

SPECIAL OLYMPICS MINNESOTA, INC.
(A Non-Profit Corporation)

AUDITED FINANCIAL STATEMENTS

Year ended December 31, 2021
with comparative totals for 2020



Mayer Hoffman McCann P.C.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Special Olympics Minnesota, Inc.
Minneapolis, Minnesota

Opinion

We have audited the financial statements of Special Olympics Minnesota, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

Report on Summarized Comparative Information

We have previously audited Special Olympics Minnesota, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 21, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Mayer Hoffman McCann P.C.

Minneapolis, Minnesota
July 27, 2022

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,386,527	\$ 2,276,001
Promises to give receivable	234,395	157,644
ERC grant receivable	886,139	-
Inventory	42,419	48,341
Prepaid expenses	630,399	427,023
Investments	3,801,613	3,448,304
TOTAL CURRENT ASSETS	<u>7,981,492</u>	<u>6,357,313</u>
PROPERTY AND EQUIPMENT		
Equipment	1,111,539	1,061,064
Furniture and fixtures	236,981	243,656
Leasehold improvements	911,031	911,031
TOTAL PROPERTY AND EQUIPMENT	<u>2,259,551</u>	<u>2,215,751</u>
Less accumulated depreciation	<u>(1,237,387)</u>	<u>(1,223,050)</u>
NET PROPERTY AND EQUIPMENT	<u>1,022,164</u>	<u>992,701</u>
OTHER ASSETS		
Cash restricted for endowment	162,648	135,111
Investments restricted for endowment	508,005	-
TOTAL OTHER ASSETS	<u>670,653</u>	<u>135,111</u>
TOTAL ASSETS	<u>\$ 9,674,309</u>	<u>\$ 7,485,125</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 234,278	\$ 50,615
Accrued expenses	282,070	221,803
TOTAL CURRENT LIABILITIES	<u>516,348</u>	<u>272,418</u>
LONG-TERM LIABILITIES		
Deferred rent	310,465	331,144
Deferred lease incentives	364,062	408,874
Deferred revenue	44,364	2,979
TOTAL LONG-TERM LIABILITIES	<u>718,891</u>	<u>742,997</u>
TOTAL LIABILITIES	<u>1,235,239</u>	<u>1,015,415</u>
<u>NET ASSETS</u>		
NET ASSETS		
Without donor restrictions	7,443,165	6,009,347
With donor restrictions	995,905	460,363
TOTAL NET ASSETS	<u>8,439,070</u>	<u>6,469,710</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,674,309</u>	<u>\$ 7,485,125</u>

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF ACTIVITIES

For the year ended December 31, 2021 with comparative totals for 2020

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2021	2020
<u>PUBLIC SUPPORT AND REVENUE</u>				
Contributions, gifts and grants	\$ 2,122,579	\$ 517,500	\$ 2,640,079	\$ 1,973,211
PPP grant revenue	-	-	-	539,900
ERC grant revenue	886,139	-	886,139	-
Direct marketing	473,258	-	473,258	410,204
In-kind contributions	56,595	-	56,595	100,408
Fundraising events	3,037,474	-	3,037,474	4,771,382
Cause marketing	7,804	-	7,804	5,918
Merchandise sales	10,930	-	10,930	18,460
Investment return (loss)	353,310	18,042	371,352	369,228
Other revenue	3,420	-	3,420	5,804
TOTAL PUBLIC SUPPORT AND REVENUE	6,951,509	535,542	7,487,051	8,194,515
<u>EXPENSES</u>				
PROGRAM SERVICES	3,726,756	-	3,726,756	4,184,620
SUPPORTING ACTIVITIES				
Management and general	532,757	-	532,757	476,253
Fundraising	1,258,178	-	1,258,178	1,695,506
TOTAL SUPPORTING ACTIVITIES	1,790,935	-	1,790,935	2,171,759
TOTAL EXPENSES	5,517,691	-	5,517,691	6,356,379
CHANGE IN NET ASSETS	1,433,818	535,542	1,969,360	1,838,136
NET ASSETS, BEGINNING OF YEAR	6,009,347	460,363	6,469,710	4,631,574
NET ASSETS, END OF YEAR	\$ 7,443,165	\$ 995,905	\$ 8,439,070	\$ 6,469,710

