



AMERICAN COUNCIL ON EXERCISE

INDEPENDENT AUDITOR'S REPORTS

AND

FINANCIAL STATEMENTS

WITH ADDITIONAL INFORMATION

JUNE 30, 2007 AND 2006

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Directors
American Council on Exercise

We have audited the accompanying statements of financial position of American Council on Exercise (ACE) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of ACE's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ACE as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



San Diego, California
September 20, 2007

AMERICAN COUNCIL ON EXERCISE

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,567,102	\$ 2,148,737
Investments	690,987	593,538
Accounts receivable	39,655	17,410
Inventory	383,007	319,632
Deferred and prepaid expenses and other assets, current portion	<u>318,835</u>	<u>232,120</u>
Total current assets	3,999,586	3,311,437
Fixed Assets	3,990,162	4,220,893
Deferred and Prepaid Expenses and Other Assets, long-term portion	<u>262,910</u>	<u>211,171</u>
Total assets	<u>\$ 8,252,658</u>	<u>\$ 7,743,501</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 925,027	\$ 680,386
Current portion of note payable and capital lease	49,235	70,198
Deferred revenue	<u>350,102</u>	<u>355,340</u>
Total current liabilities	1,324,364	1,105,924
Long-term Portion of Note Payable and Capital Lease	<u>1,103,094</u>	<u>1,137,075</u>
Total liabilities	2,427,458	2,242,999
Commitments and Contingency (Note 7)		
Unrestricted Net Assets	<u>5,825,200</u>	<u>5,500,502</u>
Total liabilities and net assets	<u>\$ 8,252,658</u>	<u>\$ 7,743,501</u>

AMERICAN COUNCIL ON EXERCISE

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
REVENUE AND SUPPORT		
Educational materials and training manuals	\$ 3,771,561	\$ 3,579,080
Certification fees	2,155,741	2,143,040
Instructors renewal fees	1,419,545	1,412,487
Continuing education fees	1,405,023	1,299,279
Shipping and handling	454,825	381,954
Mailing lists rentals	120,219	121,296
Royalties	119,236	119,346
Interest and dividends	105,579	75,113
Membership fees	28,116	31,651
Other	9,726	3,815
Professional registry	3,475	2,475
Contributions	151	856
Total revenue and support	<u>9,593,197</u>	<u>9,170,392</u>
EXPENSES		
Program	7,372,428	6,951,912
General and administrative	<u>2,002,928</u>	<u>1,680,001</u>
Total expenses	<u>9,375,356</u>	<u>8,631,913</u>
Excess of revenues over expenses	217,840	538,479
NET INVESTMENT GAINS	<u>106,858</u>	<u>63,620</u>
INCREASE IN UNRESTRICTED NET ASSETS	324,698	602,099
UNRESTRICTED NET ASSETS		
Beginning of year	<u>5,500,502</u>	<u>4,898,403</u>
End of year	<u>\$ 5,825,200</u>	<u>\$ 5,500,502</u>

AMERICAN COUNCIL ON EXERCISE

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING ACTIVITIES		
Change in net assets	\$ 324,698	\$ 602,099
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	361,465	369,104
Net unrealized (gain) on investments	(106,858)	(63,620)
(Gain) loss on disposal of equipment	(8,150)	1,859
(Increase) decrease in operating assets:		
Accounts receivable	(22,245)	8,649
Inventory	(63,375)	85,253
Deferred and prepaid expenses and other assets	(138,454)	(78,645)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	244,641	89,269
Deferred revenue	(5,238)	(83,968)
Net cash provided by operating activities	<u>586,485</u>	<u>930,000</u>
INVESTING ACTIVITIES		
Purchases of fixed assets	(130,734)	(193,816)
Proceeds from sales of fixed assets	8,150	-
Proceeds from sales of investments	115,929	1,076,484
Purchases of investments	(106,520)	(646,251)
Net cash (used in) provided by investing activities	<u>(113,175)</u>	<u>236,417</u>
FINANCING ACTIVITIES		
Payments on note payable	(46,328)	(1,693,099)
Payments on capital lease	(8,616)	(16,802)
Net cash (used in) financing activities	<u>(54,944)</u>	<u>(1,709,901)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	418,365	(543,484)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,148,737</u>	<u>2,692,221</u>
End of year	<u>\$ 2,567,102</u>	<u>\$ 2,148,737</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 76,751</u>	<u>\$ 126,238</u>

