

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

AUDITED FINANCIAL STATEMENTS

Year ended December 31, 2017
with comparative totals for 2016

TABLE OF CONTENTS

| | PAGE |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| FINANCIAL STATEMENTS | |
| Statements of financial position | 3 |
| Statements of activities and changes in net assets | 4 |
| Statements of functional expenses | 5 |
| Statements of cash flows | 6 |
| NOTES TO FINANCIAL STATEMENTS | 7 |



1000 Campbell Mithun Tower, 222 S. Ninth St. ■ Minneapolis, MN 55402
Main: 612.339.7811 ■ Fax: 612.339.9845 ■ www.mhmcpa.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Special Olympics Minnesota, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Special Olympics Minnesota, Inc. as of December 31, 2017 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.

Report on Summarized Comparative Information

We have previously audited Special Olympics Minnesota, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

Minneapolis, Minnesota
August 9, 2018

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--------------------------------------|---------------------|---------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,148,358 | \$ 1,391,651 |
| Promises to give receivable | 125,894 | 108,984 |
| Inventory | 64,077 | 14,776 |
| Prepaid expenses | <u>267,709</u> | <u>333,220</u> |
| TOTAL CURRENT ASSETS | <u>1,606,038</u> | <u>1,848,631</u> |
| PROPERTY AND EQUIPMENT | | |
| Equipment | 738,656 | 676,096 |
| Furniture and fixtures | 243,656 | 243,655 |
| Leasehold improvements | <u>911,031</u> | <u>897,593</u> |
| TOTAL PROPERTY AND EQUIPMENT | <u>1,893,343</u> | <u>1,817,344</u> |
| Less accumulated depreciation | <u>(727,532)</u> | <u>(523,537)</u> |
| NET PROPERTY AND EQUIPMENT | <u>1,165,811</u> | <u>1,293,807</u> |
| OTHER ASSETS | | |
| Investments | <u>2,669,009</u> | <u>1,766,399</u> |
| TOTAL ASSETS | <u>\$ 5,440,858</u> | <u>\$ 4,908,837</u> |
| <u>LIABILITIES</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 29,760 | \$ 44,129 |
| Accrued expenses | 392,543 | 309,924 |
| Deferred revenue | <u>-</u> | <u>16,325</u> |
| TOTAL CURRENT LIABILITIES | <u>422,303</u> | <u>370,378</u> |
| LONG-TERM LIABILITIES | | |
| Deferred rent | 122,424 | - |
| Deferred lease incentives | <u>544,981</u> | <u>589,793</u> |
| | <u>667,405</u> | <u>589,793</u> |
| TOTAL LIABILITIES | <u>1,089,708</u> | <u>960,171</u> |
| <u>NET ASSETS</u> | | |
| UNRESTRICTED NET ASSETS | | |
| Undesignated | 2,757,862 | 2,205,382 |
| Investment in property and equipment | <u>1,165,811</u> | <u>1,293,807</u> |
| TOTAL UNRESTRICTED NET ASSETS | <u>3,923,673</u> | <u>3,499,189</u> |
| TEMPORARILY RESTRICTED NET ASSETS | | |
| Purpose restricted-health access | <u>427,477</u> | <u>449,477</u> |
| TOTAL NET ASSETS | <u>4,351,150</u> | <u>3,948,666</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 5,440,858</u> | <u>\$ 4,908,837</u> |