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended December 31, 2021 with comparative totals for 2020

	Program Services	Supporting Activities			Total 2021	Total 2020
		Management and General	Fundraising	Total Supporting Activities		
	\$ 279,169	\$ -	\$ -	\$ -	\$ 279,169	\$ 308,509
	17,237	-	-	-	17,237	12,877
	2,853	-	-	-	2,853	8,826
	459,948	-	-	-	459,948	244,162
	10,476	-	-	-	10,476	3,620
	3,562	-	-	-	3,562	30,513
s	125,857	-	-	-	125,857	190,353
l meetings	2,878	142	113	255	3,133	38,080
	338,474	-	413,691	413,691	752,165	1,445,897
	33,845	-	41,365	41,365	75,210	80,785
	1,687,555	441,127	526,115	967,242	2,654,797	2,830,113
	67,337	10,581	18,277	28,858	96,195	88,975
	96,291	11,838	20,852	32,690	128,981	65,741
	238,213	37,002	63,645	100,647	338,860	334,409
	45,307	7,223	47,106	54,329	99,636	105,034
ance	71,517	11,151	19,493	30,644	102,161	115,019
	150,407	6,082	39,043	45,125	195,532	185,551
	44,387	7,134	12,977	20,111	64,498	58,948
	50,303	-	55,192	55,192	105,495	208,708
	1,140	477	309	786	1,926	259
	<u>\$ 3,726,756</u>	<u>\$ 532,757</u>	<u>\$ 1,258,178</u>	<u>\$ 1,790,935</u>	<u>\$ 5,517,691</u>	<u>\$ 6,356,379</u>

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,969,360	\$ 1,838,136
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	195,532	185,551
Donated stock	(21,155)	(12,635)
Realized and unrealized (gain) loss on investments	(234,875)	(315,811)
Reinvested interest and dividends	(151,491)	(61,035)
Changes in operating assets and liabilities:		
Promises to give receivable	(76,751)	92,071
ERC grant receivable	(886,139)	-
Inventory	5,922	58,515
Prepaid expenses	(203,376)	146,112
Accounts payable	183,663	(18,176)
Accrued expenses	60,267	(109,913)
Deferred revenue	41,385	(21)
Deferred rent	(20,679)	(16,066)
Deferred lease incentives	(44,812)	(44,813)
 NET CASH FLOWS FROM OPERATING ACTIVITIES	 <u>816,851</u>	 <u>1,741,915</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments restricted for endowment	(490,000)	(451,118)
Proceeds from sale of investments	36,207	511,392
Purchase of property and equipment	(224,995)	(135,857)
 NET CASH FLOWS FROM INVESTING ACTIVITIES	 <u>(678,788)</u>	 <u>(75,583)</u>
 NET INCREASE	 138,063	 1,666,332
 CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	<u>2,411,112</u>	<u>744,780</u>
 END OF YEAR	 <u>\$ 2,549,175</u>	 <u>\$ 2,411,112</u>

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Organization - Special Olympics Minnesota, Inc. (the Organization) is incorporated under the Minnesota Nonprofit Corporation Act. The Organization offers children and adults with intellectual disabilities year-round sports training and competition. The Organization is founded on the belief that people with intellectual disabilities can, with proper instruction and encouragement, learn, enjoy and benefit from participation in individual and team sports, adapted as necessary to meet the needs of those with intellectual disabilities. Special Olympics Minnesota believes that through sports training and competition, people with intellectual disabilities benefit physically, mentally and socially; families are strengthened; and the community at large, both through participation and observation, is united in understanding people with intellectual disabilities in an environment of equality, respect and acceptance.

Contributions and revenue are primarily derived from individuals and organizations located in Minnesota. This results in a concentration of risk for these activities as well as promises to give receivable.

Description of programs - The Organization currently provides local, regional and state competitions in 17 Olympic-type sports throughout the year, as well as fundraising events, and a variety of health and leadership programming. The more than 8,000 current athletes benefit from the dedication of thousands of volunteer coaches and more than 200 events annually. Through Special Olympics' athletic, health and leadership programs, people with intellectual disabilities transform themselves, their communities and the world.

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.

