, INC.

FOR THE YEAR ENDED DECEMBER 31, 2015

INTERNATIONAL SURFING ASSOCIATION, INC.

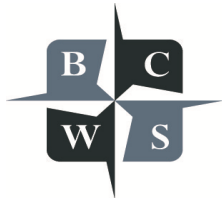
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**BRIGANTE, CAMERON,
WATTERS & STRONG, LLP**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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, 2015 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' 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 International Surfing Association, Inc. as of December 31, 2015, 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.

Brigante, Cameron, Watters & Strong LLP

BRIGANTE, CAMERON, WATTERS & STRONG, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

August 18, 2017
Torrance, California

INTERNATIONAL SURFING ASSOCIATION, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	173,857
Accounts receivable, net		142,120
Inventory		13,871
Prepaid expenses		<u>1,492</u>

TOTAL CURRENT ASSETS 331,340

PROPERTY, PLANT AND EQUIPMENT, NET 31,052

OTHER ASSETS

Due from ISA Foundation		321,185
Deposits		<u>2,000</u>

TOTAL OTHER ASSETS 323,185

TOTAL ASSETS \$ 685,577

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$	61,312
Deferred rent payable		17,722
Event deposits		8,192
Deferred revenues		<u>64,893</u>

TOTAL CURRENT LIABILITIES 152,119

NET ASSETS, UNRESTRICTED 533,458

TOTAL LIABILITIES AND NET ASSETS \$ 685,577

INTERNATIONAL SURFING ASSOCIATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Event revenue	\$ 1,365,839	\$ -	\$ 1,365,839
Membership dues	42,600	-	42,600
Grants	31,230	-	31,230
Other income	588	-	588
Interest income	100	-	100
	<hr/>	<hr/>	<hr/>
TOTAL SUPPORT AND REVENUES	1,440,357	-	1,440,357
EXPENSES			
Program services	1,276,554	-	1,276,554
Management and general	292,295	-	292,295
Loss on disposal of fixed assets	1,491	-	1,491
	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	1,570,340	-	1,570,340
CHANGE IN NET ASSETS	(129,983)	-	(129,983)
NET ASSETS, BEGINNING OF YEAR	663,441	-	663,441
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NET ASSETS, END OF YEAR	\$ 533,458	\$ -	\$ 533,458
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The accompanying notes are an integral part of these financial statements

INTERNATIONAL SURFING ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	TOTAL
EXPENSES			
Advertising and promotion	\$ 30,357	\$ 2,010	\$ 32,367
Bad debts	21,860	-	21,860
Bank charges	10,308	593	10,901
Depreciation and amortization	7,499	5,000	12,499
Dues and subscriptions	795	-	795
Employee benefits	21,736	14,491	36,227
Event expense	790,151	-	790,151
Insurance	7,486	4,991	12,477
Interest and late charges	-	1,812	1,812
Licenses, taxes and fees	-	242	242
Office and facilities rent	23,524	15,683	39,207
Office supplies	9,697	6,306	16,003
Payroll taxes	27,621	18,414	46,035
Professional fees	62,191	57,710	119,901
Program supplies	16,206	-	16,206
Repair and maintenance	-	293	293
Salaries and wages	240,850	160,567	401,417
Telephone	3,689	2,460	6,149
Travel and mileage	2,584	1,723	4,307
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TOTAL EXPENSES	\$ <u>1,276,554</u>	\$ <u>292,295</u>	\$ <u>1,568,849</u>

INTERNATIONAL SURFING ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
(Decrease) in net assets	\$ (129,983)
Adjustments to reconcile (decrease) in net assets to net cash (used in) operating activities:	
Depreciation and amortization	12,499
Loss on disposal of fixed assets	1,491
(Increase) decrease in assets:	
Accounts receivable, net	(19,313)
Inventory	1,773
Prepaid expenses	1,162
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(22,901)
Deferred rent payable	(4,829)
Event deposits	(7,239)
Deferred revenues	37,419
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NET CASH FLOWS (USED IN) OPERATING ACTIVITIES	(129,921)
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CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(2,812)
Loans to ISA Foundation	(231,325)
Collections from ISA Foundation	161,185
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NET CASH (USED IN) INVESTING ACTIVITIES	(72,952)
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NET CHANGE IN CASH AND CASH EQUIVALENTS	(202,873)
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CASH AND CASH EQUIVALENTS, beginning of year	376,730
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CASH AND CASH EQUIVALENTS, end of year	\$ 173,857
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INTERNATIONAL SURFING ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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).

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis and in conformity with accounting principles generally accepted in the United States of America.

