

**USA WATER SKI, INC.**  
**Financial Statements**  
**& Supplemental Schedules**  
**For the Year Ended December 31, 2008**

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
USA Water Ski, Inc.  
Polk City, Florida

We have audited the accompanying statement of financial position of USA Water Ski, Inc., (a nonprofit corporation) as of December 31, 2008, 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. The prior year summarized comparative information has been derived from the Corporation's December 31, 2007 financial statements and, in our report dated March 7, 2008, we expressed an unqualified opinion on those financial statements.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USA Water Ski, Inc. as of December 31, 2008, 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, 2008 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.

*Waugh & Goodwin, LLP*

March 20, 2009

USA WATER SKI, INC.  
Statement of Financial Position  
December 31, 2008  
(With Comparative Amounts for 2007)

	<u>ASSETS</u>	
	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 723,128	\$ 371,899
Short-term investments	216,547	260,708
Accounts receivable, net	40,509	55,763
Prepaid expenses	37,688	29,253
Inventory	5,104	
Other assets	<u>3,200</u>	<u>28,200</u>
Total current assets	1,026,176	745,823
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Computers and software	96,899	110,737
Furniture and equipment	151,070	155,373
Leasehold improvements	<u>26,451</u>	<u>26,451</u>
	274,420	292,561
Less accumulated depreciation	<u>(214,167)</u>	<u>(211,433)</u>
Property and equipment - net	<u>60,253</u>	<u>81,128</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,086,429</u>	<u>\$ 826,951</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 67,428	\$ 40,438
Accrued liabilities	32,389	34,648
Deferred revenue (Note D)	<u>353,446</u>	<u>149,863</u>
Total current liabilities	453,263	224,949
<b>NET ASSETS:</b>		
Unrestricted	213,890	339,444
Unrestricted - Board Designated (Note G)	335,008	213,066
Temporarily restricted (Note H)	<u>84,268</u>	<u>49,492</u>
Total net assets	<u>633,166</u>	<u>602,002</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,086,429</u>	<u>\$ 826,951</u>

See Notes to Financial Statements

USA WATER SKI, INC.  
Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2008  
(With Comparative Totals for 2007)

	Unrestricted	Temporarily Restricted	2008 Totals	2007 Totals
<b>SUPPORT AND REVENUE:</b>				
Membership registrations	\$ 806,310	\$	\$ 806,310	\$ 978,002
Marketing and partnership	379,085		379,085	310,007
Publication income	227,132		227,132	218,274
Regional income	151,891		151,891	94,298
National tournaments	129,912		129,912	107,825
Sport discipline income	42,948	62,998	105,946	32,910
Event sanctioning income	95,815		95,815	91,845
Approved towboat testing	78,500		78,500	62,000
Value in kind	68,083		68,083	64,172
Teams fund	35,764	30,000	65,764	34,629
Sport development	33,966		33,966	44,337
Interest income	11,647		11,647	29,322
Other income	8,902		8,902	8,759
Team trials income	3,370		3,370	8,510
Lake property donation				100,000
Satisfaction of program restrictions	58,222	(58,222)		
Total support and revenue	2,131,547	34,776	2,166,323	2,184,890
<b>EXPENSES:</b>				
Program services:				
Membership	690,153		690,153	663,898
Publication expense	388,030		388,030	418,070
National tournaments	189,662		189,662	227,735
Sport development	175,988		175,988	242,338
Sport discipline expense	135,447		135,447	108,157
Regional expense	80,562		80,562	74,418
National teams	80,151		80,151	63,716
Competition	49,373		49,373	54,972
Towboat program	26,894		26,894	31,622
Lake property	1,288		1,288	118,270
Total program services	1,817,548		1,817,548	2,003,196
Supporting services:				
General and administrative expense	183,252		183,252	310,017
Sponsorship development	159,512		159,512	195,939
Total supporting services	342,764		342,764	505,956
Total expenses	2,160,312		2,160,312	2,509,152
CHANGE IN NET ASSETS	(28,765)	34,776	6,011	(324,262)
NET ASSETS, beginning of year	552,510	49,492	602,002	756,199
ADJUSTMENT TO INCLUDE BEGINNING NET ASSETS FOR ONE REGION (NOTE I)	25,153		25,153	170,065
NET ASSETS, end of year	\$ 548,898	\$ 84,268	\$ 633,166	\$ 602,002

