

USA WATER SKI, INC.

**Financial Statements
& Supplemental Schedules**

For the Year Ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of USA Water Ski, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year 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 audit. 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 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 we have 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 USA Water Ski, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited USA Water Ski, Inc.'s 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated April 8, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of program services and of supporting services are presented for purposes of additional analysis and are 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.

Waugh & Goodwin, LLP
Colorado Springs, Colorado
April 15, 2016

USA WATER SKI, INC.
Statement of Financial Position
December 31, 2015
(With Comparative Amounts for 2014)

	<u>ASSETS</u>	
	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 568,030	\$ 555,617
Short-term investments	379,245	393,583
Accounts receivable	70,036	34,772
Prepaid expenses	130,995	27,207
Inventory	13,779	14,552
Other assets	<u>4,700</u>	<u>3,200</u>
Total current assets	1,166,785	1,028,931
PROPERTY AND EQUIPMENT, at cost:		
Computers and software	71,045	67,410
Furniture and equipment	186,962	185,887
Leasehold improvements	<u>43,390</u>	<u>43,390</u>
	301,397	296,687
Less accumulated depreciation	<u>(271,948)</u>	<u>(260,643)</u>
Property and equipment - net	<u>29,449</u>	<u>36,044</u>
TOTAL ASSETS	<u>\$ 1,196,234</u>	<u>\$ 1,064,975</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES:		
Accounts payable	\$ 120,090	\$ 23,398
Accrued liabilities	39,628	36,771
Current portion of deferred revenue	<u>465,088</u>	<u>413,394</u>
Total current liabilities	624,806	473,563
DEFERRED REVENUE	<u>27,534</u>	<u>24,735</u>
Total liabilities	652,340	498,298
NET ASSETS:		
Unrestricted	78,202	90,979
Unrestricted - Board designated	424,434	436,748
Temporarily restricted	<u>41,258</u>	<u>38,950</u>
Total net assets	<u>543,894</u>	<u>566,677</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,196,234</u>	<u>\$ 1,064,975</u>

See Notes to Financial Statements

USA WATER SKI, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2015
(With Comparative Totals for 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015 Totals</u>	<u>2014 Totals</u>
SUPPORT AND REVENUE:				
Membership registrations	\$ 932,130	\$	\$ 932,130	\$ 904,039
Publication income	149,123		149,123	164,523
National tournaments	130,821		130,821	193,853
Regional income	127,557		127,557	131,338
Event sanctioning income	96,456		96,456	105,799
Marketing and partnership	95,561		95,561	127,929
Teams fund	84,431		84,431	55,038
US Open income	62,088		62,088	
Approved towboat testing	52,000		52,000	49,000
Sport development	51,251		51,251	49,745
Sport discipline income	45,767	2,715	48,482	82,150
Value in kind	31,000		31,000	31,000
Other income	27,361		27,361	13,089
Jr US Open income	10,450		10,450	
Team trials income	5,320		5,320	4,250
Pan American Games income	1,304		1,304	
USOC grant				4,500
Investment income	(10,003)		(10,003)	14,264
Satisfaction of program restrictions	407	(407)		
Total support and revenue	<u>1,893,024</u>	<u>2,308</u>	<u>1,895,332</u>	<u>1,930,517</u>
EXPENSES:				
Program services:				
Membership	535,957		535,957	537,118
Publication expense	324,594		324,594	338,801
National tournaments	227,753		227,753	242,913
Sport discipline expense	148,275		148,275	168,322
Sport development	141,047		141,047	132,738
Regional expense	117,193		117,193	104,295
National teams	55,948		55,948	51,010
Competitions	44,155		44,155	43,458
Towboat program	19,003		19,003	14,993
Total program services	<u>1,613,925</u>		<u>1,613,925</u>	<u>1,633,648</u>
Supporting services:				
General and administrative expense	174,674		174,674	176,794
Sponsorship development	129,518		129,518	130,773
Total supporting services	<u>304,192</u>		<u>304,192</u>	<u>307,567</u>
Total expenses	<u>1,918,117</u>		<u>1,918,117</u>	<u>1,941,215</u>
CHANGE IN NET ASSETS	(25,093)	2,308	(22,785)	(10,698)
NET ASSETS, beginning of year	<u>527,729</u>	<u>38,950</u>	<u>566,679</u>	<u>577,375</u>
NET ASSETS, end of year	<u>\$ 502,636</u>	<u>\$ 41,258</u>	<u>\$ 543,894</u>	<u>\$ 566,677</u>

