

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

AUDITED FINANCIAL STATEMENTS

Year ended December 31, 2022
with comparative totals for 2021



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, 2022, 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, 2022, 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.

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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.

Emphasis of Matter with Respect to Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Organization changed its method of accounting for leases as a result of the adoption of Accounting Standards Codification Topic 842, *Leases*, effective January 1, 2022, under the modified retrospective transition method. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Special Olympics Minnesota, Inc.'s 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 27, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 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, 2023

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,922,375	\$ 2,386,527
Promises to give receivable	204,275	234,395
ERC grant receivable	665,216	886,139
Inventory	12,546	42,419
Prepaid expenses	691,119	630,399
Investments	3,208,466	3,801,613
TOTAL CURRENT ASSETS	<u>9,703,997</u>	<u>7,981,492</u>
PROPERTY AND EQUIPMENT		
Equipment	1,202,131	1,111,539
Furniture and fixtures	236,981	236,981
Leasehold improvements	911,031	911,031
TOTAL PROPERTY AND EQUIPMENT	<u>2,350,143</u>	<u>2,259,551</u>
Less accumulated depreciation	(1,441,698)	(1,237,387)
NET PROPERTY AND EQUIPMENT	<u>908,445</u>	<u>1,022,164</u>
OTHER ASSETS		
Cash restricted for endowment	53,116	162,648
Investments restricted for endowment	800,373	508,005
Operating lease right-of-use assets	1,976,386	-
TOTAL OTHER ASSETS	<u>2,829,875</u>	<u>670,653</u>
TOTAL ASSETS	<u>\$ 13,442,317</u>	<u>\$ 9,674,309</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 1,725	\$ 234,278
Accrued expenses	267,865	282,070
Current portion of operating lease liabilities	132,230	-
TOTAL CURRENT LIABILITIES	<u>401,820</u>	<u>516,348</u>
LONG-TERM LIABILITIES		
Deferred rent	-	310,465
Deferred lease incentives	-	364,062
Deferred revenue	82,320	44,364
Operating lease liabilities, less current portion above	2,500,379	-
TOTAL LONG-TERM LIABILITIES	<u>2,582,699</u>	<u>718,891</u>
TOTAL LIABILITIES	<u>2,984,519</u>	<u>1,235,239</u>
<u>NET ASSETS</u>		
NET ASSETS		
Without donor restrictions	7,400,906	7,443,165
With donor restrictions	3,056,892	995,905
TOTAL NET ASSETS	<u>10,457,798</u>	<u>8,439,070</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,442,317</u>	<u>\$ 9,674,309</u>

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF ACTIVITIES

For the year ended December 31, 2022 with comparative totals for 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>	
			<u>2022</u>	<u>2021</u>
<u>PUBLIC SUPPORT AND REVENUE</u>				
Contributions, gifts and grants	\$ 3,666,551	\$ 2,191,359	\$ 5,857,910	\$ 2,640,079
ERC grant revenue	-	-	-	886,139
Direct marketing	443,220	-	443,220	473,258
In-kind contributions	153,247	-	153,247	56,595
Fundraising events	4,903,377	-	4,903,377	3,037,474
Cause marketing	4,577	-	4,577	7,804
Merchandise sales	64,267	-	64,267	10,930
Investment return (loss)	(563,148)	(97,597)	(660,745)	371,352
Other revenue	12,070	-	12,070	3,420
Net assets released from restrictions:				
Satisfaction of purpose and time restrictions	32,775	(32,775)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	<u>8,716,936</u>	<u>2,060,987</u>	<u>10,777,923</u>	<u>7,487,051</u>
<u>EXPENSES</u>				
PROGRAM SERVICES	<u>5,926,799</u>	<u>-</u>	<u>5,926,799</u>	<u>3,726,756</u>
SUPPORTING ACTIVITIES				
Management and general	653,708	-	653,708	532,757
Fundraising	2,178,688	-	2,178,688	1,258,178
TOTAL SUPPORTING ACTIVITIES	<u>2,832,396</u>	<u>-</u>	<u>2,832,396</u>	<u>1,790,935</u>
TOTAL EXPENSES	<u>8,759,195</u>	<u>-</u>	<u>8,759,195</u>	<u>5,517,691</u>
CHANGE IN NET ASSETS	(42,259)	2,060,987	2,018,728	1,969,360
NET ASSETS, BEGINNING OF YEAR	<u>7,443,165</u>	<u>995,905</u>	<u>8,439,070</u>	<u>6,469,710</u>
NET ASSETS, END OF YEAR	<u>\$ 7,400,906</u>	<u>\$ 3,056,892</u>	<u>\$ 10,457,798</u>	<u>\$ 8,439,070</u>

