

**USA WATER SKI, INC.**

**Financial Statements  
& Supplemental Schedules**

**For the Year Ended December 31, 2011**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of USA Water Ski, Inc., (a nonprofit corporation) as of December 31, 2011 and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Corporation's December 31, 2010 financial statements and, in our report dated March 4, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 USA Water Ski, Inc. as of December 31, 2011, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of program services and of supporting services for the year ended December 31, 2011 are presented for purposes of additional analysis and are not a required part of the basic 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 basic 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 basic financial statements taken as a whole.

*Waugh & Goodwin, LLP*

March 5, 2012

USA WATER SKI, INC.  
Statement of Financial Position  
December 31, 2011  
(With Comparative Amounts for 2010)

	<u>ASSETS</u>	
	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 507,289	\$ 477,858
Short-term investments	319,319	311,882
Accounts receivable	46,131	72,058
Prepaid expenses	18,072	119,412
Inventory	11,058	6,663
Other assets	<u>4,550</u>	<u>4,550</u>
Total current assets	906,419	992,423
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Computers and software	116,556	110,373
Furniture and equipment	153,197	151,617
Leasehold improvements	<u>33,835</u>	<u>33,835</u>
	303,588	295,825
Less accumulated depreciation	<u>(259,324)</u>	<u>(249,621)</u>
Property and equipment - net	<u>44,264</u>	<u>46,204</u>
<b>TOTAL ASSETS</b>	<u>\$ 950,683</u>	<u>\$ 1,038,627</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 12,376	\$ 5,241
Accrued liabilities	25,427	31,084
Current portion of deferred revenue	<u>365,100</u>	<u>338,130</u>
Total current liabilities	402,903	374,455
<b>DEFERRED REVENUE</b>	<u>16,844</u>	<u>34,138</u>
Total liabilities	419,747	408,593
<b>NET ASSETS:</b>		
Unrestricted	151,708	218,027
Unrestricted - Board designated	351,256	342,703
Temporarily restricted	<u>27,972</u>	<u>69,304</u>
Total net assets	<u>530,936</u>	<u>630,034</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 950,683</u>	<u>\$ 1,038,627</u>

See Notes to Financial Statements

USA WATER SKI, INC.  
Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2011  
(With Comparative Totals for 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2011 Totals</u>	<u>2010 Totals</u>
<b>SUPPORT AND REVENUE:</b>				
Membership registrations	\$ 886,280	\$ 8,000	\$ 894,280	\$ 925,910
Marketing and partnership	165,748		165,748	190,282
Publication income	166,943		166,943	163,593
Event sanctioning income	89,135		89,135	93,556
Regional income	96,988		96,988	92,521
Sport discipline income	50,234	20,703	70,937	79,469
National tournaments	38,530		38,530	44,322
Approved towboat testing	43,000		43,000	44,000
Sport development	34,252	2,500	36,752	37,565
Value in kind	31,000		31,000	31,000
Teams fund	30,130		30,130	28,652
Interest income	6,073		6,073	13,805
Other income	9,008		9,008	9,258
Team trials income				4,010
Satisfaction of program restrictions	<u>72,535</u>	<u>(72,535)</u>		
Total support and revenue	1,719,856	(41,332)	1,678,524	1,757,943
<b>EXPENSES:</b>				
Program services:				
Membership	549,208		549,208	518,926
Publication expense	361,301		361,301	362,449
Sport discipline expense	165,175		165,175	164,511
Sport development	137,053		137,053	136,387
Regional expense	88,007		88,007	85,808
National tournaments	80,315		80,315	82,959
Competition	44,376		44,376	46,254
National teams	33,699		33,699	37,207
Towboat program	<u>16,974</u>		<u>16,974</u>	<u>19,502</u>
Total program services	1,476,108		1,476,108	1,454,003
Supporting services:				
General and administrative expense	168,039		168,039	167,779
Sponsorship development	<u>133,475</u>		<u>133,475</u>	<u>127,308</u>
Total supporting services	301,514		301,514	295,087
Total expenses	<u>1,777,622</u>		<u>1,777,622</u>	<u>1,749,090</u>
CHANGE IN NET ASSETS	(57,766)	(41,332)	(99,098)	8,853
NET ASSETS, beginning of year	<u>560,730</u>	<u>69,304</u>	<u>630,034</u>	<u>621,181</u>
NET ASSETS, end of year	<u>\$ 502,964</u>	<u>\$ 27,972</u>	<u>\$ 530,936</u>	<u>\$ 630,034</u>