See Notes to Financial Statements

USA WATER SKI, INC.
Statement of Cash Flows
For the Year Ended December 31, 2015
(With Comparative Amounts for 2014)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (22,785)	\$ (10,698)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	11,305	10,267
Changes in assets and liabilities:		
Changes in accounts receivable	(35,264)	23,981
Changes in prepaid expenses	(103,788)	51,144
Changes in inventory	773	2,721
Changes in other assets	(1,500)	1,510
Changes in accounts payable	96,692	(22,047)
Changes in accrued liabilities	2,857	1,638
Changes in deferred revenue	<u>54,493</u>	<u>(9,084)</u>
Total adjustments	<u>25,568</u>	<u>60,130</u>
Net cash provided by operating activities	2,783	49,432
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(4,708)	(4,554)
Change in investments, net	<u>14,338</u>	<u>(3,454)</u>
Net cash provided (used) by investing activities	<u>9,630</u>	<u>(8,008)</u>
NET INCREASE IN CASH	12,413	41,424
CASH AND CASH EQUIVALENTS, beginning of year	<u>555,615</u>	<u>514,191</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 568,028</u>	<u>\$ 555,615</u>

See Notes to Financial Statements

USA WATER SKI, INC.
Notes to Financial Statements
For the Year Ended December 31, 2015

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 qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax.

The Corporation's form 990, Return of Organization Exempt from Income Tax is subject to examination by various taxing authorities, generally for three years after the date it was filed. Management of the Corporation believes that it does not have any uncertain tax positions that are material to the financial statements.

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 exceed the respective bank insurance limits.

Supplemental Cash Flow Disclosure

The Corporation paid no interest or income taxes during the years ended December 31, 2015 and 2014, respectively.

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, 2015 and 2014, was \$11,305 and \$10,267, 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.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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".

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, 2015 and 2014, the Corporation's supporting service expenses amounted to 16.05% and 15.93%, 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.

Prior-Year Comparisons

Certain reclassifications have been made to the prior-year amounts in order to conform to the current year financial statement format.

Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through April 15, 2016, the date that the financial statements were available to be issued.

B. FAIR VALUE MEASUREMENTS

The Corporation applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Notes to Financial Statements

B. FAIR VALUE MEASUREMENTS - Continued

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables present assets that are measured at fair value on a recurring basis at December 31, 2015 and 2014:

Assets at Fair Value as of December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 358,055	\$	\$	\$ 358,055
Certificates of deposit	<u>21,190</u>	<u></u>	<u></u>	<u>21,190</u>
	<u>\$ 379,245</u>	<u>\$</u>	<u>\$</u>	<u>\$ 379,245</u>

Assets at Fair Value as of December 31, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 372,473	\$	\$	\$ 372,473
Certificates of deposit	<u>21,110</u>	<u></u>	<u></u>	<u>21,110</u>
	<u>\$ 393,583</u>	<u>\$</u>	<u>\$</u>	<u>\$ 393,583</u>

Notes to Financial Statements

B. FAIR VALUE MEASUREMENTS - Continued

Investment income in the accompanying statements of activities consists of the following for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 12,612	\$ 15,065
Unrealized losses	(26,042)	(801)
Realized gains	<u>3,427</u>	<u> </u>
	<u>\$ (10,003)</u>	<u>\$ 14,264</u>

C. USA WATER SKI FOUNDATION

The USA Water Ski 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, 2015 and 2014, the Corporation recognized \$31,000 of value-in-kind revenue and expense 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 years ended December 31, 2015 and 2014 amounted to \$101,852 and \$75,213, respectively. At December 31, 2015 and 2014, the Foundation owed the Corporation \$28,079 and \$2,624, respectively, for reimbursement of lake and building maintenance expenses.

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

Notes to Financial Statements

D. DEFERRED REVENUE

Deferred revenue consists of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Memberships	\$ 432,132	\$ 372,213
Sanction fees	50,475	56,935
Club additional insurance	4,350	6,172
Banquet awards	2,598	1,088
Membership insurance	2,000	
Sponsorship	600	
Banquet tickets, magazine ads, miscellaneous	<u>467</u>	<u>1,721</u>
	<u>\$ 492,622</u>	<u>\$ 438,129</u>

E. LEASES

In the year ended December 31, 2015, the Corporation signed an operating lease for postage equipment that replaced the old lease. The final quarterly payment on the old lease was waived. The new lease requires quarterly payments of \$2,874 and expires April 2021. The Corporation also leases a copier at a monthly rate of \$370 through December 2020.

As explained in Note C, the Corporation leases office space from the USA Water Ski 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:

2016	\$ 15,946
2017	15,946
2018	15,946
2019	15,946
2020	15,936
Thereafter	2,874

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, 2015 and 2014, amounted to \$12,192 and \$9,767, respectively.