Income tax status - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

The Organization reviews and assesses its tax positions taken or expected to be taken in tax returns. Based on this assessment the Organization determines whether it is more likely than not that the position would be sustained upon examination by tax authorities. The Organization's assessment has not identified any significant positions that it believes would not be sustained under examination.

The Organization has identified its tax status as a tax exempt entity as it's only significant tax position and has determined that such tax position does not result in an uncertainty requiring recognition. The Organization is not currently under examination by any taxing jurisdiction.

The Organization files Form 990 in the U.S. federal jurisdiction and the State of Minnesota. The Organization is generally no longer subject to examination by the Internal Revenue Service three years after the date of filing, including extensions.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Financial statement presentation - The Organization reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly net assets of the organization and changes therein are classified and reported as follows:

- Net assets without donor restrictions – Net assets available for general use and not subject to donor-imposed restrictions. These may be used at the discretion of the Organization's management and board of directors. Designated amounts represent those revenues which the Board has set aside for a particular purpose.
- Net Assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or by actions of the Organization. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Going concern – Management assesses the Organization's ability to continue as a going concern and provides related disclosures in certain circumstances. Substantial doubt about an Organization's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Management has determined there is not substantial doubt about the Organization's ability to continue as a going concern.

Contributions – The Organization receives support in the form of contributions from the following sources: contributions, gifts and grants, direct marketing, in-kind contributions, fundraising events, and cause marketing. The Organization recognizes contributions as revenue when they are received or unconditionally pledged.

Conditional contributions are recorded as revenue when such amounts become unconditional which generally involves the meeting of a barrier to entitlement. This can include items like meeting a matching provision, incurring specified allowable expenses in accordance with a framework of allowable costs of other barriers.

Contributions received and net investment return (loss) are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions received with donor-imposed conditions and restrictions are reported as an increase in net assets without donor restrictions if the conditions and restrictions are met in the reporting period in which the contribution is recognized. Contributions received and investment return (loss) that is restricted by the donor or by law is reported as an increase in net assets without donor restrictions if the restriction is met in the reporting period in which the contribution or investment return (loss) is recognized. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Revenue recognition – Merchandise sales are earned from the sale of general merchandise. The Organization's contracts with its customers consist of a single performance obligation to transfer merchandise. The price for merchandise sold is fixed. Revenue is recognized when a performance obligation is satisfied by the transfer of control to the customers at a point in time.

Cash and cash equivalents - The Organization considers cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents with high credit quality financial institutions. From time to time, the Organization's balances in its bank accounts exceed Federal Deposit Insurance Corporation limits. The Organization periodically evaluates the risk of exceeding insurance levels and may transfer funds as it deems appropriate. The Organization has not experienced any losses with regards to balances in excess of insured limits or as a result of other concentrations of credit risk. Cash and money market funds, held as a portion of the Organization's investment portfolio, are classified as investments and are not considered to be cash equivalents.

Promises to give receivable - Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give receivable represent amounts committed by donors that have not been received by the Organization. The Organization uses the allowance method to determine uncollectible promises to give receivable. No allowance for doubtful amounts has been provided for at December 31, 2021 and 2020, since management of the Organization expects all promises to give receivable to be collected.

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 estimated future cash flows, discounted using risk-adjusted interest rates applicable to the years in which the promises are to be received.

Investments - Investments are reported at fair value. 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 5 for discussion of fair value measurements.

Net investment return (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses.

Purchases and sales of investments are reflected on a trade-date basis. Realized gains or losses on sales of investments are based on the cost of specifically identified investments. Changes in unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend dates.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Inventories - Inventories consist of sports supplies, t-shirts, medals, ribbons and household goods which are stated at the lower of cost (first-in, first-out basis) or net realizable value.

Property, equipment and depreciation - Property and equipment are recorded at cost or in the case of contributed property at the fair market value at the date of contribution. If donors stipulate how long the assets must be used, the contributions are recorded as an increase in net assets with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as an increase in net assets without donor restrictions.

Expenditures for renewals and improvements are capitalized while the cost of maintenance and repairs is charged to expense as incurred. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation is computed using the straight-line method over estimated useful lives of three to ten years.

Fair value measurement – US GAAP defines fair value and establishes a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. 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.

