

USA WATER SKI, INC.
Financial Statements
& Supplemental Schedules
For the Year Ended December 31, 2010

TABLE OF CONTENTS

Independent Auditors' Report	1
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Schedule of Program Services	13
Schedule of Supporting Services	14

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, 2010 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, 2009 financial statements and, in our report dated February 26, 2010, 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, 2010, 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, 2010 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 4, 2011

USA WATER SKI, INC.
Statement of Financial Position
December 31, 2010
(With Comparative Amounts for 2009)

	<u>ASSETS</u>	
	<u>2010</u>	<u>2009</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 477,858	\$ 624,158
Short-term investments	311,882	213,948
Accounts receivable	72,058	78,712
Prepaid expenses	119,412	37,959
Inventory	6,663	7,510
Other assets	<u>4,550</u>	<u>3,200</u>
Total current assets	992,423	965,487
PROPERTY AND EQUIPMENT, at cost:		
Computers and software	110,373	98,479
Furniture and equipment	151,617	151,070
Leasehold improvements	<u>33,835</u>	<u>33,835</u>
	295,825	283,384
Less accumulated depreciation	<u>(249,621)</u>	<u>(237,009)</u>
Property and equipment - net	<u>46,204</u>	<u>46,375</u>
TOTAL ASSETS	<u>\$ 1,038,627</u>	<u>\$ 1,011,862</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES:		
Accounts payable	\$ 5,241	\$ 24,868
Accrued liabilities	31,084	30,774
Deferred revenue (Note D)	<u>338,130</u>	<u>335,039</u>
Total current liabilities	374,455	390,681
DEFERRED REVENUE (Note D)	34,138	
NET ASSETS:		
Unrestricted	218,027	220,784
Unrestricted - Board designated (Note G)	342,703	338,751
Temporarily restricted (Note H)	<u>69,304</u>	<u>61,646</u>
Total net assets	<u>630,034</u>	<u>621,181</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,038,627</u>	<u>\$ 1,011,862</u>

See Notes to Financial Statements

USA WATER SKI, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2010
(With Comparative Totals for 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010 Totals</u>	<u>2009 Totals</u>
SUPPORT AND REVENUE:				
Membership registrations	\$ 925,910	\$	\$ 925,910	\$ 971,410
Marketing and partnership	190,282		190,282	187,693
Publication income	163,593		163,593	186,572
Event sanctioning income	93,556		93,556	93,554
Regional income	92,521		92,521	97,616
Sport discipline income	41,474	37,995	79,469	66,249
National tournaments	44,322		44,322	118,225
Approved towboat testing	44,000		44,000	34,500
Sport development	37,565		37,565	41,103
Value in kind	31,000		31,000	31,000
Teams fund	28,652		28,652	42,189
Interest income	13,805		13,805	9,435
Other income	9,258		9,258	8,619
Team trials income	4,010		4,010	8,320
Satisfaction of program restrictions	<u>30,337</u>	<u>(30,337)</u>		
Total support and revenue	1,750,285	7,658	1,757,943	1,896,485
EXPENSES:				
Program services:				
Membership	518,926		518,926	549,742
Publication expense	362,449		362,449	355,694
Sport discipline expense	164,511		164,511	160,625
Sport development	136,387		136,387	145,706
Regional expense	85,808		85,808	108,163
National tournaments	82,959		82,959	156,272
Competition	46,254		46,254	46,068
National teams	37,207		37,207	49,875
Towboat program	<u>19,502</u>		<u>19,502</u>	<u>15,213</u>
Total program services	1,454,003		1,454,003	1,587,358
Supporting services:				
General and administrative expense	167,779		167,779	168,924
Sponsorship development	<u>127,308</u>		<u>127,308</u>	<u>152,188</u>
Total supporting services	<u>295,087</u>		<u>295,087</u>	<u>321,112</u>
Total expenses	<u>1,749,090</u>		<u>1,749,090</u>	<u>1,908,470</u>
CHANGE IN NET ASSETS	1,195	7,658	8,853	(11,985)
NET ASSETS, beginning of year	<u>559,535</u>	<u>61,646</u>	<u>621,181</u>	<u>633,166</u>
NET ASSETS, end of year	<u>\$ 560,730</u>	<u>\$ 69,304</u>	<u>\$ 630,034</u>	<u>\$ 621,181</u>

