Report of Independent Auditors and
Financial Statements with
Additional Information for

American Council on Exercise

June 30, 2016 and 2015

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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, 2016 and 2015, 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.

Auditor's 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.

MOSS ADAMS LLP

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, 2016 and 2015, 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 30, 2016

	June 30, 2016	June 30, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9,305,957	$ 6,010,463
Investments	2,865,574	3,053,278
Deferred and prepaid expenses, current portion	770,350	713,924
Accounts receivable, net	1,135,469	625,601
Inventory	412,949	411,778
Total current assets	14,490,299	10,815,044
Fixed Assets, net	2,779,080	3,063,505
Deferred and Prepaid Expenses, long-term portion	933,687	856,324
Deferred Compensation Plan Assets - 457b	332,428	191,511
Total assets	$ 18,535,494	$ 14,926,384
LIABILITIES AND NET ASSETS		
Current Liabilities		
Deferred revenue	$ 3,740,600	$ 2,370,189
Accounts payable and accrued expenses	2,427,751	1,750,838
Total current liabilities	6,168,351	4,121,027
Deferred Compensation Payable - 457b	332,785	190,722
Total liabilities	6,501,136	4,311,749
Unrestricted Net Assets	12,034,358	10,614,635
Total liabilities and net assets	$ 18,535,494	$ 14,926,384

AMERICAN COUNCIL ON EXERCISE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015

	Years Ended June 30,	
	2016	2015
REVENUE AND SUPPORT		
Educational materials and training manuals	$ 9,657,488	$ 7,963,075
Certification fees	6,108,536	5,358,628
Continuing education fees	4,623,778	3,329,030
Instructor renewal fees	2,801,099	2,670,516
Shipping and handling	703,690	633,552
Royalties	119,128	113,283
Interest and dividends	106,391	71,848
Mailing list rentals	70,928	121,070
Consumer - outreach	17,156	128,501
Contributions and other income	7,371	15,293
Total revenue and support	24,215,565	20,404,796
EXPENSES		
Program	18,459,009	15,053,394
General and administrative	4,195,529	3,719,111
Total expenses	22,654,538	18,772,505
Excess of revenue and support over expenses	1,561,027	1,632,291
NET REALIZED/UNREALIZED (LOSSES) GAINS ON INVESTMENTS	(141,304)	83,333
INCREASE IN UNRESTRICTED NET ASSETS	1,419,723	1,715,624
UNRESTRICTED NET ASSETS		
Beginning of year	10,614,635	8,899,011
End of year	$ 12,034,358	$ 10,614,635

See accompanying notes.

	Years Ended June 30, 2016	2015
OPERATING ACTIVITIES		
Change in net assets	$ 1,419,723	$ 1,715,624
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	465,571	442,955
Provision for losses on accounts receivable	511,724	165,307
Net realized/unrealized losses (gains) on investments	141,304	(83,333)
(Increase) decrease in operating assets:		
Accounts receivable	(1,021,592)	(264,401)
Inventory	(1,171)	(7,391)
Deferred and prepaid expenses	(133,789)	20,714
Increase in operating liabilities:		
Accounts payable and accrued expenses	676,913	238,115
Deferred revenue	1,370,411	237,107
Deferred compensation payable - 457b	142,063	22,191
Net cash provided by operating activities	3,571,157	2,486,888
INVESTING ACTIVITIES		
Proceeds from sales of investments	941,000	625,852
Purchases of investments	(893,843)	(2,173,160)
Purchases of deferred compensation plan assets - 457b	(141,675)	(70,000)
Purchases of fixed assets	(181,145)	(344,309)
Net cash used in investing activities	(275,663)	(1,961,617)
INCREASE IN CASH AND CASH EQUIVALENTS	3,295,494	525,271
CASH AND CASH EQUIVALENTS		
Beginning of year	6,010,463	5,485,192
End of year	$ 9,305,957	$ 6,010,463

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, 2016 and 2015. ACE files an exempt organization return in the United States federal jurisdiction and with the Franchise Tax Board in the state of California.

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, 2016 and 2015, 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, 2016 and 2015, 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);
- Royalties (recognized as earned);
- Investment earnings (recognized as earned); and
- Contributions (recognized as contributions are received or unconditionally pledged).

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 – 457(b) – 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 products. 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 the payment due date. Accounts deemed uncollectible are written off against the allowance in the year deemed uncollectible. At June 30, 2016 and 2015, management determined that an allowance of approximately $332,000 and $49,000, 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, vehicles, land improvements, 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.