Notes to Financial Statements

G. UNRESTRICTED NET ASSETS - BOARD DESIGNATED

At December 31, 2015 and 2014, Board designated net assets consist of the following:

	<u>2015</u>	<u>2014</u>
Western region	\$ 83,831	\$ 91,275
Midwest region	68,784	64,627
Southern region	63,533	70,393
American Water Ski Association	53,456	68,857
South Central region	51,020	29,223
Eastern region	49,994	51,280
American Barefoot Club	25,257	23,780
Water Skiers with Disabilities Association	16,417	17,002
American Kneeboard Association	6,674	9,940
Wakeboard	<u>5,468</u>	<u>10,371</u>
	<u>\$ 424,434</u>	<u>\$ 436,748</u>

H. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2015 and 2014, are available for the following purposes:

	<u>2015</u>	<u>2014</u>
American Water Ski Association	\$ <u>41,258</u>	\$ <u>38,950</u>

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the years ended December 31, 2015 and 2014, respectively, temporarily restricted net assets were released from restrictions for the following programs:

	<u>2015</u>	<u>2014</u>
American Water Ski Association	\$ <u>407</u>	\$ <u>24,999</u>
	<u>\$ 407</u>	<u>\$ 24,999</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 \$79,426 and \$82,824 during the years ended December 31, 2015 and 2014, respectively.

USA WATER SKI, INC.
Schedule of Program Services
For the Year Ended December 31, 2015

	Membership	Publication	National Tournaments	Sport Discipline	Sport Development	Regional	National Teams	Competitions	Towboat Program	Total
Labor allocation	\$ 114,271	\$ 122,631	\$ 30,472	\$	\$ 70,967	\$	\$ 13,458	\$ 28,067	\$ 9,051	\$ 388,917
Insurance	354,529				2,500					357,029
Overhead allocation	61,786	66,306	16,475		38,372		7,278	15,175	4,894	210,286
Regional expense		37,062				117,193				154,255
Sport discipline expense				148,275						148,275
Entry fees			63,260				5,095			68,355
Magazine production		67,855								67,855
U.S Open expense			60,904							60,904
Postage	1,345	22,861								24,206
Team tees/caps/sweats							22,584			22,584
Motor vehicle report expense					16,400					16,400
AWSA admin fees			12,348							12,348
Travel	200	7,879			1,092			416	2,194	11,781
Exhibits			11,383							11,383
Junior U.S. Open expense			10,070							10,070
Practice fees to LOC			5,910							5,910
Awards			5,438							5,438
Club development expense					5,345					5,345
Officials shirts			5,230							5,230
Merchandise shipping expense							3,871			3,871
Instructor certification					3,863					3,863
Merchandise promotion travel							3,404			3,404
Officials room/housing			2,600							2,600
Grassroots programs					2,327					2,327
Materials	2,212									2,212
Room & board									1,797	1,797
Pan American Games expense			1,614							1,614
Membership renewal expense	1,609									1,609
Banquet expense			910							910
Honorarium									900	900
TV production			611							611
Competition expense								472		472
VIP Reception expense			400							400
Merchandise Booth expense							258			258
Officials clinics					181					181
Technical equipment									167	167
Miscellaneous expense			128							128
Rulebooks								25		25
Ski school & camps expense	5									5
Totals	\$ 535,957	\$ 324,594	\$ 227,753	\$ 148,275	\$ 141,047	\$ 117,193	\$ 55,948	\$ 44,155	\$ 19,003	\$ 1,613,925

USA WATER SKI, INC.
Schedule of Supporting Services
For the Year Ended December 31, 2015

	<u>General & Administrative</u>	<u>Sponsorship Development</u>	<u>Total</u>
Salaries	\$ 470,636	\$	\$ 470,636
Computer supplies & service	38,932		38,932
Employee benefits	46,123		46,123
Insurance	47,379		47,379
Payroll taxes	36,560		36,560
Rent	31,000		31,000
Utilities	31,250		31,250
Postage	27,305		27,305
Credit card fees	28,136		28,136
Printing & duplication	14,735		14,735
Telephone & fax	18,816		18,816
Professional fees	12,178		12,178
Depreciation	11,305		11,305
Retirement plan	12,192		12,192
Travel	3,488	2,630	6,118
Equipment repair & maintenance	19,632		19,632
Building repair & maintenance	8,515		8,515
Solicitation costs		2,921	2,921
Promotion	5,567		5,567
Taxes & licenses	4,745		4,745
Bad debts	3,300		3,300
Dues & subscriptions	3,687		3,687
Fulfillment costs		3,947	3,947
Miscellaneous expense	3,973		3,973
Awards banquet	8,486		8,486
Office supplies	2,223		2,223
Bank charges	1,809		1,809
Shipping	960		960
Board of directors meetings	191		191
Education & training	307		307
Committee meetings	467		467
Overhead allocation	(252,404)	42,118	(210,286)
Labor allocation	(466,819)	77,902	(388,917)
	<u>\$ 174,674</u>	<u>\$ 129,518</u>	<u>\$ 304,192</u>