

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

AUDITED FINANCIAL STATEMENTS

Year ended December 31, 2018
with comparative totals for 2017

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INDEPENDENT AUDITORS' 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, 2018, and the related statements of activities, 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.

Auditors' 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, 2018 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018, the Organization adopted Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Special Olympics Minnesota, Inc.’s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Minneapolis, Minnesota
July 25, 2019

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	2018	2017
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 879,899	\$ 1,148,358
Promises to give receivable	172,657	125,894
Inventory	78,829	64,077
Prepaid expenses	432,996	267,709
TOTAL CURRENT ASSETS	1,564,381	1,606,038
PROPERTY AND EQUIPMENT		
Equipment	774,899	738,656
Furniture and fixtures	243,656	243,656
Leasehold improvements	911,031	911,031
TOTAL PROPERTY AND EQUIPMENT	1,929,586	1,893,343
Less accumulated depreciation	(872,454)	(727,532)
NET PROPERTY AND EQUIPMENT	1,057,132	1,165,811
OTHER ASSETS		
Investments	2,567,245	2,669,009
TOTAL ASSETS	\$ 5,188,758	\$ 5,440,858
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 82,427	\$ 29,760
Accrued expenses	289,671	392,543
TOTAL CURRENT LIABILITIES	372,098	422,303
LONG-TERM LIABILITIES		
Deferred rent	238,160	122,424
Deferred lease incentives	500,169	544,981
	738,329	667,405
TOTAL LIABILITIES	1,110,427	1,089,708
<u>NET ASSETS</u>		
NET ASSETS		
Without donor restrictions	3,629,854	3,923,673
With donor restrictions	448,477	427,477
TOTAL NET ASSETS	4,078,331	4,351,150
TOTAL LIABILITIES AND NET ASSETS	\$ 5,188,758	\$ 5,440,858

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF ACTIVITIES

For the year ended December 31, 2018 with comparative totals for 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>	
			<u>2018</u>	<u>2017</u>
<u>PUBLIC SUPPORT AND REVENUE</u>				
Contributions, gifts and grants	\$ 2,042,634	\$ 56,000	\$ 2,098,634	\$ 1,758,281
Direct marketing	591,355	-	591,355	662,570
In-kind contributions	115,942	-	115,942	114,182
Fundraising events	4,682,376	-	4,682,376	4,795,398
Cause marketing	12,911	-	12,911	14,090
Merchandise sales	145,126	-	145,126	165,109
Investment return (loss)	(194,156)	-	(194,156)	347,742
Other revenue	225,364	-	225,364	149,776
Net assets released from restrictions:				
Satisfaction of purpose and time restrictions	35,000	(35,000)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	<u>7,656,552</u>	<u>21,000</u>	<u>7,677,552</u>	<u>8,007,148</u>
<u>EXPENSES</u>				
PROGRAM SERVICES	<u>5,821,374</u>	<u>-</u>	<u>5,821,374</u>	<u>5,570,285</u>
SUPPORTING ACTIVITIES				
Management and general	381,060	-	381,060	343,112
Fundraising	1,747,937	-	1,747,937	1,691,267
TOTAL SUPPORTING ACTIVITIES	<u>2,128,997</u>	<u>-</u>	<u>2,128,997</u>	<u>2,034,379</u>
TOTAL EXPENSES	<u>7,950,371</u>	<u>-</u>	<u>7,950,371</u>	<u>7,604,664</u>
CHANGE IN NET ASSETS	<u>(293,819)</u>	<u>21,000</u>	<u>(272,819)</u>	<u>402,484</u>
NET ASSETS, BEGINNING OF YEAR	<u>3,923,673</u>	<u>427,477</u>	<u>4,351,150</u>	<u>3,948,666</u>
NET ASSETS, END OF YEAR	<u>\$ 3,629,854</u>	<u>\$ 448,477</u>	<u>\$ 4,078,331</u>	<u>\$ 4,351,150</u>

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended December 31, 2018 with comparative totals for 2017

