

USA WATER SKI, INC.

**Financial Statements
& Supplemental Schedules**

For the Year Ended December 31, 2012

TABLE OF CONTENTS

Independent Auditors' Report	1
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Schedule of Program Services	14
Schedule of Supporting Services	15

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, 2012 and the related statements of activities and changes in net assets, and cash flows for the year then ended. The prior-year summarized comparative information has been derived from the Corporation's December 31, 2011 financial statements and, in our report dated March 5, 2012 we expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of program services and supporting services are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Waugh & Goodwin, LLP

Colorado Springs, Colorado
March 1, 2013

USA WATER SKI, INC.
Statement of Financial Position
December 31, 2012
(With Comparative Amounts for 2011)

	<u>ASSETS</u>	
	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 569,246	\$ 507,289
Short-term investments	366,495	319,319
Accounts receivable	30,018	46,131
Prepaid expenses	40,481	18,072
Inventory	14,292	11,058
Other assets	<u>4,550</u>	<u>4,550</u>
Total current assets	1,025,082	906,419
PROPERTY AND EQUIPMENT, at cost:		
Computers and software	84,054	86,102
Furniture and equipment	182,751	183,651
Leasehold improvements	<u>39,310</u>	<u>33,835</u>
	306,115	303,588
Less accumulated depreciation	<u>(260,828)</u>	<u>(259,324)</u>
Property and equipment - net	<u>45,287</u>	<u>44,264</u>
TOTAL ASSETS	<u>\$ 1,070,369</u>	<u>\$ 950,683</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES:		
Accounts payable	\$ 14,384	\$ 12,376
Accrued liabilities	33,256	25,427
Current portion of deferred revenue	<u>388,880</u>	<u>365,100</u>
Total current liabilities	436,520	402,903
DEFERRED REVENUE	<u>25,773</u>	<u>16,844</u>
Total liabilities	462,293	419,747
NET ASSETS:		
Unrestricted	166,097	151,708
Unrestricted - Board designated	385,745	351,256
Temporarily restricted	<u>56,234</u>	<u>27,972</u>
Total net assets	<u>608,076</u>	<u>530,936</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,070,369</u>	<u>\$ 950,683</u>

See Notes to Financial Statements

USA WATER SKI, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2012
(With Comparative Totals for 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012 Totals</u>	<u>2011 Totals</u>
SUPPORT AND REVENUE:				
Membership registrations	\$ 914,834	\$	\$ 914,834	\$ 894,280
Publication income	172,185		172,185	166,943
Marketing and partnership	167,904		167,904	165,748
National tournaments	145,867		145,867	38,530
Sport discipline income	42,680	64,138	106,818	70,937
Regional income	105,752		105,752	96,988
Event sanctioning income	95,566		95,566	89,135
Sport development	48,696		48,696	36,752
Approved towboat testing	45,000		45,000	43,000
Value in kind	31,000		31,000	31,000
Teams fund	31,733		31,733	30,130
Interest income	27,586		27,586	6,073
Other income	11,249		11,249	9,008
Team trials income	5,470		5,470	
Satisfaction of program restrictions	<u>35,876</u>	<u>(35,876)</u>		
Total support and revenue	1,881,398	28,262	1,909,660	1,678,524
EXPENSES:				
Program services:				
Membership	511,945		511,945	549,208
Publication expense	362,376		362,376	361,301
Sport discipline expense	143,718		143,718	165,175
National tournaments	178,669		178,669	80,315
Sport development	145,225		145,225	137,053
Regional expense	85,240		85,240	88,007
Competition	44,109		44,109	44,376
National teams	43,736		43,736	33,699
Towboat program	<u>19,268</u>		<u>19,268</u>	<u>16,974</u>
Total program services	1,534,286		1,534,286	1,476,108
Supporting services:				
General and administrative expense	170,208		170,208	168,039
Sponsorship development	<u>128,026</u>		<u>128,026</u>	<u>133,475</u>
Total supporting services	298,234		298,234	301,514
Total expenses	<u>1,832,520</u>		<u>1,832,520</u>	<u>1,777,622</u>
CHANGE IN NET ASSETS	48,878	28,262	77,140	(99,098)
NET ASSETS, beginning of year	<u>502,964</u>	<u>27,972</u>	<u>530,936</u>	<u>630,034</u>
NET ASSETS, end of year	<u>\$ 551,842</u>	<u>\$ 56,234</u>	<u>\$ 608,076</u>	<u>\$ 530,936</u>

