

USA WATER SKI & WAKE SPORTS, INC.

Financial Statements

For the Year Ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
USA Water Ski & Wake Sports, Inc.
Polk City, Florida

We have audited the accompanying financial statements of USA Water Ski & Wake Sports, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, 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.

Auditor's 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 & Wake Sports, Inc. as of December 31, 2018, 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 & Wake Sports, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 31, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As described in Note A to the financial statements, in 2018, USA Water Ski & Wake Sports, Inc. adopted Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

Waugh & Goodwin, LLP
Colorado Springs, Colorado
August 16, 2019

USA WATER SKI & WAKE SPORTS, INC.
Statement of Financial Position
December 31, 2018
(With Comparative Amounts for 2017)

	<u>ASSETS</u>	
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 538,646	\$ 529,562
Short-term investments	261,027	416,092
Accounts receivable	56,747	35,721
Prepaid occupancy expenses	96,667	
Prepaid expenses	15,602	87,088
Inventory	10,972	14,062
Other assets		<u>2,627</u>
Total current assets	979,661	1,085,152
PROPERTY AND EQUIPMENT, at cost:		
Computers and software	54,898	120,474
Furniture and equipment	182,189	180,230
Leasehold improvements	43,390	43,390
Less accumulated depreciation	<u>(267,752)</u>	<u>(259,012)</u>
Property and equipment - net	<u>12,725</u>	<u>85,082</u>
TOTAL ASSETS	\$ 992,386	\$ 1,170,234
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES:		
Accounts payable	\$ 9,358	\$ 12,494
Accrued liabilities	32,324	49,574
Current portion of deferred revenue	<u>445,868</u>	<u>452,938</u>
Total current liabilities	487,550	515,006
LONG-TERM DEFERRED REVENUE	<u>35,755</u>	<u>33,362</u>
Total liabilities	523,305	548,368
NET ASSETS:		
Net assets without donor restrictions	13,120	97,326
Net assets without donor restrictions - board designated	434,575	490,115
Net assets with donor restrictions	<u>21,386</u>	<u>34,425</u>
Total net assets	<u>469,081</u>	<u>621,866</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 992,386	\$ 1,170,234

See Notes to Financial Statements

USA WATER SKI & WAKE SPORTS, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Totals</u>	<u>2017 Totals</u>
SUPPORT AND REVENUE:				
Membership registrations	\$ 905,090	\$	\$ 905,090	\$ 924,918
Publication income	150,105		150,105	149,790
National tournaments	148,355		148,355	144,342
Value-in-kind	145,000		145,000	31,000
Regional income	139,655		139,655	107,692
Event sanctioning income	91,526		91,526	95,237
Marketing and partnership	81,788		81,788	84,548
Sport discipline income	54,440	12,686	67,126	113,055
Approved towboat testing	47,000		47,000	46,000
Teams fund	43,754		43,754	44,147
Sport development	40,533		40,533	49,161
Other income	12,952		12,952	3,242
Special event revenue	9,398		9,398	7,347
Pan American Games income	2,000		2,000	
Jr US Open income				10,255
Donations				10,112
Investment income (loss), net	(11,930)		(11,930)	35,566
Loss on disposal of software	(137,213)		(137,213)	
Satisfaction of program restrictions	<u>25,725</u>	<u>(25,725)</u>		
Total support and revenue	1,748,178	(13,039)	1,735,139	1,856,412
EXPENSES:				
Program services:				
Membership	548,648		548,648	515,570
Publication expense	256,699		256,699	288,940
National tournaments	169,648		169,648	189,356
Regional expense	154,953		154,953	118,230
Sport discipline expense	153,275		153,275	116,008
Sport development	136,323		136,323	132,604
Competitions	50,668		50,668	55,775
National teams	47,385		47,385	61,881
Towboat program	<u>24,214</u>		<u>24,214</u>	<u>11,772</u>
Total program services	1,541,813		1,541,813	1,490,136
Supporting services:				
General and administrative expense	203,165		203,165	224,664
Sponsorship development	<u>142,946</u>		<u>142,946</u>	<u>110,110</u>
Total supporting services	346,111		346,111	334,774
Total expenses	<u>1,887,924</u>		<u>1,887,924</u>	<u>1,824,910</u>
CHANGE IN NET ASSETS	(139,746)	(13,039)	(152,785)	31,502
NET ASSETS, beginning of year	<u>587,441</u>	<u>34,425</u>	<u>621,866</u>	<u>590,364</u>
NET ASSETS, end of year	<u>\$ 447,695</u>	<u>\$ 21,386</u>	<u>\$ 469,081</u>	<u>\$ 621,866</u>