The fair value hierarchy is broken down into three levels of inputs that market participants would use in valuing the asset or liability, which can be summarized as follows:

- Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Quoted prices for similar assets or liabilities
- Level 3 - Valuations based on inputs that are unobservable, therefore requiring management's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Donated services, materials and assets - Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Functional allocation of expenses - The costs of providing programs and services have been summarized on a functional basis. Accordingly, certain costs have been allocated between program and the supporting services benefited.

For employee costs, such as salary, taxes and employee benefits, the portion of each employee's actual salary and benefits is allocated based on that individual's assignment of time between programs and supportive areas.

For overhead and other shared expenses, each employee's time allocation is weighted equally, and combined to determine an allocation of total full-time equivalent's dedicated to each program and supportive area.

Advertising costs - For the years ended December 31, 2021 and 2020, advertising costs expensed totaled \$53,000 and \$98,000, respectively.

Summarized information - The financial statements include certain prior year summarized information in total but neither by net asset class nor by functionalized expenses. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

New accounting pronouncements - In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* that requires lessees to recognize a right-of-use asset and lease liability on the statement of financial position and disclose key information about leasing arrangements. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current accounting principles generally accepted in the United States of America. ASU 2016-02 is effective for annual periods beginning after December 15, 2021. The Organization is in the process of assessing the impact this standard will have on its financial statements.

Subsequent events policy - Subsequent events have been evaluated through July 27, 2022 which is the date the financial statements were available to be issued.

(2) Risks and uncertainties

On March 11, 2020 the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. The operations of the Organization have been impacted by the pandemic and have resulted in changes in the Organization's ability to provide services in its program areas. The extent of any future impact of COVID-19 on our programs and operations will depend on certain developments, including the duration and spread of the outbreak, government mandates and tax relief policies, impact on our donors, employees, athletes, and vendors, all of which are uncertain and cannot be predicted. Other financial impacts could occur. Such potential impacts are unknown at this time.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(3) Liquidity and availability

The Organization strives to maintain liquid financial assets sufficient to cover at least 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in designated investment accounts.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing sports and training competitions, health and wellness activities, and unified school inclusion as well as the conduct of supporting administrative and fundraising services undertaken to support those activities to be general expenditures.

The Organization has other assets limited to use for donor-restricted purposes and pledged collateral held in investments. These assets limited to use are not available for general expenditure within the next year and are not reflected in the amounts below.

The following table reflects the Organization's financial assets that are available to meet general expenditures within the next year:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 2,386,527	\$ 2,276,001
Promises to give receivable	234,395	157,644
ERC grant receivable	886,139	-
Investments	3,801,613	3,448,304
Cash restricted for endowment	162,648	135,111
Investments restricted for endowment	508,005	-
Total	<u>7,979,327</u>	<u>6,017,060</u>
Less amounts unavailable for general expenditures:		
Investments of unrestricted and donor restricted		
amounts for team programming	452,476	439,454
Pledged collateral held in investments	1,919,331	1,809,835
Cash held for endowment	162,648	135,111
Investments restricted for endowment	508,005	-
Total	<u>3,042,460</u>	<u>2,384,400</u>
Financial assets available for		
general expenditure within one year	<u>\$ 4,936,867</u>	<u>\$ 3,632,660</u>

In addition to the financial assets listed, the Organization has a \$1,000,000 line of credit available to meet cash flow needs, if necessary.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(4) Promises to give

Unconditional promises to give at December 31, 2021 and 2020 of \$234,000 and \$158,000, respectively, are receivable within one year and reported as current assets.

Conditional promises to give at December 31, 2021 and 2020 consist of promises to:

	<u>2021</u>	<u>2020</u>
Provide funding to support school and youth activities under the umbrella of "Unified Champion Schools"	\$ 420,000	\$ 298,000
Total	<u>\$ 420,000</u>	<u>\$ 298,000</u>

(5) Fair value measurements

Fair values of assets measured on a recurring basis at December 31, 2021 and 2020 are as follows:

