

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED
DECEMBER 31, 2013)

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
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December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Magic Johnson Foundation, Inc.
Beverly Hills, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magic Johnson Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of December 31, 2014, 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.

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 of 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 Foundation'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 Foundation'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 Magic Johnson Foundation, Inc. as of December 31, 2014, 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 the Foundation's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 11, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "SingerLewak LLP". The signature is written in a cursive, flowing style.

SingerLewak LLP

Los Angeles, California
September 1, 2015

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
December 31, 2014
(with Comparative Totals for December 31, 2013)

	ASSETS	
	2014	2013
Assets		
Cash and cash equivalents	\$ 660,210	\$ 1,147,624
Endowment cash	254,157	253,787
Investments	38,333	33,782
Contributions receivable	54,343	214,845
Due from affiliate	1,182	-
Prepaid expenses and other assets	1,800	2,300
Equipment and software, net	35,232	56,271
Total assets	\$ 1,045,257	\$ 1,708,609
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 66,300	\$ 77,095
Deferred revenue	7,500	167,669
Grants payable	138,150	177,750
Total liabilities	211,950	422,514
Contingency		
Net assets (deficit)		
Unrestricted	(47,568)	197,268
Temporarily restricted	633,543	841,495
Permanently restricted	247,332	247,332
Total net assets	833,307	1,286,095
Total liabilities and net assets	\$ 1,045,257	\$ 1,708,609

The accompanying notes are an integral part of these financial statements.

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014
(with Comparative Totals for the Year Ended December 31, 2013)

	2014			2013	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues					
Contributions	\$ 407,164	\$ 348,611	\$ -	\$ 755,775	\$ 1,363,475
Special event revenue	191,731	-	-	191,731	12,500
Investment income	6,263	-	-	6,263	10,601
Net assets released from restrictions	556,563	(556,563)	-	-	-
Total revenues	<u>1,161,721</u>	<u>(207,952)</u>	<u>-</u>	<u>953,769</u>	<u>1,386,576</u>
Expenses and grants					
Grants and scholarships	370,551	-	-	370,551	445,007
Other program expenses	571,572	-	-	571,572	1,045,049
Administrative	209,982	-	-	209,982	476,091
Fundraising	-	-	-	-	195,603
Special events	254,452	-	-	254,452	67,345
Total expenses and grants	<u>1,406,557</u>	<u>-</u>	<u>-</u>	<u>1,406,557</u>	<u>2,229,095</u>
Change in net assets	(244,836)	(207,952)	-	(452,788)	(842,519)
Net assets, beginning of year	<u>197,268</u>	<u>841,495</u>	<u>247,332</u>	<u>1,286,095</u>	<u>2,128,614</u>
Net assets (deficit), end of year	<u>\$ (47,568)</u>	<u>\$ 633,543</u>	<u>\$ 247,332</u>	<u>\$ 833,307</u>	<u>\$ 1,286,095</u>

The accompanying notes are an integral part of these financial statements.

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014
(with Comparative Totals for the Year Ended December 31, 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ (452,788)	\$ (842,519)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	21,039	11,668
Gains on investments	(4,551)	(6,147)
Bad debt expense	-	6,000
Change in operating assets and liabilities:		
Endowment cash	(370)	(11,040)
Contributions receivable	160,502	(44,393)
Due from affiliate	(1,182)	-
Prepaid expenses and other assets	500	(2,300)
Accounts payable and accrued expenses	(10,795)	(58,854)
Deferred revenue	(160,169)	100,994
Grants payable	<u>(39,600)</u>	<u>(22,607)</u>
Net cash used in operating activities	<u>(487,414)</u>	<u>(869,198)</u>
Cash flows from investing activities		
Capitalized website development costs	<u>-</u>	<u>(52,250)</u>
Net decrease in cash and cash equivalents	(487,414)	(921,448)
Cash and cash equivalents, beginning of year	<u>1,147,624</u>	<u>2,069,072</u>
Cash and cash equivalents, end of year	<u>\$ 660,210</u>	<u>\$ 1,147,624</u>

The accompanying notes are an integral part of these financial statements.

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 – ORGANIZATION

The Magic Johnson Foundation, Inc. (the “Foundation”), founded in 1991 as a Delaware not-for-profit corporation, is committed to improving the quality of life for residents in underserved communities. It has established programs to continually meet the health, educational and technological needs of urban residents. The Foundation works to develop programs and support community-based organizations that address the education, health and social needs of ethnically diverse urban communities.

