

NATIONAL BASKETBALL RETIRED PLAYERS  
ASSOCIATION, INC. AND SUBSIDIARY  
FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

NATIONAL BASKETBALL RETIRED PLAYERS  
ASSOCIATION AND SUBSIDIARY

DECEMBER 31, 2012 AND 2011

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## Independent Auditors' Report

To the Board of Directors  
Of the National Basketball Retired Players Association, Inc. and Subsidiary  
Chicago, Illinois

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the National Basketball Retired Players Association, Inc. and Subsidiary (the "Association"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and change in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 National Basketball Retired Players Association, Inc. and Subsidiary as of December 31, 2012 and 2011, 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.

***Weltman Bernfield LLC***

Buffalo Grove, Illinois  
September 14, 2013

NATIONAL BASKETBALL RETIRED PLAYERS  
ASSOCIATION, INC. AND SUBSIDIARY  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$ 1,252,158	\$ 1,380,652
Accounts receivable	849,531	500,000
Investments	4,787	5,023
Equipment, net	58,932	71,708
Other assets	<u>13,466</u>	<u>2,500</u>
Total assets	<u>\$ 2,178,874</u>	<u>\$ 1,959,883</u>
Liabilities		
Accounts payable and accrued expenses	<u>\$ 3,333</u>	<u>\$ 29,290</u>
Total liabilities	3,333	29,290
Net assets		
Unrestricted	<u>2,175,541</u>	<u>1,930,593</u>
Total liabilities and net assets	<u>\$ 2,178,874</u>	<u>\$ 1,959,883</u>

See accompanying notes to financial statements.

NATIONAL BASKETBALL RETIRED PLAYERS  
ASSOCIATION, INC. AND SUBSIDIARY  
STATEMENT OF ACTIVITIES  
DECEMBER 31, 2012 AND 2011

	2012	2011
Revenue and support		
Contributions	\$ 1,087,500	\$ 1,025,000
Sponsorship income	459,531	215,048
Membership dues	79,224	63,250
Special event income	393,961	465,475
Other income	31,954	16,196
Interest income	2,252	4,074
	2,054,422	1,789,043
Expenses		
Salaries and wages	572,402	407,282
Employee benefits	46,736	65,951
Payroll taxes	51,001	37,812
Professional fees - accounting	24,299	23,190
Professional fees - legal	50,839	45,596
Professional fees - consulting	4,600	16,455
Professional fees - other	19,617	46,279
Settlement expense	-	12,500
Commissions	181,848	37,877
Program expenses	7,150	10,186
Appearance fees	170	34,095
Scholarship expense	85,904	84,410
Charitable donations	15,220	5,600
Telephone	17,394	18,460
Moving expenses	7,371	22,678
Postage and shipping	4,593	10,301
Occupancy - rent	11,841	359,098
Occupancy - utilities	1,888	21,268
Office expense	60,361	27,545
Printing and publication	6,727	1,328
Travel	59,003	48,576
Special event expense	547,970	697,111
Depreciation	17,780	9,762
Insurance	14,760	13,444
	1,809,474	2,056,804
Total expenses		

See accompanying notes to financial statements.

NATIONAL BASKETBALL RETIRED PLAYERS  
ASSOCIATION, INC. AND SUBSIDIARY  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 244,948	\$ (267,761)
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities		
Depreciation	17,780	9,762
Change in operating assets and liabilities:		
Prepaid expenses	-	3,903
Accounts receivable	(349,531)	500,000
Other assets	(10,966)	19,233
Accounts payable and accrued expenses	(25,957)	(21,369)
Net cash provided by (used in) operating activities	(123,726)	243,768
Cash flows from investing activities:		
Purchase of equipment	(5,004)	(49,712)
Proceeds from sale of investments	236	72,705
Net cash provided by (used in) investing activities	(4,768)	22,993
Net increase (decrease) in cash and cash equivalents	(128,494)	266,761
Cash and cash equivalents, beginning of year	1,380,652	1,113,891
Cash and cash equivalents, end of year	\$ 1,252,158	\$ 1,380,652

See accompanying notes to financial statements.