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended December 31, 2017 with comparative totals for 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> | |
|---|---------------------|-----------------------------------|---------------------|---------------------|
| | | | <u>2017</u> | <u>2016</u> |
| <u>PUBLIC SUPPORT AND REVENUE</u> | | | | |
| Contributions, gifts and grants | \$ 1,758,281 | \$ - | \$ 1,758,281 | \$ 2,473,672 |
| Direct marketing | 662,570 | - | 662,570 | 545,434 |
| In-kind contributions | 114,182 | - | 114,182 | 123,015 |
| Fundraising events | 4,795,398 | - | 4,795,398 | 4,653,661 |
| Cause marketing | 14,090 | - | 14,090 | 15,104 |
| Merchandise sales | 165,109 | - | 165,109 | 137,496 |
| Investment income | 361,493 | - | 361,493 | 188,297 |
| Other revenue | 149,776 | - | 149,776 | 115,983 |
| Net assets released from restrictions: | | | | |
| Satisfaction of purpose and time restrictions | 22,000 | (22,000) | - | - |
| TOTAL PUBLIC SUPPORT AND REVENUE | <u>8,042,899</u> | <u>(22,000)</u> | <u>8,020,899</u> | <u>8,252,662</u> |
| <u>EXPENSES</u> | | | | |
| PROGRAM SERVICES | <u>5,680,313</u> | <u>-</u> | <u>5,680,313</u> | <u>5,383,581</u> |
| SUPPORTING ACTIVITIES | | | | |
| Management and general | 168,014 | - | 168,014 | 150,337 |
| Fundraising | 1,770,088 | - | 1,770,088 | 1,794,507 |
| TOTAL SUPPORTING ACTIVITIES | <u>1,938,102</u> | <u>-</u> | <u>1,938,102</u> | <u>1,944,844</u> |
| TOTAL EXPENSES | <u>7,618,415</u> | <u>-</u> | <u>7,618,415</u> | <u>7,328,425</u> |
| INCREASE IN NET ASSETS | 424,484 | (22,000) | 402,484 | 924,237 |
| NET ASSETS, BEGINNING OF YEAR | <u>3,499,189</u> | <u>449,477</u> | <u>3,948,666</u> | <u>3,024,429</u> |
| NET ASSETS, END OF YEAR | <u>\$ 3,923,673</u> | <u>\$ 427,477</u> | <u>\$ 4,351,150</u> | <u>\$ 3,948,666</u> |

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017 with comparative totals for 2016

| | Supporting Activities | | | Total Supporting Activities | Total 2017 | Total 2016 |
|---------------------------------------|-----------------------|---------------------------|---------------------|-----------------------------------|---------------------|---------------------|
| | Program Services | Management and General | Fundraising | | | |
| Competitions and training | \$ 1,398,258 | \$ - | \$ - | \$ - | \$ 1,398,258 | \$ 1,475,468 |
| Healthy programs | 77,507 | - | - | - | 77,507 | 77,405 |
| Athlete leadership programs | 24,459 | - | - | - | 24,459 | 21,088 |
| Summer sports camps | 305 | - | - | - | 305 | 1,219 |
| Youth programming | 228,096 | - | - | - | 228,096 | 164,839 |
| Volunteer services | 13,917 | - | - | - | 13,917 | 16,879 |
| Sub-program support | 35,855 | - | - | - | 35,855 | 34,698 |
| Marketing and communications | 351,697 | - | - | - | 351,697 | 166,905 |
| Conferences, conventions and meetings | 38,779 | - | - | - | 38,779 | 41,788 |
| Fundraising events | 586,440 | - | 716,758 | 716,758 | 1,303,198 | 1,405,990 |
| Other fundraising expense | 111,898 | - | 136,764 | 136,764 | 248,662 | 289,352 |
| Salaries, taxes and benefits | 2,085,308 | 122,540 | 631,430 | 753,970 | 2,839,278 | 2,641,278 |
| National organization fees | 73,479 | 2,863 | 19,086 | 21,949 | 95,428 | 84,963 |
| Professional fees | 65,077 | 16,933 | 18,082 | 35,015 | 100,092 | 102,059 |
| Occupancy | 236,187 | 9,200 | 61,333 | 70,533 | 306,720 | 360,110 |
| Office expense | 60,612 | 2,634 | 37,648 | 40,282 | 100,894 | 84,232 |
| Equipment rental and maintenance | 60,568 | 2,334 | 15,456 | 17,790 | 78,358 | 62,266 |
| Depreciation | 159,708 | 6,120 | 38,167 | 44,287 | 203,995 | 123,533 |
| Insurance | 41,573 | 1,599 | 10,138 | 11,737 | 53,310 | 41,807 |
| In-kind expense | 29,080 | - | 85,102 | 85,102 | 114,182 | 123,015 |
| Miscellaneous | 1,510 | 3,791 | 124 | 3,915 | 5,425 | 9,531 |
| Total expenses | \$ 5,680,313 | \$ 168,014 | \$ 1,770,088 | \$ 1,938,102 | \$ 7,618,415 | \$ 7,328,425 |

