

**MERLIN'S MAGIC WAND FOUNDATION**

Financial Statements  
December 31, 2016 and 2015  
(With Independent Auditor's Report Thereon)



Certified  
Public  
Accountants

**MERLIN'S MAGIC WAND FOUNDATION**  
Financial Statements  
December 31, 2016 and 2015

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## Independent Auditor's Report

Board of Directors  
Merlin's Magic Wand Foundation

We have audited the accompanying financial statements of Merlin's Magic Wand Foundation (MMWF) (a nonprofit corporation), which comprises the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, 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.

### 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 the audits 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 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 Merlin's Magic Wand Foundation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Macias Gini & O'Connell LLP*

San Diego, California  
August 4, 2017

**MERLIN'S MAGIC WAND FOUNDATION**

Statements of Financial Position

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets:</b>		
Cash	\$ 349,117	\$ 391,949
Contributions receivable	10,240	33,597
Due from related party	-	1,590
Prepaid expenses	2,395	1,990
Equipment, net	<u>369</u>	<u>1,125</u>
Total assets	<u>\$ 362,121</u>	<u>\$ 430,251</u>
<b>Liabilities and Net Assets:</b>		
Liabilities		
Accounts payable	\$ 78,808	\$ 54,810
Due to related party	<u>6,971</u>	<u>68,448</u>
Total liabilities	<u>85,779</u>	<u>123,258</u>
Net assets - Unrestricted	<u>276,342</u>	<u>306,993</u>
Total net assets	<u>276,342</u>	<u>306,993</u>
Total liabilities and net assets	<u>\$ 362,121</u>	<u>\$ 430,251</u>

See Accompanying Notes to Financial Statements.

**MERLIN'S MAGIC WAND FOUNDATION**

## Statement of Activities

For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and other support:</b>			
Donated goods and services	\$ 40,786	\$ 987,235	\$ 1,028,021
Contributions	150,113	-	150,113
Special event revenue	94,549	-	94,549
Net assets released from restrictions:			
Satisfaction of program restrictions	987,235	(987,235)	-
Total revenues and other support	<u>1,272,683</u>	<u>-</u>	<u>1,272,683</u>
<b>Expenses:</b>			
Program services:			
Magical Days Out	924,701	-	924,701
Merlin's Magic Spaces	201,581	-	201,581
Community Outreach	7,359	-	7,359
Management and general	60,541	-	60,541
Fundraising	109,152	-	109,152
Total expenses	<u>1,303,334</u>	<u>-</u>	<u>1,303,334</u>
Change in net assets	(30,651)	-	(30,651)
Net assets, beginning of year	<u>306,993</u>	<u>-</u>	<u>306,993</u>
Net assets, end of year	<u>\$ 276,342</u>	<u>\$ -</u>	<u>\$ 276,342</u>

See Accompanying Notes to Financial Statements.

**MERLIN'S MAGIC WAND FOUNDATION**

## Statement of Activities

For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and other support:</b>			
Donated goods and services	\$ 17,594	\$ 685,004	\$ 702,598
Contributions	315,794	-	315,794
Special event revenue	39,178	-	39,178
Net assets released from restrictions:			
Satisfaction of program restrictions	685,004	(685,004)	-
Total revenues and other support	<u>1,057,570</u>	<u>-</u>	<u>1,057,570</u>
<b>Expenses:</b>			
Program services:			
Magical Days Out	720,469	-	720,469
Merlin's Magic Spaces	51,981	-	51,981
Management and general	25,583	-	25,583
Fundraising	62,092	-	62,092
Total expenses	<u>860,125</u>	<u>-</u>	<u>860,125</u>
Change in net assets	197,445	-	197,445
Net assets, beginning of year	109,548	-	109,548
Net assets, end of year	<u>\$ 306,993</u>	<u>\$ -</u>	<u>\$ 306,993</u>

See Accompanying Notes to Financial Statements.