See Notes to Financial Statements

USA WATER SKI, INC.  
Statement of Cash Flows  
For the Year Ended December 31, 2008  
(With Comparative Amounts for 2007)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 6,011	\$ (324,262)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	23,693	23,485
Changes in assets and liabilities:		
Changes in accounts receivable	15,254	39,053
Changes in prepaid expenses	(8,436)	36,534
Changes in inventory	(5,104)	
Changes in other assets	25,000	(28,200)
Changes in accounts payable	26,990	(874)
Changes in accrued liabilities	(2,259)	8,168
Changes in deferred revenue	<u>203,584</u>	<u>(70,509)</u>
Total adjustments	<u>278,722</u>	<u>7,657</u>
Net cash provided (used) by operating activities	284,733	(316,605)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(2,818)	(16,861)
Change in investments, net	<u>44,161</u>	<u>330,993</u>
Net cash provided by investing activities	<u>41,343</u>	<u>314,132</u>
NET INCREASE (DECREASE) IN CASH	326,076	(2,473)
CASH AND CASH EQUIVALENTS, beginning of year	371,899	204,307
ADJUSTMENT TO INCLUDE BEGINNING CASH FOR ONE REGION (NOTE I)	<u>25,153</u>	<u>170,065</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 723,128</u>	<u>\$ 371,899</u>

See Notes to Financial Statements

USA WATER SKI, INC.  
Notes to Financial Statements  
For the Year Ended December 31, 2008

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 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, 2008 and 2007, accounts receivable are recorded net of an allowance for doubtful accounts of \$0 and \$3,411, respectively, which is estimated based on historical experience.

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, 2008 and 2007 was \$23,693 and \$23,485, respectively.

#### 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, 2008 and 2007, the Corporation's supporting service expenses amounted to 15.82% and 23.16%, respectively, 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, 2008 and 2007 consist of certificates of deposit. 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 years ended December 31, 2008 and 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, 2008 and 2007 amounted to \$64,389 and \$81,442, respectively.

At December 31, 2008 and 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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Memberships	\$ 335,063	\$ 123,528
Team clothing	5,870	5,100
Sanction fees	3,200	6,600
Gold memberships	4,000	6,000
Waterways income	3,898	
Deferred revenue - other	1,315	1,435
Dockside ads	100	1,525
2008 additional insurance	_____	_____
	<u>\$ 353,446</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:

2009	\$	46,053
2010		46,053
2011		42,569
2012		25,150
2013 - 2019		6,355

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 years ended December 31, 2008 and 2007 amounted to \$18,100 and \$22,863, respectively.

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, 2008 and 2007, Board designated net assets consist of the following:

	<u>2008</u>	<u>2007</u>
Western region	\$ 81,274	\$ 16,346
Southern region	57,343	51,880
Eastern region	44,325	43,505
Midwest region	35,583	32,635
American Barefoot Club	38,004	32,470
Wakeboard	37,763	23,098
South Central region	22,323	
American Water Ski Association	7,927	6,813
Water Skiers with Disabilities Association	8,828	5,312
American Kneeboard Association	<u>1,638</u>	<u>1,007</u>
	<u>\$ 335,008</u>	<u>\$ 213,066</u>

H. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2008 and 2007 are available for the following purposes:

	<u>2008</u>	<u>2007</u>
American Water Ski Association	\$ 34,598	\$ 29,822
USA Water Ski	30,000	
Water Skiers with Disabilities Association	<u>19,670</u>	<u>19,670</u>
	<u>\$ 84,268</u>	<u>\$ 49,492</u>

## Notes to Financial Statements

### H. TEMPORARILY RESTRICTED NET ASSETS - Continued

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the year ended December 31, 2008 and 2007, respectively, temporarily restricted net assets were released from restrictions for the following programs:

	<u>2008</u>	<u>2007</u>
American Water Ski Association	\$ 58,222	\$ 15,203
Wakeboard		18,700
Water Skiers with Disabilities Association	<u>                    </u>	<u>10,428</u>
	<u>\$ 58,222</u>	<u>\$ 44,331</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 \$93,277 and \$123,439 during the years ended December 31, 2008 and 2007, respectively.