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 402,484 | \$ 924,237 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation expense | 203,995 | 123,533 |
| Donated stock | (33,408) | - |
| Realized and unrealized gain on assets | (292,326) | (146,716) |
| Reinvested interest and dividends | (55,446) | (31,519) |
| Changes in operating assets and liabilities: | | |
| Promises to give receivable | (16,910) | 10,571 |
| Prepaid expenses | 65,511 | (54,595) |
| Inventory | (49,301) | (4,850) |
| Accounts payable | (14,369) | 23,359 |
| Accrued expenses | 82,619 | 34,151 |
| Deferred revenue | (16,325) | 16,325 |
| Deferred rent | 122,424 | (28,925) |
| Deferred lease incentives | (44,812) | - |
| NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES | <u>354,136</u> | <u>865,571</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (1,526,457) | (2,839,232) |
| Proceeds from sale of investments | 1,005,027 | 3,189,232 |
| Purchase of property and equipment | (75,999) | (566,193) |
| NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES | <u>(597,429)</u> | <u>(216,193)</u> |
| NET INCREASE (DECREASE) | (243,293) | 649,378 |
| CASH AND CASH EQUIVALENTS BEGINNING OF YEAR | <u>1,391,651</u> | <u>742,273</u> |
| END OF YEAR | <u>\$ 1,148,358</u> | <u>\$ 1,391,651</u> |
| SUPPLEMENTAL DISCLOSURES | | |
| Noncash investing and financing transactions | | |
| Property and equipment acquired through deferred lease incentives | <u>\$ -</u> | <u>\$ 589,793</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 accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the years ended December 31, 2017 and 2016.

The Organization files forms 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 for 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 according to three classes of net assets:

- Unrestricted - Resources over which the Board of Directors has discretionary control.
- Temporarily restricted with respect to time or purpose - Those resources subject to a donor-imposed restriction which will be satisfied by actions of the Organization or the passage of time.
- Permanently restricted - Those resources subject to a donor-imposed restriction that they be maintained permanently. At this time, the Organization has no such permanently restricted resources.

Revenue recognition – The Organization receives support 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.

Support that is temporarily restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized. All other donor-restricted support is reported as an increase in temporarily restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as satisfaction of a purpose or time restriction.

Concentrations and credit risk - The Organization invests in various securities, including government obligations and equity securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities it is reasonably possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the value of investments.

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.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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. Conditional promises to give are recognized when the conditions on which they depend are substantially met. 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, 2017 and 2016, 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 net realizable value, using 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 3 for discussion of fair value measurements.

Investment earnings available for distribution are recorded in unrestricted net assets on the statement of financial position. All donor-restricted investment earnings are reported as an increase or decrease in temporarily or permanently restricted net assets, depending on the nature of the restrictions.

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.

Inventories - Inventories consist of sports supplies, medals and ribbons, 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 restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

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 seven years. For the years ended December 31, 2017 and 2016, depreciation expense was \$204,000 and \$124,000, respectively.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Fair value measurement - definition and hierarchy – The Organization utilizes a three-level valuation hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary by types of assets and liabilities and is affected by a wide variety of factors, including, for example, whether the asset or liability is established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less than observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for assets and liabilities categorized in Level 3. As further discussed in note 3, the Organization only has level 1 assets at December 31, 2017 and 2016.

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.

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.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Advertising costs - For the years ended December 31, 2017 and 2016, advertising costs expensed totaled \$145,000 and \$171,000, 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, 2016, from which the summarized information was derived.

New accounting pronouncements - In August 2016, the Financial Standards Accounting Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The guidance improves not-for-profit entity (NFP) financial statements to provide more useful information to financial statement users and make reporting less complex for not-for-profit entities. The new guidance will reduce net asset classes from three classes of net assets to two, requires a presentation of expenses by their natural and functional classification and investment returns net of external and direct internal investment expenses. NFP's will also be required to provide more information about their available resources and liquidity. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 and is to be applied retroactively, but NFP's will have the option to omit certain information for comparative periods presented in the year of adoption. Early application is permitted. The Organization is assessing the impact this standard will have on its financial statements.