See Notes to Financial Statements

USA WATER SKI & WAKE SPORTS, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	Membership	Publication	National Tournaments	Regional	Sport Discipline	Sport Development	Competitions	National Teams
Awards & scholarships	\$	\$	\$ 5,705	\$ 24,923	\$ 11,432	\$	\$	\$
Awards banquet			840					
AWSA admin fees			14,616					
Background screenings						8,510		
Bad debt expense	962	564	203			353	236	91
Bank charges & credit card fees	9,158	5,375	1,932	955	201	3,364	2,248	865
Bulding repair & maintenance	325	191	69			119	80	31
Clinic, club, & camp expenses				16,833		2,340		
Committees & meetings				9,518	2,191			
Computer supplies & service	5,846	3,431	1,233	1,222	24,424	2,147	1,435	552
Contributions				5,809	3,819			
Depreciation	2,101	1,233	443			772	516	198
Dues & subscriptions	1,047	614	221			384	257	99
Employee benefits	11,010	6,462	2,322			4,044	2,702	1,040
Entry fees			80,690					
Equipment repair & vehicle expenses	159	93	33			12,726	39	15
Exhibits			6,859					
Fundraising expense								
General event expenses			2,000	34,498	95,461		121	
Grassroots series						3,182		
Insurance	330,183	4,073	1,464		692	5,048	1,703	655
Junior team & development				30,928	11,628			
Magazine production		69,024						
Merchandise costs of sales								8,932
Miscellaneous expense	3,837	2,251	1,196	506	1,383	1,409	941	362
Occupancy expenses	16,125	9,465	3,400			5,923	3,958	1,522
Office supplies	770	452	162			283	189	73
Officials expenses			6,469	150		24		
Payroll taxes	9,093	5,337	1,918			3,340	2,232	859
Postage	7,332	24,184	686			1,195	796	307
Printing & duplication	1,864	1,094	393	10,893		685	813	176
Professional fees	6,979	4,096	1,472	200	1,777	2,564	1,713	659
Promotion & marketing	807	474	170			296	198	76
Regional expenses		37,151						
Retirement plan	3,995	2,345	843			1,468	981	377
Salaries	118,720	69,681	25,036			43,606	29,135	11,210
Shipping & fupillment	16,923	69	24			42	28	11
Sport discipline expense						30,894		
Sport discipline fundraising								
Taxes, licenses & permits	626	367	132		267	230	154	59
Team merchandise								19,142
Travel	786	8,673	1,098	18,518		1,375	193	74
TV production			7,619					
VIP reception expense			400					
	<u>\$ 548,648</u>	<u>\$ 256,699</u>	<u>\$ 169,648</u>	<u>\$ 154,953</u>	<u>\$ 153,275</u>	<u>\$ 136,323</u>	<u>\$ 50,668</u>	<u>\$ 47,385</u>

