



**Reports of Independent Auditors
and Financial Statements
with Additional Information for
American Council on Exercise
June 30, 2012 and 2011**

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

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, 2012 and 2011, 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, 2012 and 2011, and the changes in its net assets and 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 18, 2012

AMERICAN COUNCIL ON EXERCISE

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,308,454	\$ 3,983,706
Investments	952,931	1,839,262
Accounts receivable	156,057	88,966
Inventory	470,455	479,725
Deferred and prepaid expenses, current portion	<u>375,997</u>	<u>458,583</u>
Total current assets	6,263,894	6,850,242
Fixed Assets	3,254,208	3,263,541
Deferred and Prepaid Expenses , long-term portion	<u>566,187</u>	<u>434,438</u>
Total assets	<u>\$ 10,084,289</u>	<u>\$ 10,548,221</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 945,066	\$ 1,263,733
Deferred revenue	1,690,511	1,261,616
Current portion of note payable	<u>-</u>	<u>933,786</u>
Total current liabilities	2,635,577	3,459,135
Commitments and Contingencies (Note 7)		
Unrestricted Net Assets	<u>7,448,712</u>	<u>7,089,086</u>
Total liabilities and net assets	<u>\$ 10,084,289</u>	<u>\$ 10,548,221</u>

AMERICAN COUNCIL ON EXERCISE

STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
REVENUE AND SUPPORT		
Educational materials and training manuals	\$ 4,829,258	\$ 4,970,802
Certification fees	3,075,225	2,713,130
Instructor renewal fees	2,529,691	2,158,087
Continuing education fees	1,942,742	1,813,392
Shipping and handling	404,494	419,207
Mailing list rentals	138,747	119,210
Royalties	118,189	132,593
Interest and dividends	42,173	40,272
Membership fees	12,508	13,510
Contributions	245	112
Total revenue and support	<u>13,093,272</u>	<u>12,380,315</u>
EXPENSES		
Program	10,187,900	9,788,828
General and administrative	2,518,774	2,321,320
Total expenses	<u>12,706,674</u>	<u>12,110,148</u>
Excess of revenue and support over expenses	386,598	270,167
NET REALIZED/UNREALIZED (LOSSES) GAINS ON INVESTMENTS	<u>(26,972)</u>	<u>204,530</u>
INCREASE IN UNRESTRICTED NET ASSETS	359,626	474,697
UNRESTRICTED NET ASSETS		
Beginning of year	7,089,086	6,614,389
End of year	<u>\$ 7,448,712</u>	<u>\$ 7,089,086</u>

AMERICAN COUNCIL ON EXERCISE

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES		
Change in net assets	\$ 359,626	\$ 474,697
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	308,864	285,385
Net realized/unrealized losses (gains) on investments	26,972	(204,530)
(Increase) decrease in operating assets:		
Accounts receivable	(67,091)	(53,899)
Inventory	9,270	(59,031)
Deferred and prepaid expenses	(49,163)	(66,632)
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	(318,667)	394,159
Deferred revenue	428,895	469,843
Net cash provided by operating activities	<u>698,706</u>	<u>1,239,992</u>
INVESTING ACTIVITIES		
Purchases of fixed assets	(299,531)	(146,169)
Proceeds from sales of investments	1,425,000	525,869
Purchases of investments	<u>(565,641)</u>	<u>(354,863)</u>
Net cash provided by investing activities	<u>559,828</u>	<u>24,837</u>
FINANCING ACTIVITIES		
Payments on note payable	<u>(933,786)</u>	<u>(60,112)</u>
Net cash (used in) financing activities	<u>(933,786)</u>	<u>(60,112)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	324,748	1,204,717
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,983,706</u>	<u>2,778,989</u>
End of year	<u>\$ 4,308,454</u>	<u>\$ 3,983,706</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest	<u>\$ 36,659</u>	<u>\$ 62,883</u>
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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. ACE had no unrecognized tax benefits or liabilities as of June 30, 2012 and 2011. ACE files an exempt organization return in the United States federal jurisdiction and with the Franchise Tax Board in the state of California. ACE is no longer subject to income tax examinations by taxing authorities for years before 2009 for its federal filings and for years before 2008 for its state filings.