See Notes to Financial Statements

USA WATER SKI, INC.
Statement of Cash Flows
For the Year Ended December 31, 2010
(With Comparative Amounts for 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 8,853	\$ (11,985)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	21,207	22,842
Changes in assets and liabilities:		
Changes in accounts receivable	6,654	(38,203)
Changes in prepaid expenses	(81,453)	(271)
Changes in inventory	847	(2,406)
Changes in other assets	(1,350)	
Changes in accounts payable	(19,627)	(42,560)
Changes in accrued liabilities	310	(1,615)
Changes in deferred revenue	<u>37,229</u>	<u>(18,407)</u>
Total adjustments	<u>(36,183)</u>	<u>(80,620)</u>
Net cash used by operating activities	(27,330)	(92,605)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(21,036)	(8,964)
Change in investments, net	<u>(97,934)</u>	<u>2,599</u>
Net cash used by investing activities	<u>(118,970)</u>	<u>(6,365)</u>
NET DECREASE IN CASH	(146,300)	(98,970)
CASH AND CASH EQUIVALENTS, beginning of year	<u>624,158</u>	<u>723,128</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 477,858</u>	<u>\$ 624,158</u>

See Notes to Financial Statements

USA WATER SKI, INC.
Notes to Financial Statements
For the Year Ended December 31, 2010

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 2007 - 2010. 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, 2010 and 2009 was \$21,207 and \$22,842, 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 FSAB 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, 2010 and 2009, the Corporation's supporting service expenses amounted to 16.79% and 16.90%, 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 4, 2011, the date that the financial statements were available to be issued.

B. SHORT-TERM INVESTMENTS

Short-term investments at December 31, 2010 and 2009 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, 2010 and 2009, 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, 2010 and 2009 amounted to \$79,774 and \$73,415, respectively.

Notes to Financial Statements

C. AMERICAN WATER SKI EDUCATIONAL FOUNDATION - Continued

At December 31, 2010 and 2009, 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Memberships	\$ 282,642	\$ 323,074
Mail equipment buyout	59,805	
Copier buyout	20,931	
Additional insurance	4,500	6,250
Sanction fees	3,560	700
Banquet tickets	780	
Rush fees	50	
Gold memberships		3,000
Team clothing		<u>2,015</u>
	<u>\$ 372,268</u>	<u>\$ 335,039</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, 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 is effective through October 2011 at a monthly rate of \$1,742. During the year, 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. 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.

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:

2011	\$	87,652
2012		70,233
2013		50,982
2014		44,565
2015-2019		51,587

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, 2010 and 2009 amounted to \$10,141 and \$14,941, respectively.

G. UNRESTRICTED NET ASSETS - BOARD DESIGNATED

At December 31, 2010 and 2009, Board designated net assets consist of the following:

	<u>2010</u>	<u>2009</u>
Western region	\$ 72,638	\$ 70,283
Southern region	59,172	55,911
Eastern region	48,517	47,629
Midwest region	40,301	36,252
Wakeboard	33,204	36,477
American Barefoot Club	24,055	38,603
Water Skiers with		
Disabilities Association	19,628	18,710
South Central region	16,386	20,226
American Water Ski		
Association	15,297	9,295
American Kneeboard		
Association	13,505	5,365
	<u>\$ 342,703</u>	<u>\$ 338,751</u>

Notes to Financial Statements

H. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
American Water Ski Association	\$ 34,812	\$ 30,376
Affinity program	22,500	22,500
Water Skiers with Disabilities Association	<u>11,992</u>	<u>8,770</u>
	<u>\$ 69,304</u>	<u>\$ 61,646</u>

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the year ended December 31, 2010 and 2009, respectively, temporarily restricted net assets were released from restrictions for the following programs:

	<u>2010</u>	<u>2009</u>
American Water Ski Association	\$ 30,337	\$ 62,647
Water Skiers with Disabilities Association		15,239
Affinity program		7,500
American Barefoot Club		<u>120</u>
	<u>\$ 30,337</u>	<u>\$ 85,506</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 \$89,939 and \$93,546 during the years ended December 31, 2010 and 2009, 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 have been recorded in membership insurance expense for the year ended December 31, 2008. Amounts outstanding on these claims amounted to \$8,008 and \$13,727 at December 31, 2010 and 2009, respectively.

