

SPECIAL OLYMPICS ARIZONA, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2018

SPECIAL OLYMPICS ARIZONA, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2018

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities and Change in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 17



4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

SPECIAL OLYMPICS ARIZONA, INC.

We have audited the accompanying financial statements of **Special Olympics Arizona, Inc.**, which comprise the statement of financial position at December 31, 2018, and the related statements of activities and change 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Special Olympics Arizona, 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, **Special Olympics Arizona, Inc.** adopted Financial Accounting Standards Board Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

September 30, 2019

SPECIAL OLYMPICS ARIZONA, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2018

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 1,552,968
Contributions receivable	358,188
Prepaid expenses	82,059
Other current assets	<u>24,955</u>
TOTAL CURRENT ASSETS	2,018,170
LONG-TERM CONTRIBUTIONS RECEIVABLE, net	190,656
CASH RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	850,000
LONG-TERM INVESTMENTS	2,174,545
PROPERTY AND EQUIPMENT, net	<u>813,803</u>
TOTAL ASSETS	<u>\$ 6,047,174</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 2,596
Accrued expenses	<u>146,403</u>
TOTAL CURRENT LIABILITIES	<u>148,999</u>
NET ASSETS	
Without donor restrictions	4,499,331
With donor restrictions	<u>1,398,844</u>
TOTAL NET ASSETS	<u>5,898,175</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,047,174</u>

See Notes to Financial Statements

SPECIAL OLYMPICS ARIZONA, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended December 31, 2018

	Without donor restrictions	With donor restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 1,915,617	\$ 1,008,188	\$ 2,923,805
Grants	375,000	-	375,000
Donated materials and services	3,666,072	-	3,666,072
Telemarketing and direct mail	357,593	-	357,593
Merchandise sales	40,225	-	40,225
Investment loss	(67,945)	-	(67,945)
Other income	5,570	-	5,570
Total support and revenue before special events	6,292,132	1,008,188	7,300,320
State special events	2,937,837	-	2,937,837
Less cost of direct donor benefits	(884,034)	-	(884,034)
Gross profit on state special events	2,053,803	-	2,053,803
Local special events	454,599	-	454,599
Less cost of direct donor benefits	(239,011)	-	(239,011)
Gross profit on local special events	215,588	-	215,588
Net assets released from restriction	500,320	(500,320)	-
TOTAL SUPPORT AND REVENUE	9,061,843	507,868	9,569,711
FUNCTIONAL EXPENSES			
Program services:			
State and local programs	1,501,137	-	1,501,137
Competitions	5,060,132	-	5,060,132
Public education	806,650	-	806,650
Outreach, volunteers, and training	712,036	-	712,036
Total program services	8,079,955	-	8,079,955
Support services:			
General and administrative	212,401	-	212,401
Fundraising	164,195	-	164,195
Total support services	376,596	-	376,596
TOTAL FUNCTIONAL EXPENSES	8,456,551	-	8,456,551
CHAPTER ASSESSMENT	90,995	-	90,995
TOTAL EXPENSES	8,547,546	-	8,547,546
CHANGE IN NET ASSETS	514,297	507,868	1,022,165
NET ASSETS, BEGINNING OF YEAR	3,985,034	890,976	4,876,010
NET ASSETS, END OF YEAR	\$ 4,499,331	\$ 1,398,844	\$ 5,898,175