NATIONAL BASKETBALL RETIRED PLAYERS  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of operations

The National Basketball Retired Players Association, Inc. (“NBRPA”) is a not-for-profit organization, organized in the State of New York. NBRPA’s primary mission is to provide benefits and services to former professional basketball players of the National and American Basketball Associations and the Harlem Globetrotters as well as to provide scholarships and help other charitable activities throughout the world. In 2013, the Association opened its membership to former players of the Women’s National Basketball Association.

NBRPA Marketing, Inc. (“Marketing”) is a wholly owned subsidiary of NBRPA. Marketing receives royalties from the sale of merchandise and from various other activities and distributes to the retired players.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of NBRPA and Marketing (collectively referred to as the “Association”). All material intercompany transactions and balances have been eliminated in consolidation.

Accounting method

The financial statements of the Association are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation

The Association prepares its financial statements in accordance with FASB Accounting Standards Codification, *Accounting for Contributions Received and Made*, and *Financial Statements of Not-for-Profit Organizations*. *Financial Statements of Not-for-Profit Organizations* establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are received. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. *Accounting for Contributions Received and Made* requires that unconditional promises to give be recorded as receivables and revenue and requires the organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions.

Unrestricted net assets – this category includes resources which are not subject to donor imposed restrictions. Currently, all net assets of the Association are classified as unrestricted.

Temporarily restricted net assets – net assets that represent those amounts which are donor restricted for specific purposes. When a donor restriction expires, that is, when a 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 restrictions. The Association has no temporarily restricted net assets as of December 31, 2012 and 2011.

NATIONAL BASKETBALL RETIRED PLAYERS  
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued)

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned on related investments for general or specific purposes. The Association has no permanently restricted net assets as of December 31, 2012 and 2011.

Cash equivalents

The Association considers all highly liquid investing instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management as used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Write offs are determined on a case by case basis. There is no allowance for doubtful accounts as of December 31, 2012 and 2011.

Revenue and support recognition

Contributions are recognized as revenue and receivables when they are received or unconditionally pledged. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if the donor restriction is satisfied during the accounting period in which the gift was received, the gifts are reported as unrestricted contributions in the statement of activities.

The Association accounts for contract and grant revenue, which are exchange transactions, in the statement of activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. All amounts not expended in accordance with the grant or contracts are recorded as a liability to the grantor as the Association does not maintain any equity in the grant or contract.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Association follows FASB Accounting Standards Codification *Accounting for Certain Investments held by Not-for-Profit Organizations*. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial positions. Unrealized gains and losses are included in the change in net assets. The Association accounts for donated investments at their fair values as of the date of contribution. Investment income or loss (including interest and dividends) and gain on sale of investments are included in the statement of activities unless the income or loss is restricted by donor or law.

Fair value measurements

The Association uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures of investments in debt and equity securities that are classified as available-for-sale and derivatives financial instruments on a recurring basis.

The Fair Value Measurements Topic of the FASB Accounting Standards Codifications defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements. The disclosures required under this topic have been included in this note.

Fair value hierarchy

The Fair Value Measurements topic of the FASB Accounting Standards Codification 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 the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association 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.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Determination of fair value

Under the Fair Value Measurements Topic of the FASB Accounting Standards Codification, the Association bases its fair value on 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. It is the Association's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon management's own estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimated of future cash flows, that could significantly affect the results of current or future value.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value.

The carrying amounts of cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses approximate fair value because of the short term maturity of these instruments.

Property and equipment

Property and equipment are recorded at cost when purchased or at fair value at date of gift when received by donation. Depreciation is provided for by the straight-line method over the estimated useful lives of the assets. Expenditures for minor repairs and maintenance are charged to expense as incurred. Gifts of long-lived assets are reported as an increase in unrestricted net assets, unless there are explicit restrictions that specify how the assets are to be used. Proceeds from the sale of fixed assets, if unrestricted, are transferred to unrestricted net assets, or, if restricted, to deferred amounts restricted for fixed asset acquisitions.