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended December 31, 2022 with comparative totals for 2021

	Supporting Activities			Total Supporting Activities	Total 2022	Total 2021
	Program Services	Management and General	Fundraising			
Competitions and training	\$ 1,039,757	\$ -	\$ -	\$ -	\$ 1,039,757	\$ 279,169
Healthy programs	93,429	-	-	-	93,429	17,237
Athlete leadership programs	4,819	-	-	-	4,819	2,853
Youth programming	589,577	-	-	-	589,577	459,948
Volunteer services	17,965	-	-	-	17,965	10,476
Sub-program support	2,086	-	-	-	2,086	3,562
Marketing and communications	234,016	-	-	-	234,016	125,857
Conferences, conventions and meetings	22,522	110	129	239	22,760	3,133
Fundraising events	732,986	-	895,872	895,872	1,628,858	752,165
Other fundraising expense	95,850	-	117,151	117,151	213,001	75,210
Salaries, taxes and benefits	2,216,813	553,402	745,691	1,299,093	3,515,906	2,654,797
National organization fees	86,778	12,397	24,808	37,205	123,983	96,195
Professional fees	89,433	10,277	27,308	37,585	127,018	128,981
Occupancy	268,985	38,117	76,227	114,344	383,329	338,860
Office expense	77,528	10,814	73,823	84,637	162,165	99,636
Equipment rental and maintenance	69,219	9,883	19,775	29,658	98,877	102,161
Depreciation	167,559	7,129	43,669	50,798	218,357	195,532
Insurance	52,810	7,544	15,088	22,632	75,442	64,498
In-kind expense	57,242	3,175	139,130	142,305	199,547	105,495
Miscellaneous	7,425	860	17	877	8,302	1,926
Total expenses	\$ 5,926,799	\$ 653,708	\$ 2,178,688	\$ 2,832,396	\$ 8,759,194	\$ 5,517,691

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,018,728	\$ 1,969,360
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	218,357	195,532
Endowment contributions restricted for long-term purposes	(280,433)	(517,500)
Donated stock	(9,458)	(21,155)
Realized and unrealized (gain) loss on investments	762,026	(234,875)
Gain on sale of fixed asset	348	-
Reinvested interest and dividends	(111,926)	(151,491)
Operating lease expense	112,192	-
Changes in operating assets and liabilities:		
Promises to give receivable	30,120	(76,751)
ERC grant receivable	220,923	(886,139)
Inventory	29,873	5,922
Prepaid expenses	(60,720)	(203,376)
Accounts payable	(232,553)	183,663
Accrued expenses	(14,205)	60,267
Deferred revenue	37,956	41,385
Deferred rent	-	(20,679)
Deferred lease incentives	-	(44,812)
Operating lease liability	<u>(130,496)</u>	<u>-</u>
 NET CASH FLOWS FROM OPERATING ACTIVITIES	 <u>2,590,732</u>	 <u>299,351</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments restricted for endowment	(390,000)	(490,000)
Proceeds from sale of investments	50,137	36,207
Purchase of property and equipment	<u>(104,986)</u>	<u>(224,995)</u>
 NET CASH FLOWS FROM INVESTING ACTIVITIES	 <u>(444,849)</u>	 <u>(678,788)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of contributions received for endowment	<u>280,433</u>	<u>517,500</u>
 NET INCREASE	 2,426,316	 138,063
 CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	<u>2,549,175</u>	<u>2,411,112</u>
 END OF YEAR	 <u>\$ 4,975,491</u>	 <u>\$ 2,549,175</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, 2022 and 2021, 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 and equipment - 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, 2022 and 2021, advertising costs expensed totaled \$47,000 and \$53,000, 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, 2021, from which the summarized information was derived.

Leases – The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the Organization's statement of financial position. The Organization has no finance leases. ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Organization's leases do not provide an implicit rate, it uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Organization accounts for the lease and non-lease components as a single lease component. For arrangements accounted for as a single lease component, there may be variability in future lease payments as the amount of the non-lease components is typically revised from one period to the next. These variable lease payments, which are primarily comprised of real estate taxes, utilities, common area maintenance, etc. are recognized in operating expenses in the period in which the obligation for those payments was incurred.