See Notes to Financial Statements

SPECIAL OLYMPICS ARIZONA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

	<u>State and Local Programs</u>	<u>Competitions</u>	<u>Public Education</u>	<u>Outreach, Volunteers, and Training</u>	<u>Total Programs</u>	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Compensation of current officers	\$ 32,486	\$ 31,187	\$ 22,091	\$ 24,690	\$ 110,454	\$ 10,396	\$ 9,096	\$ 129,946
Other salaries and wages	366,495	351,835	249,216	278,536	1,246,082	117,278	102,619	1,465,979
401(k) contributions	13,486	12,947	9,170	10,249	45,852	4,316	3,776	53,944
Other employee benefits	51,245	49,196	34,847	38,946	174,234	16,282	14,247	204,763
Payroll taxes	17,863	17,148	12,147	13,576	60,734	5,716	5,002	71,452
Consulting and management	40,304	44,471	273,050	16,962	374,787	6,931	3,827	385,545
Audit and accounting fees	8,800	8,448	5,984	6,688	29,920	2,816	2,464	35,200
Office expense	21,171	21,929	14,396	16,090	73,586	3,928	56,463	133,977
IT services	13,631	9,126	6,465	7,225	36,447	3,042	2,662	42,151
Occupancy	30,529	128,060	4,657	-	163,246	-	162,226	325,472
Travel	80,993	525,851	41,692	11,729	660,265	4,563	29,526	694,354
Conferences, conventions, meetings	6,584	8,222	4,477	188,287	207,570	3,041	-	210,611
Interest and bank charges	3,980	3,821	2,706	3,025	13,532	1,177	-	14,709
Depreciation	62,623	60,118	42,584	47,594	212,919	18,516	-	231,435
Insurance	20,024	19,223	13,617	15,218	68,082	5,919	-	74,001
Competitions	121,001	30,958	-	-	151,959	-	-	151,959
Supplies	205,461	218,517	23,335	11,422	458,735	-	127,086	585,821
Awards	2,265	57,951	-	-	60,216	-	-	60,216
Fundraising	2,235	11,153	-	-	13,388	-	142,990	156,378
In-kind services and materials	399,961	3,449,971	19,504	21,799	3,891,235	8,480	604,754	4,504,469
Professional fundraising	-	-	26,712	-	26,712	-	20,502	47,214
TOTAL FUNCTIONAL EXPENSES	\$ 1,501,137	\$ 5,060,132	\$ 806,650	\$ 712,036	\$ 8,079,955	\$ 212,401	\$ 1,287,240	\$ 9,579,596

See Notes to Financial Statements

SPECIAL OLYMPICS ARIZONA, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,022,165
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	231,435
Realized/unrealized (gains) losses on investments	114,592
Change in discount on contributions receivable	(9,149)
Contributions restricted to investment in property and equipment	(850,000)
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Receivables	74,001
Contributions receivable	351,281
Prepaid expenses	(36,044)
Other current assets	295
Increase (decrease) in:	
Accounts payable	(1,127)
Accrued expenses	117,212
Net cash provided by operating activities	<u>1,014,661</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(254,701)
Proceeds from sale of investments	208,119
Purchases of property and equipment	<u>(382,769)</u>
Net cash used in investing activities	<u>(429,351)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Collections on contributions restricted to investment in property and equipment	<u>850,000</u>
Net cash provided by financing activities	<u>850,000</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS,
AND RESTRICTED CASH

1,435,310

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH
BEGINNING OF YEAR

967,658

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH
END OF YEAR

\$ 2,402,968

Cash and cash equivalents	\$ 1,552,968
Cash restricted to investment in property and equipment	<u>850,000</u>
	<u>\$ 2,402,968</u>

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

(1) Nature of operations and summary of significant accounting policies

Nature of operations - *Special Olympics Arizona, Inc.* (the "Organization") was formed to provide year-round sports training and athletic competition to all children and adults with intellectual disabilities, giving them continuing opportunities to develop physical fitness, demonstrate courage, experience joy and participate in the sharing of gifts, skills and friendship with their families, other Special Olympians and the community. The Organization is accredited by Special Olympics International ("SOI"), an international Olympic training and competition program. The Organization is the legal entity for all area and local SOI programs in Arizona. The Chapter headquarters in Phoenix, Arizona accounts for all activity for the Organization's programs. There are two levels of programs, as follows:

1. State Programs - These programs are run by full-time employees. The accounting records are under the direction of a full-time Vice President of Finance & Administration.
2. Local Programs - These programs are run by area directors, whom are also employees of the Organization. There are 6 of these programs located throughout Arizona.