	<u>Fair value measurements at reporting date using</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2021				
Mutual funds	\$ 2,464,298	\$ 2,464,298	\$ -	\$ -
Exchange traded funds	1,777,196	1,777,196	-	-
Money market/other cash	68,124	68,124	-	-
Total assets measured at fair value	<u>\$ 4,309,618</u>	<u>\$ 4,309,618</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2020				
Mutual funds	\$ 1,931,026	\$ 1,931,026	\$ -	\$ -
Exchange traded funds	1,455,433	1,455,433	-	-
Money market/other cash	61,845	61,845	-	-
Total assets measured at fair value	<u>\$ 3,448,304</u>	<u>\$ 3,448,304</u>	<u>\$ -</u>	<u>\$ -</u>

The breakdown of total assets by statement of financial position components at December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Current Investments	\$ 3,801,613	\$ 3,448,304
Investments restricted for endowment	508,005	-
	<u>\$ 4,309,618</u>	<u>\$ 3,448,304</u>

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(5) Fair value measurements (continued)

Following is a description of the valuation methodologies used for assets measured at fair value. All assets have been valued using a market approach. There have been no changes in the methodologies used at December 31, 2021 and 2020.

Mutual funds and exchange traded funds: Valued at the net asset value (NAV) of shares held by the Organization at year end.

Money market: Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(6) Line of credit

Subject to the terms of a credit agreement with Bremer Bank, the Organization has available a \$1,000,000 revolving line of credit for working capital on an as needed basis. The line of credit expires August 15, 2022. Interest accrues at an annual rate of 0.50% plus prime rate, with an effective rate of 3.75% at December 31, 2021. At December 31, 2021, investments consisting of mutual funds, exchange traded funds and other cash accounts totaling \$1,919,000 collateralized this lending arrangement. At December 31, 2021 and 2020, there was no outstanding balance on the line of credit. The Organization is subject to certain nonfinancial covenants under this agreement.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(7) Net assets

The net assets are summarized as follows as of December 31, 2021:

Detail of Net Assets	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 6,421,001	\$ -	\$ 6,421,001
Net investment in property and equipment	1,022,164	-	1,022,164
Restricted for specific purposes:			
Health access	-	322,477	322,477
Swim caps	-	2,775	2,775
Endowment funds restricted in perpetuity - for programming:			
Original donor-restricted gift amount	-	652,500	652,500
Accumulated investment return (loss)	-	18,153	18,153
	<u>\$ 7,443,165</u>	<u>\$ 995,905</u>	<u>\$ 8,439,070</u>

The net assets are summarized as follows as of December 31, 2020:

Detail of Net Assets	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 5,016,646	\$ -	\$ 5,016,646
Net investment in property and equipment	992,701	-	992,701
Restricted for specific purposes:			
Health access	-	322,477	322,477
Swim caps	-	2,775	2,775
Endowment funds restricted in perpetuity - for programming:			
Original donor-restricted gift amount	-	135,000	135,000
Accumulated investment return (loss)	-	111	111
	<u>\$ 6,009,347</u>	<u>\$ 460,363</u>	<u>\$ 6,469,710</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by the occurrence of the passage of time, or by the occurrence of other events specified by donors. Net assets released from restrictions for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Purpose restriction accomplished:		
Health access	\$ -	\$ 40,000
Passage of specified time restriction	-	19,000
Total restrictions accomplished	<u>\$ -</u>	<u>\$ 59,000</u>

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(8) Endowment

Interpretation of relevant law – The Board of Directors of the Organization has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift and instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Endowment composition and changes in endowment net assets

Endowment net asset composition by type of fund as of December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	\$ -	\$ 652,500	\$ 652,500
Accumulated investment returns (losses) subject to appropriation under UPMIFA	-	18,153	18,153
Total endowment net assets	<u>\$ -</u>	<u>\$ 670,653</u>	<u>\$ 670,653</u>

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(8) Endowment (continued)

Endowment composition and changes in endowment net assets (continued)

Endowment net asset composition by type of fund as of December 31, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	\$ -	\$ 135,000	\$ 135,000
Accumulated investment returns (losses) subject to appropriation under UPMIFA	-	111	111
Total endowment net assets	<u>\$ -</u>	<u>\$ 135,111</u>	<u>\$ 135,111</u>

Changes in endowment net assets for the fiscal year ended December 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment nets assets, beginning of year	\$ -	\$ 135,111	\$ 135,111
Investment return (loss)	-	18,042	18,042
Contributions	-	517,500	517,500
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 670,653</u>	<u>\$ 670,653</u>

Changes in endowment net assets for the fiscal year ended December 31, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment nets assets, beginning of year	\$ -	\$ -	\$ -
Investment return (loss)	-	111	111
Contributions	-	135,000	135,000
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 135,111</u>	<u>\$ 135,111</u>

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(8) Endowment (continued)

Endowment composition and changes in endowment net assets (continued)

Funds with deficiencies - From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization's policy is to not permit spending from underwater endowments. There were no such deficiencies as of December 31, 2021 and 2020.