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 30, 2016, 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 – Fair Value Measurements

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 – 457(b) 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:

	2016	2015
Cash	$ 537	$ 2,555
Domestic equities	365,967	380,923
Mutual funds:		
Fixed income	820,301	799,276
Domestic equity	684,175	890,645
Balanced asset allocation	539,950	581,558
International equity	431,419	378,783
Precious metals	23,225	19,538
Total	$ 2,865,574	$ 3,053,278

Note 3 – Fair Value Measurements (continued)

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

	2016	2015
Mutual funds:		
Domestic equity	$ 230,442	$ 159,181
Balanced asset allocation	55,235	11,306
Fixed income	31,511	10,769
International equity	15,240	10,255
Total	$ 332,428	$ 191,511

Note 4 – Deferred and Prepaid Expenses

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

Deferred expenses	$ 1,337,502	$ 1,183,813
Prepaid expenses	366,535	386,435
	1,704,037	1,570,248
Less current portion	(770,350)	(713,924)
Total	$ 933,687	$ 856,324

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	897,478	947,718
Equipment	649,314	781,536
Leasehold improvements	440,822	419,241
Computer software	230,728	548,115
Furniture	225,396	221,841
Land improvement	15,700	15,700
Construction in progress	-	9,444
Vehicle	-	8,475
	6,860,065	7,352,697
Less accumulated depreciation	(4,080,985)	(4,289,192)
Total	$ 2,779,080	$ 3,063,505

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, 2016 and 2015 was approximately $13,000.

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

Years ending June 30,		
2017	$	13,186
2018		11,880
2019		11,880
2020		5,940
Total	$	42,886

Retirement plans – ACE has a 401(k) plan which covers all full-time employees after 90 days of employment. Employees also receive a 100 percent employer match for the first 3 percent of salary deferral plus 50 percent of contributions from 3 percent to 5 percent of pay, which vests evenly over four years. For the years ended June 30, 2016 and 2015, ACE contributed approximately $239,000 and $127,000, respectively, to the 401(k) Plan.

ACE has a 457(b) deferred compensation plan for qualified employees. During the years ended June 30, 2016 and 2015, ACE approved contributions of approximately $151,000 and $134,000, respectively, to the 457(b) deferred compensation 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 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, 2016 and 2015 were approximately $1,750,000 and $1,584,000, respectively.

ADDITIONAL INFORMATION

MOSS ADAMS LLP
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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, 2016, and have issued our report thereon dated September 30, 2016, 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 30, 2016

AMERICAN COUNCIL ON EXERCISE
ADDITIONAL INFORMATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	2016			
	Program	General and Administrative	Total	2015 Total
Salaries and wages	$ 5,261,908	$ 2,618,861	$ 7,880,769	$ 6,938,147
Marketing	2,049,651	10,462	2,060,113	1,218,396
Testing services	1,749,604	-	1,749,604	1,584,024
Advertising and promotion	1,579,873	8,667	1,588,540	1,035,176
Educational materials	1,515,638	-	1,515,638	1,451,771
Printing, photography, and production	1,191,083	-	1,191,083	1,230,211
Insurance	486,630	239,885	726,515	651,564
Legal and accounting	598,640	45,958	644,598	250,606
Postage, shipping, and handling	617,435	13,396	630,831	503,473
Payroll taxes	429,997	119,736	549,733	503,694
Bad debt	511,725	-	511,725	165,307
Meetings	286,762	195,107	481,869	412,305
Depreciation	256,064	209,507	465,571	442,955
Professional development and dues	272,488	188,240	460,728	414,920
Merchant fees	452,627	-	452,627	370,091
Travel	249,585	32,246	281,831	206,313
Repair, maintenance, and janitorial	173,864	74,513	248,377	360,863
401(k) plan contribution	167,566	71,814	239,380	127,319
Sponsorship	153,278	-	153,278	42,950
457(b) plan contribution	72,288	78,312	150,600	133,875
Entertainment	15,973	119,853	135,826	97,629
Telephone	80,332	34,428	114,760	92,756
Miscellaneous	60,311	54,376	114,687	199,300
Utilities	50,530	21,656	72,186	72,081
Temporary wages	65,860	-	65,860	104,033
Events/trade shows	62,085	-	62,085	52,707
Office supplies and computer supplies	17,526	34,412	51,938	45,138
Fulfillment	20,356	-	20,356	19,034
Recruitment	-	20,100	20,100	32,991
Copier fees	9,330	4,000	13,330	12,876
Total expenses for the year ended June 30, 2016	$ 18,459,009	$ 4,195,529	$ 22,654,538	$ 18,772,505
Total expenses for the year ended June 30, 2015	$ 15,053,394	$ 3,719,111	$ 18,772,505	