	Towboat Program	Total Program Services	General & Administrative	Sponsorship Development	Total Supporting Services	2018 Total	2017 Total
Awards & scholarships	\$ 500	\$ 42,560				\$ 42,560	\$ 17,974
Awards banquet		840	15,182		15,182	16,022	11,273
AWSA admin fees		14,616				14,616	13,755
Background screenings		8,510				8,510	
Bad debt expense	78	2,487	882	630	1,512	3,999	
Bank charges & credit card fees	747	24,845	8,405	6,003	14,408	39,253	38,821
Bulding repair & maintenance	26	841	298	213	511	1,352	2,248
Clinic, club, & camp expenses		19,173				19,173	11,612
Committees & meetings		11,709	54		54	11,763	16,834
Computer supplies & service	477	40,767	5,364	3,832	9,196	49,963	36,018
Contributions		9,628				9,628	9,601
Depreciation	171	5,434	1,928	1,377	3,305	8,739	7,181
Dues & subscriptions	85	2,707	960	686	1,646	4,353	2,665
Employee benefits	898	28,478	10,103	7,218	17,321	45,799	48,877
Entry fees		80,690				80,690	73,005
Equipment repair & vehicle expenses	259	13,324	146	104	250	13,574	27,892
Exhibits		6,859				6,859	10,350
Fundraising expense				37	37	37	
General event expenses		132,080				132,080	99,422
Grassroots series		3,182				3,182	2,170
Insurance	565	344,383	6,367	4,548	10,915	355,298	374,505
Junior team & development		42,556				42,556	54,187
Magazine production		69,024				69,024	66,170
Merchandise costs of sales		8,932				8,932	10,041
Miscellaneous expense	521	12,406	3,520	2,515	6,035	18,441	17,267
Occupancy expenses	1,315	41,708	14,796	10,572	25,368	67,076	74,903
Office supplies	63	1,992	706	505	1,211	3,203	3,751
Officials expenses		6,643				6,643	8,644
Payroll taxes	741	23,520	8,344	5,961	14,305	37,825	38,373
Postage	265	34,765	2,985	2,135	5,120	39,885	40,600
Printing & duplication	152	16,070	1,711	1,222	2,933	19,003	6,368
Professional fees	569	20,029	6,404	4,575	10,979	31,008	20,484
Promotion & marketing	66	2,087	741	529	1,270	3,357	7,280
Regional expenses		37,151				37,151	44,457
Retirement plan	326	10,335	3,666	2,619	6,285	16,620	13,185
Salaries	9,679	307,067	108,943	77,830	186,773	493,840	483,903
Shipping & fuffillment	9	17,106	105	1,039	1,144	18,250	17,709
Sport discipline expense		30,894				30,894	39,923
Sport discipline fundraising				4,670	4,670	4,670	3,234
Taxes, licenses & permits	51	1,886	574	410	984	2,870	1,957
Team merchandise		19,142				19,142	20,199
Travel	6,651	37,368	981	3,716	4,697	42,065	35,654
TV production		7,619				7,619	12,018
VIP reception expense		400				400	400
	<u>\$ 24,214</u>	<u>\$ 1,541,813</u>	<u>\$ 203,165</u>	<u>\$ 142,946</u>	<u>\$ 346,111</u>	<u>\$ 1,887,924</u>	<u>\$ 1,824,910</u>

See Notes to Financial Statements

USA WATER SKI & WAKE SPORTS, INC.
Statement of Cash Flows
For the Year Ended December 31, 2018
(With Comparative Amounts for 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (152,785)	\$ 31,502
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	8,739	7,181
Loss on disposal of software	137,213	
Noncash prepaid occupancy expenses	(96,667)	
Unrealized (gain) loss on investments	30,846	(21,167)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(21,026)	(15,511)
Prepaid expenses	71,486	(51,920)
Inventory	3,090	1,756
Other assets	2,627	3,008
Increase (decrease) in liabilities:		
Accounts payable	(3,136)	(3,208)
Accrued liabilities	(17,250)	6,235
Deferred revenue	(4,677)	(1,103)
Total adjustments	<u>111,245</u>	<u>(74,729)</u>
Net cash used by operating activities	(41,540)	(43,227)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(73,595)	(69,550)
Change in investments, net	<u>124,219</u>	<u>1,607</u>
Net cash provided (used) by investing activities	<u>50,624</u>	<u>(67,943)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,084	(111,170)
CASH AND CASH EQUIVALENTS, beginning of year	<u>529,562</u>	<u>640,732</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 538,646</u>	<u>\$ 529,562</u>

See Notes to Financial Statements

USA WATER SKI & WAKE SPORTS, INC.
Notes to Financial Statements
For the Year Ended December 31, 2018

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

USA Water Ski & Wake Sports, Inc. (the Corporation) is the national governing body of organized water skiing in the United States. The Corporation's name was changed from USA Water Ski, Inc. in 2018. USA Water Ski & Wake Sports, Inc. is a member of the International Water Ski Federation, the Pan American Sports Organization and the United States Olympic & Paralympic Committee. Affiliated with USA Water Ski & Wake Sports, 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 USA Adaptive Water Ski & Wake Sports.

Accounting Standards Update

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Corporation has adjusted the presentation of the financial statements, accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Corporation's financial statements:

- The temporarily restricted and permanently restricted net asset classes, have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements now include a presentation of expenses that describes both the functional nature of the expenses and their natural classification according to the actual usage of resources.
- The financial statements include a new disclosure about liquidity and availability of resources (Note B).