The Corporation is no longer self-insured.

USA WATER SKI, INC.
Schedule of Program Services
For the Year Ended December 31, 2010

	<u>Membership</u>	<u>Publication</u>	<u>Sport Discipline</u>	<u>Sport Development</u>	<u>Regional</u>	<u>National Tournaments</u>	<u>Competition</u>	<u>National Teams</u>	<u>Towboat Program</u>	<u>Total</u>
Labor allocation	\$ 113,966	\$ 122,306	\$	\$ 70,779	\$	\$ 30,391	\$ 27,992	\$ 13,425	\$ 9,026	\$ 387,885
Insurance	289,768	2,500								292,268
Sport discipline expense			164,511							164,511
Overhead allocation	67,486	72,425		41,912		17,996	16,576	7,950	5,344	229,689
Regional expense		44,248			85,808					130,056
Magazine production		87,536								87,536
Postage	17,337	27,611								44,948
Materials	22,534						10			22,544
Team tees/caps/sweats								12,032		12,032
Travel	57	5,046		1,413					2,572	9,088
Promotion & marketing				8,717						8,717
Exhibits						8,226				8,226
Membership renewal expense	7,756									7,756
Officials clinics				7,599						7,599
Junior U.S. Open expense						7,109				7,109
Awards						6,462				6,462
Officials room/housing						2,300		3,800		6,100
Grassroots programs				5,789						5,789
Officials shirts						3,770				3,770
Entry fees						3,690				3,690
Room & board									1,765	1,765
TV production						1,701				1,701
Competition expense							1,553			1,553
Banquet expense						814				814
Website development		777								777
Honorarium									750	750
VIP Reception expense						500				500
Instructor certification				178						178
Event sanctioning							80			80
Miscellaneous expense									45	45
Rulebooks							43			43
Ski school & camps expense	22									22
Totals	\$ 518,926	\$ 362,449	\$ 164,511	\$ 136,387	\$ 85,808	\$ 82,959	\$ 46,254	\$ 37,207	\$ 19,502	\$ 1,454,003

USA WATER SKI, INC.
Schedule of Supporting Services
For the Year Ended December 31, 2010

	<u>General & Administrative</u>	<u>Sponsorship Development</u>	<u>Total</u>
Salaries	\$ 480,844	\$	\$ 480,844
Miscellaneous expenses	51,414		51,414
Employee benefits	37,400		37,400
Payroll taxes	36,361		36,361
Insurance	32,934		32,934
Rent	31,000		31,000
Postage	29,726		29,726
Computer supplies & service	28,075		28,075
Credit card fees	27,795		27,795
Utilities	27,153		27,153
Printing & duplication	22,749		22,749
Depreciation	21,207		21,207
Telephone & fax	14,698		14,698
Professional fees	13,518		13,518
Retirement plan	10,141		10,141
Building repair & maintenance	9,240		9,240
Equipment repair & maintenance	8,409		8,409
Taxes & licenses	6,365		6,365
Travel	2,125	3,612	5,737
Dues & subscription	3,870		3,870
Office supplies	3,502		3,502
Bad debts	3,485		3,485
Board of directors meetings	3,250		3,250
Promotion	1,560		1,560
Bank charges	1,308		1,308
Shipping	746		746
Committee meetings	174		174
Overhead allocation	(275,694)	46,005	(229,689)
Labor allocation	(465,576)	77,691	(387,885)
	<u>\$ 167,779</u>	<u>\$ 127,308</u>	<u>\$ 295,087</u>