

USA WATER SKI, INC.

**Financial Statements
& Supplemental Schedules**

For the Year Ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of USA Water Ski, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the 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.

Auditors' 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 from 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, 2013, 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.

Report on Summarized Comparative Information

We have previously audited the USA Water Ski, Inc.'s 2012 financial statements, and our report dated March 1, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of program services and of 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 12, 2014

USA WATER SKI, INC.
Statement of Financial Position
December 31, 2013
(With Comparative Amounts for 2012)

	<u>ASSETS</u>	
	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 514,191	\$ 569,246
Short-term investments	390,129	366,495
Accounts receivable	57,753	30,018
Pledges receivable	1,000	
Prepaid expenses	78,351	40,481
Inventory	17,273	14,292
Other assets	<u>4,710</u>	<u>4,550</u>
Total current assets	1,063,407	1,025,082
PROPERTY AND EQUIPMENT, at cost:		
Computers and software	65,058	84,054
Furniture and equipment	183,687	182,751
Leasehold improvements	<u>43,390</u>	<u>39,310</u>
	292,135	306,115
Less accumulated depreciation	<u>(250,376)</u>	<u>(260,828)</u>
Property and equipment - net	<u>41,759</u>	<u>45,287</u>
TOTAL ASSETS	<u>\$ 1,105,166</u>	<u>\$ 1,070,369</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES:		
Accounts payable	\$ 45,445	\$ 14,384
Accrued liabilities	35,133	33,256
Current portion of deferred revenue	<u>418,920</u>	<u>388,880</u>
Total current liabilities	499,498	436,520
DEFERRED REVENUE	<u>28,293</u>	<u>25,773</u>
Total liabilities	527,791	462,293
NET ASSETS:		
Unrestricted	146,948	166,097
Unrestricted - Board designated	395,769	385,745
Temporarily restricted	<u>34,658</u>	<u>56,234</u>
Total net assets	<u>577,375</u>	<u>608,076</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,105,166</u>	<u>\$ 1,070,369</u>

See Notes to Financial Statements

USA WATER SKI, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2013
(With Comparative Totals for 2012)

	Unrestricted	Temporarily Restricted	2013 Totals	2012 Totals
SUPPORT AND REVENUE:				
Membership registrations	\$ 928,375	\$	\$ 928,375	\$ 914,834
Publication income	144,348		144,348	172,185
Marketing and partnership	145,125		145,125	167,904
National tournaments	141,051		141,051	145,867
Sport discipline income	63,654	38,006	101,660	106,818
Regional income	113,115		113,115	105,752
Event sanctioning income	92,947		92,947	95,566
Sport development	56,310		56,310	48,696
Approved towboat testing	43,000		43,000	45,000
Value in kind	31,000		31,000	31,000
Teams fund	43,876		43,876	31,733
Interest income	23,370		23,370	27,586
Other income	14,016		14,016	11,249
Team trials income	400		400	5,470
Satisfaction of program restrictions	<u>59,582</u>	<u>(59,582)</u>		
Total support and revenue	1,900,169	(21,576)	1,878,593	1,909,660
EXPENSES:				
Program services:				
Membership	547,213		547,213	511,945
Publication expense	346,499		346,499	362,376
Sport discipline expense	193,823		193,823	143,718
National tournaments	182,676		182,676	178,669
Sport development	140,787		140,787	145,225
Regional expense	99,865		99,865	85,240
Competitions	43,980		43,980	44,109
National teams	36,811		36,811	43,736
Towboat program	<u>18,111</u>		<u>18,111</u>	<u>19,268</u>
Total program services	1,609,765		1,609,765	1,534,286
Supporting services:				
General and administrative expense	169,532		169,532	170,208
Sponsorship development	<u>129,997</u>		<u>129,997</u>	<u>128,026</u>
Total supporting services	299,529		299,529	298,234
Total expenses	<u>1,909,294</u>		<u>1,909,294</u>	<u>1,832,520</u>
CHANGE IN NET ASSETS	(9,125)	(21,576)	(30,701)	77,140
NET ASSETS, beginning of year	<u>551,842</u>	<u>56,234</u>	<u>608,076</u>	<u>530,936</u>
NET ASSETS, end of year	<u>\$ 542,717</u>	<u>\$ 34,658</u>	<u>\$ 577,375</u>	<u>\$ 608,076</u>

