Reports of Independent Auditors
and Financial Statements
with Additional Information for

American Council on Exercise

June 30, 2013 and 2012

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

CONTENTS

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
American Council on Exercise

Report on Financial Statements
We have audited the accompanying financial statements of American Council on Exercise, which comprise the statements of financial position as of June 30, 2013 and 2012, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the results of its operations 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 24, 2013

AMERICAN COUNCIL ON EXERCISE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

	June 30, 2013	June 30, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 4,322,270	$ 4,308,454
Investments	1,179,649	952,931
Accounts receivable	532,606	156,057
Inventory	391,585	470,455
Deferred and prepaid expenses, current portion	451,923	375,997
Total current assets	6,878,033	6,263,894
Fixed Assets	3,403,150	3,254,208
Deferred and Prepaid Expenses, long-term portion	759,226	566,187
Deferred Compensation Plan Assets - 457b	68,470	-
Total assets	$ 11,108,879	$ 10,084,289
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 1,485,763	$ 945,066
Deferred revenue	1,969,202	1,690,511
Total current liabilities	3,454,965	2,635,577
Deferred Compensation Payable - 457b	71,590	-
Unrestricted Net Assets	7,582,324	7,448,712
Total liabilities and net assets	$ 11,108,879	$ 10,084,289

See accompanying notes.

AMERICAN COUNCIL ON EXERCISE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012

	Years Ended June 30,	
	2013	2012
REVENUE AND SUPPORT		
Educational materials and training manuals	$ 5,553,653	$ 4,825,454
Certification fees	4,160,824	3,075,225
Instructor renewal fees	2,488,256	2,529,691
Continuing education fees	2,348,984	1,850,242
Shipping and handling	459,656	404,494
Consumer - outreach	126,705	99,367
Mailing list rentals	110,312	138,747
Royalties	98,743	118,189
Membership fees	53,185	9,445
Interest and dividends	32,345	42,173
Contributions and other income	155	245
Total revenue and support	15,432,818	13,093,272
EXPENSES		
Program	12,184,983	10,187,900
General and administrative	3,173,334	2,518,774
Total expenses	15,358,317	12,706,674
Excess of revenue and support over expenses	74,501	386,598
NET REALIZED/UNREALIZED GAINS (LOSSES) ON INVESTMENTS	59,111	(26,972)
INCREASE IN UNRESTRICTED NET ASSETS	133,612	359,626
UNRESTRICTED NET ASSETS		
Beginning of year	7,448,712	7,089,086
End of year	$ 7,582,324	$ 7,448,712

See accompanying notes.

	Years Ended June 30, 2013	2012
OPERATING ACTIVITIES		
Change in net assets	$ 133,612	$ 359,626
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	365,404	308,864
Net realized/unrealized (gains) losses on investments	(55,301)	26,972
(Increase) decrease in operating assets:		
Accounts receivable	(376,549)	(67,091)
Inventory	78,870	9,270
Deferred and prepaid expenses	(268,965)	(49,163)
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	540,697	(318,667)
Deferred revenue	278,691	428,895
Deferred compensation payable - 457b	71,590	-
Net cash provided by operating activities	768,049	698,706
INVESTING ACTIVITIES		
Purchases of fixed assets	(514,346)	(299,531)
Proceeds from sales of investments	385,178	1,425,000
Purchases of investments	(556,595)	(565,641)
Purchases of deferred compensation plan assets - 457b	(68,470)	-
Net cash (used in) provided by investing activities	(754,233)	559,828
FINANCING ACTIVITIES		
Payments on note payable	-	(933,786)
Net cash (used in) financing activities	-	(933,786)
INCREASE IN CASH AND CASH EQUIVALENTS	13,816	324,748
CASH AND CASH EQUIVALENTS		
Beginning of year	4,308,454	3,983,706
End of year	$ 4,322,270	$ 4,308,454

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2013	2012
Cash payments for interest	$ -	$ 36,659

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, 2013 and 2012. ACE files an exempt organization return in the United States federal jurisdiction and with the Franchise Tax Board in the state of California. ACE is no longer subject to income tax examinations by taxing authorities for years before 2010 for its federal filings and for years before 2009 for its state filings.