**MERLIN'S MAGIC WAND FOUNDATION**

Statement of Functional Expenses

For the Year Ended December 31, 2016

	Program Services			Total	Management and Fundraising		Total
	Magical Days Out	Merlin's Magic Spaces	Community Outreach		General	Fundraising	
Grants (in-kind)	\$ 878,199	\$ 109,036	\$ -	\$ 987,235	\$ -	\$ -	\$ 987,235
Grants	6,932	60,394	2,081	69,407	-	-	69,407
Salary, taxes and benefits	33,441	25,481	4,166	63,088	25,999	19,678	108,765
Advertising and promotion	571	-	-	571	-	28,611	29,182
Office administration and fees	2,499	2,999	500	5,998	32,095	1,999	40,092
Direct benefit to donors	-	-	-	-	-	56,417	56,417
Travel	2,870	3,444	574	6,888	2,296	2,296	11,480
Subtotal	924,512	201,354	7,321	1,133,187	60,390	109,001	1,302,578
Depreciation	189	227	38	454	151	151	756
Total	<u>\$ 924,701</u>	<u>\$ 201,581</u>	<u>\$ 7,359</u>	<u>\$ 1,133,641</u>	<u>\$ 60,541</u>	<u>\$ 109,152</u>	<u>\$ 1,303,334</u>

See Accompanying Notes to Financial Statements.

**MERLIN'S MAGIC WAND FOUNDATION**Statement of Functional Expenses  
For the Year Ended December 31, 2015

	<u>Program Services</u>			<u>Management and</u>		<u>Total</u>
	<u>Magical Days Out</u>	<u>Merlin's Magic Spaces</u>	<u>Total</u>	<u>General</u>	<u>Fundraising</u>	
Grants (in-kind)	\$ 677,489	\$ 7,515	\$ 685,004	\$ -	\$ -	\$ 685,004
Grants	9,307	20,398	29,705	-	-	29,705
Salary, taxes and benefits	22,977	19,148	42,125	15,318	19,148	76,591
Advertising and promotion	5,671	732	6,403	-	24,088	30,491
Office administration and fees	2,966	2,472	5,438	6,196	2,472	14,106
Direct benefit to donors	-	-	-	-	14,668	14,668
Travel	1,832	1,527	3,359	3,918	1,527	8,804
Subtotal	720,242	51,792	772,034	25,432	61,903	859,369
Depreciation	227	189	416	151	189	756
Total	<u>\$ 720,469</u>	<u>\$ 51,981</u>	<u>\$ 772,450</u>	<u>\$ 25,583</u>	<u>\$ 62,092</u>	<u>\$ 860,125</u>

See Accompanying Notes to Financial Statements.

**MERLIN'S MAGIC WAND FOUNDATION**  
 Statements of Cash Flows  
 For the Years Ended December 31, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b>Cash flow from operating activities:</b>		
Change in net assets	\$ (30,651)	\$ 197,445
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	756	756
Change in assets and liabilities:		
Contributions receivable	23,357	12,209
Due from related party	1,590	(1,590)
Prepaid expenses	(405)	(1,990)
Accounts payable	23,998	(31,940)
Due to related party	(61,477)	(872)
Net cash (used in) provided by operating activities	(42,832)	174,018
Net (decrease) increase in cash	(42,832)	174,018
Cash, beginning of year	391,949	217,931
Cash, end of year	\$ 349,117	\$ 391,949

See Accompanying Notes to Financial Statements.

## MERLIN'S MAGIC WAND FOUNDATION

Notes to Financial Statements  
December 31, 2016 and 2015

### (1) Organization

Merlin's Magic Wand Foundation (MMWF) was founded in 2012 and is a California nonprofit public benefit corporation. Its purpose is to put magic back into the lives of seriously ill, disabled, and disadvantaged children around the USA. It does this by arranging magical days out at Merlin Entertainment attractions and by installing bespoke Merlin themed installations for organizations that support children that may not be able to make a trip to an attraction and by supporting visits to organizations local to Merlin attractions through their Community Outreach program.

MMWF maintains a relationship with Legoland California (LLC), a related party, but has no monetary investment in, or substantial influence or control over this party. These financial statements, therefore, include only the accounts of MMWF.

### (2) Summary of Significant Accounting Policies

#### *Basis of Financial Presentation*

The financial statements of MMWF are prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America. Accordingly, MMWF's activities and related assets and liabilities are classified as unrestricted, temporarily restricted, and permanently restricted according to the terms of the various contributions, grants and the donors' wishes or intentions.