NOTE 2 – UNRESTRICTED NET ASSET DEFICIT AND MANAGEMENT PLANS

The Foundation has experienced decreases in its contribution revenues in recent years which resulted in an unrestricted net deficit as of December 31, 2014. Management plans to continue to reduce general and administrative expenses and work on a strategic plan to increase the contribution revenue.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are presented using the accrual basis of accounting. The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The accompanying financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Classes of Net Assets

Net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted net assets*—net assets that are not subject to donor-imposed stipulations and donor restricted contributions whose restrictions are met in the same year may be expended for any purpose in performing the objectives of the Foundation. Unrestricted net assets may be designated for specific purposes by actions of the board of directors, or may otherwise be limited by contractual agreements with outside parties.

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classes of Net Assets (continued)

- *Temporarily restricted net assets*—net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. As restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

- *Permanently restricted net assets*—net assets subject to donor-imposed stipulations that resources be maintained in perpetuity by the Foundation.

Cash and Cash Equivalents

Cash and cash equivalents includes short-term, highly liquid debt securities with maturities of three months or less at the time of purchase.

Investments

Investments are measured at fair value and classified as available-for-sale. Investment income or loss (including interest and dividends) is included in the accompanying statement of activities as unrestricted income, unless its use is restricted by explicit donor-imposed stipulations.

Contributions and Pledges

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unconditional promises to give are recognized as revenue in the period pledged by donors. Conditional contributions are recorded as support in the period in which the condition is met. Such contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the restriction, usually when the funds are spent. Pledges for future contributions are recorded as receivables and reported at their estimated realizable values. Donations or cash received in advance of events held subsequent to year end are deferred until revenue is recognizable.

Equipment and software

Equipment and software is stated at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets of three to five years. Major expenditures which substantially increase the useful lives of the property and equipment are capitalized. Maintenance, repairs and minor renewals are expensed when incurred.

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-kind Contributions

In-kind contributions include gifts-in-kind and contributed services. The gifts-in-kind are contributions of noncash assets that can be used or sold by the Foundation. The contributed services received either create or enhance nonfinancial assets or require specialized skills, which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Foundation recognizes all in-kind contributions at fair value.

The Foundation also receives a significant amount of contributed time from volunteers, which does not meet the two recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements.

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based on the proportion of total time spent by the staff of the Foundation on the activity.

Grants and Scholarships

Grants are provided by the Foundation to qualifying entities or programs, and typically consist of cash but may include noncash items such as clothing, furniture or toys. Such grants are expensed in the year committed.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as a publicly supported organization. The Foundation is also exempt from California franchise tax.

During the year ended December 31, 2014, the Foundation performed an evaluation of uncertain tax positions and did not identify any matters that would require recognition in the financial statements or which may have an effect on its tax-exempt status.

The federal returns of organizations exempt from income tax for 2012 to 2014 are subject to examination by the Internal Revenue Service. The California Exempt Organization Annual Information Return for 2011 to 2014 are subject to examination by the Franchise Tax Board.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

The Foundation maintains its cash balances with several financial institutions that, from time to time, exceed amounts insured by the Federal Deposit Insurance Corporation. To date, the Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Fair Value of Financial Instruments

For certain of the Foundation's financial instruments, including accounts receivable, accounts payable and accrued expenses, grants payable and deferred revenue, the carrying amounts approximate fair value due to the short maturities of these instruments.

Fair Value Measurements

The fair value hierarchy described by the standard is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value and include the following:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, 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.

In accordance with GAAP, the Foundation classified all its cash and endowment restricted cash and investments as Level 1 as of December 31, 2014.

Recent Accounting Pronouncements

During October 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* ("ASC 2012-05"), which requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that, upon receipt, were directed without any donor-imposed limitations for sale and were converted nearly immediately into cash. The Foundation adopted ASU 2012-05 for the year ended December 31, 2014 with no impact on its financial statements.

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

During July 2013, the FASB issued Accounting Standards Update No. 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate* (“ASU 2013-06”), which requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. ASU 2013-06 is effective for years beginning after June 15, 2014. The Foundation does not expect the adoption of ASU 2013-06 to have a material impact on its financial statements.