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

Financial Statement Presentation: Net assets, and changes therein, 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, 2012 and 2011, ACE did not have any temporarily restricted net assets.
- 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, 2012 and 2011, 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);
- Instructor renewal fees (recognized as renewal forms are processed);
- Processing fees for continuing education quizzes (recognized as quizzes are processed);
- Royalties (recognized as earned);
- Mailing list rentals (recognized when lists are rented); and
- Memberships (recognized as memberships are renewed)

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

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

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 statements 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: The fair value of the certificates of deposit is determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Investments in marketable securities with readily determinable fair values are reported at their fair value based on quoted prices in active markets. 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 against the allowance in the year deemed uncollectible. At June 30, 2012 and 2011, 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.

Deferred Expenses: Deferred expenses are costs associated with content development, preproduction, typesetting, artwork, and design of manuals. Accumulated costs are expensed over the estimated marketable life of the manuals ranging from one to five years.

Fixed Assets: ACE capitalizes fixed assets with a 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.

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.

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

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

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, 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 statements of financial position date, but before the 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 statements 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 statements of financial position, but arose after the statements of financial position date and before the financial statements are available to be issued. ACE has evaluated subsequent events through September 18, 2012, which is the date the financial statements were available to be issued.

Note 2 – Concentration of Credit Risk

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.

Note 3 – Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 3 - Investments (Continued)

Transfers of assets and liabilities between levels is done as of the beginning of the year.

See Note 1 for the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position.

The following fair value hierarchy tables present information about ACE's assets measured at fair value on a recurring basis as of June 30:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total 2012</u>
Certificates of deposit	\$ -	\$ -	\$ -	\$ -
Mutual funds:				
Domestic equity	409,039	-	-	409,039
Fixed income	367,136	-	-	367,136
International equity	107,193	-	-	107,193
Precious metals	<u>69,563</u>	<u>-</u>	<u>-</u>	<u>69,563</u>
Total	<u>\$ 952,931</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 952,931</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total 2011</u>
Certificates of deposit	\$ -	\$ 798,826	\$ -	\$ 798,826
Mutual funds:				
Domestic equity	455,023	-	-	455,023
Fixed income	323,536	-	-	323,536
International equity	195,187	-	-	195,187
Precious metals	<u>66,690</u>	<u>-</u>	<u>-</u>	<u>66,690</u>
Total	<u>\$ 1,040,436</u>	<u>\$ 798,826</u>	<u>\$ -</u>	<u>\$ 1,839,262</u>

Note 4 - Deferred and Prepaid Expenses

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

	<u>2012</u>	<u>2011</u>
Deferred expenses	\$ 812,407	\$ 675,206
Prepaid expenses	<u>129,777</u>	<u>217,815</u>
	942,184	893,021
Less current portion	<u>(375,997)</u>	<u>(458,583)</u>
	<u>\$ 566,187</u>	<u>\$ 434,438</u>

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 5 - Fixed Assets

At June 30, fixed assets consist of:

	2012	2011
Land	\$ 1,286,883	\$ 1,286,883
Building	3,113,744	3,113,744
Equipment	833,338	697,860
Website and database development	780,787	664,060
Computer software	426,353	418,625
Furniture	341,464	332,585
Leasehold improvements	140,669	109,950
Vehicle	8,475	8,475
	<u>6,931,713</u>	<u>6,632,182</u>
Less accumulated depreciation	<u>(3,677,505)</u>	<u>(3,368,641)</u>
	<u>\$ 3,254,208</u>	<u>\$ 3,263,541</u>

Note 6 - Note Payable

As of June 30, 2011, ACE had a note payable to a bank of \$933,786. The note was due in January 2012 at which time it was paid in full.

Total interest expense was approximately \$37,000 and \$63,000 for the years ended June 30, 2012 and 2011, respectively.

Note 7 - Commitments and Contingencies

Operating Leases: ACE leases copiers under non-cancelable operating lease agreements which extend through May 2016 and require monthly lease payments of \$1,233. Rent expense for the years ended June 30, 2012 and 2011 was approximately \$15,000.