See Notes to Financial Statements

USA WATER SKI, INC.  
Statement of Cash Flows  
For the Year Ended December 31, 2011  
(With Comparative Amounts for 2010)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (99,098)	\$ 8,853
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	9,703	21,207
Changes in assets and liabilities:		
Changes in accounts receivable	25,927	6,654
Changes in prepaid expenses	101,340	(81,453)
Changes in inventory	(4,395)	847
Changes in other assets		(1,350)
Changes in accounts payable	7,135	(19,627)
Changes in accrued liabilities	(5,657)	310
Changes in deferred revenue	<u>9,676</u>	<u>37,229</u>
Total adjustments	<u>143,729</u>	<u>(36,183)</u>
Net cash provided (used) by operating activities	44,631	(27,330)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(7,763)	(21,036)
Change in investments, net	<u>(7,437)</u>	<u>(97,934)</u>
Net cash used by investing activities	<u>(15,200)</u>	<u>(118,970)</u>
NET INCREASE (DECREASE) IN CASH	29,431	(146,300)
CASH AND CASH EQUIVALENTS, beginning of year	<u>477,858</u>	<u>624,158</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 507,289</u>	<u>\$ 477,858</u>

See Notes to Financial Statements

USA WATER SKI, INC.  
Notes to Financial Statements  
For the Year Ended December 31, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

USA Water Ski, Inc. (the Corporation) is the national governing body of organized water skiing in the United States. USA Water Ski, Inc. is a member of the International Water Ski Federation, the Pan American Sports Organization and the United States Olympic Committee. Affiliated with USA Water Ski, Inc. as sport disciplines are the American Water Ski Association, American Barefoot Club, American Kneeboard Association, National Collegiate Water Ski Association, National Show Ski Association, National Water Ski Racing Association, United States Hydrofoil Association, USA Wakeboard and Water Skiers with Disabilities Association.

Income Taxes

The Corporation is an organization which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986.

The Financial Accounting Standards Board (FASB) issued FASB ASC 740, "Income Taxes", which clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Corporation's income tax returns.

The Corporation's income tax filings are subject to audit by various taxing authorities. The Corporation's open audit periods are 2008 to 2011. The Corporation believes that its operations have been conducted in accordance with its tax-exempt status.

Cash and Cash Equivalents

Cash and cash equivalents consist of the Corporation's checking and savings accounts.

The Corporation maintains its cash and cash equivalents at a commercial bank. In the unlikely event of a bank failure, the Corporation could suffer a loss to the extent its deposits exceeded the respective bank insurance limits.



## Notes to Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Accounts Receivable

Accounts receivable are stated at the amount the Corporation expects to collect from balances outstanding at year end. Based on the Corporation's experience with businesses having outstanding balances, it has concluded that any losses on balances outstanding at year end will not be material. Therefore, no allowance for doubtful accounts is considered necessary.

Accounts receivable outstanding for more than 30 days are considered delinquent. Delinquent receivables are determined to be uncollectible on a case by case basis and are written off to bad debt expense at such point of determination.

#### Property and Equipment

Property and equipment consists of leasehold improvements, furniture, and office equipment used in the operations of the Corporation. Property and equipment are recorded at cost or, in the case of donated items, at the estimated fair market value at the date of the donation.

Depreciation is recorded using the straight-line method over an estimated life of three to ten years for furniture and equipment and seven to fifteen years for leasehold improvements. Depreciation expense for the years ended December 31, 2011 and 2010 was \$9,703 and \$21,207, respectively.

#### Contributions

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as satisfaction of program restrictions.

#### Contributed Services

The Corporation receives a substantial amount of donated services in carrying out its programs. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under ASC 958, "Not-For-Profit Entities".

## Notes to Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Functional Allocation of Expenses

Certain costs and expenses are allocated among the various programs and supporting service expenses based on salary and related expenses. For the years ended December 31, 2011 and 2010, the Corporation's supporting service expenses amounted to 17.96% and 16.79%, respectively, of total support and revenue.

#### Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

#### Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 5, 2012, the date that the financial statements were available to be issued.

### B. SHORT-TERM INVESTMENTS

Short-term investments at December 31, 2011 and 2010 consist of certificates of deposit. The Corporation intends to hold these certificates until maturity.

### C. AMERICAN WATER SKI EDUCATIONAL FOUNDATION

The American Water Ski Education Foundation (the Foundation) is a separate exempt entity to establish, administer and promote an educational program devoted to the development and training of water skiers as a means of healthful recreation and physical fitness and to stimulate an interest in water skiing competition.

