

MOSSES ADAMS



AMERICAN COUNCIL ON EXERCISE

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

JUNE 30, 2009 AND 2008

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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, 2009 and 2008, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ACE's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2009 and 2008, 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.

Moss Adams LLP

San Diego, California
September 15, 2009

AMERICAN COUNCIL ON EXERCISE

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,966,804	\$ 2,889,984
Investments	1,784,300	717,753
Accounts receivable	29,578	31,860
Inventory	311,212	247,869
Deferred and prepaid expenses, current portion	411,451	411,891
Total current assets	4,503,345	4,299,357
Fixed Assets	3,550,029	3,744,746
Deferred and Prepaid Expenses, long-term portion	362,704	331,781
Total assets	<u>\$ 8,416,078</u>	<u>\$ 8,375,884</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 882,720	\$ 809,986
Current portion of note payable	56,290	52,752
Deferred revenue	234,873	385,033
Total current liabilities	1,173,883	1,247,771
Long-term Portion of Note Payable	993,875	1,050,142
Total liabilities	2,167,758	2,297,913
Commitments and Contingency (Note 7)		
Unrestricted Net Assets	6,248,320	6,077,971
Total liabilities and net assets	<u>\$ 8,416,078</u>	<u>\$ 8,375,884</u>

AMERICAN COUNCIL ON EXERCISE

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
REVENUE AND SUPPORT		
Educational materials and training manuals	\$ 3,809,355	\$ 4,164,919
Certification fees	2,635,757	2,392,689
Continuing education fees	1,681,413	1,627,516
Instructor renewal fees	1,633,169	1,506,985
Shipping and handling	323,142	506,842
Mailing list rentals	141,206	125,831
Royalties	125,320	128,953
Interest and dividends	69,239	101,826
Membership fees	27,538	38,162
Other	440	867
Contributions	304	653
Professional registry	-	475
Total revenue and support	<u>10,446,883</u>	<u>10,595,718</u>
EXPENSES		
Program	8,373,761	8,208,085
General and administrative	<u>1,713,419</u>	<u>2,015,637</u>
Total expenses	<u>10,087,180</u>	<u>10,223,722</u>
Excess of revenue and support over expenses	359,703	371,996
NET REALIZED/UNREALIZED LOSSES ON INVESTMENTS		
	<u>(189,354)</u>	<u>(119,225)</u>
INCREASE IN UNRESTRICTED NET ASSETS	170,349	252,771
UNRESTRICTED NET ASSETS		
Beginning of year	<u>6,077,971</u>	<u>5,825,200</u>
End of year	<u>\$ 6,248,320</u>	<u>\$ 6,077,971</u>

AMERICAN COUNCIL ON EXERCISE

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING ACTIVITIES		
Change in net assets	\$ 170,349	\$ 252,771
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	320,192	337,573
Net unrealized loss on investments	189,354	119,225
Decrease (increase) in operating assets:		
Accounts receivable	2,282	7,795
Inventory	(63,343)	135,138
Deferred and prepaid expenses	(30,483)	(161,927)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	72,734	(115,041)
Deferred revenue	(150,160)	34,931
Net cash provided by operating activities	<u>510,925</u>	<u>610,465</u>
INVESTING ACTIVITIES		
Purchases of fixed assets	(125,475)	(92,157)
Proceeds from sales of investments	39,242	121,546
Purchases of investments	<u>(1,295,143)</u>	<u>(267,537)</u>
Net cash used in investing activities	<u>(1,381,376)</u>	<u>(238,148)</u>
FINANCING ACTIVITIES		
Payments on note payable	<u>(52,729)</u>	<u>(49,435)</u>
Net cash used in financing activities	<u>(52,729)</u>	<u>(49,435)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(923,180)	322,882
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,889,984</u>	<u>2,567,102</u>
End of year	<u>\$ 1,966,804</u>	<u>\$ 2,889,984</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 70,266</u>	<u>\$ 73,559</u>

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 1 – Nature of Organization and Significant Accounting Policies

Organization: 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 the 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 (“IRC”) and section 23701(d) of the California Revenue and Taxation Code, except to the extent of unrelated business taxable income as defined under IRC sections 511 through 515. Pursuant to Financial Accounting Standards Board (“FASB”) Staff Position FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, management has elected to defer the application of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, to fiscal years beginning after December 15, 2008. ACE evaluates uncertain tax positions in accordance with Statement of Financial Accounting Standards (“SFAS”) No 5, *Accounting for Contingencies*, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2009 and 2008, ACE had no uncertain tax positions requiring accrual.

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

Financial Statement Presentation: Net assets and revenue, gains, expenses, and losses are 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, 2009 and 2008, ACE did not have any temporarily restricted net assets; and
- 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, 2009 and 2008, 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);
- Processing fees for continuing education quizzes (recognized as quizzes are processed);
- Instructor renewal fees (recognized as renewal forms are processed);

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

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

Revenue Recognition (Continued)

- Mailing list rentals (recognized when lists are rented);
- Royalties (recognized as earned); and
- Memberships (recognized as memberships are renewed).

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 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, 2009 and 2008, 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.

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

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

Advertising: Advertising costs are expensed as incurred.

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 program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program 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.