The significant accounting policies followed by the Organization are summarized below:

Basis of presentation - The accompanying financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. Under FASB ASC 958-205, the Organization is required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The Organization maintains its accounts on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and change in net assets.

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

(1) Nature of operations and summary of significant accounting policies (continued)

Management's use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash includes cash and, at times, cash equivalents, which consist of highly liquid financial instruments purchased with original maturities of three months or less. Cash deposits at commercial banks are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC").

Cash restricted for investment in property and equipment - Cash restricted for investment in property and equipment is donor restricted for use in a capital project expected to occur in 2019.

Investments - The Organization accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities - Investments - Debt and Equity Securities* and FASB ASC 958-325, *Not-for-Profit Entities - Investments - Other*. Under FASB ASC 958-320, the Organization is required to report investments in equity securities that have readily determinable fair value and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. Under FASB ASC 958-325, the Organization has elected to carry its other investments at net asset value ("NAV"). At December 31, 2018, investments are classified as current or long-term based on their maturities and management's intent.

Fair value measurements - FASB ASC 820, *Fair Value Measurements*, establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. FASB ASC 820 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values by requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

Receivables - Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables.

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

(1) **Nature of operations and summary of significant accounting policies (continued)**

Contributions receivable - Unconditional promises to give (pledges) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the other parties, the Organization's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable's collectability. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and equipment and related depreciation - Purchased property and equipment is valued at cost and donated property and equipment is recorded at the fair value at the date of gift to the Organization. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$1,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset accounts and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight-line basis over the following estimated useful lives:

Office furniture and equipment	3 - 7 years
Software and licenses	3 - 5 years
Vehicles	5 - 7 years

Impairment of long-lived assets - The Organization accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded in 2018.

Contributions - The Organization accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor restrictions. All contributions with donor restrictions are reported as an increase in net assets with donor restrictions. 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 and change in net assets as net assets released from restrictions. Restricted support where restrictions are met in the same period as the donation is made is shown as additions to contributions without donor restrictions. Additionally, contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of net assets without donor restrictions class.

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

(1) **Nature of operations and summary of significant accounting policies (continued)**

Telemarketing and direct mail - The Organization has telemarketing and direct mail contracts that account for a portion of the Organization's total support. Under the contracts, third party administrators are given the right to raise support on behalf of the Organization. The support raised represents individual contributions as a result of direct solicitation by either telephone or mail. Revenue under the telemarketing and direct mail contracts is recognized in accordance with contributions discussed above.

Donated materials and services - Donated materials and services are reflected in the accompanying financial statements at their estimated fair value as of the date of donation. Donated services are recognized as contributions in accordance with FASB ASC 958-605 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. The Organization utilizes the services of volunteers to perform a variety of tasks that assist the Organization with specific programs, such as games management, coaching, training, program coordinator, area director, referees and umpires, and chaperons. Without this dedicated volunteer support, the Organization would be unable to accomplish its mission.

The Organization is dependent on donated materials and services from such diverse groups as local government parks and recreation departments, quasi-government organizations, universities, merchant and restaurant organizations and businesses. Without these donations, the Organization would be unable to carry out its mission to provide sporting competition for the developmentally disabled. The Organization received the following donated materials and services during the year ended December 31, 2018:

Volunteer time	\$ 3,441,815
Facilities	242,188
Printing and media	702,718
Food and beverage	68,620
Fundraising items	16,253
Equipment rental, uniforms, and supplies	47,765
Total donated materials and services	<u>\$ 4,519,359</u>

For the year ended December 31, 2018 \$853,287 of donated materials and services are included in special events revenue, as the donations were specifically for the special events.

Special events revenue - The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The direct costs of the special events which ultimately benefit the donor rather than the Organization are recorded as costs of direct donor benefits. All proceeds received in excess of the direct costs are recorded as gross profit on special events in the accompanying statement of activities and change in net assets.