MMWF presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Under these standards, an organization is required to report 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. A summary of these classifications and the related restrictions, where applicable, is as follows:

*Unrestricted Net Assets* – Net assets not subject to donor imposed stipulations.

*Temporarily Restricted Net Assets* – Net assets subject to donor imposed stipulations that will be met by actions of MMWF and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. During the years ended December 31, 2016 and 2015, MMWF received donations of tickets and of goods and services for Merlin's Magic Spaces. The contributions were used for the intended purpose during both years and were released from restriction.

*Permanently Restricted Net Assets* – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by MMWF. The income from these assets is available for either general operations or specific programs as specified by the donor. MMWF did not have permanently restricted net assets as of December 31, 2016 and 2015.

## **MERLIN'S MAGIC WAND FOUNDATION**

Notes to Financial Statements (Continued)

December 31, 2016 and 2015

### ***Cash***

MMWF considers cash held in demand accounts, money market accounts, and cash held onsite to be cash. MMWF considers all highly liquid instruments purchased with an original maturity of three months or less to be reported as cash equivalents.

### ***Equipment, Net***

Equipment is recorded at cost at date of purchase or estimated fair value at date of donation, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of three years. As of December 31, 2016 and 2015, the cost basis of IT equipment was \$2,257 and accumulated depreciation was \$1,888 and \$1,132, respectively. MMWF recorded depreciation expense of \$756 for the year ended December 31, 2016 and 2015. The costs of normal maintenance and repairs and minor replacements are charged to expense when incurred. Management reviews equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable, but at least annually. No impairment provision was recorded by MMWF during the years ended December 31, 2016 and 2015.

### ***Fair Value of Financial Instruments***

The carrying amounts of cash, contributions receivable, prepaid expenses, and accounts payable approximate fair value because of the short term maturity of these financial instruments. Contributions receivable in future periods are originally recorded using the applicable discount rates in effect at the date of the gift to approximate fair value. This value also approximates fair value at December 31, 2016 and 2015.

### ***Contributions***

MMWF accounts for contributions in accordance with FASB ASC Topic 958-605, *Revenue Recognition* and FASB ASC Topic 958-720-25, *Recognition – Services Received from Personnel of an Affiliate*. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted depending on the existence and/or nature of any donor restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions. As of December 31, 2016 and 2015 contributions receivable of \$10,240 and \$35,597, respectively, represented unconditional promises to give and those amounts are expected to be received within one year.

MMWF's management evaluates the need for an allowance for uncollectible contributions receivable based on various factors including an assessment of the creditworthiness of its donors, aging of the amounts due and historical experience. Management has determined that an allowance is not necessary as of December 31, 2016 and 2015.

## **MERLIN'S MAGIC WAND FOUNDATION**

Notes to Financial Statements (Continued)

December 31, 2016 and 2015

### ***In-Kind Contributions***

MMWF records donated goods and services received in the accompanying statements of activities at their estimated fair values at the date of receipt as donated goods and services revenue. MMWF accounts for in donated services in accordance with Accounting Standards Update (ASU) 2013-06, *Services Received from Personnel of an Affiliate*. ASU 2013-06 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. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. MMWF recognizes all services received from personnel of LLC that directly benefit MMWF. During the years ended December 31, 2016 and 2015, MMWF recorded donated services revenue from LLC of \$10,051 and \$9,250, respectively.

Contributions of services from other than personnel of LLC are recognized if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

MMWF also has community volunteers that provide their services through oversight and hands-on participation in MMWF's activities. Such contributed services have not been recognized in the accompanying financial statements as they do not require specialized skills.

### ***Advertising***

MMWF uses advertising to promote its programs among the audiences it serves. All advertising costs are expensed as incurred. Total advertising and promotion costs for the years ended December 31, 2016 and 2015, was \$29,182 and \$30,491, respectively.

### ***Functional Allocation of Expenses***

The costs for providing program services and general administrative services, including fundraising expenses, have been summarized on a functional basis in the accompanying statements of activities and statements of functional expenses. Program related expenses are tracked on a time entry system and reviewed and allocated regularly, and those costs not directly associated with program services are allocated to general administration expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

### ***Tax Exempt Status***

MMWF is tax exempt under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California and, generally, is not subject to state or federal taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as net income, if any, from unrelated trade or business in the opinion of management, is not material to the financial statements taken as a whole.