Subsequent Events: Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. ACE recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. ACE's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued. ACE has evaluated subsequent events through September 15, 2009, which is the date the financial statements are issued.

Fair Value Measurements: Effective July 1, 2008, ACE adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This standard has been applied prospectively as of the beginning of the year and is applicable to ACE's investments consisting of certificates of deposit and mutual funds. Management determined that the fair value of these assets is determinable using Level 1 inputs as defined under SFAS 157. These inputs include information that is corroborated by observable market data.

Note 2 – Concentration of Credit Risk

Cash and Cash Equivalents: ACE maintains its cash and cash equivalents in bank accounts which 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 risks. 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.

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 3 – Investments

The fair values of investments are summarized as follows at June 30:

	2009	2008
Certificates of deposit	\$ 1,126,766	\$ -
Mutual funds	657,534	717,753
	<u>\$ 1,784,300</u>	<u>\$ 717,753</u>

Note 4 – Deferred and Prepaid Expenses

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

Deferred expenses	\$ 596,988	\$ 521,963
Prepaid expenses	177,167	221,709
	774,155	743,672
Less current portion	(411,451)	(411,891)
	<u>\$ 362,704</u>	<u>\$ 331,781</u>

Note 5 – Fixed Assets

At June 30, fixed assets consist of:

Land	\$ 1,286,883	\$ 1,286,883
Building	3,113,744	3,113,744
Website and database development	587,149	587,149
Equipment	572,910	460,858
Computer software	385,800	379,892
Furniture	312,048	312,048
Leasehold improvements	65,754	58,239
Vehicle	8,475	8,475
	6,332,763	6,207,288
Less accumulated depreciation	(2,782,734)	(2,462,542)
	<u>\$ 3,550,029</u>	<u>\$ 3,744,746</u>

Note 6 – Note Payable

At June 30, the 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	\$ 1,050,165	\$ 1,102,894
Less current maturities	(56,290)	(52,752)
	<u>\$ 993,875</u>	<u>\$ 1,050,142</u>

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 6 – Note Payable (Continued)

Principal payments on the note payable are due as follows:

Years ending June 30,		
2010	\$	56,290
2011		60,066
2012		933,809
		<hr/>
	\$	1,050,165
		<hr/>

Total interest expense was approximately \$70,000 and \$74,000 for the years ended June 30, 2009 and 2008, respectively.

Note 7 – Commitments and Contingency

Operating Leases: 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, 2009 and 2008 was approximately \$16,500 and \$40,000, respectively.

Future minimum rental payments required under non-cancelable operating lease agreements are due as follows:

Years ending June 30,		
2010	\$	14,796
2011		14,796
2012		13,563
		<hr/>
	\$	43,155
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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, 2009 and 2008 were approximately \$1,015,000 and \$942,000, 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, 2009 and 2008, ACE contributed approximately \$53,000 and \$44,000, respectively, to the Plan.

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.

Moss Adams LLP

San Diego, California
September 15, 2009

AMERICAN COUNCIL ON EXERCISE

ADDITIONAL INFORMATION STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2009

(With Summarized Financial Information for the Year Ended June 30, 2008)

	2009			2008 Total
	Program	General and Administrative	Total	
Salaries and wages	\$ 2,461,592	\$ 919,491	\$ 3,381,083	\$ 3,631,817
Educational materials and training manuals	1,149,386	-	1,149,386	1,193,852
Testing services	1,014,597	-	1,014,597	941,727
Marketing	661,859	2,590	664,449	491,609
Postage, shipping, and handling	594,015	6,754	600,769	659,069
Printing, photography, and production	411,263	776	412,039	485,500
Insurance	214,556	106,753	321,309	289,502
Depreciation and amortization	176,869	143,323	320,192	337,573
Advertising and promotion	242,182	3,529	245,711	188,330
Payroll taxes	214,216	25,117	239,333	241,561
Events and trade shows	238,136	-	238,136	255,180
Meetings	116,341	103,706	220,047	244,059
Merchant fees	217,612	-	217,612	207,173
Travel	160,635	21,108	181,743	167,906
Legal and accounting	-	141,056	141,056	139,248
Professional development and dues	102,516	10,788	113,304	134,484
Repairs, maintenance, and janitorial services	64,127	30,690	94,817	89,405
Fulfillment	76,947	-	76,947	65,008
Miscellaneous	45,461	26,627	72,088	57,643
Interest	49,186	21,080	70,266	73,559
Utilities	42,598	18,256	60,854	51,247
Office and computer supplies	19,228	34,740	53,968	38,194
401(k) contribution	37,251	15,965	53,216	44,433
Entertainment	13,457	36,887	50,344	46,972
Telephone	33,799	14,485	48,284	49,102
Copying and duplication	12,706	5,445	18,151	16,427
Temporary wages	-	14,536	14,536	49,395
Recruitment	-	8,164	8,164	4,903
Bad debt	3,226	-	3,226	3,741
Building rent	-	1,553	1,553	25,103
	<u>\$ 8,373,761</u>	<u>\$ 1,713,419</u>	<u>\$ 10,087,180</u>	<u>\$ 10,223,722</u>
Total expenses for the year ended June 30, 2008	<u>\$ 8,208,085</u>	<u>\$ 2,015,637</u>	<u>\$ 10,223,722</u>	