See Notes to Financial Statements

USA WATER SKI, INC.
Statement of Cash Flows
For the Year Ended December 31, 2011
(With Comparative Amounts for 2010)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 77,140	\$ (99,098)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	7,204	9,703
Loss on stolen equipment	1,365	
Changes in assets and liabilities:		
Changes in accounts receivable	16,113	25,927
Changes in prepaid expenses	(22,409)	101,340
Changes in inventory	(3,234)	(4,395)
Changes in accounts payable	2,008	7,135
Changes in accrued liabilities	7,829	(5,657)
Changes in deferred revenue	<u>32,709</u>	<u>9,676</u>
Total adjustments	<u>41,585</u>	<u>143,729</u>
Net cash provided by operating activities	118,725	44,631
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(9,592)	(7,763)
Change in investments, net	<u>(47,176)</u>	<u>(7,437)</u>
Net cash used by investing activities	<u>(56,768)</u>	<u>(15,200)</u>
NET INCREASE IN CASH	61,957	29,431
CASH AND CASH EQUIVALENTS, beginning of year	<u>507,289</u>	<u>477,858</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 569,246</u>	<u>\$ 507,289</u>

See Notes to Financial Statements

USA WATER SKI, INC.
Notes to Financial Statements
For the Year Ended December 31, 2012

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, Inc. 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, Inc. 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 Financial Accounting Standards Board (FASB) issued FASB ASC 740, "Income Taxes", which clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Corporation's income tax returns.

The Corporation's income tax filings are subject to audit by various taxing authorities. The Corporation's open audit periods are 2009 to 2012. The Corporation believes that its operations have been conducted in accordance with its tax-exempt status.

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 at 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.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts Receivable

Accounts receivable are stated at the amount the Corporation expects to collect from balances outstanding at year end. Based on the Corporation's experience with businesses having outstanding balances, it has concluded that any losses on balances outstanding at year end will not be material. Therefore, no allowance for doubtful accounts is considered necessary.

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.

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 years ended December 31, 2012 and 2011 was \$7,204 and \$9,703, 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 satisfaction of program restrictions.

Contributed Services

The Corporation receives a substantial amount of donated services in carrying out its programs. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under ASC 958, "Not-For-Profit Entities".

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2012 and 2011, the Corporation's supporting service expenses amounted to 15.62% and 17.96%, 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.

Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 1, 2013, the date that the financial statements were available to be issued.

B. FAIR VALUE MEASUREMENTS

The Corporation applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Notes to Financial Statements

B. FAIR VALUE MEASUREMENTS - Continued

- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables present assets that are measured at fair value on a recurring basis at December 31, 2012 and 2011:

Assets at Fair Value as of December 31, 2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 324,728	\$	\$	\$ 324,728
Certificates of Deposit	31,942			31,942
Exchange traded notes	<u>9,825</u>	<u></u>	<u></u>	<u>9,825</u>
	<u>\$ 366,495</u>	<u>\$</u>	<u>\$</u>	<u>\$ 366,495</u>

Assets at Fair Value as of December 31, 2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 298,085	\$	\$	\$ 298,085
Certificates of Deposit	10,734			10,734
Exchange traded notes	<u>10,500</u>	<u></u>	<u></u>	<u>10,500</u>
	<u>\$ 319,319</u>	<u>\$</u>	<u>\$</u>	<u>\$ 319,319</u>

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.

Notes to Financial Statements

C. AMERICAN WATER SKI EDUCATIONAL FOUNDATION - Continued

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, 2012 and 2011, the Corporation recognized \$31,000 of value-in-kind revenue and expense 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, 2012 and 2011 amounted to \$76,108 and \$69,292, respectively.

At December 31, 2012 and 2011, the Foundation owed the Corporation \$5,225 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Memberships	\$ 377,246	\$ 330,650
Sanction fees	22,140	3,325
Mail equipment buyout	5,287	33,537
Sponsorship	4,000	7,145
Club additional insurance	4,000	5,150
Miscellaneous	815	1,537
Banquet tickets	700	300
OLR fees	435	120
Infinity learning	30	180
	<u>\$ 414,653</u>	<u>\$ 381,944</u>

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 \$2,139. During the year ended December 31, 2010, the Corporation received funds from a new leasing company to pay off the remainder of this lease's obligations. The corporation then signed a new lease for postage equipment that expires April 2016. This new lease requires quarterly payments of \$6,417. Rather than incur a fee for early termination of the old lease, the Corporation has decided to keep the old equipment and make the lease payments as agreed upon in the original lease.

