



FINANCIAL REPORT

DECEMBER 31, 2015

THE LEAGUE OF DREAMS, INC.

FINANCIAL REPORT

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Certified Public Accountants
Business & Personal Consultants

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Private Companies Practice Section

PATRICK W. PAGGI

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The League of Dreams, Inc.
Bakersfield, California

Report on the Financial Statements

We have audited the accompanying financial statements of **The League of Dreams, Inc.**, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, cash flows and functional expenses 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.

Auditor's 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 our 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 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 **The League of Dreams, Inc.** as of December 31, 2015 and 2014, and the changes in its net assets, cash flows, and its functional expenses for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 8, the 2014 financial statements have been restated for the correction of an error.

Danielle Phillips Vaughan & Bock

Bakersfield, California
August 4, 2016

THE LEAGUE OF DREAMS, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	2015	2014 (Restated - Note 8)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 41,897	\$ 36,468
Accounts receivable	930	696
Prepaid expenses	4,123	-
Total current assets	46,950	37,164
Investments (Notes 3 and 4)	20,186	45,399
Property and Equipment		
Equipment	5,418	3,843
Less accumulated depreciation	1,769	891
Total assets	\$ 70,785	\$ 85,515
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 17,625	\$ 8,448
Accrued expenses	1,242	2,271
Deferred revenue	34,180	17,000
Total current liabilities	53,047	27,719
Net Assets		
Unrestricted	17,738	57,796
Total liabilities and net assets	\$ 70,785	\$ 85,515

See Notes to Financial Statements.

THE LEAGUE OF DREAMS, INC.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2015 and 2014

	2015	2014 (Restated - Note 8)
Revenues and support:		
Special events	\$ 140,234	\$ 145,759
Donations	18,976	25,096
Team sponsorships	17,450	19,250
Concession income	6,207	4,977
Other income	3,013	2,392
Dividend income	1,558	1,388
Realized and unrealized gain (loss) on investments	(3,079)	571
Total unrestricted revenues and support	184,359	199,433
Expenses:		
Management and general	108,492	67,188
Fundraising	70,144	76,596
Program services	45,781	52,780
Total expenses	224,417	196,564
Change in net assets	(40,058)	2,869
Net assets, beginning	57,796	54,927
Net assets, ending	\$ 17,738	\$ 57,796

See Notes to Financial Statements.

THE LEAGUE OF DREAMS, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2015 and 2014

	2015	2014 (Restated - Note 8)
Cash Flows From Operating Activities		
Change in net assets	\$ (40,058)	\$ 2,869
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	878	516
Net realized and unrealized (gain) loss on investments	3,079	(571)
Changes in assets and liabilities:		
(Increase) in:		
Accounts receivable	(234)	(135)
Prepaid expenses	(4,123)	-
Increase (decrease) in:		
Accounts payable	9,177	4,678
Accrued expenses	(1,029)	1,205
Deferred revenue	17,180	5,500
Net cash provided by (used in) operating activities	(15,130)	14,062
Cash Flows From Investing Activities		
Purchase of property and equipment	(1,575)	(3,428)
Proceeds from sale of investments	85,191	149,865
Purchases of investments	(63,057)	(175,965)
Net cash provided by (used in) investing activities	20,559	(29,528)
Net increase (decrease) in cash and cash equivalents	5,429	(15,466)
Cash and cash equivalents:		
Beginning	36,468	51,934
Ending	\$ 41,897	\$ 36,468

See Notes to Financial Statements.