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 1 – Nature of Organization and Significant Accounting Policies

American Council on Exercise (ACE), incorporated under the laws of the state of California in 1985, is a not-for-profit organization committed to enriching quality of life through safe and effective physical activity. ACE protects all segments of society against ineffective fitness products, programs, and trends through its on-going public education, outreach, and research. ACE further protects the public by setting certification and continuing education standards for fitness professionals.

Income Tax Status: ACE is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

Method of Accounting: The financial statements of ACE are prepared on the accrual basis of accounting.

Financial Statement Presentation: ACE follows Financial Accounting Standards Board Statement (FASB) Statement No. 117, *Financial Statements of Non-Profit Organizations*, for presentation of its financial statements which requires that net assets and revenue, gains, expenses and losses be classified as unrestricted, temporarily restricted, and permanently restricted as follows:

- Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds, subject to specific donor-imposed restrictions, contingent upon a specific performance of a future event or a specific passage of time before ACE may spend the funds. At June 30, 2007 and 2006, ACE did not have any temporarily restricted net assets.
- Permanently restricted net assets are subject to irrevocable donor restrictions, requiring that the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund current operations. At June 30, 2007 and 2006, ACE did not have any permanently restricted net assets.

Revenue Recognition

Revenue: ACE derives revenue from the following:

- Publishing and selling various educational and training manuals for exercise professionals and related shipping and handling (recognized as manuals are sold)
- Fees charged for taking certification examinations (recognized as exams are administered)
- Instructor renewal fees (recognized as renewal forms are processed)
- Processing fees for continuing education quizzes (recognized as quizzes are processed)
- Mailing list rentals (recognized when lists are rented)
- Royalties (recognized as earned)
- Memberships (recognized as memberships are renewed)

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 1 – Nature of Organization and Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Contributions: Contributions are recognized as support when received or unconditionally pledged. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted, depending on the nature of the donor's restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets, and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted contributions.

Cash and Cash Equivalents: Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the statements of activities.

Accounts Receivable: Credit terms for payment of products and services purchased are extended to customers in the normal course of business and no collateral is required. The allowance for estimated uncollectible accounts is based on past experience and on analysis of current accounts receivable. Accounts are considered delinquent after 30 days. Accounts deemed uncollectible are written-off in the year deemed uncollectible. At each of the years ended June 30, 2007 and 2006, management determined an allowance is not required.

Inventory: Inventory, which consists principally of training manuals and merchandise, is valued at lower-of-cost or market, using the first-in/first-out method (FIFO).

Deferred Expenses: Deferred expenses are costs associated with content development, pre-production, typesetting, artwork, design, promotion, and color separation of manuals. Accumulated costs are expensed over the estimated marketable life of the manuals.

Fixed Assets: ACE capitalizes fixed assets that cost greater than \$500. Furniture, equipment, computer software, website and database development, and leasehold improvements are recorded at cost and depreciated on the straight-line basis over the estimated useful lives of the assets, generally 3 to 5 years. The building is recorded at cost and is being depreciated over 30 years.

Impairment of Long-lived Assets: ACE evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset is less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

Deferred Revenue: Deferred revenue represents fees received in advance for exams and training.

Advertising: Advertising costs are expensed as incurred.

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 1 – Nature of Organization and Significant Accounting Policies (Continued)

Shipping and Handling: Shipping and handling costs are expensed as incurred and are primarily included in program expenses.