NOTE 4 – EQUIPMENT AND SOFTWARE

Equipment and software at December 31, 2014 consisted of the following:

Computer equipment	\$	163,988
Computer software and website costs		<u>56,043</u>
		220,031
Less accumulated depreciation		<u>(184,799)</u>
	\$	<u>35,232</u>

NOTE 5 – NET ASSETS

Temporarily Restricted

Temporarily restricted net assets at December 31, 2014 were restricted by donors for specific programs of the Foundation. The programs are as follows:

	Balance at December 31, <u>2013</u>	Revenues	Expenditures	Balance at December 31, <u>2014</u>
Technology centers	\$ 841,495	\$ 154,044	\$ (361,996)	\$ 633,543
Scholarship fund	-	77,167	(77,167)	-
HIV programs	-	5,900	(5,900)	-
Holiday Hope Detroit	-	101,500	(101,500)	-
Holiday Hope Los Angeles	<u>-</u>	<u>10,000</u>	<u>(10,000)</u>	<u>-</u>
	<u>\$ 841,495</u>	<u>\$ 348,611</u>	<u>\$ (556,563)</u>	<u>\$ 633,543</u>

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 5 – NET ASSETS (Continued)

Permanently Restricted

The permanently restricted net assets consisted of a donor-restricted perpetual endowment fund in the amount of \$247,332 at December 31, 2014. According to the donor’s stipulations, a historic dollar value of \$247,332 should be maintained in the fund; all additions to the fund over and above the historic dollar value may be used, subject to the discretion policies and procedures of the Foundation, to fund distributions or awards supporting the purposes of the fund.

According to the provision of the donor’s stipulation, the Foundation records the original value of the donation to this fund as permanently restricted net assets. The Foundation’s board of directors has further designated that investment income is maintained in the endowment fund until a \$1,000,000 balance is obtained. Investment income was \$381 for the year ended December 31, 2014. The endowment fund is invested in an FDIC-insured money market account.

During the year ended December 31, 2014, the permanently restricted and board-designated endowment fund had the following activities:

Changes in endowment net assets for the year ended December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, beginning of year	\$ 6,444	\$ -	\$ 247,332	\$ 253,776
Investment income	<u>381</u>	<u>-</u>	<u>-</u>	<u>381</u>
Balance, end of year	<u>\$ 6,825</u>	<u>\$ -</u>	<u>\$ 247,332</u>	<u>\$ 254,157</u>

Endowment net asset by composition and fund type as of December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment fund	\$ 6,825	\$ -	\$ -	\$ 6,825
Donor-restricted endowment fund	<u>-</u>	<u>-</u>	<u>247,332</u>	<u>247,332</u>
Balance, end of year	<u>\$ 6,825</u>	<u>\$ -</u>	<u>\$ 247,332</u>	<u>\$ 254,157</u>

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 6 – IN-KIND CONTRIBUTIONS

The aggregate fair market value estimated by management for gifts-in-kind was \$322,559, which was related to the Technology Program, scholarships, legal services and administrative purposes. Such donations are recorded as unrestricted revenue.

NOTE 7 – PENSION AND PROFIT SHARING PLAN

The Foundation has a 401(k) plan (the “Plan”) for the benefit of substantially all employees. Under the Plan, employees may contribute and defer taxes on compensation contributed. Matching contributions by the Foundation are discretionary. The Foundation may contribute an amount equal to each participant’s contribution up to a maximum of 3% of the participant’s base compensation. The Plan also provides a profit-sharing component in which the Foundation makes a 3% salary contribution to the Plan, which is allocated based on the compensation of eligible management only. For the year ended December 31, 2014, the Foundation’s contributions to the Plan totaled \$7,870.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Foundation shares the premises with an affiliate owned by the founder of the Foundation on a rent-free basis. Several directors of the Foundation are also directors of the affiliate. For the year ended December 31, 2014, the estimated market-value of the rent was \$28,037, which has been recorded as part of the in-kind contribution.

NOTE 9 – CLASSIFICATION OF SPECIAL EVENT EXPENSES

The Foundation hosts special events during the year to increase awareness of its programs, and to raise funds for the Foundation. Revenues and expenses for the special events are included in the accompanying statement of activities. Expenses related to providing these special events are as follows:

Program activities	\$ 183,438
General and administrative	<u>71,014</u>
Total special event expenses	<u>\$ 254,452</u>

MAGIC JOHNSON FOUNDATION, INC.
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 10 – SUBSEQUENT EVENTS

Management evaluated all activity of the Foundation through September 1, 2015 (the issue date of these financial statements) and concluded that no other material subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.