The Organization has elected to apply the short-term lease exemption to all classes of underlying assets.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Accounting pronouncement recently adopted – In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016 – 02, Leases (ASC 842) that requires lessees to recognize a right-of-use asset and lease liability on the statement of financial condition and disclose key information about leasing arrangements. The recognition, measurement and presentation of expenses and cash flows arising from an operating lease by a lessee have not significantly changed from current U.S. GAAP. The Organization adopted the standard effective January 1, 2022, and recognized and measured leases existing at January 1, 2022 through a cumulative effect adjustment. Lease disclosures for the year ended December 31, 2021, are made under prior lease guidance in FASB ASC 840.

The Organization elected the available practical expedients to account for the existing operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

The standard had a material impact on the Organization’s statement of financial position but did not have a material impact on its statement of activities, nor statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. As a result of the adoption of the new lease accounting guidance, the Organization reduced existing accrued expenses by \$674,000; recognized operating lease liabilities of approximately \$2,763,000 and related operating lease right-of-use assets of approximately \$2,089,000 on January 1, 2022.

Subsequent events policy - Subsequent events have been evaluated through July 27, 2023 which is the date the financial statements were available to be issued.

(2) Risks and uncertainties

The Organization is exposed to various known and unknown risks and uncertainties. Risks include internal and external events and conditions (e.g., pandemics, international conflicts, labor market and supply chain disruption, government mandates and policies, volatile financial markets, etc.) which could impact the value of investments securities, the availability of grants and contributions and the ability to provide program services. It is at least reasonably possible that changes could occur in the near term and that such changes could materially affect the results of changes in net assets and financial position.

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>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 4,922,375	\$ 2,386,527
Promises to give receivable	204,275	234,395
ERC grant receivable	665,216	886,139
Investments	3,208,466	3,801,613
Cash restricted for endowment	53,116	162,648
Investments restricted for endowment	800,373	508,005
Total	<u>9,853,821</u>	<u>7,979,327</u>
Less amounts unavailable for general expenditures:		
Investments of unrestricted and donor restricted amounts for team programming	352,749	452,476
Pledged collateral held in investments	1,671,264	1,919,331
Cash held for endowment	53,116	162,648
Investments restricted for endowment	800,373	508,005
Total	<u>2,877,502</u>	<u>3,042,460</u>
Financial assets available for general expenditure within one year	<u>\$ 6,976,319</u>	<u>\$ 4,936,867</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) Conditional promises to give

Conditional promises to give are not recognized as revenue or as a receivable until such amounts become unconditional.

Conditional promises to give at December 31, 2022 and 2021 consist of promises to:

	<u>2022</u>	<u>2021</u>
Provide funding to support school and youth activities under the umbrella of "Unified Champion Schools"	\$ 420,000	\$ 420,000
Total	<u>\$ 420,000</u>	<u>\$ 420,000</u>

(5) Fair value measurements

Fair values of assets measured on a recurring basis at December 31, 2022 and 2021 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, 2022				
Mutual funds	\$ 2,215,093	\$ 2,215,093	\$ -	\$ -
Exchange traded funds	1,737,900	1,737,900	-	-
Money market/other cash	55,846	55,846	-	-
Total assets measured at fair value	<u>\$ 4,008,839</u>	<u>\$ 4,008,839</u>	<u>\$ -</u>	<u>\$ -</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>

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

	<u>2022</u>	<u>2021</u>
Current Investments	\$ 3,208,466	\$ 3,801,613
Investments restricted for endowment	800,373	508,005
	<u>\$ 4,008,839</u>	<u>\$ 4,309,618</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, 2022 and 2021.

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, 2024. Interest accrues at an annual rate of 0.50% plus prime rate, with an effective rate of 8% at December 31, 2022. At December 31, 2022, investments consisting of mutual funds, exchange traded funds and other cash accounts totaling \$1,671,000 collateralized this lending arrangement. At December 31, 2022 and 2021, 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, 2022:

Detail of Net Assets	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 6,492,461	\$ -	\$ 6,492,461
Net investment in property and equipment	908,445	-	908,445
Restricted for specific purposes:			
Health access	-	292,477	292,477
2026 USA games	-	1,870,926	1,870,926
Endowment funds restricted in perpetuity - for programming:			
Original donor-restricted gift amount	-	932,933	932,933
Accumulated investment return (loss)	-	(79,444)	(79,444)
Time restricted	-	40,000	40,000
	\$ 7,400,906	\$ 3,056,892	\$ 10,457,798