At December 31, 2012, depreciation for financial statement purposes exceeded depreciation for income tax purposes by approximately \$800. At December 31, 2011, depreciation for income tax purposes exceeded depreciation for financial statement purposes by approximately \$54,000.

The Association continually evaluates whether current events or circumstances warrant adjustments to the carrying value or estimated useful lives of fixed assets in accordance with the provisions of *Accounting for the Impairment or Disposal of Long - Lived Assets*.

Income taxes

NBRPA is recognized by the Internal Revenue Service as a nonprofit organization under Internal Revenue Code Section 501(c)(3) and is thereby exempt from federal and state income taxes. Management has stated that all required informational tax returns will be filed and applicable taxes paid in a timely manner.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Marketing has elected to be treated as a C Corporation for federal and state tax purposes and is therefore subject to income taxes. However, Marketing has an available net operating loss carry-forward available to offset any anticipated income, therefore management has not provided for an accrual of taxes as of December 31, 2012 and 2011.

Effective December 15, 2009, the Association adopted FASB Accounting Standards Codification, *Income Taxes*. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position is taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition as they relate to those tax positions. The cumulative effect of this change in accounting principle was immaterial.

In assessing the realizability of deferred tax assets, Marketing considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Marketing considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that we will realize the benefits of these deductible differences, net of the existing valuation allowances.

Marketing recognizes interest and penalties related to unrecognized tax benefits within the provision for income taxes on continuing operations in the statement of operations.

The Association does not expect a significant increase or decrease to the total amounts of unrecognized tax positions during the years ended December 31, 2012 and 2011. However, NBRPA is subject to regular audit by tax authorities. NBRPA believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

NBRPA files federal information return – Form 990 with the Internal Revenue Service and the CHAR500 with the New York State Department of Taxation and Finance. NBRPA is not longer subject to tax examination by the IRS for federal tax returns filed before 2009. NBRPA is no longer subject to tax examination by the New York State Department of Taxation and Finance for state tax returns filed before 2009.

Marketing files Form 1120 with the IRS and state income tax returns with the New York State Department of Taxation and Finance. Marketing is no longer subject to tax examination by the IRS for federal tax returns filed before 2009. Marketing is no longer subject to tax examination by the New York State Department of Taxation and Finance for state tax returns filed before 2009.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 disclosures of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Subsequent events

Management has reviewed subsequent events and transactions that occurred after December 31, 2012 through the date of the auditors' report and the date of issuance. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no unrecognized subsequent events that require additional disclosure.

Donated services

The Board of Directors makes significant contributions of time relative to general management and operations of the Association. The value of this contributed time is not reflected in these financial statements since it does not meet criteria for recognition under U.S. generally accepted accounting principles.

Concentrations of credit risk

The Association maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk related to cash.

NATIONAL BASKETBALL RETIRED PLAYERS  
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NOTES TO FINANCIAL STATEMENTS  
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2. INVESTMENTS

Investments are stated at readily determinable fair values and are comprised of the following:

		December 31, 2012		
		Cost	Market Value (Level I)	Unrealized Appreciation (Depreciation)
	Investments	\$ 4,787	\$ 4,787	\$ 0
		\$ 4,787	\$ 4,787	\$ 0
		December 31, 2011		
		Cost	Market Value (Level I)	Unrealized Appreciation (Depreciation)
	Certificates of deposit	\$ 5,023	\$ 5,023	\$ 0
		\$ 5,023	\$ 5,023	\$ 0
		December 31,		
		2012	2011	
	Beginning balance	\$ 5,023	\$ 77,728	
	Interest income and transactions	(236)	(72,705)	
	Ending balance	\$ 4,787	\$ 5,023	

3. EQUIPMENT

Equipment and the related estimated useful lives at December 31, 2012 and 2011 consist of the following:

<u>Assets</u>	Estimated Useful Life (Years)	2012	2011
Computers and equipment	5	\$ 100,125	\$ 95,959
Less accumulated depreciation		41,193	24,251
		\$ 58,932	\$ 71,708

Depreciation expense charged to operations for the years ended December 31, 2012 and 2011 was \$17,780 and \$9,762, respectively.

