



**USA WATER SKI, INC.**  
**Financial Statements**  
**For the Year Ended December 31, 2007**

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
USA Water Ski, Inc.  
Colorado Springs, Colorado

We have audited the accompanying statement of financial position of USA Water Ski, Inc., (a nonprofit corporation) as of December 31, 2007 and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 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 audit provides a reasonable basis for our opinion.

As explained in note I to the financial statements, the Corporation has excluded from the financial statements the financial activity of one region. In our opinion, accounting principles generally accepted in the United States of America require that such activity be recorded. It was not practicable to determine the effects of the unrecorded activity on the financial statements.

In our opinion, except for the effects of not including the financial activity of one region, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of USA Water Ski, Inc. as of December 31, 2007 and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of program services and of supporting services for the year ended December 31, 2007 are presented for purposes of additional analysis and are 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.

*Wang & Goodwin, LLP*  
March 7, 2008

USA WATER SKI, INC.  
Statement of Financial Position  
December 31, 2007

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$	371,899
Short-term investments		260,708
Accounts receivable, net		55,763
Prepaid expenses		29,253
Other assets		28,200

Total current assets		745,823
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PROPERTY AND EQUIPMENT, at cost:

Computers and software		110,737
Furniture and equipment		155,373
Leasehold improvements		26,451

292,561

Less accumulated depreciation		(211,433)
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Property and equipment - net		81,128
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TOTAL ASSETS	\$	826,951
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$	40,438
Accrued liabilities		34,648
Deferred revenue (Note D)		149,863

Total current liabilities		224,949
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NET ASSETS:

Unrestricted		339,444
Unrestricted - Board Designated (Note G)		213,066
Temporarily restricted (Note H)		49,492

Total net assets		602,002
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TOTAL LIABILITIES AND NET ASSETS	\$	826,951
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See Notes to Financial Statements

USA WATER SKI, INC.  
Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
<b>SUPPORT AND REVENUE:</b>			
Membership registrations	\$ 978,002	\$	\$ 978,002
Marketing and partnership	310,007		310,007
Publication income	218,274		218,274
National tournaments	107,825		107,825
Lake property donation	100,000		100,000
Regional income	80,683	13,615	94,298
Event sanctioning income	91,845		91,845
Value in kind	64,172		64,172
Approved towboat testing	62,000		62,000
Sport development	44,337		44,337
Teams fund	34,629		34,629
Sport discipline income		32,910	32,910
Interest income	29,322		29,322
Other income	8,759		8,759
Team trials income	8,510		8,510
Satisfaction of program restrictions	<u>44,331</u>	<u>(44,331)</u>	
Total support and revenue	2,182,696	2,194	2,184,890
<b>EXPENSES:</b>			
Program services:			
Membership	663,898		663,898
Publication expense	418,070		418,070
Sport development	242,338		242,338
National tournaments	227,735		227,735
Lake property	118,270		118,270
Sport discipline expense	108,157		108,157
Regional expense	74,418		74,418
National teams	63,716		63,716
Competition	54,972		54,972
Towboat program	<u>31,622</u>		<u>31,622</u>
Total program services	2,003,196		2,003,196
Supporting services:			
General and administrative expense	310,017		310,017
Sponsorship development	<u>195,939</u>		<u>195,939</u>
Total supporting services	<u>505,956</u>		<u>505,956</u>
Total expenses	<u>2,509,152</u>		<u>2,509,152</u>
CHANGE IN NET ASSETS	(326,456)	2,194	(324,262)
NET ASSETS, beginning of year	708,901	47,298	756,199
ADJUSTMENT TO INCLUDE BEGINNING NET ASSETS FOR FOUR REGIONS & THREE DISCIPLINES (NOTE I)	<u>170,065</u>		<u>170,065</u>
NET ASSETS, end of year	<u>\$ 552,510</u>	<u>\$ 49,492</u>	<u>\$ 602,002</u>