Return objectives and risk parameters - The Organization has adopted investment and spending policies for endowment assets that seek to ensure preservation of capital in the portfolio. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of directors, based on the investment objectives, the Organization's goal, over time, is to attain a market average or above rate of return. Actual returns in any given year may vary from these amounts.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the Organization's investment direction is to achieve capital appreciation (realized and unrealized) during favorable markets and preservation of capital during poor market conditions. The Organization expects to need income annually and therefore will only accept minimal short-term volatility in those assets providing short-term income, however, the majority of assets are to be invested for the long term, and volatility in these assets is to be expected and accepted.

Spending policy and how the investment objectives relate to spending policy - The board of director's first objective is to grow the endowment funds to \$20,000,000. Once the endowment has reached at least \$5,000,000 and the Board decides to begin withdrawing funds, a total return spending policy will be followed with an objective to generate and distribute each year an amount equal to 4% of the average market value of the long-term reserves measured over a trailing five-year period as of June 30 of each year, while achieving annual growth in the principal of the fund equal to the annual rate of inflation. For the years ending December 31, 2021 and 2020, no appropriations of funds from endowments were made.

(9) In-kind contributions

The Organization received the following in-kind contributions during the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Donated materials	\$ -	\$ 19,949
Donated services	<u>56,595</u>	<u>80,459</u>
	<u>\$ 56,595</u>	<u>\$ 100,408</u>

Donated services included advertising, tent rentals used at fundraising events, and printing of program materials.

The Organization also receives donated services from a substantial amount of unpaid volunteers who assist in the program services of the Organization. During the years ended December 31, 2021 and 2020, 18,000 and 13,000 hours of volunteer time were donated for state competitions. No amounts have been recognized in the accompanying Statement of Activities because the criteria for recognition of such volunteer effort have not been satisfied.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(10) Employee retention credit

The Coronavirus Aid, Relief, and Economic Security (CARES) Act passed in March 2020 created the employee retention credit (ERC). Subsequent to CARES, the Consolidated Appropriations Act (the Act) and the American Rescue Plan Act (ARP) and the Infrastructure Investment and Jobs Act (IIJA) were passed and expanded the applicability of the ERC (CARES, the Act, ARP, and IIJA are collectively referred to as "ERC Legislation"). Organizations qualify for ERC on a calendar quarter basis by either incurring full/partial shutdown of operations due to government shutdown orders or by experiencing reductions of revenue as defined in the ERC Legislation. If eligible, Organizations receive a credit of 50% - 70% of eligible payroll as defined in the applicable ERC Legislation through a refundable payroll tax credit.

The Organization is accounting for the ERC as a conditional contribution which requires that all program conditions be substantially met before recognition into income. The Organization has made claims for refundable credits under the ERC legislation of \$886,000. The Company has recognized \$886,000 of ERC grant revenue during the year December 31, 2021 with a corresponding ERC grant receivable of \$886,000 at December 31, 2021. If conditions are not met, any amount of credit received is refundable to the government and the Organization may be subject to fines and penalties.

(11) PPP loan forgiveness

The Organization applied for and received a forgivable Paycheck Protection Program (PPP) loan of approximately \$540,000 as provided under the Federal Coronavirus Aid, Relief and Economic Security Act during the year ended December 31, 2020. The Organization accounted for the PPP loan as a conditional contribution. Under the terms of the loan, the balance was forgivable to the extent proceeds were used for certain qualified costs during the measurement period and that certain employment levels were maintained. To the extent a portion of the PPP loan did not meet the criteria to be forgiven, such amount would be required to be repaid, including interest at 1% per the terms of the agreement. The Organization used \$540,000 of the proceeds on qualified costs and recorded grant revenue on the statement of activities during the year ended December 31, 2020. The Organization received notice of legal release for the obligation in November 2, 2020 from the Small Business Administration.