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting Standards Update - continued

The changes have the following effect on net assets at December 31, 2017:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets	\$ 97,326	\$
Unrestricted - board designated	490,115	
Temporarily restricted net assets	34,425	
Net assets without donor restrictions		97,326
Net assets without donor restrictions - board designated		490,115
Net assets with donor restrictions	<u>34,425</u>	<u>34,425</u>
Total net assets	<u>\$ 621,866</u>	<u>\$ 621,866</u>

In addition, certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Prior-Year Comparisons

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

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. However, income from certain activities not directly related to the Corporation's tax-exempt purposes is subject to taxation as unrelated business income.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes - continued

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 Disclosures

The Corporation paid no interest or income taxes during the years ended December 31, 2018 and 2017.

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 customers 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 consist 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.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment - continued

Depreciation expense for the years ended December 31, 2018 and 2017, was \$8,739 and \$7,181, respectively.

Inventory

Inventory consists of merchandise and apparel, which are stated at the lower of cost (first-in, first-out method) or net realizable value.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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".

Functional Allocation of Expenses

Certain costs and expenses are allocated among the various programs and supporting services based on salary and estimated time and effort spent in the related departments. For the years ended December 31, 2018 and 2017, the Corporation's supporting service expenses amounted to 19.95% and 18.03%, 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.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through August 16, 2019, the date that the financial statements were available to be issued.

B. AVAILABLE RESOURCES AND LIQUIDITY

USA Water Ski & Wake Sports, Inc. regularly monitors liquidity required to meet its operating needs and other commitments, while also striving to effectively invest funds in the sole interest of meeting the financial goals of the Corporation and its mission. The Corporation has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, short-term investments, and certificates of deposit held by the Sport Regions. The Corporation does not have an official investment policy; however, Management and the Board of Directors oversee all investment decisions.

In addition to financial assets available to meet general expenditures over the next 12 months, the Corporation strives to produce a conservative budget and anticipates collecting revenue from conducting its program services to adequately cover operating expenses.

The following table reflects the Corporation's financial assets as of December 31, 2018 and 2017. Additionally, the Corporation has funds designated by the Board of Directors for the benefit of the various Sport Disciplines and Regions (Note H), and funds designated by Donors for the benefit of various program services (Note I).

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 538,646	\$ 529,562
Accounts receivable	56,747	35,721
Short-term investments	236,278	348,964
Certificates of deposit	<u>24,749</u>	<u>67,128</u>
Total financial assets	856,420	981,375
Less amounts with board restrictions (Note H)	(434,575)	(490,115)
Less amounts with donor restrictions (Note I)	<u>(21,386)</u>	<u>(34,425)</u>
Financial assets available within one year	<u>\$ 400,459</u>	<u>\$ 456,835</u>

Notes to Financial Statements

C. 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.

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. Transfers between levels are recorded at the end of the reporting period.

The following tables present assets that are measured at fair value on a recurring basis at December 31, 2018 and 2017:

Assets at Fair Value as of December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 236,278	\$	\$	\$ 236,278
Certificates of deposit	<u>24,749</u>	<u></u>	<u></u>	<u>24,749</u>
	<u>\$ 261,027</u>	<u>\$</u>	<u>\$</u>	<u>\$ 261,027</u>

Notes to Financial Statements

C. FAIR VALUE MEASUREMENTS - Continued

Assets at Fair Value as of December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 348,964	\$	\$	\$ 348,964
Certificates of deposit	<u>67,128</u>	<u></u>	<u></u>	<u>67,128</u>
	<u>\$ 416,092</u>	<u>\$</u>	<u>\$</u>	<u>\$ 416,092</u>

Investment income (loss) in the accompanying statement of activities consists of the following for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 12,962	\$ 13,597
Unrealized gains (losses)	(30,846)	21,167
Realized gains	<u>5,954</u>	<u>802</u>
	<u>\$ (11,930)</u>	<u>\$ 35,566</u>

D. USA WATER SKI AND WAKE SPORTS FOUNDATION

The USA Water Ski & Wake Sports 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 leased office space from the Foundation in accordance with an operating lease with an initial term through November 2019 at an annual rate of \$10. That agreement also included a provision to share net proceeds upon sale of the building. The Foundation sold the building at the end of 2017 and entered into a new sublease agreement with the Corporation for office space effective December 29, 2017.

Under terms of the new agreement, the shared net proceeds of \$145,000 are not to be received in cash by the Corporation but used as prepayments towards occupancy expenses. The Corporation will be allowed to remain in the building, with no payments for rent or utilities except phone service. Early termination by either party will result in forfeiture of amounts related to the shared net proceeds. The Corporation fully intends to remain in the office space until at least December 31, 2020. During the year ended December 31, 2018, the Corporation recognized their share of the net proceeds of \$145,000 as value-in-kind revenue.