Grant revenue - Grant revenue includes cost reimbursement grants in which the grantors reimburse the allowable costs incurred. Revenues are considered earned as allowable costs are incurred. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with the terms of the grants.

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

(1) **Nature of operations and summary of significant accounting policies (continued)**

Functional expenses - The costs of providing programs and other activities have been summarized on a functional basis in the accompanying statement of activities and change in net assets. The statement of functional expenses presents the natural classification detail of expense by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of personnel activity and other appropriate allocation methods. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. Occupancy, competition and fundraising expenses are directly assigned to program and supporting services. All other expenses are allocated based on time and effort.

Allocation of joint costs - The Organization follows FASB ASC 958-720, *Not-for-Profit Entities - Other Expenses*, which requires that costs of a joint activity be allocated between fundraising and the appropriate program or general and administrative function. Certain costs have been incurred by the Organization for public education in which an appeal is also made for contributions. Those activities included direct mail campaigns and telemarketing efforts. The costs of conducting those activities included total joint costs of \$47,214 for the year ended December 31, 2018, which are not specifically attributable to particular components of activities. These joint costs were allocated as follows:

Public education	\$	26,712
Fundraising		<u>20,502</u>
Total	\$	<u>47,214</u>

Income tax status - The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code ("IRC") and similar state provisions and, accordingly, there is no provision for income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the IRC and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income ("UBTI") would be taxable. The Organization evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts. At December 31, 2018, management does not believe the Organization has any uncertain tax positions. The Organization's policy is to classify income tax penalties and interest in general and administrative expense in the accompanying statement of activities and change in net assets, if any.

The Organization's federal Return of Organizations Exempt from Income Tax (Form 990) for 2015, 2016 and 2017 are subject to examination by the IRS, generally for three years after they were filed. As of the date of this report, the 2018 return had not yet been filed.

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

(1) **Nature of operations and summary of significant accounting policies (continued)**

Recent accounting pronouncements - In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, that, as amended, will supersede most current revenue recognition guidance. The core principle of the new guidance is that an entity will recognize revenue of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU No. 2014-09 for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. The Organization is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Organization estimates that if they were to adopt ASU 2016-02 for the year ended December 31, 2018, a non-current right to use asset of approximately \$110,000 would be recorded and a corresponding current and non-current lease liability of \$64,000 and \$46,000, respectively, would be recorded in the accompanying statement of financial position. The estimate was calculated using the minimum future lease payments (see Note 6) as adjusted by a discount rate of 2.50% representing the Organization's estimated risk-free rate.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*. This ASU requires that a statement of cash flows explain the change during the period of total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents in the statement of cash flows. The amendments in the ASU do not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for all nonpublic business entities for fiscal years beginning after December 15, 2018. Early adoption is permitted. The standard has been adopted during the year ended December 31, 2018.

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

(1) Nature of operations and summary of significant accounting policies (continued)

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. Certain amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. The Organization has adopted ASU 2016-14 for the year ended December 31, 2018. All amounts previously reported as temporarily restricted net assets as of December 31, 2017 have been reclassified to net assets with donor restriction upon adoption of this standard. In accordance with the amendments of this ASU, the Organization elected to present expenses by functional and nature as a separate statement of functional expenses for the year ended December 31, 2018. Disclosures around liquidity and availability of resources are included in Note 12.

Subsequent events - The Organization has evaluated subsequent events through September 30, 2019, which is the date the financial statements were available to be issued.

(2) Investments

Investments consist of the following at December 31, 2018:

Mutual funds - equity	\$	962,108
Mutual funds - fixed income		411,913
Cash and cash equivalents		87,378
MRA Opportunities Fund I A		367,442
Vida Longevity Fund, LP		236,907
Ceres Farms, LLC		108,797
Total investments	\$	<u>2,174,545</u>

Investment loss consists of the following for the year ended December 31, 2018:

Dividend and interest income	\$	55,501
Realized/unrealized investment losses		(114,592)
Investment fees		<u>(8,854)</u>
Investment loss	\$	<u>(67,945)</u>

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect account balances and the amounts reported in the accompanying financial statements.