Method of accounting - The financial statements of ACE are prepared under the accrual basis of accounting.

Financial statement presentation - Net assets, and changes therein, are classified as unrestricted, temporarily restricted, and permanently restricted as follows:

- Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.

- Temporarily restricted net assets consist of contributed funds, subject to specific donor-imposed restrictions, contingent upon a specific performance of a future event or a specific passage of time before ACE may spend the funds. At June 30, 2013 and 2012, 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, 2013 and 2012, 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);
- Instructor renewal fees (recognized as renewal forms are processed);
- Processing fees for continuing education quizzes (recognized as quizzes 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); and
- Memberships (recognized as memberships are renewed)

Note 1 – Nature of Organization and Significant Accounting Policies (continued)

Deferred revenue - Deferred revenue represents fees received in advance for exams and training.

Contributions - Contributions are recognized as support when received or unconditionally pledged. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted, depending on the nature of the donor's restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted contributions.

Cash and cash equivalents - Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Investments and deferred compensation plan assets – 457b - Marketable securities with readily determinable fair values are reported at their fair value based on quoted prices in active markets. Unrealized gains and losses are included in the change in net assets in the statements of activities.

Accounts receivable - Credit terms for payment of products and services purchased are extended to customers in the normal course of business, and no collateral is required. The allowance for estimated uncollectible accounts is based on past experience and on analysis of current accounts receivable. Accounts are considered delinquent after 30 days. Accounts deemed uncollectible are written off against the allowance in the year deemed uncollectible. At June 30, 2013 and 2012, management determined an allowance is not 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.

Deferred expenses - Deferred expenses are costs associated with content development, preproduction, typesetting, artwork, and design of manuals. Accumulated costs are expensed over the estimated marketable life of the manuals ranging from one to five years.

Fixed assets - ACE capitalizes fixed assets with a cost greater than $500. Furniture, equipment, computer software, website and database development, and leasehold improvements are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets, generally three to five years. The building is recorded at cost and is being depreciated over 30 years.

Impairment of long-lived assets - ACE evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flow (undiscounted and without interest charges) from the use of an asset is less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

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.

Note 1 – Nature of Organization and Significant Accounting Policies (continued)

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.

Reclassifications - Certain amounts in the June 30, 2012 statement of activities have been reclassified to conform to the June 30, 2013 presentation, with no effect on net assets.

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 24, 2013, which is the date the financial statements were available to be issued.

Note 2 – Concentration of Credit Risk

ACE maintains cash in bank deposit accounts which at times exceed the federally-insured deposit limits. ACE has not experienced any losses in such accounts.

Investments are exposed to various risks such as interest rate, market, and credit risks. It is at least reasonably possible, given the level of risk associated with investments, that changes in the near-term could materially affect the amounts reported in the financial statements.

Note 3 – Investments and Deferred Compensation Plan Assets – 457b

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

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.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

All investments and deferred compensation plan assets – 457b are considered Level 1 based on the existence of quoted prices in an active market for the identical assets.

Transfers of assets and liabilities between levels are done as of the beginning of the year.

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.

At June 30, investments consist of:

	2013	2012
Mutual funds:		
Domestic equity	$ 543,109	$ 409,039
Fixed income	455,187	367,136
International equity	129,891	107,193
Precious metals	51,462	69,563
Total	$ 1,179,649	$ 952,931

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

	2013	2012
Mutual funds:		
Domestic equity		$ 58,745
Balanced/asset allocation		3,368
Fixed income		3,325
International equity		3,032
Total		$ -

Note 4 – Deferred and Prepaid Expenses

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

	2013	2012
Deferred expenses	$ 1,069,154	$ 812,407
Prepaid expenses	141,995	129,777
	1,211,149	942,184
Less current portion	(451,923)	(375,997)
	$ 759,226	$ 566,187

Note 5 – Fixed Assets

At June 30, fixed assets consist of:

Land	$ 1,286,883	$ 1,286,883
Building	3,113,744	3,113,744
Equipment	959,593	833,338
Website and database development	949,020	780,787
Computer software	442,714	426,353
Furniture	374,831	341,464
Leasehold improvements	297,413	140,669
Vehicle	8,475	8,475
	7,432,673	6,931,713
Less accumulated depreciation	(4,029,523)	(3,677,505)
	$ 3,403,150	$ 3,254,208

Note 6 – Commitments and Contingencies

Operating leases - ACE leases copiers under non-cancelable operating lease agreements which extend through May 2016 and require total monthly lease payments of $1,233. Rent expense for the years ended June 30, 2013 and 2012 was approximately $15,000.