Notes to Financial Statements

E. LEASES

The Corporation also leases two copiers and a fax machine. The operating lease was effective through October 2011 at a monthly rate of \$1,742. During the year ended December 31, 2010, the Corporation received funds from a new leasing company to pay off the remainder of its lease obligation. The Corporation then signed a new lease for two copiers and a fax machine at a monthly rate of \$1,574 through November 2015. Rather than incur a fee for early termination of the old lease, the Corporation decided to keep the old equipment and make the lease payments as agreed upon in the original lease.

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:

2013	\$	50,982
2014		44,565
2015		42,991
2016		8,566
2017		10
2018-2019		20

F. RETIREMENT PLAN

During the year ended December 31, 2009, the Corporation established a 401(k) profit sharing plan for its employees. Employees are eligible to participate if they are over the age of twenty-one with at least one year of service. Each year, the Corporation may elect to make a discretionary matching contribution. The contribution will be allocated to participants based on a uniform percentage of employee salary deferrals, as defined by the plan. Total pension expense for the years ended December 31, 2012 and 2011 amounted to \$15,559 and \$13,563, respectively.

Notes to Financial Statements

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 \$79,139 and \$74,978 during the years ended December 31, 2012 and 2011, respectively.

USA WATER SKI, INC.
Schedule of Program Services
For the Year Ended December 31, 2012

	Membership	Publication	Sport Discipline	National Tournaments	Sport Development	Regional	Competition	National Teams	Towboat Program	Total
Labor allocation	\$ 121,340	\$ 130,222	\$	\$ 32,357	\$ 75,358	\$	\$ 29,804	\$ 14,294	\$ 9,610	\$ 412,985
Insurance	316,014				2,535					318,549
Overhead allocation	55,200	59,240		14,720	34,282		13,558	6,502	4,372	187,874
Sport discipline expense			143,718							143,718
Regional expense		52,322				85,240				137,562
Magazine production		87,366								87,366
Entry fees				74,544						74,544
Postage	6,807	26,644								33,451
Team tees/caps/sweats								15,887		15,887
TV production				15,147						15,147
AWSA admin fees				13,734						13,734
Travel	1,907	6,582			1,161				2,545	12,195
Promotion & marketing					9,000					9,000
Exhibits				7,972						7,972
Officials room/housing				2,298				5,200		7,498
Instructor certification					7,052					7,052
Grassroots programs					6,778					6,778
Awards				6,587						6,587
Membership renewal expense	6,298									6,298
Motor vehicle report expense					6,038					6,038
Junior U.S. Open expense				5,780						5,780
Ski school & camps expense	3,578									3,578
Officials shirts				2,999						2,999
Basic skills program expense					2,896					2,896
Miscellaneous expense				291				1,853	63	2,207
Banquet expense				1,840						1,840
Room & board									1,388	1,388
Honorarium									1,200	1,200
Materials	801									801
VIP Reception expense				400						400
Rulebooks							326			326
Competition expense							251			251
Event sanctioning							170			170
Officials clinics					125					125
Technical equipment									90	90
Totals	\$ 511,945	\$ 362,376	\$ 143,718	\$ 178,669	\$ 145,225	\$ 85,240	\$ 44,109	\$ 43,736	\$ 19,268	\$ 1,534,286

USA WATER SKI, INC.
Schedule of Supporting Services
For the Year Ended December 31, 2012

	General & Administrative	Sponsorship Development	Total
Salaries	\$ 506,573	\$	\$ 506,573
Employee benefits	40,719		40,719
Computer supplies & service	38,890		38,890
Payroll taxes	39,918		39,918
Rent	31,000		31,000
Insurance	29,934		29,934
Postage	29,033		29,033
Utilities	26,376		26,376
Credit card fees	29,556		29,556
Printing & duplication	21,104		21,104
Professional fees	12,740		12,740
Retirement plan	15,559		15,559
Telephone & fax	12,518		12,518
Solicitation costs		4,193	4,193
Depreciation	7,204		7,204
Travel	5,706	2,842	8,548
Equipment repair & maintenance	9,270		9,270
Taxes & licenses	5,676		5,676
Building repair & maintenance	5,879		5,879
Board of directors meetings	3,637		3,637
Dues & subscription	3,735		3,735
Bad debts	3,255		3,255
Office supplies	2,861		2,861
Miscellaneous expenses	4,226		4,226
Promotion	3,576		3,576
Bank charges	1,095		1,095
Shipping	981		981
Fulfillment costs		641	641
Committee meetings	396		396
Overhead allocation	(225,505)	37,631	(187,874)
Labor allocation	(495,704)	82,719	(412,985)
	<u>\$ 170,208</u>	<u>\$ 128,026</u>	<u>\$ 298,234</u>