	Supporting Activities			Total Supporting Activities	Total 2018	Total 2017
	Program Services	Management and General	Fundraising			
Competitions and training	\$ 1,470,587	\$ -	\$ -	\$ -	\$ 1,470,587	\$ 1,398,258
Healthy programs	84,472	-	-	-	84,472	77,507
Athlete leadership programs	29,333	-	-	-	29,333	24,459
Summer sports camps	508	-	-	-	508	305
Youth programming	277,268	-	-	-	277,268	228,096
Volunteer services	11,560	-	-	-	11,560	13,917
Sub-program support	31,039	-	-	-	31,039	35,855
Marketing and communications	318,443	-	-	-	318,443	351,697
Conferences, conventions and meetings	43,660	-	-	-	43,660	38,779
Fundraising events	629,702	-	769,636	769,636	1,399,338	1,303,198
Other fundraising expense	91,603	-	111,959	111,959	203,562	248,662
Salaries, taxes and benefits	2,105,586	266,905	593,123	860,028	2,965,614	2,839,278
National organization fees	73,988	9,379	20,842	30,221	104,209	95,428
Professional fees	49,262	6,505	13,809	20,314	69,576	86,341
Occupancy	218,277	27,669	61,487	89,156	307,433	306,720
Office expense	82,596	9,978	22,174	32,152	114,748	100,894
Equipment rental and maintenance	119,850	15,192	33,761	48,953	168,803	78,358
Depreciation	126,203	15,998	35,550	51,548	177,751	203,996
Insurance	39,023	4,946	10,992	15,938	54,961	53,310
In-kind expense	17,304	24,347	74,291	98,638	115,942	114,182
Miscellaneous	1,110	141	313	454	1,564	5,424
Total expenses	\$ 5,821,374	\$ 381,060	\$ 1,747,937	\$ 2,128,997	\$ 7,950,371	\$ 7,604,664

See Notes to Financial Statements

SPECIAL OLYMPICS MINNESOTA, INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (272,819)	\$ 402,484
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	177,751	203,995
Donated stock	(29,942)	(33,408)
Realized and unrealized gain on assets	247,305	(292,326)
Reinvested interest and dividends	(65,859)	(55,446)
Changes in operating assets and liabilities:		
Promises to give receivable	(46,763)	(16,910)
Inventory	(14,752)	(49,301)
Prepaid expenses	(165,287)	65,511
Accounts payable	52,667	(14,369)
Accrued expenses	(102,872)	82,619
Deferred revenue	-	(16,325)
Deferred rent	115,736	122,424
Deferred lease incentives	<u>(44,812)</u>	<u>(44,812)</u>
NET CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(149,647)</u>	<u>354,136</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,137,837)	(1,526,457)
Proceeds from sale of investments	1,088,098	1,005,027
Purchase of property and equipment	<u>(69,073)</u>	<u>(75,999)</u>
NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES	<u>(118,812)</u>	<u>(597,429)</u>
NET DECREASE	(268,459)	(243,293)
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	<u>1,148,358</u>	<u>1,391,651</u>
END OF YEAR	<u>\$ 879,899</u>	<u>\$ 1,148,358</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, 2018 and 2017.

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 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.

Revenue recognition – 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.

Contributions and net investment return (loss) that are restricted by the donor or by law are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution or net investment return (loss) is recognized. All other donor restricted contributions and net investment return (loss) are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. 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.

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. 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, 2018 and 2017, 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.

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

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 4 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.

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

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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 seven years. For the years ended December 31, 2018 and 2017, depreciation expense was \$178,000 and \$204,000, respectively.

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.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Fair value measurement - definition and hierarchy (continued) –

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 4, the Organization only has level 1 assets at December 31, 2018 and 2017.

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.

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, 2018 and 2017, advertising costs expensed totaled \$128,000 and \$145,000, 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, 2017, from which the summarized information was derived.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Adoption of accounting standards updates - In August 2016, the Financial Accounting Standards 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 update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

New accounting pronouncements - In February 2016, FASB issued ASU 2016-02, "Lease (Topic 842)." ASU 2016-02 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 2016-02 is effective for annual periods beginning after December 15, 2019. The Foundation is in the process of assessing the impact this standard will have on its financial statements.

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. Retrospective application and early adoption is also permitted. The Organization is assessing the impact this standard will have on its financial statements.

Subsequent events policy - Subsequent events have been evaluated through July 25, 2019 which is the date the financial statements were available to be issued.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(2) 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 multiple designated savings 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 Organizations financial assets as of December 31, 2018 that are available to meet general expenditures within the next year:

Available for general expenditures:	
Cash and cash equivalents	\$ 879,899
Promises to give receivable	172,657
Investments	2,567,245
Total	<u>3,619,801</u>
Less amounts unavailable for general expenditures:	
Net asset with donor restrictions	448,477
Pledged collateral held in investments	858,732
Total	<u>1,307,209</u>
Financial assets available for general expenditure within one year	<u>\$ 2,312,592</u>

In addition to the financial assets listed, the Organization has a \$500,000 line of credit available to meet cash flow needs, if necessary.

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(3) Investments

Investments at December 31, 2018 and 2017 are reported at fair value and are comprised of the following:

	<u>2018</u>	<u>2017</u>
Mutual funds	\$ 1,428,009	\$ 1,046,210
Exchange traded funds	1,014,398	1,324,891
U.S. government obligations	-	186,298
Money market/other cash	124,838	111,610
	<u>\$ 2,567,245</u>	<u>\$ 2,669,009</u>

(4) Fair value measurements

Fair values of assets measured on a recurring basis at December 31, 2018 and 2017 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, 2018				
Mutual funds	\$ 1,428,009	\$ 1,428,009	\$ -	\$ -
Exchange traded funds	1,014,398	1,014,398	-	-
Money market/other cash	124,838	124,838	-	-
	<u>124,838</u>	<u>124,838</u>	<u>-</u>	<u>-</u>
Total assets measured at fair value	<u>\$ 2,567,245</u>	<u>\$ 2,567,245</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2017				
Mutual funds	\$ 1,046,210	\$ 1,046,210	\$ -	\$ -
Exchange traded funds	1,324,891	1,324,891	-	-
U.S. government obligations	186,298	186,298	-	-
Money market/other cash	111,610	111,610	-	-
	<u>111,610</u>	<u>111,610</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

(4) 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, 2018 and 2017.