Note 6 – Commitments and Contingencies (continued)

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

Years ending June 30,		
2014	$	14,796
2015		14,796
2016		8,580
	$	38,172

Retirement plans - ACE has a 401(k) plan (the "401(k) Plan") which covers all full-time employees after 90 days of employment. Employees also receive a 50 percent employer match for the first 6 percent of salary deferral, which vests evenly over five years. For the years ended June 30, 2013 and 2012, ACE contributed approximately $105,000 and $81,000, respectively, to the 401(k) Plan.

During 2012, ACE established a 457(b) deferred compensation plan for qualified employees. During the years ended June 30, 2013 and 2012, ACE approved contributions of approximately $70,000 and $68,000 to the plan, respectively.

Trademark matters - ACE operates under a trademark and, at times, must defend its rights by filing for an administrative proceeding before the Trademark Trial and Appeals Board, a unit of the United States Patent and Trademark office.

Legal matters - ACE is a party to certain legal actions arising in the ordinary course of business. In the opinion of management, additional liabilities, if any, under these actions will not result in material charges against net assets.

Note 7 – Certification Examinations

ACE charges fees for certification examinations that are recognized as revenue as examinations are administered. ACE has an agreement with an organization that administers the personal trainer, group fitness instructor, clinical exercise specialist, and life weight management consultant certification tests. The agreement expires in July 2015 and may be terminated by either party. Expenses for fees paid to this organization under this agreement for the years ended June 30, 2013 and 2012 were approximately $1,001,000 and $926,000, respectively.

ADDITIONAL INFORMATION

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

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, 2013, and have issued our report thereon dated September 24, 2013, 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 24, 2013

AMERICAN COUNCIL ON EXERCISE
ADDITIONAL INFORMATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	2013			
	Program	General and Administrative	Total	2012 Total
Salaries and wages	$ 3,973,681	$ 2,038,904	$ 6,012,585	$ 4,615,373
Educational materials	1,243,488	-	1,243,488	1,342,331
Marketing	1,084,043	63,533	1,147,576	821,970
Printing, photography, and production	1,084,949	-	1,084,949	921,275
Testing services	1,001,222	-	1,001,222	925,946
Advertising and promotion	639,601	11,584	651,185	511,576
Insurance	346,089	163,283	509,372	402,340
Payroll taxes	364,710	59,097	423,807	325,921
Postage, shipping, and handling	365,749	11,116	376,865	379,972
Depreciation	200,972	164,432	365,404	308,864
Professional development and dues	257,601	102,794	360,395	256,056
Meetings	198,374	152,776	351,150	272,347
Events/trade shows	334,743	-	334,743	289,214
Merchant fees	275,442	-	275,442	261,178
Travel	222,855	39,232	262,087	183,957
Legal and accounting	138,411	44,546	182,957	174,941
401(k) plan contribution	73,434	31,472	104,906	81,103
Repair and maintenance and janitorial	64,683	27,721	92,404	90,831
Miscellaneous	61,242	20,966	82,208	70,031
457(b) plan contribution	-	70,000	70,000	68,000
Bad debt	67,124	-	67,124	3,643
Telephone	43,617	18,693	62,310	47,473
Entertainment	5,232	57,038	62,270	39,681
Office supplies & computer supplies	30,826	30,540	61,366	76,067
Utilities	39,636	16,987	56,623	53,006
Recruitment	-	43,354	43,354	44,589
Fulfillment	30,499	-	30,499	55,692
Temporary wages	24,474	-	24,474	29,839
Copying and duplication	12,286	5,266	17,552	16,529
Interest expense	-	-	-	36,659
Total expenses for the year ended June 30, 2013	$ 12,184,983	$ 3,173,334	$ 15,358,317	$ 12,706,404
Total expenses for the year ended June 30, 2012	$ 10,187,900	$ 2,518,774	$ 12,706,674	