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

(3) Fair value measurements

The following table summarizes the valuation of the Organization's assets subject to measurement at fair value by the FASB ASC 820 categories, other than investments measured at NAV as a practical expedient, as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds - equity:				
U.S. large cap	\$ 185,646	\$ -	\$ -	\$ 185,646
U.S. small/mid cap	192,091	-	-	192,091
International developed market	104,914	-	-	104,914
International emerging market	74,507	-	-	74,507
Multi-strategy	404,950	-	-	404,950
Mutual fund - fixed income	411,913	-	-	411,913
Total	<u>\$ 1,374,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,374,021</u>

In accordance with FASB ASC 820, the Organization is required to disclose the nature and risks of the investments reported at NAV. The following table summarizes the nature and risk of investments reported at NAV as a practical expedient as of December 31, 2018:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Frequency</u>	<u>Notice Period</u>
MRA Opportunities Fund I A	\$ 367,442	\$ -	N/A	5 year lock up
Vida Longevity Fund, LP	236,907	-	Quarterly	180 days notice
Ceres Farms, LLC	108,797	-	Annually	Written notice by September 30th each year
Total	<u>\$ 713,146</u>	<u>\$ -</u>		

MRA Opportunities Fund I A - The policy of this fund is to invest in interests in underlying funds that are investing into private debt, providing an opportunity for higher yields with reasonable risk tradeoffs relative to publicly traded fixed income. The general manager of the fund is not required to fund capital redemptions from the fund. Capital will be distributed to the partners at amounts and times as the general partner may determine in its sole discretion.

Vida Longevity Fund, LP - The policy of this fund is to acquire longevity and longevity-backed assets and then seeks to maximize gains by either holding their assets to term or selling them to interested parties on the secondary or tertiary market. The fund is managed by Vida Management I, LLC and capital will be distributed at each general partner's discretion, and upon liquidation of the fund.

Ceres Farms, LLC - The policy of this fund is to generate an attractive total return through the acquisition and management of farmland in the Midwestern United States. Ceres Partners, LLC serves as the fund's investment advisor and acts as the manager of the fund. Capital will be distributed to the partners at amounts and times as the manager may determine in its sole discretion.

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

(4) Contributions receivable

Contributions receivable consist of the following at December 31, 2018:

Due in less than one year	\$	358,188
Due in two to five years		<u>200,000</u>
Total contributions receivable		558,188
Discount to present value		<u>(9,344)</u>
Contributions receivable, net	\$	<u>548,844</u>

In 2012, the Organization received a \$1 million contribution receivable from a donor as part of a bequest. In accordance with the donor's wishes, the Organization will receive \$100,000 over 10 years, beginning in 2012. The Organization will receive the 2018 distribution in May 2019, thus this amount is included within current contributions receivable as of December 31, 2018. While the donation is time restricted, there are no purpose restrictions on the contributed funds.

As of December 31, 2018, the Organization has contributions receivable from two donors totaling approximately 96%, of the total contributions receivable in the accompanying statement of financial position.

(5) Property and equipment

Property and equipment consists of the following at December 31, 2018:

Cost and donated value:		
Office furniture and equipment	\$	1,049,065
Software and licenses		353,471
Vehicles		<u>476,826</u>
Total cost and donated value		1,879,362
Accumulated depreciation		<u>(1,065,559)</u>
Property and equipment, net	\$	<u>813,803</u>

Depreciation expense charged to operations was \$231,435 for the year ended December 31, 2018.