The Corporation leases office space from the Foundation in accordance with an operating lease effective through November, 2019 at an annual rate of \$10. For the years ended December 31, 2011 and 2010, the Corporation recognized \$31,000 in value-in-kind for the leased office space. The Corporation is also responsible for covering the cost of utilities, property tax, and repairs and maintenance. Total expenses incurred for the year ended December 31, 2011 and 2010 amounted to \$69,292 and \$79,774, respectively.

Notes to Financial Statements

C. AMERICAN WATER SKI EDUCATIONAL FOUNDATION - Continued

At December 31, 2011 and 2010, the Foundation owed the Corporation \$5,225 for reimbursement of lake expenses.

The Corporation is not controlled by the Foundation and therefore consolidated financial statements are not prepared.

D. DEFERRED REVENUE

Deferred revenue consists of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Memberships	\$ 330,650	\$ 282,642
Mail equipment buyout	33,537	59,805
Sponsorship	7,145	
Club additional insurance	5,150	4,500
Sanction fees	3,325	3,560
Copier buyout	1,537	20,931
Banquet tickets	300	780
Infinity learning	180	
OLR fees	120	
Rush fees		50
	<u>\$ 381,944</u>	<u>\$ 372,268</u>

E. LEASES

During 2007, the Corporation executed a sixty-three month operating lease for postage equipment that expires March 2013. The lease requires monthly payments of \$2,139. During the year ended December 31, 2010, the Corporation received funds from a new leasing company to pay off the remainder of this lease's obligations. The corporation then signed a new lease for postage equipment that expires April 2016. This new lease requires quarterly payments of \$6,417. Rather than incur a fee for early termination of the old lease, the Corporation has decided to keep the old equipment and make the lease payments as agreed upon in the original lease.

The Corporation also leases two copiers and a fax machine. The operating lease was effective through October 2011 at a monthly rate of \$1,742. During the year ended December 31, 2010, the Corporation received funds from a new leasing company to pay off the remainder of its lease obligation. The Corporation then signed a new lease for two copiers and a fax machine at a monthly rate of \$1,574 through November 2015. Rather than incur a fee for early termination of the old lease, the Corporation decided to keep the old equipment and make the lease payments as agreed upon in the original lease.

Notes to Financial Statements

E. LEASES - Continued

As explained in Note C, the Corporation leases office space from the American Water Ski Educational Foundation. The operating lease is effective through November 2019 and requires annual payments of \$10.

Minimum future payments on these leases for each of the years ended December 31 are as follows:

2012	\$	70,233
2013		50,982
2014		44,565
2015		42,991
2016-2019		8,596

F. RETIREMENT PLAN

During the year ended December 31, 2009, the Corporation established a 401(k) profit sharing plan for its employees. Employees are eligible to participate if they are over the age of twenty-one with at least one year of service. Each year, the Corporation may elect to make a discretionary matching contribution. The contribution will be allocated to participants based on a uniform percentage of employee salary deferrals, as defined by the plan. Total pension expense for the years ended December 31, 2011 and 2010 amounted to \$13,563 and \$10,141, respectively.

G. UNRESTRICTED NET ASSETS - BOARD DESIGNATED

At December 31, 2011 and 2010, Board designated net assets consist of the following:

	<u>2011</u>	<u>2010</u>
Western region	\$ 76,262	\$ 72,638
Southern region	63,130	59,172
Eastern region	49,291	48,517
American Barefoot Club	43,048	24,055
Midwest region	42,872	40,301
American Water Ski Association	20,748	15,297
Water Skiers with Disabilities Association	18,098	19,628
American Kneeboard Association	14,575	13,505
South Central region	14,440	16,386
Wakeboard	8,792	33,204
	<u>\$ 351,256</u>	<u>\$ 342,703</u>

Notes to Financial Statements

H. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
American Water Ski Association	\$ 27,577	\$ 34,812
Water Skiers with Disabilities Association	395	11,992
Affinity program	<u>          </u>	<u>22,500</u>
	<u>\$ 27,972</u>	<u>\$ 69,304</u>

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the year ended December 31, 2011 and 2010, respectively, temporarily restricted net assets were released from restrictions for the following programs:

	<u>2011</u>	<u>2010</u>
Affinity program	\$ 30,500	\$
Water Skiers with Disabilities Association	29,595	
American Water Ski Association	9,940	30,337
Coaches liability program	1,300	
Basic skills program	<u>1,200</u>	<u>          </u>
	<u>\$ 72,535</u>	<u>\$ 30,337</u>

I. SPORT DISCIPLINES AND REGIONS

The Corporation has five separate regions and nine separate sport disciplines that assist in administering tournaments across the United States of America. USA Water Ski, Inc. granted funding to these regions and disciplines in the amount of \$74,978 and \$89,939 during the years ended December 31, 2011 and 2010, respectively.