In February 2016, FASB issued ASU 2016-2, "*Lease (Topic 842)*" ("ASU 2016-2"). ASU 2016-2 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 U.S. GAAP. ASU 2016-2 is effective for annual periods beginning after December 15, 2019. The Organization is in the process of assessing the impact of the adoption of ASU 2016-2 on its financial statements.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

New accounting pronouncements (continued) - In June 2018, FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The guidance clarifies and improves the scope and the accounting guidance for contributions received and contributions made by all entities that receive or make contributions of cash and other assets. The amendments in this update will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of FASB Topic 958, Not-for-Profit Entities, or as exchange transactions (reciprocal transactions) subject to other guidance and by (2) providing a stronger framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018 in which the entity serves as the resource recipient, and for fiscal years beginning after December 15, 2019 in which the entity serves as the resource provider. ASU 2018-08 is to be applied on a modified prospective basis. Under a modified prospective basis, in the first set of financial statements following the effective date the amendments should be applied to agreements that are either: 1) not completed as of the effective date or 2) entered into after the effective date. The amendments would be applied only to the portion of revenue or expense that has not yet been recognized before the effective date in accordance with current guidance. Retrospective application and early adoption is also permitted. The Organization is assessing the impact this standard will have on its financial statements.

Other pronouncements issued by the FASB or other authoritative accounting standards groups with future effective dates are either not applicable or are not expected to be significant to the Organization.

Subsequent events policy - Subsequent events have been evaluated through August 9, 2018 which is the date the financial statements were available to be issued.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(2) Investments

Investments at December 31, 2017 and 2016 are reported at fair value and are comprised of the following:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------|---------------------|---------------------|
| Mutual funds | \$ 1,046,210 | \$ 686,132 |
| Exchange traded funds | 1,324,891 | 1,022,851 |
| U.S. government obligations | 186,298 | 35,564 |
| Money market/other cash | 111,610 | 21,852 |
| | <u>\$ 2,669,009</u> | <u>\$ 1,766,399</u> |

Investment income is summarized as follows:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|-------------------|-------------------|
| Dividends and interest | \$ 69,167 | \$ 41,581 |
| Realized and unrealized gains | 292,326 | 146,716 |
| | <u>\$ 361,493</u> | <u>\$ 188,297</u> |

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(3) Fair value measurements

Fair values of assets measured on a recurring basis at December 31, 2017 and 2016 are as follows:

| | Fair value measurements at reporting date using | | | |
|---|--|---------------------|-------------------|-------------------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| <u>2017</u> | | | | |
| Mutual funds and exchange traded funds: | | | | |
| Mid-cap growth | \$ 244,076 | \$ 244,076 | \$ - | \$ - |
| Mid-cap value | 6,473 | 6,473 | - | - |
| Large value | 140,675 | 140,675 | - | - |
| Large blend | 636,285 | 636,285 | - | - |
| Diversified emerging markets | 166,765 | 166,765 | - | - |
| Commodities precious metals | 64,689 | 64,689 | - | - |
| Large growth | 23,706 | 23,706 | - | - |
| Intermediate term bond | 289,051 | 289,051 | - | - |
| World bond | 60,398 | 60,398 | - | - |
| Multi-sector bond | 95,087 | 95,087 | - | - |
| Corporate bond | 21,673 | 21,673 | - | - |
| Mid-cap blend | 95,270 | 95,270 | - | - |
| Small blend | 134,749 | 134,749 | - | - |
| Foreign large blend | 240,584 | 240,584 | - | - |
| Foreign large value | 123,397 | 123,397 | - | - |
| Foreign small/mid value | 6,424 | 6,424 | - | - |
| Short-term bond | 165,156 | 165,156 | - | - |
| Bank loan | 42,941 | 42,941 | - | - |
| Money market/other cash | 111,610 | 111,610 | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets measured at fair value | <u>\$ 2,669,009</u> | <u>\$ 2,669,009</u> | <u>\$ -</u> | <u>\$ -</u> |

