



AMERICAN COUNCIL ON EXERCISE

**INDEPENDENT AUDITOR'S REPORTS
AND
FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION**

JUNE 30, 2008 AND 2007

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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, 2008 and 2007, 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, rather than absolute, 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 American Council on Exercise as of June 30, 2008 and 2007, 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 24, 2008

AMERICAN COUNCIL ON EXERCISE

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,889,984	\$ 2,567,102
Investments	717,753	690,987
Accounts receivable	31,860	39,655
Inventory	247,869	383,007
Deferred and prepaid expenses, current portion	411,891	318,835
Total current assets	4,299,357	3,999,586
Fixed Assets	3,744,746	3,990,162
Deferred and Prepaid Expenses, long-term portion	331,781	262,910
Total assets	<u>\$ 8,375,884</u>	<u>\$ 8,252,658</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 809,986	\$ 925,027
Current portion of note payable	52,752	49,235
Deferred revenue	385,033	350,102
Total current liabilities	1,247,771	1,324,364
Long-term Portion of Note Payable	1,050,142	1,103,094
Total liabilities	2,297,913	2,427,458
Commitments and Contingency (Note 7)		
Unrestricted Net Assets	6,077,971	5,825,200
Total liabilities and net assets	<u>\$ 8,375,884</u>	<u>\$ 8,252,658</u>

AMERICAN COUNCIL ON EXERCISE

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
REVENUE AND SUPPORT		
Educational materials and training manuals	\$ 4,164,919	\$ 3,771,561
Certification fees	2,392,689	2,155,741
Continuing education fees	1,627,516	1,405,023
Instructor renewal fees	1,506,985	1,419,545
Shipping and handling	506,842	454,825
Royalties	128,953	119,236
Mailing list rentals	125,831	120,219
Interest and dividends	101,826	105,579
Membership fees	38,162	28,116
Other	867	9,726
Contributions	653	151
Professional registry	475	3,475
Total revenue and support	<u>10,595,718</u>	<u>9,593,197</u>
EXPENSES		
Program	8,208,085	7,372,428
General and administrative	<u>2,015,637</u>	<u>2,002,928</u>
Total expenses	<u>10,223,722</u>	<u>9,375,356</u>
Excess of revenue and support over expenses	371,996	217,841
NET UNREALIZED (LOSS) GAIN ON INVESTMENTS	<u>(119,225)</u>	<u>106,857</u>
INCREASE IN UNRESTRICTED NET ASSETS	252,771	324,698
UNRESTRICTED NET ASSETS		
Beginning of year	<u>5,825,200</u>	<u>5,500,502</u>
End of year	<u>\$ 6,077,971</u>	<u>\$ 5,825,200</u>

AMERICAN COUNCIL ON EXERCISE

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING ACTIVITIES		
Change in net assets	\$ 252,771	\$ 324,698
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	337,573	361,465
Net unrealized loss (gain) on investments	119,225	(106,857)
(Loss) on disposal of equipment	-	(8,150)
Decrease (increase) in operating assets:		
Accounts receivable	7,795	(22,245)
Inventory	135,138	(63,375)
Deferred and prepaid expenses and other assets	(161,927)	(138,454)
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	(115,041)	244,641
Deferred revenue	34,931	(5,238)
Net cash provided by operating activities	<u>610,465</u>	<u>586,485</u>
INVESTING ACTIVITIES		
Purchases of fixed assets	(92,157)	(130,734)
Proceeds from sales of fixed assets	-	8,150
Proceeds from sales of investments	121,546	115,928
Purchases of investments	<u>(267,537)</u>	<u>(106,520)</u>
Net cash (used in) investing activities	<u>(238,148)</u>	<u>(113,176)</u>
FINANCING ACTIVITIES		
Payments on note payable	(49,435)	(46,328)
Payments on capital lease	<u>-</u>	<u>(8,616)</u>
Net cash (used in) financing activities	<u>(49,435)</u>	<u>(54,944)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	322,882	418,365
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,567,102</u>	<u>2,148,737</u>
End of year	<u>\$ 2,889,984</u>	<u>\$ 2,567,102</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest	<u>\$ 73,559</u>	<u>\$ 76,751</u>
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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 ongoing 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 under the accrual basis of accounting.

Financial Statement Presentation: ACE follows Financial Accounting Standards Board (“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, 2008 and 2007, 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, 2008 and 2007, 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 statements 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 statements 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 June 30, 2008 and 2007, 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 value, using the first-in/first-out method ("FIFO").

Deferred Expenses: Deferred expenses are costs associated with content development, preproduction, 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 are depreciated on a straight-line basis over the estimated useful lives of the assets, generally three to five 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 rate, 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, is \$717,753 and \$690,987 at June 30, 2008 and 2007, respectively.