J. ACTIVE MEMBER LIABILITY INSURANCE

The Corporation self-insured for a portion of its liability coverage for active members during prior years. The Corporation had contracted with a third-party administrator to process the claims. Under the contract, the Corporation was self-insured for the first \$50,000 per occurrence and a cumulative amount of \$100,000 on an annual basis.

## Notes to the Financial Statements

### J. ACTIVE MEMBER LIABILITY INSURANCE - Continued

During the year ended December 31, 2009, two claims were processed for a total of \$88,557. These claims were recorded in membership insurance expense for the year ended December 31, 2008. Amounts outstanding on these claims were \$8,008 at December 31, 2010.

The Corporation is no longer self-insured.

USA WATER SKI, INC.  
Schedule of Program Services  
For the Year Ended December 31, 2011

	Membership	Publication	Sport Discipline	Sport Development	Regional	National Tournaments	Competition	National Teams	Towboat Program	Total
Labor allocation	\$ 123,772	\$ 132,831		\$ 76,871		\$ 33,006	\$ 30,398	\$ 14,580	\$ 9,803	\$ 421,261
Insurance	294,545			2,557						297,102
Sport discipline expense			165,175							165,175
Overhead allocation	52,644	56,498		32,695		14,039	12,930	6,202	4,169	179,177
Regional expense		51,668			88,007					139,675
Magazine production		89,226								89,226
Member development	37,386									37,386
Postage	10,288	25,093								35,381
Materials	21,254									21,254
Team tees/caps/sweats								12,917		12,917
Travel	1,702	5,602		1,091					1,754	10,149
Promotion & marketing				9,500						9,500
Exhibits						9,454				9,454
Awards						8,715				8,715
Grassroots programs				7,975						7,975
Membership renewal expense	7,472									7,472
Junior U.S. Open expense						5,965				5,965
Instructor certification				4,954						4,954
Officials shirts						3,904				3,904
Officials room/housing						2,100				2,100
TV production						1,168				1,168
Basic skills program expense				1,122						1,122
Room & board									804	804
Competition expense							696			696
Banquet expense						602				602
VIP Reception expense						574				574
Miscellaneous expense						415			44	459
Honorarium									400	400
Site set-up						373				373
Website development		334								334
Officials clinics				288						288
Rulebooks							286			286
Ski school & camps expense	145									145
Event sanctioning							66			66
Publication expense		49								49
<b>Totals</b>	<b>\$ 549,208</b>	<b>\$ 361,301</b>	<b>\$ 165,175</b>	<b>\$ 137,053</b>	<b>\$ 88,007</b>	<b>\$ 80,315</b>	<b>\$ 44,376</b>	<b>\$ 33,699</b>	<b>\$ 16,974</b>	<b>\$ 1,476,108</b>

USA WATER SKI, INC.  
Schedule of Supporting Services  
For the Year Ended December 31, 2011

	<u>General &amp; Administrative</u>	<u>Sponsorship Development</u>	<u>Total</u>
Salaries	\$ 516,492	\$	\$ 516,492
Employee benefits	43,851		43,851
Computer supplies & service	42,106		42,106
Payroll taxes	38,616		38,616
Rent	31,000		31,000
Insurance	28,443		28,443
Postage	27,924		27,924
Utilities	27,200		27,200
Credit card fees	25,228		25,228
Printing & duplication	17,884		17,884
Professional fees	15,097		15,097
Retirement plan	13,563		13,563
Telephone & fax	12,092		12,092
Solicitation costs		10,708	10,708
Depreciation	9,703		9,703
Travel	5,952	2,032	7,984
Equipment repair & maintenance	7,679		7,679
Taxes & licenses	5,833		5,833
Building repair & maintenance	3,946		3,946
Board of directors meetings	3,755		3,755
Dues & subscription	3,670		3,670
Office supplies	2,585		2,585
Miscellaneous expenses	2,155		2,155
Promotion	1,720		1,720
Bank charges	957		957
Shipping	858		858
Fulfillment costs		472	472
Committee meetings	431		431
Overhead allocation	(215,065)	35,888	(179,177)
Labor allocation	(505,636)	84,375	(421,261)
	<u>\$ 168,039</u>	<u>\$ 133,475</u>	<u>\$ 301,514</u>