Notes to Financial Statements

D. USA WATER SKI AND WAKE SPORTS FOUNDATION - Continued

For the year ended December 31, 2017, the Corporation recognized \$31,000 of value-in-kind revenue and expense for the leased office space. During the year ended December 31, 2017, the Corporation was also responsible for the cost of utilities, insurance, repairs, and maintenance.

Additionally, during the year ended December 31, 2018, the Corporation recognized \$48,333 of in-kind occupancy expenses and have recognized an additional \$96,667 as prepaid occupancy expenses which will be recognized as occupancy expenses of \$48,333 in each of the years ending December 31, 2019 and 2020.

The previous maintenance cap agreement in place during 2017 called for an annual \$75,000 cap on maintenance expenses paid by the Corporation. If expenses were less than \$75,000 this would result in the Corporation paying the Foundation 50% of the difference. If expenses exceeded the cap, the Foundation was to reimburse the Corporation for the total difference. Total building expenses incurred for the year ended December 31, 2017, amounted to \$78,512. At December 31, 2017, the Foundation owed the Corporation \$677, for reimbursement of lake and building maintenance expenses. The Corporation owed the Foundation \$1,900 at December 31, 2017 for unrelated expenses.

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

E. DEFERRED REVENUE

Deferred revenue consists of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Memberships	\$ 411,252	\$ 417,996
Sanction fees	62,055	59,630
Club additional insurance	3,200	3,150
Sponsorship	3,000	
Banquet tickets, magazine ads, miscellaneous	2,116	5,021
Banquet awards		503
	<u>\$ 481,623</u>	<u>\$ 486,300</u>

Deferred sanction fees represent amounts collected by USA Water Ski & Wake Sports, Inc. that are paid quarterly to the respective sport regions. This is deferred revenue of the sport regions.

Notes to Financial Statements

F. LEASES

During the year ended December 31, 2015, the Corporation signed an operating lease for postage equipment that replaced the former lease. The final quarterly payment on the former 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 D, the Corporation subleases office space from the USA Water Ski & Wake Sports Foundation. No payments are required through December 31, 2020.

Rental expenses under the leases for December 31, 2018 and 2017, were \$15,936 and \$15,946 for both years, respectively.

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

2019	\$	15,936
2020		15,936
2021		2,874

G. 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, 2018 and 2017, amounted to \$16,620 and \$13,185, respectively.

H. NET ASSETS WITHOUT DONOR RESTRICTIONS - BOARD DESIGNATED

At December 31, 2018 and 2017, Net assets without donor restrictions - board designated consist of the following:

	<u>2018</u>	<u>2017</u>
Western region	\$ 76,056	\$ 81,476
Midwest region	74,955	74,530
American Water Ski Association	62,443	81,181
Southern region	51,493	57,717
Eastern region	46,717	46,165
American Barefoot Club	38,261	48,885
South Central region	37,919	42,429
Junior Development Fund	23,584	25,294

Notes to Financial Statements

H. NET ASSETS WITHOUT DONOR RESTRICTIONS - BOARD DESIGNATED - Continued

Adaptive Water Ski and Wake Sports	13,131	10,607
American Kneeboard Association	5,125	9,396
Wakeboard	<u>4,891</u>	<u>12,435</u>
	<u>\$ 434,575</u>	<u>\$ 490,115</u>

I. NET ASSETS WITH DONOR RESTRICTIONS - TEMPORARY

Net assets with temporary donor restrictions at December 31, 2018 and 2017, are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Teams-age specific	\$ 12,070	\$ 5,789
Elite Team	3,709	4,295
Physician	3,463	4,173
Teams-other	<u>2,144</u>	<u>20,168</u>
	<u>\$ 21,386</u>	<u>\$ 34,425</u>

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purpose. During the years ended December 31, 2018 and 2017, net assets with donor restrictions were released for the following programs:

	<u>2018</u>	<u>2017</u>
Teams-other	\$ 12,785	\$ 3,796
Teams-age specific	7,750	
Elite Team	4,480	4,705
Physician	<u>710</u>	<u>1,500</u>
	<u>\$ 25,725</u>	<u>\$ 10,001</u>

J. 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. The Corporation granted funding to these regions and disciplines in the amount of \$37,542 and \$42,761 during the years ended December 31, 2018 and 2017, respectively.