See Notes to Financial Statements

USA WATER SKI, INC.
Statement of Cash Flows
For the Year Ended December 31, 2013
(With Comparative Amounts for 2012)

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (30,701)	\$ 77,140
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	10,078	7,204
Loss on stolen equipment		1,365
Loss on disposal of equipment	429	
Changes in assets and liabilities:		
Changes in accounts receivable	(28,735)	16,113
Changes in prepaid expenses	(37,870)	(22,409)
Changes in inventory	(2,981)	(3,234)
Changes in other assets	(160)	
Changes in accounts payable	31,061	2,008
Changes in accrued liabilities	1,877	7,829
Changes in deferred revenue	<u>32,560</u>	<u>32,709</u>
Total adjustments	<u>6,259</u>	<u>41,585</u>
Net cash provided (used) by operating activities	(24,442)	118,725
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(6,979)	(9,592)
Change in investments, net	<u>(23,634)</u>	<u>(47,176)</u>
Net cash used by investing activities	<u>(30,613)</u>	<u>(56,768)</u>
NET INCREASE (DECREASE) IN CASH	(55,055)	61,957
CASH AND CASH EQUIVALENTS, beginning of year	<u>569,246</u>	<u>507,289</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 514,191</u>	<u>\$ 569,246</u>

See Notes to Financial Statements

USA WATER SKI, INC.
Notes to Financial Statements
For the Year Ended December 31, 2013

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 qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax.

The Corporation's form 990, Return of Organization Exempt from Income Tax, for the years ended 2010 to 2013 is subject to examination by various taxing authorities, generally for three years after the date they were filed. Management of the Corporation believes that it does not have any uncertain tax positions that are material to the financial statements.

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.

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.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2013 and 2012 was \$10,078 and \$7,204, 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".

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, 2013 and 2012, the Corporation's supporting service expenses amounted to 15.94% and 15.62%, respectively, of total support and revenue.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 12, 2014, 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 Corporation 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.
- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to Financial Statements

B. FAIR VALUE MEASUREMENTS - Continued

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, 2013 and 2012:

Assets at Fair Value as of December 31, 2013

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 357,801	\$	\$	\$ 357,801
Certificates of deposit	<u>32,328</u>	<u></u>	<u></u>	<u>32,328</u>
	<u>\$ 390,129</u>	<u>\$</u>	<u>\$</u>	<u>\$ 390,129</u>

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>

C. USA WATER SKI FOUNDATION

The USA Water Ski 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, 2013 and 2012, 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, 2013 and 2012 amounted to \$74,035 and \$76,108, respectively.

Notes to Financial Statements

C. USA WATER SKI FOUNDATION - Continued

At December 31, 2013 and 2012, the Foundation owed the Corporation \$585 and \$5,225, respectively, 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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Memberships	\$ 388,613	\$ 377,246
Sanction fees	35,305	22,140
Sponsorship	10,000	4,000
Contribution	5,000	
Club additional insurance	2,650	4,000
Banquet tickets	2,130	700
Magazine ads	1,300	
Miscellaneous	1,280	815
Coaches liability	510	
Clinic fees	410	
Rush fees	15	
Mail equipment buyout		5,287
OLR fees		435
Infinity learning		30
	<u>\$ 447,213</u>	<u>\$ 414,653</u>

E. LEASES

During 2007, the Corporation executed a sixty-three month operating lease for postage equipment that expired March 2013. The lease required 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 obligation. 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. The old equipment was returned in March 2013 upon expiration of the lease.

Notes to Financial Statements

E. LEASES - Continued

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.

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:

2014	\$	44,565
2015		42,991
2016		8,566
2017		10
2018		10
2019		10

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, 2013 and 2012 amounted to \$15,092 and \$15,559, respectively.

