Report of Independent Auditors and
Financial Statements with
Additional Information for

American Council on Exercise

June 30, 2015 and 2014

CONTENTS

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, 2015 and 2014, 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.

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, 2015 and 2014, and the changes in its net assets 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 23, 2015

AMERICAN COUNCIL ON EXERCISE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	June 30, 2015	June 30, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 6,010,463	$ 5,485,192
Investments	3,053,278	1,375,351
Deferred and prepaid expenses, current portion	713,924	677,254
Accounts receivable	625,601	526,507
Inventory	411,778	404,387
Total current assets	10,815,044	8,468,691
Fixed Assets	3,063,505	3,162,151
Deferred and Prepaid Expenses, long-term portion	856,324	913,708
Deferred Compensation Plan Assets - 457b	191,511	168,797
Total assets	$ 14,926,384	$ 12,713,347
LIABILITIES AND NET ASSETS		
Current Liabilities		
Deferred revenue	$ 2,369,740	$ 2,132,633
Accounts payable and accrued expenses	1,751,287	1,513,172
Total current liabilities	4,121,027	3,645,805
Deferred Compensation Payable - 457b	190,722	168,531
Total liabilities	4,311,749	3,814,336
Unrestricted Net Assets	10,614,635	8,899,011
Total liabilities and net assets	$ 14,926,384	$ 12,713,347

AMERICAN COUNCIL ON EXERCISE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2015 AND 2014

	Years Ended June 30, 2015	Years Ended June 30, 2014
REVENUE AND SUPPORT		
Educational materials and training manuals	$ 7,963,075	$ 7,019,232
Certification fees	5,358,628	5,061,274
Continuing education fees	3,329,030	2,773,788
Instructor renewal fees	2,670,516	2,659,417
Shipping and handling	633,552	547,651
Consumer - outreach	128,501	67,624
Mailing list rentals	121,070	94,288
Royalties	113,283	123,630
Interest and dividends	71,848	35,692
Contributions and other income	15,293	18,404
Total revenue and support	20,404,796	18,400,999
EXPENSES		
Program	15,053,394	13,958,968
General and administrative	3,719,111	3,320,988
Total expenses	18,772,505	17,279,956
Excess of revenue and support over expenses	1,632,291	1,121,043
NET REALIZED/UNREALIZED GAINS ON INVESTMENTS	83,333	195,644
INCREASE IN UNRESTRICTED NET ASSETS	1,715,624	1,316,687
UNRESTRICTED NET ASSETS		
Beginning of year	8,899,011	7,582,324
End of year	$ 10,614,635	$ 8,899,011

See accompanying notes.

AMERICAN COUNCIL ON EXERCISE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	Years Ended June 30, 2015	Years Ended June 30, 2014
OPERATING ACTIVITIES		
Change in net assets	$ 1,715,624	$ 1,316,687
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	443,203	399,587
Change in allowance for bad debt	3,607	45,109
Net realized/unrealized (gains) on investments	(83,333)	(195,644)
(Increase) decrease in operating assets:		
Accounts receivable	(102,701)	(39,010)
Inventory	(7,391)	(12,802)
Deferred and prepaid expenses	20,714	(379,813)
Increase in operating liabilities:		
Accounts payable and accrued expenses	238,115	27,409
Deferred revenue	237,107	163,431
Deferred compensation payable - 457b	22,191	96,941
Net cash provided by operating activities	2,487,136	1,421,896
INVESTING ACTIVITIES		
Proceeds from sales of investments	625,852	450,430
Purchases of investments	(2,173,160)	(480,815)
Purchases of deferred compensation plan assets - 457b	(70,000)	(70,000)
Purchases of fixed assets	(344,557)	(158,588)
Net cash (used in) investing activities	(1,961,865)	(258,973)
INCREASE IN CASH AND CASH EQUIVALENTS	525,271	1,162,922
CASH AND CASH EQUIVALENTS		
Beginning of year	5,485,192	4,322,270
End of year	$ 6,010,463	$ 5,485,192

See accompanying notes.

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, 2015 and 2014. 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, 2015 and 2014, 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, 2015 and 2014, 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);
- Selling various educational materials to consumers (recognized as products are sold);
- Mailing list rentals (recognized when lists are rented); and
- Royalties (recognized as earned).

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.

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.

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, 2015 and 2014, management determined that an allowance of approximately $49,000 and $45,000, respectively, was 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.

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.

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.

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 23, 2015, 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.