(12) Leases

The Organization has an operating lease agreement for office space. The term of the lease is for thirteen years through December 2029. For the first three years, base monthly lease payments range from \$1,100 to \$2,200 plus the Organization's share of property taxes and operating expenses; for the following ten years, base monthly lease payments range from \$12,550 to \$15,520 plus its share of property taxes and operating expenses.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(12) Leases (continued)

The following is a summary of the minimum future annual lease payments required under this lease at December 31, 2021:

Years Ending December 31,

2022	\$ 160,500
2023	164,500
2024	168,500
2025	172,500
2026	176,500
Thereafter	553,700
	<u>\$ 1,396,200</u>

The total lease expense under all leases for the years ended December 31, 2021 and 2020 amounted to \$339,000 and \$334,000, respectively. Lease expense includes \$120,000 and \$120,000 of base rent and \$219,000 and \$214,000 of operating costs in 2021 and 2020, respectively, on the office space.

The office space lease provided an allowance of approximately \$590,000 for the Organization to make leasehold improvements to the space. The allowance has been reported in the Statement of Financial Position as deferred lease incentives in the amount of \$364,062 and \$408,874 as of December 31, 2021 and 2020, respectively. The following is a summary of the annual amortization of the deferred lease incentives which will be reported as a reduction of rent expense:

Years Ending December 31,

2022	\$ 45,369
2023	45,369
2024	45,369
2025	45,369
2026	45,369
Thereafter	137,217
	<u>\$ 364,062</u>

Special Olympics Minnesota, Inc. is accredited by Special Olympics, Inc. (SOI) to conduct Special Olympics activities in Minnesota. During 2021 and 2020, the Organization received \$480,000 and \$400,000, respectively, from SOI cooperative national fundraising projects and \$578,000 and \$335,000, respectively, from SOI as direct contributions. The Organization paid \$96,000 in 2021 and \$89,000 in 2020 to SOI for program support. As of December 31, 2021 and 2020, \$234,000 and \$132,000, respectively, was due from SOI as a receivable which is reported in promises to give receivable on the Statement of Financial Position.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(13) Retirement plan

The Organization provides a 401(k) profit sharing plan, covering substantially all employees meeting certain age and service requirements. Employees may elect to defer up to 50% of their salary, subject to Internal Revenue Code limits. The Organization may make a discretionary match, as well as a discretionary contribution. The Organization's contributions were \$31,000 and \$35,000 for the years ended December 31, 2021 and 2020, respectively.

(14) Joint costs

The Organization allocates all joint costs associated with salaries and benefits, rent, insurance, depreciation, in-kind, special events, and fundraising to program and fundraising categories. This allocation is based on reviews of specific job descriptions. Costs incurred are allocated based on an analysis of promotional material presented to donors. 45 percent of costs are program-related and 55 percent are allocated to fundraising costs.

The total joint costs are allocated as follows:

	<u>2021</u>	<u>2020</u>
Program services	\$ 372,319	\$ 687,007
Fundraising	455,056	839,675
	<u>\$ 827,375</u>	<u>\$ 1,526,682</u>

(15) Supplemental disclosure of cash flow information

A reconciliation of cash and cash equivalents – unrestricted and restricted within the statement of financial position that reconciles to the total of the same amounts shown in the statement of cash flows as of December 31, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Components of cash and cash equivalents		
Cash and cash equivalents	\$ 2,386,527	\$ 2,276,001
Cash restricted for endowment	162,648	135,111
	<u>\$ 2,549,175</u>	<u>\$ 2,411,112</u>

Cash restricted for endowment on the statement of financial position includes restricted cash received with donor imposed restrictions that limits the use of cash for an endowment fund. The cash restricted for the endowment will be deposited by management in the Organization's endowment investment funds once they are set up. Restrictions for these endowment funds require that these funds be maintained in perpetuity.

(16) Reclassification

Certain reclassifications have been made to the financial statements for the year ended December 31, 2020 to conform to the classifications of the current year. The reclassifications did not affect financial position or changes in net assets.