Functional Allocation of Expenses: The costs of providing ACE's programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates: The preparation of 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 reporting period. Actual results could differ from those estimates.

Note 2 – Concentration of Credit Risk

Financial instruments which potentially subject ACE to credit risk consist primarily of cash and cash equivalents and investments.

Cash and Cash Equivalents: ACE maintains its cash and cash equivalents in bank accounts, which at times exceed federally insured limits. ACE has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Investments: Investments are exposed to various risks, such as interest rates, market, and credit risk. It is at least reasonably possible given the level of risk associated with investments that changes in the near term could materially affect the amounts reported in the financial statements.

Note 3 – Investments

The fair value of investments, consisting of mutual funds at June 30, 2007 and 2006, is \$690,987 and \$593,538, respectively.

Note 4 – Deferred and Prepaid Expenses and Other Assets

Deferred and prepaid expenses and other assets are summarized as follows at June 30:

	2007	2006
Deferred expenses	\$ 423,028	\$ 326,429
Prepaid expenses	158,717	116,862
	<u>581,745</u>	<u>443,291</u>
Less current portion	<u>(318,835)</u>	<u>(232,120)</u>
	<u>\$ 262,910</u>	<u>\$ 211,171</u>

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 5 – Fixed Assets

At June 30, fixed assets consist of:

	2007	2006
Land	\$ 1,286,883	\$ 1,286,883
Building	3,113,744	3,113,744
Equipment	868,621	877,755
Website and database development	587,149	583,898
Computer software	361,111	350,063
Furniture (including \$79,963 of fixed assets acquired under capital lease in 2007 and 2006) (Note 6)	312,048	362,434
Leasehold improvements	42,783	34,089
Vehicle	8,475	8,475
	<u>6,580,814</u>	<u>6,617,341</u>
Less accumulated depreciation (including accumulated amortization on fixed assets acquired under capital lease of \$79,963 and \$79,784, in 2007 and 2006, respectively)	<u>(2,590,652)</u>	<u>(2,396,448)</u>
	<u>\$ 3,990,162</u>	<u>\$ 4,220,893</u>

Note 6 – Note Payable and Capital Lease

At June 30, note payable and capital lease consists of:

Note payable, bank, due in monthly principal and interest payments of \$10,249 at 6.51 percent, balloon payment of approximately \$900,000 due January 2012, secured by deed of trust on land and building	\$ 1,152,329	\$ 1,198,657
Capital lease payable, finance company, payable in monthly lease payments of \$1,450 at 3.4 percent through December 2006, secured by furniture	<u>-</u>	<u>8,616</u>
	1,152,329	1,207,273
Less current maturities	<u>(49,235)</u>	<u>(70,198)</u>
	<u>\$ 1,103,094</u>	<u>\$ 1,137,075</u>

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 6 – Note Payable and Capital Lease (Continued)

Principal payments on the note payable are due as follows:

Years ending June 30,	
2008	\$ 49,235
2009	52,752
2010	56,290
2011	60,066
2012	933,986
	<u>\$ 1,152,329</u>

Total interest expense was approximately \$77,000 and \$126,000 for the years ended June 30, 2007 and 2006, respectively.

Note 7 – Commitments and Contingency

Operating Leases: ACE has month-to-month leases for a corporate apartment and copiers which expire at various dates through May 2012. Aggregate monthly lease payments on operating leases are approximately \$2,700 at June 30, 2007.

Rent expense for the years ended June 30, 2007 and 2006 was approximately \$37,000 and \$34,000, respectively.

Line of Credit: ACE has a \$500,000 revolving line of credit with a bank. The line of credit is secured by all of ACE's assets excluding land and building and expires in January 2008. Interest is calculated based on the bank's prime rate, plus 1 percent (9.25 percent at June 30, 2007). At each of the years ended June 30, 2007 and 2006, there was no amount due under the line and no borrowings occurred during each of the years ended June 30, 2007 and 2006.

