SPECIAL OLYMPICS ARIZONA, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2019

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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, 2019, 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, 2019, 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.

Adoption of New Accounting Standards

As discussed in Note 1 to the financial statements, ***Special Olympics Arizona, Inc.*** adopted Financial Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, in 2019. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

October 29, 2020

SPECIAL OLYMPICS ARIZONA, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2019

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	940,303
Contributions receivable		477,460
Prepaid expenses		43,065
Other current assets		4,045
TOTAL CURRENT ASSETS		1,464,873
CASH RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT		10,031
LONG-TERM INVESTMENTS		2,361,538
PROPERTY AND EQUIPMENT, net		2,742,801
TOTAL ASSETS	$	6,579,243

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	432,425
Accrued expenses		120,795
TOTAL CURRENT LIABILITIES		553,220
NET ASSETS		
Without donor restrictions		4,698,563
With donor restrictions		1,327,460
TOTAL NET ASSETS		6,026,023
TOTAL LIABILITIES AND NET ASSETS	$	6,579,243

SPECIAL OLYMPICS ARIZONA, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended December 31, 2019

	Without donor restrictions	With donor restrictions	Total
SUPPORT AND REVENUE			
Contributions	$ 1,907,570	$ 277,460	$ 2,185,030
Donated materials and services	4,441,530	-	4,441,530
Telemarketing and direct mail	361,367	-	361,367
Merchandise sales	40,190	-	40,190
Investment income	187,337	-	187,337
Other income	6,070	-	6,070
Total support and revenue before special events	6,944,064	277,460	7,221,524
State special events	2,940,140	-	2,940,140
Less cost of direct donor benefits	(1,098,785)	-	(1,098,785)
Gross profit on state special events	1,841,355	-	1,841,355
Local special events	336,747	-	336,747
Less cost of direct donor benefits	(142,741)	-	(142,741)
Gross profit on local special events	194,006	-	194,006
Net assets released from restriction	348,844	(348,844)	-
TOTAL SUPPORT AND REVENUE	9,328,269	(71,384)	9,256,885
FUNCTIONAL EXPENSES			
Program services:			
State and local programs	1,895,463	-	1,895,463
Competitions	5,319,536	-	5,319,536
Public education	632,787	-	632,787
Outreach, volunteers, and trainng	588,502	-	588,502
Total program services	8,436,288	-	8,436,288
Support services:			
General and administrative	235,208	-	235,208
Fundraising	359,693	-	359,693
Total support services	594,901	-	594,901
TOTAL FUNCTIONAL EXPENSES	9,031,189	-	9,031,189
CHAPTER ASSESSMENT	97,848	-	97,848
TOTAL EXPENSES	9,129,037	-	9,129,037
CHANGE IN NET ASSETS	199,232	(71,384)	127,848
NET ASSETS, BEGINNING OF YEAR	4,499,331	1,398,844	5,898,175
NET ASSETS, END OF YEAR	$ 4,698,563	$ 1,327,460	$ 6,026,023

See Notes to Financial Statements

SPECIAL OLYMPICS ARIZONA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019

	State and Local Programs	Competitions	Public Education	Outreach, Volunteers, and Training	Total Programs	General & Administrative	Fundraising	Total
Compensation of current officers	$ 42,360	$ 40,666	$ 28,805	$ 32,194	$ 144,025	$ 13,555	$ 11,861	$ 169,441
Other salaries and wages	354,844	340,650	241,294	269,681	1,206,469	113,552	99,356	1,419,377
401(k) contributions	15,944	15,306	10,842	12,118	54,210	5,103	4,464	63,777
Other employee benefits	54,051	51,888	36,754	41,078	183,771	17,297	15,134	216,202
Payroll taxes	85,395	15,536	11,005	12,299	124,235	5,179	4,531	133,945
Consulting and management	43,667	46,442	72,147	18,199	180,455	7,110	29	187,594
Audit and accounting fees	9,256	8,886	6,294	7,035	31,471	2,962	2,592	37,025
Office expense	12,781	16,924	8,691	9,714	48,110	3,836	130,231	182,177
IT services	21,560	19,316	13,682	15,292	69,850	6,437	5,634	81,921
Occupancy	107,080	97,153	428	31	204,692	13	173,856	378,561
Travel	113,769	421,944	32,344	9,371	577,428	3,645	38,685	619,758
Conferences, conventions, meetings	19,397	10,075	5,953	11,430	46,855	2,588	-	49,443
Interest and bank charges	5,140	4,935	3,495	3,907	17,477	1,520	-	18,997
Depreciation	63,027	60,506	42,859	47,901	214,293	18,634	-	232,927
Insurance	23,415	22,478	15,922	17,795	79,610	6,923	-	86,533
Competitions	7,988	74,273	-	-	82,261	-	-	82,261
Supplies	255,288	247,170	13,791	11,422	527,671	-	101,617	629,288
Awards	3,387	60,841	816	912	65,956	353	7,377	73,686
Fundraising	2,171	18,559	-	-	20,730	-	202,497	223,227
In-kind services and materials	654,943	3,745,988	60,953	68,123	4,530,007	26,501	786,703	5,343,211
Professional fundraising	-	-	26,712	-	26,712	-	16,652	43,364
TOTAL FUNCTIONAL EXPENSES	1,895,463	5,319,536	632,787	588,502	8,436,288	235,208	1,601,219	10,272,715
Chapter assessment	24,462	23,484	16,634	18,591	83,171	7,828	6,849	97,848
TOTAL EXPENSES	$ 1,919,925	$ 5,343,020	$ 649,421	$ 607,093	$ 8,519,459	$ 243,036	$ 1,608,068	$ 10,370,563