THE LEAGUE OF DREAMS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2015 and 2014

	2015			
	Program Services	Management and General	Fundraising	Total
Contracted labor	\$ -	\$ 56,324	\$ -	\$ 56,324
Meals	-	405	32,241	32,646
Participant expense	32,353	-	-	32,353
Supplies and equipment	1,153	1,600	27,177	29,930
Insurance	9,799	5,714	225	15,738
Salaries and wages	-	13,702	-	13,702
Rent and utility	-	7,200	2,796	9,996
Professional fees	-	9,666	-	9,666
Taxes	-	7,346	-	7,346
Travel and transportation	-	1,574	3,273	4,847
Fees, licenses and permits	-	453	2,185	2,638
Outside services	1,540	-	88	1,628
Decorations	-	-	1,346	1,346
Telephone	-	1,232	-	1,232
Advertising	936	-	287	1,223
Research and development	-	995	-	995
Postage and delivery	-	967	-	967
Depreciation	-	878	-	878
Printing	-	-	526	526
Employee training	-	436	-	436
Total expenses	\$ 45,781	\$ 108,492	\$ 70,144	\$ 224,417

See Notes to Financial Statements.

2014 (Restated - Note 8)

Program Services	Management and General	Fundraising	Total
\$ -	\$ 37,744	\$ -	\$ 37,744
-	357	30,986	31,343
30,894	-	-	30,894
709	1,672	29,909	32,290
6,548	6,550	375	13,473
-	2,861	-	2,861
-	7,200	1,900	9,100
-	2,312	-	2,312
-	3,409	-	3,409
-	1,040	380	1,420
-	385	1,745	2,130
8,415	415	150	8,980
-	-	598	598
-	1,066	-	1,066
6,214	-	2,773	8,987
-	-	-	-
-	626	75	701
-	516	-	516
-	-	7,705	7,705
-	1,035	-	1,035
\$ 52,780	\$ 67,188	\$ 76,596	\$ 196,564

THE LEAGUE OF DREAMS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of League and Significant Accounting Policies

Nature of Activities: **The League of Dreams, Inc.** ("League") was incorporated March 2007 under the laws of the State of California as a not-for-profit corporation. The League is an adaptive sports league that provides sports training, team camaraderie, and competitive sporting opportunities to athletes with special needs. The mission of the League is to work towards fulfillment of the motto: "Every child should have the chance to play!". Funding for the League comes from fundraising events, public support and team sponsorships.

A summary of significant accounting policies follows:

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 and 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.

Unrestricted Revenue and Support: All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unrestricted contributions are recognized as an increase in unrestricted net assets when received. However, temporarily restricted or permanently restricted support may be recorded, depending on the existence and/or nature of any donor restriction which is not subject to the variance power established by the League's governing documents. When restrictions are satisfied, either by the passage of time or by the accomplishment of purpose, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. When restrictions are satisfied in the same accounting period as the receipt of the contribution, the League reports both the revenue and the related expense in the unrestricted net assets class.

The League reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the League reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Services, Goods and Facilities: The League records a value for contributed services when such services require a specialized skill or enhance a non-financial asset. There were no contributed services which required a specialized skill or enhance a non-financial asset for the year ended December 31, 2015 and 2014. Additionally, a substantial number of volunteers have donated significant hours to the League's program services and fundraising campaigns during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Materials, facilities and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

Cash and Cash Equivalents: For purposes of reporting cash flows, the League considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The League maintains its cash in bank accounts which, at times, may exceed federally insured limits. The League has not experienced any losses in such accounts. The League believes it is not exposed to any significant credit risk on cash and cash equivalents.

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NOTES TO FINANCIAL STATEMENTS

Investments Valuation and Income Recognition: Financial statement presentation follows the guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification Not-for-Profit Entities section which states investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. 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. See Note 4 for discussion measurements.

Property and Equipment: Property and equipment is stated at cost with a capitalization policy of \$500 or greater for items that are expected to be utilized by the League in excess of one year. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of 3 to 7 years.

Income Taxes: The League is a not-for-profit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and related California Franchise Tax Board code sections.

The League adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the League may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the League's tax positions and concluded that they had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the League is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2011.

Deferred revenue: Cash received in advance for fundraising events is recognized as revenue when the event occurs.

Advertising: The League expenses advertising costs as they are incurred. Advertising expense totaled \$1,223 and \$8,987 for the years ended December 31, 2015 and 2014, respectively.