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
	\$ 7,443,165	\$ 995,905	\$ 8,439,070

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, 2022 and 2021 are as follows:

	2022	2021
Purpose restriction accomplished:		
Health access	\$ 30,000	\$ 40,000
Swim caps	2,775	-
Passage of specified time restriction	-	19,000
Total restrictions accomplished	\$ 32,775	\$ 59,000

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, 2022:

	<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	\$ -	\$ 932,933	\$ 932,933
Accumulated investment returns (losses) subject to appropriation under UPMIFA	-	(79,444)	(79,444)
Total endowment net assets	<u>\$ -</u>	<u>\$ 853,489</u>	<u>\$ 853,489</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, 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>

Changes in endowment net assets for the fiscal year ended December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment nets assets, beginning of year	\$ -	\$ 670,653	\$ 670,653
Investment return (loss)	-	(97,597)	(97,597)
Contributions	-	280,433	280,433
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 853,489</u>	<u>\$ 853,489</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
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>

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 has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. The amount by which the endowment funds have fallen below such recorded values were approximately \$79,000 and \$0 as of December 31, 2022 and 2021, respectively. These differences resulted from unfavorable market fluctuations that occurred after the investment of new contributions to endowment fund.

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, 2022 and 2021, no appropriations of funds from endowments were made.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(9) In-kind contributions

The Organization received the following in-kind contributions during the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Donated services	153,247	56,595
	<u>\$ 153,247</u>	<u>\$ 56,595</u>

The Organization's policy related to gifts-in-kind is to utilize the assets given to carry out the mission of the Organization. If an asset is provided that does not allow the Organization to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

In-kind contributions included advertising, tent rentals used at fundraising events, and printing of program materials. In-kind contributions are provided at no cost to the Organization and recorded based on current market rates related to the types of goods or services received.

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, 2022 and 2021, 59,000 and 18,000 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.

(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 recognized \$0 and \$886,000 of ERC grant revenue for the years ended December 31, 2022 and 2021 with a corresponding ERC grant receivable of \$665,000 and \$886,000 at December 31, 2022 and 2021, respectively. 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.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(11) Leases

The Organization has an operating lease agreement for office space and operating leases for office equipment. The office space lease has monthly payments between \$13,400 to \$15,400 plus the Organization's share of property taxes and operating expenses and expires in December of 2029. There are two successive renewal option for five years each; base monthly rent payments are to be set at fair market value at the time the option is exercised. The Organization included both options to renew the lease when assessing the value of the operating lease liability and related ROU asset since the Organization is reasonably certain that it will exercise the options.

The Company has various short-term month-to-month leases with varying payment terms primarily for storage. Lease expense as accounted for under Legacy ASC Topic 840 was approximately \$441,000 for year ended December 31, 2021.

The components of operating lease expense are as follows:

	Year Ended December 31, 2022
Operating lease costs	\$ 162,000
Variable lease costs	209,000
Short term lease costs	41,000
Total operating lease costs	<u>\$ 412,000</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	<u>\$ 180,000</u>
Weighted average remaining lease term (in years):	
Operating leases	<u>16.8</u>
Weighted average discount rate:	
Operating leases	<u>2.0%</u>

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(11) Leases (continued)

The following is a summary of the minimum future annual lease payments required under this lease at December 31, 2022:

<u>Years Ending December 31,</u>	
2023	\$ 184,000
2024	187,000
2025	177,000
2026	178,000
2027	181,000
Thereafter	<u>2,211,000</u>
Total future minimum operating lease payments	3,118,000
Less imputed interest	<u>(484,000)</u>
Total operating lease liabilities	2,634,000
Less current portion	<u>(132,000)</u>
Noncurrent portion	<u><u>\$ 2,502,000</u></u>

(12) 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 \$39,000 and \$31,000 for the years ended December 31, 2022 and 2021, respectively.

(13) 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>2022</u>	<u>2021</u>
Program services	\$ 828,837	\$ 372,319
Fundraising	<u>1,013,022</u>	<u>455,056</u>
	<u><u>\$ 1,841,859</u></u>	<u><u>\$ 827,375</u></u>

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(14) 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, 2022 and 2021, is as follows:

	<u>2022</u>	<u>2021</u>
Components of cash and cash equivalents		
Cash and cash equivalents	\$ 4,922,375	\$ 2,386,527
Cash restricted for endowment	<u>53,116</u>	<u>162,648</u>
	<u>\$ 4,975,491</u>	<u>\$ 2,549,175</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.