SPECIAL OLYMPICS ARIZONA, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	127,848
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		232,927
Realized/unrealized gains on investments		(97,786)
Change in discount on contributions receivable		(9,344)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Contributions receivable		80,728
Prepaid expenses		38,994
Other current assets		20,910
Increase (decrease) in:		
Accounts payable		(32,741)
Accrued expenses		(25,608)
Net cash provided by operating activities		335,928
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments		(1,190,335)
Proceeds from sale of investments		1,101,128
Purchases of property and equipment		(1,699,355)
Net cash used in investing activities		(1,788,562)
NET CHANGE IN CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH		(1,452,634)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH BEGINNING OF YEAR		2,402,968
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH END OF YEAR	$	950,334
NON CASH INVESTING AND FINANCING ACTIVITIES		
Purchases of property and equipment included in accounts payable	$	462,570
Cash and cash equivalents	$	940,303
Cash restricted to investment in property and equipment		10,031
	$	950,334

See Notes to Financial Statements

(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:

<u>Net assets without donor restrictions</u>
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.

<u>Net assets with donor restrictions</u>
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.

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.

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

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 that was completed in 2020.

Investments - The Organization accounts for its investments in accordance with FASB ASC 958-321, *Not-for-Profit Entities - Investments - Equity Securities*. Under FASB ASC 958-321, the Organization is required to report investments in equity securities at fair value. The fair values of investments are based on quoted market prices or, if applicable, at net asset value ("NAV"). At December 31, 2019, investments are classified as current or long-term based on management's intent.

Fair value measurements - FASB ASC 820, *Fair Value Measurement*, 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.

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. As of December 31, 2019, all contributions receivable are due within one year.

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

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 2019.

Contributions and grants - The Organization adopted FASB Accounting Standards Update (“ASU”) No. 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* on a modified prospective basis. ASU 2018-08 clarifies the characterization of grants as either reciprocal transactions (exchanges) or nonreciprocal transactions (contributions). ASU 2018-08 also provided additional guidance to distinguish between conditional and unconditional contributions. In accordance with ASU 2018-08, the Organization evaluates grants and contributions for evidence of the transfer of commensurate value from the Organization to the resource provider. The transfer of commensurate value from the Organization to the resource provider may include instances when a) the goods or services provided by the Organization directly benefit the grantor or resource provider or are for the sole use of the grantor or resource provider or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Organization. When such factors exist, the Organization accounts for the grants or contributions as exchange transactions under ASC 606, *Revenue from Contracts with Customers,* or other appropriate guidance. In the absence of these factors, the Organization accounts for the award under the contribution accounting model.

In the absence of the transfer of commensurate value from the Organization to the resource provider, the Organization evaluates the contribution for criteria indicating the existence of measurable barriers to entitlement for the Organization or the right of return from the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Organization and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Organization to use the funds. Should the existence of a measurable barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and the right of return do not exist, the contribution is unconditional.

(1) <u>Nature of operations and summary of significant accounting policies (continued)</u>

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.

During the year ended December 31, 2019, the Organization received various grants that are conditional in nature and the revenue can only be recognized once funds have been spent on qualifying costs. As of December 31, 2019, the remaining amount of conditional promises to give under these grants is approximately $20,000.

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, 2019:

Volunteer time	$ 3,714,345
Facilities	220,681
Printing and media	1,224,612
Food and beverage	71,938
Fundraising items	5,791
Equipment rental, uniforms, and supplies	28,986
Total donated materials and services	$ 5,266,353

For the year ended December 31, 2018 $824,823 of donated materials and services are included in special events revenue, as the donations were specifically for the special events.

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

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.

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 $38,348 for the year ended December 31, 2019, which are not specifically attributable to particular components of activities. These joint costs were allocated as follows:

Public education	$	21,696
Fundraising		16,652
Total	$	38,348

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, 2019, 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 2016, 2017 and 2018 are subject to examination by the IRS, generally for three years after they were filed. As of the date of this report, the 2019 return had not yet been filed.

(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 adopted this update for the year ended December 31, 2019 using the modified retrospective method. The adoption of this ASU had no impact on the financial statements for the year ended December 31, 2019.

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, 2021. Early adoption is permitted. The Organization estimates that if they were to adopt ASU 2016-02 for the year ended December 31, 2019, there would be no material impact to the financial statements.