### ***Uncertainty in Income Taxes***

MMWF has evaluated the financial statement impact of tax positions taken or expected to be taken in its tax returns. Management has determined that no tax liabilities need to be recorded under applicable accounting guidance for the year ended December 31, 2016. MMWF's federal and state information returns for tax years 2012 and later remain subject to examination by taxing authorities.

**MERLIN'S MAGIC WAND FOUNDATION**  
Notes to Financial Statements (Continued)  
December 31, 2016 and 2015

*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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(3) Concentrations**

MMWF maintains its cash in one financial institution, which is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2016 and 2015, MMWF maintained approximately \$99,320 and \$142,000 in excess of FDIC insurance limits, respectively.

During the years ended December 31, 2016 and 2015, MMWF received contributions from Merlin Entertainments plc and its attractions and from the Merlin Magic Wand Children's Charity (MMW UK) which comprised 84% and 88%, respectively, of total revenues and other support for the each of the years then ended. Discontinuance of such contributions, an event that management does not deem likely, would represent a significant reduction in MMWF's total revenues.

**(4) Donated Goods and Services**

Donated goods and services received for the years ended December 31, 2016 and 2015, are as follows:

	2016	2015
Donated tickets to attractions	\$ 878,199	\$ 677,489
Donated goods for Merlin's Magic Spaces	80,194	5,515
Donated goods for special events	22,087	-
Donated services from LLC	10,051	9,250
Donated services from Merlin Entertainments	6,698	
Donated services from MMW UK	-	8,344
Donated services for Merlin's Magic Spaces	28,842	2,000
Donated services for special events	1,950	-
Total donated goods and services	\$ 1,028,021	\$ 702,598

Merlin Entertainments plc supports both MMWF and MMW UK. Merlin Entertainments attractions in the USA are asked to support MMWF and all other attractions are asked to support MMW UK. This support is provided by the donation of tickets to the attractions, sending tickets to successful applicants, fundraising activities and events within the attraction, fundraising activities by employees and a designated Charity Champion to assist in delivering this support.

The total number of tickets donated by attractions in the years ended December 31, 2016 and 2015 were over 27,000 and 22,000, respectively. The value of these tickets for the years ended December 31, 2016 and 2015, were approximately \$878,000 and \$677,000, respectively and represents the estimated value from the average admission revenue per guest at each attraction. MMWF works hard to maximize the value of their Merlin's Magic Spaces projects, with suppliers and Merlin attractions contributing goods and services for these projects either free of charge, at cost or at a discounted price. LLC donated office space occupied by MMWF's Operations Manager and donated relevant staff time to supporting MMWF.

## MERLIN'S MAGIC WAND FOUNDATION

Notes to Financial Statements (Continued)

December 31, 2016 and 2015

A proportion of the costs incurred for financial management is donated by Merlin Entertainments. This is considered a specialized skill and it is recognized as a donated service.

### **(5) Transactions with Related Parties**

The members of the Board of Directors of MMWF are all employees of Legoland California and therefore, LLC is considered to be a related party.

LLC donates entry tickets to the attraction for applicants that MMWF assess as matching the criteria for support. Additionally, LLC donates payroll and finance services, legal and tax guidance when required, and provides office space for the MMWF Operations Manager. These are all recognized in the accompanying statements of activities as donated goods and services. LLC charges MMWF for the salary and benefits, as reflected on the statements of functional expenses, of an employee dedicated to managing the charitable operations of MMWF.

At December 31, 2016, MMWF did not have a contribution receivable due from LLC. At December 31, 2015, MMWF recognized a contribution receivable due from LLC of \$1,590. MMWF recognized a liability of \$6,971 and \$68,448 due to LLC at December 31, 2016 and 2015 respectively, for payroll and other expenses incurred by LLC on behalf of MMWF.

While MMWF maintains relationships with Merlin Entertainments plc and its attractions and with MMW UK, these entities are not considered to be related parties.

### **(6) Subsequent Events**

MMWF has evaluated subsequent events from the date of the statements of financial position through August 4, 2017, which is the date the financial statements were issued and has determined no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred which would require additional disclosure.