



INTERNATIONAL SURFING ASSOCIATION, INC.
Audited Financial Statements
For the Year Ended December 31, 2020

INTERNATIONAL SURFING ASSOCIATION, INC.

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For the Year Ended December 31, 2020

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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, 2020, 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, 2020, 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.

J Selman LLP

November 15, 2021
Irvine, California

INTERNATIONAL SURFING ASSOCIATION, INC.

Statement of Financial Position

December 31, 2020

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,757,372
Accounts receivable, net	384,829
Inventory	1,532
Prepaid expenses and other current assets	<u>253,778</u>
Total current assets	<u>2,397,511</u>

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	<u>75,762</u>
Total property and equipment, net	<u>2,360</u>

Other assets:

Deposits	2,000
Investment in Waterman League Group Limited	<u>100,000</u>
Total other assets	<u>102,000</u>

Total assets	<u><u>\$ 2,501,871</u></u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 90,182
Contract liabilities	756,800
Event deposits	30,000
Accrued expenses	<u>61,218</u>
Total current liabilities	938,200

Long-term liabilities:

Long-term debt	<u>138,012</u>
Total liabilities	<u>1,076,212</u>

Net assets:

Net assets, without donor restrictions	1,350,659
Net assets, with donor restrictions	<u>75,000</u>
Total net assets	<u>1,425,659</u>

Total liabilities and net assets	<u><u>\$ 2,501,871</u></u>
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INTERNATIONAL SURFING ASSOCIATION, INC.

Statement of Activities

For the Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Development programs	\$ 406,050	\$ 25,000	\$ 431,050
Licensing	19,561	-	19,561
Event revenue	196,195	50,000	246,195
Membership dues	53,850	-	53,850
Grants	1,352,000	-	1,352,000
Other income	120,367	-	120,367
Interest income	285	-	285
	<hr/>	<hr/>	<hr/>
Total support and revenue	2,148,308	75,000	2,223,308
	<hr/>	<hr/>	<hr/>
Expenses:			
Program services	1,134,662	-	1,134,662
Management and general	513,063	-	513,063
Interest expense	191	-	191
	<hr/>	<hr/>	<hr/>
Total expenses	1,647,916	-	1,647,916
	<hr/>	<hr/>	<hr/>
Change in net assets	500,392	75,000	575,392
Net assets, beginning of year	850,267	-	850,267
	<hr/>	<hr/>	<hr/>
Net assets, end of year	\$ 1,350,659	\$ 75,000	\$ 1,425,659
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

INTERNATIONAL SURFING ASSOCIATION, INC.

Statement of Functional Expenses For the Year Ended December 31, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Advertising and promotion	\$ 59,619	\$ -	\$ 59,619
Bad debt	27,093	-	27,093
Bank charges	32,138	6,001	38,139
Depreciation and amortization	-	1,620	1,620
Development programs	229,135	-	229,135
Dues and subscriptions	-	7,577	7,577
Employee benefits	44,275	29,516	73,791
Event expense	221,788	-	221,788
Filing fees	-	4,568	4,568
Insurance	3,976	2,651	6,627
Office and facilities rent	47,617	31,745	79,362
Office supplies	6,115	4,077	10,192
Payroll taxes	25,526	17,018	42,544
Professional fees	25,153	137,283	162,436
Program supplies	3,731	-	3,731
Salaries and wages	391,271	260,847	652,118
Telephone	4,828	3,219	8,047
Travel and mileage	12,397	6,941	19,338
Total functional expenses	<u>\$ 1,134,662</u>	<u>\$ 513,063</u>	<u>\$ 1,647,725</u>

INTERNATIONAL SURFING ASSOCIATION, INC.

Statement of Cash Flows
For the Year Ended December 31, 2020

Cash Flows From Operating Activities:

Change in net assets	\$ 575,392
Adjustments to reconcile change in net assets to cash provided by operating activities	
Depreciation and amortization	1,620
(Increase) decrease in:	
Accounts receivable, net	21,808
Inventory	153
Prepaid expenses and other current assets	(69,595)
Increase (decrease) in:	
Accounts payable	21,266
Contract liabilities	666,800
Event deposits	(19,528)
Accrued expenses	(400)
	<hr/>
Net cash provided by operating activities	1,197,516

Cash Flows From Financing Activities:

Proceeds from PPP Loan	<hr/> 138,012
Net cash provided by financing activities	<hr/> 138,012

Net increase in cash and cash equivalents	1,335,528
Cash and cash equivalents at December 31, 2019	<hr/> 421,844
Cash and cash equivalents at December 31, 2020	<hr/> <hr/> \$ 1,757,372

INTERNATIONAL SURFING ASSOCIATION, INC.

Notes to the Financial Statements
For the Year Ended December 31, 2020

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 Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance 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 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.

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.

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 based on the Organization’s unconditional right to consideration from the exchange of services rendered and are stated at amounts management expects to collect. 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, 2020, the allowance for doubtful accounts was approximately \$88,000.