Certification, Administration, and Development: ACE has an agreement with an organization that provides assistance in the development and administration of personal trainers, group fitness instructors, clinical exercise specialists, and life weight management consultant certification tests. The agreement expires July 2010, and may be terminated two years prior thereto by either party. Fees paid under this agreement for the years ended June 30, 2007 and 2006 were approximately \$702,000 and \$594,000, respectively.

Retirement Plan: ACE has a 401(k) plan (Plan) which covers all full-time employees after one year of employment. Employees can defer up to 20 percent of their gross wages into the Plan. Employees also receive a 25 percent employer match for the first 8 percent of salary deferral, which vests evenly over 5 years. For the years ended June 30, 2007 and 2006, ACE contributed approximately \$33,000 and \$24,000 to the Plan, respectively.

Trademark Matters: ACE operates under a trademark and, at times, must defend its rights by filing for an administrative proceeding before the Trademark Trial and Appeals Board, a unit of the U.S. Patent and Trademark office.

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 8 – June 30, 2006 Financial Information

Certain amounts in the June 30, 2006 financial statements have been reclassified to conform to the June 30, 2007 presentation, with no effect on net assets.

ADDITIONAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON THE ADDITIONAL INFORMATION

Board of Directors
American Council on Exercise

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The statement of functional expenses that follows on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



San Diego, California
September 20, 2007

AMERICAN COUNCIL ON EXERCISE

ADDITIONAL INFORMATION STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2007

(With Summarized Financial Information for Year Ended June 30, 2006)

	2007			2006 Total
	Program	General and Administrative	Total	
Salaries and wages	\$ 2,217,397	1,033,953	\$ 3,251,350	\$ 2,967,468
Educational materials and training manuals	1,020,370	-	1,020,370	930,211
Testing services	702,365	-	702,365	594,180
Marketing	560,030	50,044	610,074	587,498
Postage, shipping and handling	566,796	5,200	571,996	597,512
Printing, photography, and production	470,912	3,798	474,710	318,937
Depreciation and amortization	243,995	117,470	361,465	369,104
Meetings	141,084	141,831	282,915	236,297
Insurance	177,289	92,477	269,766	231,036
Payroll taxes	185,955	56,426	242,381	213,612
Events and trade shows	237,675	-	237,675	119,831
Travel	140,192	70,365	210,557	203,404
Merchant fees	178,641	-	178,641	173,054
Legal and accounting	17,721	107,342	125,063	94,074
Professional development and dues	65,638	39,422	105,060	107,165
Advertising and promotion	95,147	3,335	98,482	243,817
Repairs, maintenance, and janitorial services	57,783	28,566	86,349	94,685
Interest	53,726	23,025	76,751	126,238
Miscellaneous	20,901	45,517	66,418	37,109
Utilities	41,618	17,837	59,455	51,771
Fulfillment	58,852	-	58,852	47,843
Telephone	40,446	17,333	57,779	51,507
Office and computer supplies	22,655	18,922	41,577	35,515
Entertainment	9,011	30,686	39,697	28,452
Temporary wages	1,879	35,692	37,571	1,266
401(k) contribution	23,383	10,022	33,405	23,891
Building rent	-	30,304	30,304	8,761
Copying and duplication	14,184	6,079	20,263	18,447
Bad debt	-	8,605	8,605	688
Recruitment	-	6,460	6,460	88,071
Computer leases	4,118	2,217	6,335	24,877
Fitness equipment purchases	2,665	-	2,665	3,762
Property taxes	-	-	-	1,830
	<u>\$ 7,372,428</u>	<u>\$ 2,002,928</u>	<u>\$ 9,375,356</u>	<u>\$ 8,631,913</u>
Total expenses for the year ended June 30, 2006	<u>\$ 6,951,912</u>	<u>\$ 1,680,001</u>	<u>\$ 8,631,913</u>	