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.

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.

(5) Line of credit

Subject to the terms of a credit agreement with Bremer Bank, the Organization has available a \$500,000 revolving line of credit for working capital on an as needed basis. The line of credit expires August 15, 2020 and is secured by substantially all assets of the Organization. Interest accrues at an annual rate of 0.5% plus prime rate, effective rate of 6% at December 31, 2018. At December 31, 2018, investments consisting of mutual funds, exchange traded funds and other cash accounts totaling \$859,000 collateralized this lending arrangement. At December 31, 2018 and 2017, there was no outstanding balance on the line of credit. The Organization is subject to certain financial and nonfinancial covenants under this agreement.

(6) Net assets

The net assets are summarized as follows as of December 31, 2018:

Detail of Net Assets	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 2,572,722	\$ -	\$ 2,572,722
Net investment in property and equipment	1,057,132	-	1,057,132
Restricted for specific purposes:			
Health access	-	392,477	392,477
Swim caps	-	6,000	6,000
Subject to the passage of time	-	50,000	50,000
	<u>\$ 3,629,854</u>	<u>\$ 448,477</u>	<u>\$ 4,078,331</u>

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(6) Net assets (continued)

The net assets are summarized as follows as of December 31, 2017:

Detail of Net Assets	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 2,757,862	\$ -	\$ 2,757,862
Net investment in property and equipment	1,165,811	-	1,165,811
Restricted for specific purposes:			
Health access	-	427,477	427,477
	<u>\$ 3,923,673</u>	<u>\$ 427,477</u>	<u>\$ 4,351,150</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, 2018 and 2017 are as follows:

	2018	2017
Purpose restriction accomplished:		
Health access	\$ 35,000	\$ 10,000
Time restrictions expired:		
Passage of specified time	-	12,000
Total restrictions accomplished	<u>\$ 35,000</u>	<u>\$ 22,000</u>

(7) In-kind contributions

The Organization received the following in-kind contributions during the years ended December 31, 2018 and 2017:

	2018	2017
Donated materials	\$ 7,232	\$ 12,490
Donated services	108,710	101,692
	<u>\$ 115,942</u>	<u>\$ 114,182</u>

Donated services included advertising, transportation, umpire services at state competitions 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, 2018 and 2017, 114,000 and 126,000 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

(8) 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, 2018:

Years Ending December 31,

2019	\$ 26,700
2020	152,500
2021	156,500
2022	160,500
2023	164,500
Thereafter	<u>1,071,300</u>
	<u><u>\$ 1,732,000</u></u>

The total lease expense under all leases for the years ended December 31, 2018 and 2017 amounted to \$307,000. Lease expense includes \$115,000 and \$115,000 of base rent and \$193,000 and \$192,000 of operating costs in 2018 and 2017, 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 \$500,169 and \$544,981 as of December 31, 2018 and 2017, 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,

2019	\$ 45,369
2020	45,369
2021	45,369
2022	45,369
2023	45,369
Thereafter	<u>273,324</u>
	<u><u>\$ 500,169</u></u>

SPECIAL OLYMPICS MINNESOTA, INC.

NOTES TO FINANCIAL STATEMENTS

(9) Affiliated organizations

Special Olympics Minnesota, Inc. is accredited by Special Olympics, Inc. (SOI) to conduct Special Olympics activities in Minnesota. During 2018 and 2017, the Organization received \$387,000 and \$451,000, respectively, from SOI cooperative national fundraising projects. The Organization paid \$104,000 in 2018 and \$95,000 in 2017 to SOI for program support. As of December 31, 2018 and 2017, \$114,000 and \$104,000, respectively, was due from SOI as a receivable which is reported in promises to give receivable on the statement of financial position.

(10) 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 \$33,000 and \$29,000 for the years ended December 31, 2018 and 2017, respectively.

(11) 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>2018</u>	<u>2017</u>
Program services	\$ 721,305	\$ 698,337
Fundraising	<u>881,595</u>	<u>853,523</u>
	<u>\$ 1,602,900</u>	<u>\$ 1,551,860</u>

(12) Reclassification

Certain reclassifications have been made to the financial statements for the year ended December 31, 2017 to conform with the classifications of the current year. The reclassifications did not affect financial position or changes in net assets.