See Notes to Financial Statements

USA WATER SKI, INC.  
Statement of Cash Flows  
For the Year Ended December 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (324,262)
Adjustments to reconcile changes in net assets to net cash used by operating activities:	
Depreciation	23,485
Changes in assets and liabilities:	
Changes in accounts receivable	39,053
Changes in prepaid expenses	36,534
Changes in other assets	(28,200)
Changes in accounts payable	(874)
Changes in accrued liabilities	8,168
Changes in deferred revenue	<u>(70,509)</u>
Total adjustments	<u>7,657</u>
Net cash used by operating activities	(316,605)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment	(16,861)
Decrease in investments	<u>330,993</u>
Net cash provided by investing activities	<u>314,132</u>
NET DECREASE IN CASH	(2,473)
CASH AND CASH EQUIVALENTS, beginning of year	204,307
ADJUSTMENT TO INCLUDE BEGINNING CASH FOR FOUR REGIONS & THREE DISCIPLINES (NOTE I)	<u>170,065</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 371,899</u>

See Notes to Financial Statements

USA WATER SKI, INC.  
Notes to Financial Statements  
For the Year Ended December 31, 2007

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

USA Water Ski, Inc. (the Corporation) is the national governing body of organized water skiing in the United States. USA Water Ski is a member of the International Water Ski Federation, the Pan American Sports Organization and the United States Olympic Committee. Affiliated with USA Water Ski as sport disciplines are the American Water Ski Association, American Barefoot Club, American Kneeboard Association, National Collegiate Water Ski Association, National Show Ski Association, National Water Ski Racing Association, United States Hydrofoil Association, USA Wakeboard and Water Skiers with Disabilities Association.

Income Taxes

The Corporation is an organization which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986. The Corporation qualifies for charitable contribution deductions and is not a private foundation. Income from certain activities not directly related to the Corporation's tax-exempt purpose is subject to taxation as unrelated business income.

Cash and Cash Equivalents

Cash and cash equivalents consist of the Corporation's checking accounts and savings accounts.

The Corporation maintains its cash and cash equivalents in a commercial bank. In the unlikely event of a bank failure, the Corporation could suffer a loss to the extent its deposits exceeded the respective bank insurance limits.

Accounts Receivable

At December 31, 2007, accounts receivable are recorded net of an allowance for doubtful accounts of \$3,411, which is estimated based on historical bad debt expense.

Accounts receivable outstanding for more than 30 days are considered delinquent. Delinquent receivables are determined to be uncollectible on a case by case basis and are written off to bad debt expense at such point of determination.

## Notes to Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Property and Equipment

Property and equipment consists of leasehold improvements, furniture, and office equipment used in the operations of the Corporation. Property and equipment are recorded at cost or, in the case of donated items, at the estimated fair market value at the date of the donation.

Depreciation is recorded using the straight-line method over an estimated life of three to ten years for furniture and equipment and seven to fifteen years for leasehold improvements. Depreciation expense for the year ended December 31, 2007 was \$23,485.

#### Contributions

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### Contributed Services

The Corporation receives a substantial amount of donated services in carrying out the Corporation's programs. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under SFAS No. 116.

#### Functional Allocation of Expenses

Certain costs and expenses are allocated among the various programs and supporting service expenses based on salary and related expenses. For the years ended December 31, 2007, the Corporation's supporting service expenses amounted to 23.16% of total support and revenue.

#### Use of Estimates in Preparation of Financial Statements

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, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Notes to Financial Statements

B. SHORT-TERM INVESTMENTS

Short-term investments at December 31, 2007 consist of certificates of deposit held at brokerage firm with maturity dates ranging from February 2008 to September 2008 with an average rate of interest of 5%. The Corporation intends to hold these certificates until maturity.

C. AMERICAN WATER SKI EDUCATIONAL FOUNDATION

The American Water Ski Education Foundation (the Foundation) is a separate exempt entity to establish, administer and promote an educational program devoted to the development and training of water skiers as a means of healthful recreation and physical fitness and to stimulate an interest in water skiing competition.

