



**Reports of Independent Auditors
and Financial Statements
with Additional Information for
American Council on Exercise
June 30, 2014 and 2013**

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
American Council on Exercise

Report on Financial Statements

We have audited the accompanying financial statements of American Council on Exercise, which comprise the statements of financial position as of June 30, 2014 and 2013, the related statements of activities and cash flows for the years 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 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 audits 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California

September 16, 2014

**AMERICAN COUNCIL ON EXERCISE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013**

	June 30,	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,485,192	\$ 4,322,270
Investments	1,375,351	1,179,649
Deferred and prepaid expenses, current portion	677,254	451,923
Accounts receivable	526,507	532,606
Inventory	404,387	391,585
Total current assets	8,468,691	6,878,033
Fixed Assets		
	3,162,151	3,403,150
Deferred and Prepaid Expenses, long-term portion		
	913,708	759,226
Deferred Compensation Plan Assets - 457b		
	168,797	68,470
Total assets	\$ 12,713,347	\$ 11,108,879
LIABILITIES AND NET ASSETS		
Current Liabilities		
Deferred revenue	\$ 2,132,633	\$ 1,969,202
Accounts payable and accrued expenses	1,513,172	1,485,763
Total current liabilities	3,645,805	3,454,965
Deferred Compensation Payable - 457b		
	168,531	71,590
Total liabilities	3,814,336	3,526,555
Unrestricted Net Assets		
	8,899,011	7,582,324
Total liabilities and net assets	\$ 12,713,347	\$ 11,108,879

**AMERICAN COUNCIL ON EXERCISE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2013**

	Years Ended June 30,	
	2014	2013
REVENUE AND SUPPORT		
Educational materials and training manuals	\$ 6,880,467	\$ 5,553,653
Certification fees	5,061,274	4,160,824
Continuing education fees	2,912,552	2,348,984
Instructor renewal fees	2,659,417	2,488,256
Shipping and handling	547,651	459,656
Royalties	123,630	98,743
Mailing list rentals	94,288	110,312
Consumer - outreach	67,624	149,375
Interest and dividends	35,692	32,345
Contributions and other income	18,404	155
Membership fees	-	30,515
Total revenue and support	<u>18,400,999</u>	<u>15,432,818</u>
EXPENSES		
Program	13,958,968	12,184,983
General and administrative	3,320,988	3,173,334
Total expenses	<u>17,279,956</u>	<u>15,358,317</u>
Excess of revenue and support over expenses	1,121,043	74,501
NET REALIZED/UNREALIZED GAINS ON INVESTMENTS	<u>195,644</u>	<u>59,111</u>
INCREASE IN UNRESTRICTED NET ASSETS	1,316,687	133,612
UNRESTRICTED NET ASSETS		
Beginning of year	<u>7,582,324</u>	<u>7,448,712</u>
End of year	<u>\$ 8,899,011</u>	<u>\$ 7,582,324</u>

**AMERICAN COUNCIL ON EXERCISE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	Years Ended June 30,	
	2014	2013
OPERATING ACTIVITIES		
Change in net assets	\$ 1,316,687	\$ 133,612
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	399,587	365,404
Change in allowance for bad debt	45,109	-
Net realized/unrealized (gains) on investments	(195,644)	(55,301)
(Increase) decrease in operating assets:		
Accounts receivable	(39,010)	(376,549)
Inventory	(12,802)	78,870
Deferred and prepaid expenses	(379,813)	(268,965)
Increase in operating liabilities:		
Accounts payable and accrued expenses	27,409	540,697
Deferred revenue	163,431	278,691
Deferred compensation payable - 457b	96,941	71,590
Net cash provided by operating activities	<u>1,421,895</u>	<u>768,049</u>
INVESTING ACTIVITIES		
Proceeds from sales of investments	450,430	385,178
Purchases of deferred compensation plan assets - 457b	(70,000)	(68,470)
Purchases of fixed assets	(158,588)	(514,346)
Purchases of investments	(480,815)	(556,595)
Net cash (used in) investing activities	<u>(258,973)</u>	<u>(754,233)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,162,922	13,816
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>4,322,270</u>	<u>4,308,454</u>
End of year	<u>\$ 5,485,192</u>	<u>\$ 4,322,270</u>

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, 2014 and 2013. 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 2011 for its federal filings and for years before 2010 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, 2014 and 2013, 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, 2014 and 2013, 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);
- Processing fees for continuing education quizzes (recognized as quizzes are processed);
- Instructor renewal fees (recognized as renewal forms are processed);
- Royalties (recognized as earned);
- Mailing list rentals (recognized when lists are rented);
- Selling various educational materials to consumers (recognized as products are sold); and
- Memberships (recognized as memberships are renewed).

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

Deferred revenue – Deferred revenue represents fees received in advance for exams and training.

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 and deferred compensation plan assets – 457b – 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, 2014, management determined an allowance of approximately \$45,000 is required. At June 30, 2013, management determined an allowance is not required.

Inventory – Inventory, which consists principally of training manuals and merchandise, is valued at the 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 flow (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.

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

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

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.

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.

Reclassifications – Certain amounts in the June 30, 2013 statement of activities have been reclassified to conform to the June 30, 2014 presentation, with no effect on net assets.

Subsequent events – Subsequent events are events or transactions that occur after the statement 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 statement 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 statement of financial position, but arose after the statement of financial position date and before the financial statements are available to be issued. ACE has evaluated subsequent events through September 16, 2014, which is the date the financial statements were available to be issued.

Note 2 – Concentration of Credit Risk

ACE maintains cash in bank deposit accounts which at times exceed the federally-insured deposit limits. ACE has not experienced any losses in such accounts.