Functional Allocation of Expenses: The costs of providing various fundraising and other activities are summarized on a functional basis in the statements of activities. Management allocates costs between program services, management and general, and fundraising based on management's estimate of hours spent on the programs and activities. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the League.

Subsequent events: The League has evaluated subsequent events through August 4, 2016, the date on which the financial statements were available to be issued. See Note 6 for a subsequent event identified by management for disclosure in the financial statements.

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NOTES TO FINANCIAL STATEMENTS

Note 2. Cash and Cash Equivalents

Cash and cash equivalents held by the League consist of the following at December 31, 2015 and 2014:

	2015	2014 (Restated - Note 8)
Money market funds	\$ 38,128	\$ 27,049
Cash in bank, checking	867	6,818
Cash in bank, savings	2,902	2,601
	<u>\$ 41,897</u>	<u>\$ 36,468</u>

Note 3. Investments

Investments consist of the following at December 31, 2015 and 2014:

	2015	
	Cost	Fair Value
Mutual funds:		
Fixed income	<u>\$ 21,523</u>	<u>\$ 20,186</u>
	2014	
	Cost	Fair Value
Mutual funds:		
Fixed income	<u>\$ 45,345</u>	<u>\$ 45,399</u>

Realized gains (losses) were \$(580) and \$517 and unrealized gains (losses) were \$(2,499) and \$54 for the years ended December 31, 2015 and 2014, respectively.

Note 4. Fair Value Measurements

The Fair Value Measurements topic of the Financial Accounting Standards Board Codification establishes a framework for measuring fair value. That framework provides 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 unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the League has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;

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- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the League are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the League are deemed to be actively traded.

All investments held by the League at December 31, 2015 and 2014 are considered to be level 1 assets.

Note 5. Commitments

The League leases office space under a noncancellable agreement which expires August 1, 2016, and requires monthly lease payments of \$600.

The total minimum rental commitment of \$4,200 as of December 31, 2015 is due in 2016.

Lease expense was \$7,200 for each of the years ended December 31, 2015 and 2014.

Note 6. Transactions with Related Party

The League's Executive Director is a contracted employee of Terrio Physical Therapy-Fitness, Inc. (Terrio). Currently, the League pays Terrio a fee for the employee's service as an Executive Director. This employee only acts on behalf of the League and does not perform any functions on behalf of Terrio. Total contracted wages reimbursed to the Company for the years ended December 31, 2015 and 2014 were \$56,324 and \$37,744, respectively. Effective January 1, 2016, the Executive Director became an employee of the League and is no longer a contracted employee of Terrio.

Additionally, Terrio leases a portion of its office space to the League. The League rents out the space at fair value from Terrio. Total rental expense paid by the League for each of the years ended December 31, 2015 and 2014 was \$7,200. See Note 5 for further discussion.

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NOTES TO FINANCIAL STATEMENTS

Note 7. Unrelated Business Income Tax Matters

The Internal Revenue Service ("IRS") and certain state taxing authorities are revisiting what, if any, products and services provided by nonprofit organizations are subject to unrelated business income tax ("UBIT"). There is currently very little guidance in the IRS Code on what activities should be subject to UBIT. The IRS has indicated that they are studying the issue and may issue additional guidance. As a result, at this time there is uncertainty regarding whether the League should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which the League was granted non-taxable status. The League has not filed any tax returns in the past for potential taxable activities. The taxing authorities have the ability to assess taxes, penalties and interest for any years for which no tax return was filed. In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to the League's non-taxable status is not expected to have a material effect on the League's financial position or results of operations.

Note 8. Correction of an Error and Restatement

The financial statements for the year ended December 31, 2014 have been restated to reflect the correction of an error. The League understated cash and cash equivalents at December 31, 2014. The effect of restating the financial statements was to increase cash and net assets by \$5,421 at December 31, 2014.