NATIONAL BASKETBALL RETIRED PLAYERS  
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DECEMBER 31, 2012 AND 2011

4. GROUP LICENSING AGREEMENT

Effective October 1, 2004 NBRPA – Marketing, Inc. entered into a Group Licensing Agreement (GLA) with NBA Properties, Inc. Under the GLA, the Association has granted to NBA Properties, Inc. the exclusive rights to use or to grant third parties the right to use the Group License in any form of media throughout the territory defined in the agreement, with respect to all “Players” who are or become members of NBRPA. NBA Properties, Inc. is required to pay a fee for player merchandise revenue as determined by the agreement to The Association which is then passed on to the member. Additionally, members are required to make annual appearances for which fees are earned; the fees are paid to NBRPA and passed through to the members.

Under the GLA, NBA Properties Inc. guarantees an annual contribution of \$1,350,000 to NBRPA. The contribution is unrestricted and is used primarily to achieve the Associations mission. At December 31, 2012 and 2011, \$837,500 and \$500,000 of the contribution was outstanding, respectively. Accordingly this amount has been recorded as a receivable at year end. The initial agreement expired in September 2012 and has since been extended through September 2016.

5. LICENSE & MARKETING AGREEMENT

Effective April 1, 2004, the Association entered into a Marketing Agreement with For Sport Enterprises, LLC to provide marketing and licensing services,

Payments for these services vary depending upon the level of success achieved by For Sports. In addition, For Sport Enterprises, LLC received \$3,000 monthly as an advance against such compensation, plus reasonable expenses. For the years ended December 31, 2011 the amount paid for these services was \$28,000.

6. 401(k) PLAN

The Association maintains a 401(k), which covers substantially all of its employees. Employees can make elective deferrals not to exceed those limits established by the RIS. The Association may also make discretionary non-elective contributions to all eligible employees who have completed at least 1,000 hours of services. The Association’s total expense related to the 401(k) plan amounted to \$1,700 and \$7,225 for the periods ended December 31, 201 2 and 2011, respectively.

NATIONAL BASKETBALL RETIRED PLAYERS  
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7. COMMITMENTS

Lease Agreement

In January, 2012, the Association moved its administrative offices to a new location and entered into a Sublease Agreement (the "Sublease"), dated December 15, 2011, for office space initially expiring in January, 2014 with an option to extend the Sublease for an additional two years. Annual base lease, as defined in the Sublease is \$30,000 through the date of the initial term. If the Sub landlord, however, provides legal services for the Association, the Association will receive a dollar for dollar rent credit. In 2012 and 2011, no rent expense was paid under this Sublease.

Employment Agreement

In August 2011, the Association entered into an Employment Agreement (the "Agreement") with its new Chief Executive Officer for a four year period beginning October 1, 2011 through September 30, 2015. The Agreement provides base compensation and benefits as defined in the Agreement. In addition, the Agreement provides for additional bonus compensation, as defined in the Agreement, for each of the fiscal periods as indicated in the Agreement – the first of which is for the period October 1, 2011 through September 30, 2012. For the year ended December 31, 2011, no bonuses were paid under this Agreement. For the year ended December 31, 2012, \$168,258 was paid under this Agreement and is included in Consulting Fees in The Statement of Activities. The Agreement also provides for severance payments, as defined in the Agreement, to the Chief Executive Officer if employment is terminated without cause prior to the termination of the Agreement. In addition, if the Chief Executive Officer resigns his employment prior to September 30, 2015, he is obligated to compensate the Association an amount, as defined in the Agreement, as liquidated damages.