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, 2007, complete information was unavailable for one of the sport disciplines. This information became available during the year and at December 31, 2008, an adjustment of \$25,153 was made to increase beginning net assets and cash to consolidate the one remaining sport discipline at January 1, 2008.

### J. ACTIVE MEMBER LIABILITY INSURANCE

The Corporation self-insures for a portion of its liability coverage for 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.

Subsequent to December 31, 2008, two claims were processed for a total of \$88,557. These claims have been recorded in membership insurance expense for the year ended December 31, 2008.

USA WATER SKI, INC.  
Schedule of Program Services  
For the Year Ended December 31, 2008

	Membership	Publication	National Tournaments	Sport Development	Sport Discipline	Regional	National Teams	Competition	Towboat Program	Lake Property	Total
Labor allocation	\$ 140,048	\$ 150,297	\$ 37,346	\$ 86,977	\$	\$	\$ 16,497	\$ 34,398	\$ 11,092	\$	\$ 476,655
Insurance	423,140										423,140
Overhead allocation	57,570	61,782	15,352	35,754			6,781	14,140	4,559		195,938
Magazine production		106,407									106,407
Management										1,288	1,288
Sport discipline expense				33,540	135,447						168,987
Regional expense		63,439				80,562					144,001
TV production			22,098								22,098
Entry fees			85,368								85,368
Uniforms							39,709				39,709
Postage	10,661										10,661
Materials	27,540							7			27,547
Travel	948	4,402		1,384					4,581		11,315
Officials room/housing			1,300				3,200				4,500
Team tees/caps/sweats							13,916				13,916
Event sanctioning								292			292
Membership renewal expense	10,318										10,318
Officials clinics				7,409							7,409
Awards			7,614				48				7,662
Grassroots programs				6,928							6,928
Member development	19,927										19,927
Junior U.S. Open expense			7,260								7,260
Exhibits			7,775								7,775
Website development		1,703									1,703
Officials shirts			3,403								3,403
Waterways				3,852							3,852
Site set-up			461						2,250		2,711
Room & board									2,959		2,959
Competition expense								536			536
Sport division expense			406								406
Banquet expense			820								820
Ski school & camps expense	1										1
Miscellaneous expense			59						247		306
VIP Reception expense			400								400
Honorarium									1,000		1,000
Instructor certification				144							144
Technical equipment									206		206
<b>Totals</b>	<b>\$ 690,153</b>	<b>\$ 388,030</b>	<b>\$ 189,662</b>	<b>\$ 175,988</b>	<b>\$ 135,447</b>	<b>\$ 80,562</b>	<b>\$ 80,151</b>	<b>\$ 49,373</b>	<b>\$ 26,894</b>	<b>\$ 1,288</b>	<b>\$ 1,817,548</b>

USA WATER SKI, INC.  
Schedule of Supporting Services  
For the Year Ended December 31, 2008

	General & Administrative	Sponsorship Development	Total
Salaries	\$ 586,547	\$	\$ 586,547
Employee benefits	47,025		47,025
Payroll taxes	41,054		41,054
Utilities	28,561		28,561
Travel	5,460	3,608	9,068
Computer supplies & service	29,870		29,870
Credit card fees	32,175		32,175
Bad debts	13,789		13,789
Telephone & fax	17,797		17,797
Depreciation	23,693		23,693
Retirement plan	18,100		18,100
Printing & duplication	20,637		20,637
Insurance	24,148		24,148
Professional fees	9,300		9,300
Office supplies	3,572		3,572
Miscellaneous expenses	2,765		2,765
Equipment repair & maintenance	10,821		10,821
Postage	21,890	21,032	42,922
Taxes & licenses	5,196		5,196
Board of directors meetings	5,236		5,236
Building repair & maintenance	2,334		2,334
Promotion	2,540		2,540
Dues & subscription	3,381		3,381
Committee meetings	561		561
Shipping	1,907		1,907
Bank charges	1,202		1,202
Fulfillment costs		122	122
Solicitation costs		34	34
Rent	31,000		31,000
Overhead allocation	(235,183)	39,245	(195,938)
Labor allocation	(572,126)	95,471	(476,655)
	<u>\$ 183,252</u>	<u>\$ 159,512</u>	<u>\$ 342,764</u>