Notes to Financial Statements

G. UNRESTRICTED NET ASSETS - BOARD DESIGNATED

At December 31, 2013 and 2012, Board designated net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Western region	\$ 82,660	\$ 78,791
Southern region	68,886	70,106
Midwest region	58,652	49,145
Eastern region	52,975	52,035
American Barefoot Club	35,354	32,234
American Water Ski Association	25,326	29,891
Water Skiers with Disabilities Association	23,667	23,182
Wakeboard	20,080	20,656
South Central region	16,582	16,430
American Kneeboard Association	<u>11,587</u>	<u>13,275</u>
	<u>\$ 395,769</u>	<u>\$ 385,745</u>

H. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2013 and 2012 are available for the following purposes:

	<u>2013</u>	<u>2012</u>
American Water Ski Association	\$ <u>34,658</u>	\$ <u>56,234</u>
	<u>\$ 34,658</u>	<u>\$ 56,234</u>

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the year ended December 31, 2013 and 2012, respectively, temporarily restricted net assets were released from restrictions for the following programs:

	<u>2013</u>	<u>2012</u>
American Water Ski Association	\$ 59,582	\$ 35,481
Water Skiers with Disabilities Association	<u> </u>	<u>395</u>
	<u>\$ 59,582</u>	<u>\$ 35,876</u>

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 \$88,939 and \$79,139 during the years ended December 31, 2013 and 2012, respectively.

USA WATER SKI, INC.

Schedule of Program Services

For the Year Ended December 31, 2013

	Membership	Publication	Sport Discipline	National Tournaments	Sport Development	Regional	Competition	National Teams	Towboat Program	Total
Labor allocation	\$ 120,726	\$ 129,559	\$	\$ 32,194	\$ 74,977	\$	\$ 29,654	\$ 14,222	\$ 9,561	\$ 410,893
Insurance	355,253		193,823		2,533					357,786
Sport discipline expense										193,823
Overhead allocation	56,224	60,339		14,993	34,919	99,865	13,810	6,623	4,455	191,363
Regional expense		53,855								153,720
Magazine production		75,818								75,818
Entry fees				70,217						70,217
Postage	3,655	21,599								25,254
Motor vehicle report expense					18,769					18,769
Team tees/caps/sweats								15,844		15,844
TV production				15,752						15,752
AWSA admin fees				13,923						13,923
Junior U.S. Open expense				10,800						10,800
Exhibits				10,287						10,287
Travel	655	5,329		1,213					1,282	8,479
Awards				5,829						5,829
Membership renewal expense	5,653				5,333					5,653
Grassroots programs				3,568						3,568
Officials shirts										3,325
Ski school & camps expense	3,325				2,920					2,920
Instructor certification				2,300						2,300
Officials room/housing									2,249	2,249
Room & board										1,722
Materials	1,722									952
Banquet expense				952						917
Promotion & marketing					917					500
Honorarium									500	400
VIP Reception expense				400						293
Miscellaneous expense				107				122	64	274
Basic skills program expense					274					218
Competition expense										179
Rulebooks										145
Officials clinics				141	145					141
Site set-up										119
Event sanctioning										119
Totals	\$ 547,213	\$ 346,499	\$ 193,823	\$ 182,676	\$ 140,787	\$ 99,865	\$ 43,980	\$ 36,811	\$ 18,111	\$ 1,609,765

USA WATER SKI, INC.
Schedule of Supporting Services
For the Year Ended December 31, 2013

	General & Administrative	Sponsorship Development	Total
Salaries	\$ 492,223	\$	\$ 492,223
Employee benefits	49,752		49,752
Computer supplies & service	44,157		44,157
Payroll taxes	39,049		39,049
Rent	31,000		31,000
Insurance	33,291		33,291
Postage	28,702		28,702
Utilities	27,147		27,147
Credit card fees	23,558		23,558
Printing & duplication	22,627		22,627
Professional fees	12,387		12,387
Retirement plan	15,092		15,092
Telephone & fax	14,950		14,950
Solicitation costs		7,060	7,060
Depreciation	10,078		10,078
Travel	5,267	1,829	7,096
Equipment repair & maintenance	8,915		8,915
Taxes & licenses	4,541		4,541
Building repair & maintenance	6,019		6,019
Board of directors meetings	5,215		5,215
Dues & subscriptions	3,670		3,670
Bad debts	1,500		1,500
Office supplies	3,472		3,472
Miscellaneous expense	4,691		4,691
Promotion	2,819		2,819
Bank charges	1,282		1,282
Shipping	776		776
Fulfillment costs		479	479
Committee meetings	237		237
Overhead allocation	(229,692)	38,329	(191,363)
Labor allocation	(493,193)	82,300	(410,893)
	<u>\$ 169,532</u>	<u>\$ 129,997</u>	<u>\$ 299,529</u>