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(3) Fair value measurements (continued)

| | Fair value measurements at reporting date using | | | |
|---|--|------------------|----------------|----------------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| <u>2016</u> | | | | |
| Mutual funds and exchange traded funds: | | | | |
| Mid-cap growth | \$ 227,750 | \$ 227,750 | \$ - | \$ - |
| Large value | 70,282 | 70,282 | - | - |
| Large blend | 382,350 | 382,350 | - | - |
| Diversified emerging markets | 114,422 | 114,422 | - | - |
| Commodities precious metals | 57,295 | 57,295 | - | - |
| Intermediate term bond | 98,836 | 98,836 | - | - |
| Mid-cap blend | 66,963 | 66,963 | - | - |
| Small blend | 195,744 | 195,744 | - | - |
| Foreign large blend | 133,992 | 133,992 | - | - |
| Foreign large value | 97,064 | 97,064 | - | - |
| Short-term bond | 230,160 | 230,160 | - | - |
| Bank loan | 34,124 | 34,124 | - | - |
| U.S. government obligations: | | | | |
| U.S. treasury securities | 35,565 | 35,565 | - | - |
| Money market/other cash | 21,852 | 21,852 | - | - |
| Total assets measured at fair value | \$ 1,766,399 | \$ 1,766,399 | \$ - | \$ - |

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(3) 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, 2017 and 2016.

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

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

Common stock and 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.

(4) Line of credit

The Organization has a line of credit with a bank. The total amount available under this line of credit is \$500,000 and matures on August 15, 2018. Interest accrues at an annual rate of 1% plus the Bloomberg index rate (currently 5.50% at December 31, 2017). At December 31, 2017, investments consisting of mutual funds, exchange traded funds and other cash accounts totaling \$931,000 collateralized this lending arrangement. At December 31, 2017 and 2016, there was no outstanding balance on the line of credit.

(5) In-kind contributions

The Organization received the following in-kind contributions during the years ended December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-------------------|-------------------|-------------------|
| Donated materials | \$ 12,490 | \$ 13,847 |
| Donated services | <u>101,692</u> | <u>109,168</u> |
| | <u>\$ 114,182</u> | <u>\$ 123,015</u> |

Donated services included advertising, transportation, umpire services at state competitions and printing of program materials.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(5) In-kind contributions (continued)

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, 2017 and 2016, 126,000 and 115,000 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.

(6) 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.

The following is a summary of the minimum future annual lease payments required under this lease at December 31, 2017:

Years Ending December 31,

| | |
|------------|---------------------|
| 2018 | \$ 20,100 |
| 2019 | 26,700 |
| 2020 | 152,500 |
| 2021 | 156,500 |
| 2022 | 156,500 |
| Thereafter | <u>1,396,200</u> |
| | <u>\$ 1,908,500</u> |

The total lease expense under all leases for the years ended December 31, 2017 and 2016 amounted to \$360,000 and \$398,000, respectively. Lease expense includes \$13,000 and \$157,000 of base rent and \$268,000 and \$179,000 of operating costs in 2017 and 2016, respectively, on the office space.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(6) Leases (continued)

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 \$544,981 and \$589,793 as of December 31, 2017 and 2016, 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,

| | | |
|------------|----|----------------|
| 2018 | \$ | 45,369 |
| 2019 | | 45,369 |
| 2020 | | 45,369 |
| 2021 | | 45,369 |
| 2022 | | 45,369 |
| Thereafter | | 318,136 |
| | \$ | <u>544,981</u> |

(7) Affiliated organizations

Special Olympics Minnesota, Inc. is accredited by Special Olympics, Inc. (SOI) to conduct Special Olympics activities in Minnesota. During 2017 and 2016, the Organization received \$451,000 and \$319,000, respectively, from SOI cooperative national fundraising projects. The Organization paid \$95,000 in 2017 and \$85,000 in 2016 to SOI for program support. As of December 31, 2017 and 2016, \$104,000 and \$50,000, respectively, was due from SOI as a receivable which is reported in promises to give receivable on the statement of financial position.

(8) 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 \$29,000 and \$25,000 for the years ended December 31, 2017 and 2016, respectively.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(9) 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>2017</u> | <u>2016</u> |
|------------------|---------------------|---------------------|
| Program services | \$ 698,337 | \$ 762,904 |
| Fundraising | <u>853,523</u> | <u>932,438</u> |
| | <u>\$ 1,551,860</u> | <u>\$ 1,695,342</u> |