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:

	2015	2014
Cash	$ 2,555	$ -
Domestic equities	380,923	-
Mutual funds:		
Domestic equity	890,645	757,677
Fixed income	799,276	444,746
Balanced asset allocation	581,558	-
International equity	378,783	146,604
Precious metals	19,538	26,324
Total	$ 3,053,278	$ 1,375,351

Note 3 – Investments and Deferred Compensation Plan Assets – 457b (continued)

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

	2015	2014
Mutual funds:		
Domestic equity	$ 159,181	$ 146,728
Balanced asset allocation	11,306	7,652
Fixed income	10,769	7,248
International equity	10,255	7,169
Total	$ 191,511	$ 168,797

Note 4 – Deferred and Prepaid Expenses

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

Deferred expenses	$ 1,183,813	$ 1,279,613
Prepaid expenses	386,435	311,349
	1,570,248	1,590,962
Less current portion	(713,924)	(677,254)
	$ 856,324	$ 913,708

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
Website and database development	947,718	949,020
Equipment	781,536	1,021,171
Computer software	548,115	534,282
Leasehold improvements	419,241	298,500
Furniture	221,841	379,151
Land improvement	15,700	-
Construction in progress	9,444	-
Vehicle	8,475	8,475
	7,352,697	7,591,226
Less accumulated depreciation	(4,289,192)	(4,429,075)
	$ 3,063,505	$ 3,162,151

Note 6 – Commitments and Contingencies

Operating leases – ACE leases copiers and a vehicle under non-cancelable operating lease agreements which extend through December 2019 and require total monthly lease payments of $1,099. Rent expense for the years ended June 30, 2015 and 2014 was approximately $13,000 and $15,000, respectively.

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

Years ending June 30,		
2016	$	13,186
2017		13,186
2018		11,880
2019		11,880
2020		5,940
	$	56,073

Retirement plans – ACE has a 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, 2015 and 2014, ACE contributed approximately $127,000 and $124,000, respectively, to the 401(k) Plan.

ACE has a 457(b) deferred compensation plan for qualified employees. During both the years ended June 30, 2015 and 2014, ACE approved contributions of approximately $134,000 and $70,000 to the 457(b) deferred compensation plan, respectively.

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 health coach certification tests. The agreement was renewed on June 30, 2015, with a term through June 30, 2020, and may be terminated by either party. Expenses for fees paid to this organization under this agreement for the years ended June 30, 2015 and 2014 were approximately $1,584,000 and $1,433,000, 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 as of and for the year ended June 30, 2015, and have issued our report thereon dated September 23, 2015, 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 23, 2015

AMERICAN COUNCIL ON EXERCISE
ADDITIONAL INFORMATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	2015			
	Program	General and Administrative	Total	2014 Total
Salaries and wages	$ 4,754,880	$ 2,183,267	$ 6,938,147	$ 6,848,225
Testing services	1,584,024	-	1,584,024	1,433,495
Educational materials	1,451,771	-	1,451,771	1,321,404
Printing, photography, and production	1,230,211	-	1,230,211	939,609
Marketing	1,173,258	45,138	1,218,396	986,732
Advertising and promotion	1,010,277	24,899	1,035,176	814,144
Insurance	438,895	212,669	651,564	602,754
Payroll taxes	382,643	121,051	503,694	492,300
Postage, shipping, and handling	490,418	13,055	503,473	455,382
Depreciation	243,625	199,330	442,955	399,587
Professional development and dues	249,136	165,784	414,920	416,421
Meetings	230,565	181,740	412,305	368,651
Merchant fees	370,091	-	370,091	328,136
Repair, maintenance, and janitorial	252,604	108,259	360,863	181,244
Legal and accounting	155,121	95,485	250,606	149,544
Travel	179,533	26,780	206,313	229,975
Miscellaneous	165,229	34,071	199,300	81,538
Bad debt	165,307	-	165,307	224,034
457(b) plan contribution	64,260	69,615	133,875	70,000
401(k) plan contribution	89,123	38,196	127,319	124,424
Temporary wages	104,033	-	104,033	79,253
Entertainment	13,183	84,446	97,629	72,161
Telephone	64,929	27,827	92,756	72,389
Utilities	50,457	21,624	72,081	64,059
Events/trade shows	52,707	-	52,707	400,272
Office supplies and computer supplies	16,117	29,021	45,138	61,766
Sponsorship	42,950	-	42,950	-
Recruitment	-	32,991	32,991	24,626
Fulfillment	19,034	-	19,034	23,637
Copier fees	9,013	3,863	12,876	14,194
Total expenses for the year ended June 30, 2015	$ 15,053,394	$ 3,719,111	$ 18,772,505	$ 17,279,956
Total expenses for the year ended June 30, 2014	$ 13,958,968	$ 3,320,988	$ 17,279,956	