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

Year ending June 30,	
2013	\$ 14,796
2014	14,796
2015	14,796
2016	<u>8,580</u>
	<u>\$ 52,968</u>

Retirement Plans: ACE has a 401(k) plan (the "401(k) Plan") which covers all full-time employees after 90 days of employment. Employees also receive a 50 percent employer match for the first 6 percent of salary deferral, which vests evenly over five years. For the years ended June 30, 2012 and 2011, ACE contributed approximately \$81,000 and \$69,000, respectively, to the 401(k) Plan. During 2012, ACE established a 457(b) deferred compensation plan for qualified employees and approved a \$68,000 contribution to the plan for the year ended June 30, 2012. The plan account had not been funded as of June 30, 2012.

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 7 - Commitments and Contingencies (Continued)

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.

Legal Matters: ACE is a party to certain legal actions arising in the ordinary course of business. In the opinion of management, additional liabilities, if any, under these actions will not result in material charges against net assets.

Note 8 - Certification Examinations

ACE charges fees for certification examinations that are recognized as revenue as examinations are administered. ACE has an agreement with an organization that administers the personal trainer, group fitness instructor, clinical exercise specialist, and life weight management consultant certification tests. The agreement expires in July 2015 and may be terminated by either party. Expenses for fees paid to this organization under this agreement for the years ended June 30, 2012 and 2011 were approximately \$926,000 and \$1,024,000, respectively.

ADDITIONAL INFORMATION

REPORT OF INDEPENDENT AUDITORS ON THE ADDITIONAL INFORMATION

Board of Directors
American Council on Exercise

We have audited the financial statements of American Council on Exercise ("ACE") as of and for the year ended June 30, 2012, and our report thereon dated September 18, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statement of functional expenses is presented for purposes of additional analysis and is 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.

Moss Adams LLP

San Diego, California
September 18, 2012

AMERICAN COUNCIL ON EXERCISE

ADDITIONAL INFORMATION STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2011)

	2012			2011 Total
	Program	General and Administrative	Total	
Salaries and wages	\$ 3,065,838	\$ 1,549,535	\$ 4,615,373	\$ 4,229,567
Educational materials and training manuals	1,342,331	-	1,342,331	1,509,812
Testing services	925,946	-	925,946	1,024,028
Printing, photography, and production	920,604	671	921,275	943,215
Marketing	806,353	15,617	821,970	795,765
Advertising and promotion	504,406	7,170	511,576	294,324
Insurance	247,767	154,573	402,340	322,067
Postage, shipping, and handling	373,359	6,613	379,972	411,275
Payroll taxes	287,456	38,465	325,921	293,273
Depreciation and amortization	169,875	138,989	308,864	285,384
Events and trade shows	289,214	-	289,214	317,305
Meetings	134,659	137,688	272,347	314,115
Merchant fees	261,178	-	261,178	257,633
Professional development and dues	169,043	87,013	256,056	227,952
Travel	153,395	30,562	183,957	167,318
Legal and accounting	140,906	34,035	174,941	115,224
Repairs, maintenance, and janitorial services	59,883	30,948	90,831	94,047
401(k) contributions	56,772	24,331	81,103	68,609
Office and computer supplies	49,692	26,375	76,067	84,070
Miscellaneous	55,075	15,226	70,301	74,234
457 (b) contributions	850	67,150	68,000	-
Fulfillment	55,692	-	55,692	32,680
Utilities	37,104	15,902	53,006	52,926
Telephone	33,231	14,242	47,473	48,383
Recruitment	-	44,589	44,589	10,199
Entertainment	3,598	36,083	39,681	53,443
Interest	-	36,659	36,659	62,883
Temporary wages	28,460	1,379	29,839	1,582
Copying and duplication	11,570	4,959	16,529	17,160
Bad debt	3,643	-	3,643	1,675
	<u>\$ 10,187,900</u>	<u>\$ 2,518,774</u>	<u>\$ 12,706,674</u>	<u>\$ 12,110,148</u>
Total expenses for the year ended June 30, 2011	<u>\$ 9,788,828</u>	<u>\$ 2,321,320</u>	<u>\$ 12,110,148</u>	