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 RESTRICTED 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, 2015, 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, 2015, the Organization did not have any permanently restricted net assets.

INTERNATIONAL SURFING ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of the 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 year. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, the Organization considers all highly liquid investments with maturity of three months or less at the time of purchase to be cash equivalents.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded when earned and consisted primarily of membership dues, promoting and hosting events income, and other income earned but not yet received. 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 judgment. At December 31, 2015, the allowance for doubtful account was approximately \$9,000.

FAIR VALUE MEASUREMENTS

The Organization accounts for its investments under the established framework for determining and disclosing 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.

INTERNATIONAL SURFING ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATIONS OF CREDIT RISK

CASH AND CASH EQUIVALENTS

The Organization maintains cash balances at various banks. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution. During the year ended December 31, 2015, the Organization had cash in these financial institutions which may have exceeded depositor's insurance provided by the FDIC. The Company has not experienced any losses in the accounts, and management believes it is not exposed to significant risk of loss related to any excess deposits.

ACCOUNTS RECEIVABLE AND REVENUE

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. With respect to these receivables, there is a high concentration of credit risk due to the smaller number of hosted events comprising the Company's customer base. The Company 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.

At December 31, 2015, the Company had approximately 85% of accounts receivable due from one customer. For the year ended December 31, 2015, approximately 90% of net revenue were from four customers. A decision by a significant customer to decrease the amount of hosted events could have a material adverse effect on the Company's financial position and results of operations.

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 improve or extend the life of the respective assets are expensed currently.

At the time property and equipment are 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:

INTERNATIONAL SURFING ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT, AND RELATED DEPRECIATION AND AMORTIZATION (CONTINUED)

<u>ASSETS</u>	<u>ESTIMATED USEFUL LIVES</u>
Office equipment	3 years
Furniture and fixtures	5 years
Leasehold improvements	Lease term

IMPAIRMENT OF LONG-LIVED ASSETS

It is the Organization's policy to review the carrying amount of long-lived assets and intangible assets to determine whether any indicators or impairment are present. At December 31, 2015, Management's review of long-lived assets and intangibles showed no indications of impairment and, therefore, no loss was recorded during the years then ended.

REVENUE RECOGNITION

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

The liability, deferred revenue, is recorded to reflect the advance payments received by the Organization for services or events to be performed in the following year 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.

INCOME TAX STATUS

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, 2015.

INTERNATIONAL SURFING ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX STATUS (CONTINUED)

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.

UNCERTAIN INCOME TAX POSITION

Accounting principles generally accepted in the United States of America require the Company to evaluate tax positions taken by the Company and recognize a tax liability or asset if the Company 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; management has determined that there are no uncertain income tax positions that are more likely than not to be changed upon examination.

NOTE 2 – RELATED PARTY TRANSACTION

The Organization has transactions with an affiliate which is considered a related party. The Organization has performed an evaluation of its relationships with the related party to determine if the entity is a variable interest entity (“VIE”) that should be consolidated with the Organization’s financial statements. Management has determined that there are no known VIEs that would require consolidation as of December 31, 2015. A summary of related party transactions is as follows:

The Organization provides management support function to its affiliate, ISA Foundation (“ISAF”), a 501(c)(3) organization, and is reimbursed for the cost of these services. For the year ended December 31, 2015, there were approximately \$168,000 of additional costs accrued and approximately \$98,000 of reimbursements for the costs of those services. At December 31, 2015, there was approximately \$321,000 due from ISAF.

NOTE 3 – COMMITMENTS

The Organization leases office space under the terms of non-cancelable operating leases expiring in March 2018. Rent expense incurred under the term of the lease for the year ended December 31, 2015 was approximately \$39,000.

INTERNATIONAL SURFING ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 3 – COMMITMENTS (CONTINUED)

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

FOR THE YEAR ENDING DECEMBER 31,	AMOUNT
2016	\$ 56,523
2017	60,438
2018	<u>15,357</u>
	<u>\$ 132,318</u>

NOTE 4 – EVENT SPONSORSHIPS

The Organization received a sponsorship from one company for its world surfing events. The future sponsorship amount is \$300,000 for the year ended December 31, 2016.

NOTE 5 – CONTINGENCIES

LEGAL

Due to the nature of the Organization's operations, the Organization may be subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these potential actions is not expected to materially affect the financial position of the Organization.

NOTE 6 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through August 18, 2017, the date which the financial statements were available to be issued. Subsequent to year end, the Organization has agreed to evaluate dissolving ISA and transferring its assets to its affiliate, ISAF with operations of the Organization continuing through ISAF, going forward.

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