(6) Operating leases

The Organization has entered into non-cancelable operating lease agreements for office and storage space and equipment expiring through April 2021. The total future minimum lease commitments payable under these lease agreements are as follows:

<u>Years Ending December 31,</u>		
2019	\$	65,979
2020		42,733
2021		<u>5,178</u>
Total minimum future rental payments	\$	<u>113,890</u>

Rental expense on leases with terms exceeding one month for the year ended December 31, 2018 was \$60,800. In the normal course of business, operating leases are generally renewed or replaced by other leases.

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

(7) Chapter assessment

The Organization is allocated a portion of Special Olympics International's expenses. The chapter assessment included on the statement of activities and change in net assets represents the amount allocated to the Organization.

(8) Net assets with donor restrictions

Net assets with donor restrictions consist of time restricted contributions receivable (See Note 4) as well as \$850,000 of restrictions for use for construction of a new facility. Releases from restriction represent collections on the contributions receivable and the change in the discount on long-term pledges.

(9) Net assets without donor restrictions

The Organization has a board-designated endowment account.

In September 2008, the State of Arizona enacted ARS§10-11801 et seq Management of Charitable Funds Act ("MCFA"). The Board of Directors of the Organization has interpreted MCFA 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 Association classifies as net assets restricted in perpetuity (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as net assets restricted in perpetuity is classified as net assets subject to purpose or time restrictions based upon the presence or absence of direction from the donor and are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by MCFA. The Organization has no donor-restricted endowment funds at December 31, 2018.

The changes in endowment net assets for the year ended December 31, 2018 were as follows:

Endowment net assets, beginning of year	\$ 2,218,411
Investment return:	
Investment income, net	55,501
Net depreciation (realized and unrealized)	(123,446)
Other changes:	
Withdrawals	<u>(298)</u>
Endowment net assets, end of year	<u>\$ 2,150,168</u>

The investment objective of the endowment is, commensurate with a prudent level of risk, the preservation and enhancement of the real purchasing power of the contributed principal of the endowment while providing a predictable and satisfactory stream of income. In order of priority, the investment objective of the endowment is: (1) the preservation of contributed principal; (2) the growth of such principal to more than offset inflation and (3) the production of a satisfactory level of current income. The target return for the endowment is 4-7%, net of fees, over a 10-year rolling period. Current potential spending is reserved to 5% and is for non-recurring initiatives approved by the Board of Directors and the CEO that will further the mission of Special Olympics or improve the Organization. Withdrawals from this portfolio are not expected at this time.

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2018

(10) 401(k) plan

The Organization has a 401(k) profit sharing plan covering eligible employees. The plan provides for the Organization to match 100% of employees' contributions up to 4% of their total compensation. Contributions made by the Organization were \$53,944 for the year ended December 31, 2018.

(11) Concentrations of credit risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash deposits in banks and contributions receivable. The Organization does not anticipate nonperformance by the parties associated with the contributions receivable based on historical collections.

(12) Liquidity and availability of resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date are as follows:

Cash, cash equivalents, and restricted cash	\$ 2,402,968
Contributions receivable	548,844
Investments	<u>2,174,545</u>
Total financial assets	5,126,357
Less:	
Cash restricted to investment in property and equipment	(850,000)
Board designated investments	(2,150,168)
Alternative investments with liquidity restrictions	(367,442)
Long-term portion of time restricted pledges, net	<u>(190,656)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,568,091</u>

The Organization monitors its cash flows to ensure the fulfillment of all obligations, primarily related to state competitions. The Organization's policy is to maintain larger balances of cash on hand before the competition season begins. As part of the Organization's liquidity plan, excess cash is invested in short-term investments, primarily mutual funds, so as to have readily liquid investments available as needed. The Board of Directors designated investments may be drawn upon, if necessary, to meet unexpected liquidity needs or in the event of financial distress.

In 2019, the Organization is constructing a new office to house Administrative and Program staff and all event and competition equipment in one location. Construction costs are expected to be approximately \$2.1 million and is the project expected to be financed from operating cash as well as a new capital campaign to raise an additional \$1.25 million, of which \$850,000 has been received. The facility is expected to be completed by the end of 2019.