INTERNATIONAL SURFING ASSOCIATION, INC.

Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

Contracts and Contract Balances – The Organization defines a contract as an agreement between two or more parties that creates enforceable rights and obligations. Differences in timing between revenue recognition and cash collection result in contract assets and contract liabilities. Contract assets relate to the Organization’s right to consideration in exchange for goods or services that it has transferred to customers. Contract liabilities relate to the Organization’s obligation to transfer goods or services to a customer for which it has received consideration from customers. The Organization classifies these assets as unbilled receivables and the liabilities as deferred revenue. Unbilled receivables relate to costs incurred and estimated fees for services performed for which billings have not been presented to customers pursuant to contract terms or accounts billed subsequent to year end. When billed, these amounts are included in accounts receivable. 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. As of December 31, 2020, the Organization does not have any contract assets.

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 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 \$1,600 for the year ended December 31, 2020.

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, 2020.

INTERNATIONAL SURFING ASSOCIATION, INC.

Notes to the Financial Statements
For the Year Ended December 31, 2020

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. The carrying value of long-term debt approximates its fair value due to bearing interest at rates that approximate current market rates for long-term debt with similar maturities and credit quality.

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.

Revenue Recognition – Grants and other contributions of cash and other assets are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The Organization recognizes revenues upon performance of the service or event less the allowance for applicable discounts in amounts that reflect the expected consideration received in exchange for those services. The Organization's revenue is derived primarily from membership dues, licensing and fees for promoting and hosting events. The Organization's hosted events are generally each accounted for as a single performance obligation. All revenues are considered without donor restrictions, unless specifically restricted by the donors.

INTERNATIONAL SURFING ASSOCIATION, INC.

Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

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 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, 2020.

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 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 2016.

Recently Issued Accounting Pronouncements – 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 annual reporting periods beginning after December 15, 2021, and interim reporting periods within annual reporting periods beginning after December 15, 2022. 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, 2020

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, 2020, approximately 76% of the accounts receivable balance was due from three sponsors. For the year ended December 31, 2020, approximately 68% of revenues were received from two 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 – Accounts Receivable, Net

Accounts receivable, net consisted of the following at:

	December 31, 2020	January 1, 2020
Accounts receivable	\$ 472,677	\$ 467,547
Less: allowance for doubtful accounts	<u>(87,848)</u>	<u>(60,910)</u>
	<u>\$ 384,829</u>	<u>\$ 406,637</u>

Note 4 – Contract Balances

Contract liabilities consisted of the following at:

	December 31, 2020	January 1, 2020
Contract liabilities		
Deferred revenue	<u>\$ 756,800</u>	<u>\$ 90,000</u>

Note 5 – 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, 2020. 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, 2020.

INTERNATIONAL SURFING ASSOCIATION, INC.

Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 6 – Long-Term Debt

In May 2020, the Company was granted a loan of approximately \$138,000 from a financial institution pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted into law on March 27, 2020. The loan matures in May 2022 and bears interest at a rate of 1% per annum, payable monthly commencing in December 2021. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. Company management contends they used the entire Loan amount for qualifying expenses. The loan is currently being classified as long-term debt without a current portion as the loan has been forgiven subsequent to year end.

Note 7 – Net Assets With Donor Restrictions

During the year ended December 31, 2020, the Organization received a \$75,000 contribution restricted to providing support for the Organization's adaptive surfing program.

Note 8 – Commitments

The Organization leases office space under the terms of a non-cancelable operating lease expiring in December 2021, with monthly payments of approximately \$5,000. Rent expense incurred under the lease for the year ended December 31, 2020 was approximately \$60,000.

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

Year Ending December 31,	
2021	\$ <u>63,202</u>

Note 9 – 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.

INTERNATIONAL SURFING ASSOCIATION, INC.

Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 9 – Contingencies (Continued)

Around and subsequent to December 31, 2020, as COVID-19 spreads globally, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, by mandating temporary work stoppage in various sectors, limiting travel, size and duration of group meetings. Most industries will be experiencing disruptions to their business operations. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. While management cannot quantify the financial and other impact to the Company as of November 15, 2021, management believes that a material impact on the Company's financial position and results of future operations is reasonably possible.

Note 10 – Liquidity and Availability

Financial assets available for use for general expenditures within one year of the Statements of Financial Position date, comprise the following:

Financial assets at year-end	
Cash and cash equivalents	\$ 1,757,372
Accounts receivable, net	<u>384,829</u>
Total financial assets	<u>2,142,201</u>
Less those restricted or designated due to:	
Donor-imposed restrictions	75,000
Contractual imposed restrictions	<u>756,800</u>
Total restricted or designated financial assets	<u>831,800</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,310,401</u>

Note 11 – Subsequent Events

The Company has evaluated subsequent events through November 15, 2021, the date which the financial statements were available to be issued. Management's evaluation of subsequent events has determined that there were no events that require additional disclosures.