The Corporation leases office space from the Foundation in accordance with an operating lease effective through November, 2019 at an annual rate of \$10. For the year ended December 31, 2007, the Corporation recognized \$31,000 in value-in-kind for the leased office space. The Corporation is also responsible for covering the cost of utilities, property tax, and repairs and maintenance. Total expenses incurred for the year ended December 31, 2007 amounted to \$81,442.

At December 31, 2007, the Foundation owed the Corporation \$10,000 for reimbursement of lake expenses.

The Corporation is not controlled by the Foundation and therefore consolidated financial statements are not prepared.

D. DEFERRED REVENUE

Deferred revenue consists of the following at December 31, 2007:

2008 memberships	\$ 123,528
Sanction fees	6,600
Gold memberships	6,000
2008 additional insurance	5,675
Team clothing	5,100
Dockside ads	1,525
Deferred revenue - other	<u>1,435</u>
	<u>\$ 149,863</u>

Notes to Financial Statements

E. LEASES

During 2007, the Corporation executed a sixty-three month operating lease for postage equipment that expires March, 2013. The lease requires monthly payments of \$2,095.

The Corporation also leases two copiers and a fax machine. The operating lease is effective through October, 2011 at a monthly rate of \$1,742.

As explained in note C, the Corporation leases office space from the American Water Ski Educational Foundation. The operating lease is effective through November, 2019 and requires annual payments of \$10.

Minimum future payments on these leases for each of the years ended December 31 are as follows:

2008	\$	46,053
2009		46,053
2010		46,053
2011		42,569
2011 - 2019		31,505

F. RETIREMENT PLAN

The Corporation has established a defined contribution pension plan for its employees. Employees are eligible to participate if they are over the age of twenty-one with at least one thousand hours of service. Each year, the Corporation may elect to make a profit sharing contribution. The contribution will be allocated to participants based on compensation, as defined by the plan. Total pension expense for the year ended December 31, 2007 amounted to \$22,863.

The Corporation also maintains a defined contribution, Section 403(b), retirement plan for its employees. Employees are able to make pre-tax contributions to the plan up to the dollar and percentage limits set by law. The Corporation does not make matching contributions for this plan.

Notes to Financial Statements

G. UNRESTRICTED NET ASSETS - BOARD DESIGNATED

At December 31, 2007, Board designated net assets consist of the following:

Southern region	\$	51,880
Eastern region		43,505
Midwest region		32,635
American Barefoot Club		32,470
Wakeboard		23,098
Western region		16,346
American Water Ski Association		6,813
Water Skiers with Disabilities Association		5,312
American Kneeboard Association		<u>1,007</u>
	\$	<u>213,066</u>

H. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2007 are available for the following purposes:

American Water Ski Association	\$	29,822
Water Skiers with Disabilities Association		<u>19,670</u>
	\$	<u>49,492</u>

I. SPORT DISCIPLINES AND REGIONS

The Corporation has five separate regions and nine separate sport disciplines that assist in administering tournaments across the United States of America. USA Water Ski, Inc. granted funding to these regions and disciplines in the amount of \$123,439 during the year ended December 31, 2007.

All five regions and five of the nine sport disciplines financials are reported on a consolidated basis with USA Water Ski, Inc. At December 31, 2006, complete information was unavailable for three of the sport disciplines and all five of the regions. As this information becomes available, the additional entities net assets will be transferred to USA Water Ski, Inc. and reported on a consolidated basis. An adjustment of \$170,065 was made to increase beginning net assets and cash to consolidate four regions and three additional sport disciplines at January 1, 2007.

At December 31, 2007, information was still unavailable for South Central region and therefore that region is not included in the accompanying financial statements.

Notes to Financial Statements

J. ACTIVE MEMBER LIABILITY INSURANCE

The Corporation has a self-insurance program for liability insurance for its active members. The Corporation has contracted with a third-party administrator to process the claims. Under the contract, the Corporation is self-insured for the first \$50,000 per occurrence and a cumulative amount of \$100,000 on an annual basis.