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.

AMERICAN COUNCIL ON EXERCISE
NOTES TO FINANCIAL STATEMENTS

Note 3 – Investments and Deferred Compensation Plan Assets – 457b

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 which are not actively traded;
- 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.

All investments and deferred compensation plan assets – 457b are considered Level 1 based on the existence of quoted prices in an active market for the identical assets.

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.

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

At June 30, investments consist of:

	2014	2013
Mutual funds:		
Domestic equity	\$ 757,677	\$ 543,109
Fixed income	444,746	455,187
International equity	146,604	129,891
Precious metals	26,324	51,462
Total	\$ 1,375,351	\$ 1,179,649

At June 30, deferred compensation plan assets – 457b consist of:

Mutual funds:		
Domestic equity	\$ 146,728	\$ 58,745
Balanced/asset allocation	7,652	3,368
International equity	7,248	3,032
Fixed income	7,169	3,325
Total	\$ 168,797	\$ 68,470

AMERICAN COUNCIL ON EXERCISE

NOTES TO FINANCIAL STATEMENTS

Note 4 – Deferred and Prepaid Expenses

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

	<u>2014</u>	<u>2013</u>
Deferred expenses	\$ 1,279,613	\$ 1,069,154
Prepaid expenses	311,349	141,995
	<u>1,590,962</u>	<u>1,211,149</u>
Less current portion	<u>(677,254)</u>	<u>(451,923)</u>
	<u>\$ 913,708</u>	<u>\$ 759,226</u>

Note 5 – Fixed Assets

At June 30, fixed assets consist of:

Building	\$ 3,113,744	\$ 3,113,744
Land	1,286,883	1,286,883
Equipment	1,021,171	959,593
Website and database development	949,020	949,020
Computer software	534,282	442,714
Furniture	379,151	374,831
Leasehold improvements	298,500	297,413
Vehicle	8,475	8,475
	<u>7,591,226</u>	<u>7,432,673</u>
Less accumulated depreciation	<u>(4,429,075)</u>	<u>(4,029,523)</u>
	<u>\$ 3,162,151</u>	<u>\$ 3,403,150</u>

Note 6 – Commitments and Contingencies

Operating leases – ACE leases copiers under non-cancelable operating lease agreements which extend through May 2016 and require total monthly lease payments of \$1,233. Rent expense for both the years ended June 30, 2014 and 2013 was approximately \$15,000.

AMERICAN COUNCIL ON EXERCISE
NOTES TO FINANCIAL STATEMENTS

Note 6 – Commitments and Contingencies (continued)

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

Years ending June 30,	
2015	\$ 14,796
2016	<u>8,580</u>
	<u>\$ 23,376</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, 2014 and 2013, ACE contributed approximately \$124,000 and \$105,000, respectively, to the 401(k) Plan.

ACE has a 457(b) deferred compensation plan for qualified employees. During both the years ended June 30, 2014 and 2013, ACE approved contributions of approximately \$70,000 to the plan.

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 7 – 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, 2014 and 2013 were approximately \$1,433,000 and \$1,001,000, 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, 2014, and have issued our report thereon dated September 16, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements 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 16, 2014

**AMERICAN COUNCIL ON EXERCISE
 ADDITIONAL INFORMATION
 STATEMENT OF FUNCTIONAL EXPENSES
 YEAR ENDED JUNE 30, 2014
 (WITH SUMMARIZED FINANCIAL INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2013)**

	2014			2013 Total
	Program	General and Administrative	Total	
Salaries and wages	\$ 4,833,036	\$ 2,015,189	\$ 6,848,225	\$ 6,012,585
Testing services	1,433,495	-	1,433,495	1,001,222
Educational materials	1,321,404	-	1,321,404	1,243,488
Marketing	974,503	12,229	986,732	1,147,576
Printing, photography, and production	939,609	-	939,609	1,084,949
Advertising and promotion	788,684	25,460	814,144	651,185
Insurance	408,101	194,653	602,754	509,372
Payroll taxes	417,265	75,035	492,300	423,807
Postage, shipping, and handling	443,518	11,864	455,382	376,865
Professional development and dues	266,322	150,099	416,421	360,395
Events/trade shows	400,272	-	400,272	334,743
Depreciation	219,773	179,814	399,587	365,404
Meetings	195,285	173,366	368,651	351,150
Merchant fees	328,136	-	328,136	275,442
Travel	201,282	28,693	229,975	262,087
Bad debt	224,034	-	224,034	67,124
Repair and maintenance and janitorial	126,871	54,373	181,244	92,404
401(k) plan contribution	87,097	37,327	124,424	104,906
Legal and accounting	52,472	97,072	149,544	182,957
Miscellaneous	64,660	16,878	81,538	82,208
Temporary wages	79,253	-	79,253	24,474
Telephone	50,672	21,717	72,389	62,310
Entertainment	7,352	64,809	72,161	62,270
457(b) plan contribution	-	70,000	70,000	70,000
Utilities	44,841	19,218	64,059	56,623
Office supplies and computer supplies	17,459	44,307	61,766	61,366
Recruitment	-	24,626	24,626	43,354
Fulfillment	23,637	-	23,637	30,499
Copying and duplication	9,935	4,259	14,194	17,552
Total expenses for the year ended June 30, 2014	<u>\$ 13,958,968</u>	<u>\$ 3,320,988</u>	<u>\$ 17,279,956</u>	<u>\$ 15,358,317</u>
Total expenses for the year ended June 30, 2013	<u>\$ 12,184,983</u>	<u>\$ 3,173,334</u>	<u>\$ 15,358,317</u>	