Note 4 – Deferred and Prepaid Expenses

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

	2008	2007
Deferred expenses	\$ 521,963	\$ 423,028
Prepaid expenses	<u>221,709</u>	<u>158,717</u>
	743,672	581,745
Less current portion	<u>(411,891)</u>	<u>(318,835)</u>
	<u>\$ 331,781</u>	<u>\$ 262,910</u>

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 5 – Fixed Assets

At June 30, fixed assets consist of:

	2008	2007
Land	\$ 1,286,883	\$ 1,286,883
Building	3,113,744	3,113,744
Website and database development	587,149	587,149
Equipment	460,858	868,621
Computer software	379,892	361,111
Furniture	312,048	312,048
Leasehold improvements	58,239	42,783
Vehicle	8,475	8,475
	<u>6,207,288</u>	<u>6,580,814</u>
Less accumulated depreciation	<u>(2,462,542)</u>	<u>(2,590,652)</u>
	<u>\$ 3,744,746</u>	<u>\$ 3,990,162</u>

Note 6 – Note Payable

At June 30, note payable 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	\$ 1,102,894	\$ 1,152,329
Less current maturities	<u>(52,752)</u>	<u>(49,235)</u>
	<u>\$ 1,050,142</u>	<u>\$ 1,103,094</u>

Principal payments on the note payable are due as follows:

Years ending June 30,	
2009	\$ 52,752
2010	56,290
2011	60,066
2012	64,095
2013	<u>869,691</u>
	<u>\$ 1,102,894</u>

Total interest expense was approximately \$74,000 and \$77,000 for the years ended June 30, 2008 and 2007, respectively.

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 7 – Commitments and Contingency

Operating Leases: ACE has month-to-month leases for two corporate apartments requiring aggregate monthly lease payments of approximately \$2,800. ACE leases copiers under non-cancelable operating lease agreements which extend through May 2012 and require monthly lease payments of \$1,233. Rent expense for the years ended June 30, 2008 and 2007 was approximately \$40,000 and \$51,000, respectively.

Future minimum rental payments required under non-cancelable operating lease agreements:

Years ending June 30,		
2009	\$	14,796
2010		14,796
2011		14,796
2012		13,563
	\$	<u>57,951</u>

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 February 2009. Interest is calculated based on the bank's prime rate, plus 1 percent (6.00 percent at June 30, 2008). At each of the years ended June 30, 2008 and 2007, there was no amount due under the line of credit, and no borrowings occurred during each of the years ended June 30, 2008 and 2007.

Certification, Administration, and Development: ACE has an agreement with an organization that provides assistance in the development and administration of personal trainer, group fitness instructor, clinical exercise specialist, and life weight management consultant certification tests. The agreement expires in July 2010 and may be terminated by either party. Fees paid under this agreement for the years ended June 30, 2008 and 2007 were approximately \$942,000 and \$702,000, respectively.

Retirement Plan: ACE has a 401(k) plan (the "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 five years. For the years ended June 30, 2008 and 2007, ACE contributed approximately \$44,000 and \$33,000 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 United States Patent and Trademark office.

ADDITIONAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON THE ADDITIONAL INFORMATION

Board of Directors
American Council on Exercise

Our audits were 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 11 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 audits 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 24, 2008

AMERICAN COUNCIL ON EXERCISE

ADDITIONAL INFORMATION STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2008

(With Summarized Financial Information for Year Ended June 30, 2007)

	2008			2007 Total
	Program	General and Administrative	Total	
Salaries and wages	\$ 2,541,212	\$ 1,090,605	\$ 3,631,817	\$ 3,251,350
Educational materials and training manuals	1,193,852	-	1,193,852	1,020,370
Testing services	941,727	-	941,727	702,365
Postage, shipping, and handling	653,863	5,206	659,069	571,996
Marketing	488,269	3,340	491,609	610,074
Printing, photography, and production	484,090	1,410	485,500	474,710
Depreciation and amortization	184,733	152,840	337,573	361,465
Insurance	191,571	97,931	289,502	269,766
Events and trade shows	255,180	-	255,180	237,675
Meetings	126,053	118,006	244,059	282,915
Payroll taxes	186,519	55,042	241,561	242,381
Merchant fees	207,173	-	207,173	178,641
Advertising and promotion	168,600	19,730	188,330	98,482
Travel	146,688	21,218	167,906	210,557
Legal and accounting	-	139,248	139,248	125,063
Professional development and dues	95,695	38,789	134,484	105,060
Repairs, maintenance, and janitorial services	60,302	29,103	89,405	86,349
Interest	51,491	22,068	73,559	76,751
Fulfillment	65,008	-	65,008	58,852
Miscellaneous	21,399	36,244	57,643	66,418
Utilities	35,873	15,374	51,247	59,455
Temporary wages	432	48,963	49,395	37,571
Telephone	34,371	14,731	49,102	57,779
Entertainment	11,748	35,224	46,972	39,697
401(k) contribution	31,103	13,330	44,433	33,405
Office and computer supplies	19,634	18,560	38,194	41,577
Building rent	-	25,103	25,103	30,304
Copying and duplication	11,499	4,928	16,427	20,263
Recruitment	-	4,903	4,903	6,460
Bad debt	-	3,741	3,741	8,605
Computer leases	-	-	-	6,335
Fitness equipment purchases	-	-	-	2,665
	<u>\$ 8,208,085</u>	<u>\$ 2,015,637</u>	<u>\$ 10,223,722</u>	<u>\$ 9,375,356</u>
Total expenses for the year ended June 30, 2007	<u>\$ 7,372,428</u>	<u>\$ 2,002,928</u>	<u>\$ 9,375,356</u>	