USA WATER SKI, INC.

Schedule of Program Services

For the Year Ended December 31, 2007

	Membership	Publication	Sport Development	National Tournaments	Lake Property	Sport Discipline	Regional	National Teams	Competition	Towboat Program	Total
Labor allocation	\$ 171,744	\$ 138,022	\$ 122,432	\$ 27,960	\$	\$	\$	\$ 5,846	\$ 27,028	\$ 18,555	\$ 511,587
Insurance	355,722										355,722
Overhead allocation	72,745	58,461	51,858	11,843				2,476	11,448	7,859	216,690
Magazine production		123,307									123,307
Management					117,895						117,895
Sport discipline expense						108,157					108,157
Regional expense							74,418				74,418
Regional guides		68,890									68,890
TV production											67,600
Entry fees											67,318
Sport discipline grants			38,392								38,392
Uniforms								35,019			35,019
Postage	11,095	20,734									31,829
Materials	30,114										31,129
Travel	4,521	2,688	5,480	15,520				1,015			28,209
Officials room/housing				5,923							13,923
Team tees/caps/sweats								8,000			12,062
Event sanctioning								12,062			12,062
Membership renewal expense	10,063										10,063
Officials clinics									12,033		12,033
Awards			9,815	9,425							19,240
Grassroots programs											9,815
Member development			8,410								8,410
Junior U.S. Open Expense	7,164										7,164
Exhibits											7,025
Website development				7,025							7,025
Officials shirts				6,225							6,225
Waterways		5,606									5,606
Site set-up			4,749								4,749
Room & board				400							400
Competition expense											2,613
Rulebooks										2,500	2,500
Sport division expense									1,757		1,757
Banquet expense									1,691		1,691
Promotion & marketing			1,000								1,000
Ski school & camps expense	730										730
Miscellaneous expenses											674
VIP Reception expense											450
Honorarium											450
Club expense											400
Publication expense											375
Instructor certification		362									362
Technical equipment			202								202
Telephone											174
Totals	\$ 663,898	\$ 418,070	\$ 242,338	\$ 227,735	\$ 118,270	\$ 108,157	\$ 74,418	\$ 63,716	\$ 54,972	\$ 31,622	\$ 2,003,196
											(342)

USA WATER SKI, INC.  
Schedule of Supporting Services  
For the Year Ended December 31, 2007

	<u>General &amp; Administrative</u>	<u>Sponsorship Development</u>	<u>Total</u>
Salaries	\$ 688,913	\$	\$ 688,913
Employee benefits	68,613		68,613
Payroll taxes	50,153		50,153
Postage equipment	42,293		42,293
Utilities	35,527		35,527
VIK	31,000		31,000
Travel	21,529	8,863	30,392
Computer supplies & service	29,859		29,859
Credit card fees	28,410		28,410
Bad debts	26,000		26,000
Telephone & fax	23,531		23,531
Depreciation	23,485		23,485
Retirement plan	22,863		22,863
Printing & duplication	18,508		18,508
Insurance	16,397		16,397
Professional fees	15,643		15,643
Office supplies	12,670		12,670
Miscellaneous expenses	11,118		11,118
Equipment repair & maintenance	10,373		10,373
Postage	8,499		8,499
Taxes & licenses	7,595		7,595
Board of directors meetings	7,374		7,374
Building repair & maintenance	7,119		7,119
Promotion	4,881		4,881
Dues & subscription	4,465		4,465
Committee meetings	3,142		3,142
Shipping	2,164		2,164
Bank charges	1,660		1,660
Education & training	1,228		1,228
President's budget	237		237
Solicitation costs		121	121
Overhead allocation	(272,316)	55,626	(216,690)
Labor allocation	(642,916)	131,329	(511,587)
	<u>\$ 310,017</u>	<u>\$ 195,939</u>	<u>\$ 505,956</u>