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842),* which allows certain entities to elect to defer the effective date of the provisions of FASB ASU No. 2014-09 and ASU No. 2015-14 and ASU No. 2016-02. These entities may elect to adopt the guidance for revenue for annual reporting periods beginning after December 15, 2019. Additionally, under the amendments, entities may elect to adopt the leases guidance for fiscal years beginning after December 15, 2021.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets,* which requires the entity to present contributed nonfinancial assets in a separate line item in the statement of activities and change in net assets and disclose qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. Additionally, the entity must disclose a description of the valuation techniques and inputs used to arrive at a fair value measure at initial recognition. The ASU is effective for fiscal years beginning after June 15, 2021. Early adoption is permitted. The Organization is currently evaluating the impact adoption would have on the financial statements.

Subsequent events - The Organization has evaluated subsequent events through October 29, 2020, which is the date the financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations.

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

The COVID-19 outbreak has triggered volatility in financial markets and a significant negative impact on the global economy. The extent of the impact of COVID-19 on the Organization's operational and financial performance depend on certain developments, including the duration and spread of the outbreak, and the impact on employees, donors and vendors, all of which are uncertain and cannot be predicted. Beginning in March 2020, the Spring sports season, State Basketball and Cheer and State Summer Games were cancelled. The Organization transitioned to virtual programming to serve its community.

In response to the pandemic, the U.S. Government has enacted fiscal and monetary stimulus measures to counteract the disruption caused by the coronavirus. The Organization applied for and received a stimulus loan in the amount of approximately $366,000, the proceeds of which will largely be used to fund payroll costs. The Organization anticipates the loan will ultimately be forgiven. Additionally, subsequent to year end the Organization entered into a line of credit agreement for up to $500,000 and received donations from private and state organizations to fund virtual programming and returning to activities.

As of the date the financial statements were available to be issued, except as noted above, the Organization's operations have not been significantly negatively impacted. However, the Organization continues to closely monitor the situation. Depending on the severity and duration of the pandemic, the Organization could experience a material negative impact to operations, cash flows, and financial condition. However, the extent of the impact cannot be reasonably estimated at this time.

(2) Investments

Investments consist of the following at December 31, 2019:

Mutual funds - equity	$ 1,008,305
Mutual funds - fixed income	475,524
Common stock	35,731
Cash and cash equivalents	66,790
MRA Opportunities Fund I A	298,758
MRA Credit Strategies Fund	112,500
Vida Longevity Fund, LP	249,213
Ceres Farms, LLC	114,717
Total investments	$ 2,361,538

Investment income consists of the following for the year ended December 31, 2019:

Dividend and interest income	$ 98,530
Realized/unrealized investment gains	97,786
Investment fees	(8,979)
Investment income	$ 187,337

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.

(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, 2019:

	Level 1	Level 2	Level 3	Total
Mutual funds - equity:				
U.S. large cap	$ 224,236	$ -	$ -	$ 224,236
U.S. small/mid cap	394,853	-	-	394,853
International emerging market	97,925	-	-	97,925
Multi-strategy	291,291	-	-	291,291
Common Stock	35,731	-	-	35,731
Mutual fund - fixed income	475,524	-	-	475,524
Total	$ 1,519,560	$ -	$ -	$ 1,519,560

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, 2019:

	Fair Value	Unfunded Commitments	Frequency	Notice Period
MRA Opportunities Fund I A	$ 298,758	$ -	N/A	5 year lock up
MRA Credit Strategies Fund	112,500	-	N/A	N/A
Vida Longevity Fund, LP	249,213	-	Quarterly	180 days notice
Ceres Farms, LLC	114,717	-	Annually	Written notice by September 30th each year
Total	$ 775,188	$ -		

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.

MRA Credit Strategies Fund I-A, LP - The policy of this fund is to invest in underlying partnerships that invest in a variety of asset classes, including non-performing loans, collateralized loan obligations, private debt and real estate loans. Partners do not have the right to request capital redemptions from the partnership. Capital redemptions will be made at times, and amounts as determined by the general partner, in its sole discretion.

(3) Fair value measurements (continued)

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 of 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.

(4) Contributions receivable

Contributions receivable consist of the following at December 31, 2019:

Contributions and grants	$	271,109
Special Olympics International		206,351
Total contributions receivable	$	477,460

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 2019 distribution in 2020, thus this amount is included within current contributions receivable as of December 31, 2019. While the donation is time restricted, there are no purpose restrictions on the contributed funds.

As of December 31, 2019, the Organization has contributions receivable from two donors totaling approximately 73%, 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, 2019:

Cost and donated value:		
Office furniture and equipment	$	1,054,790
Software and licenses		367,631
Vehicles		511,913
Construction in process		2,106,952
Total cost and donated value		4,041,286
Accumulated depreciation		(1,298,485)
Property and equipment, net	$	2,742,801

Depreciation expense charged to operations was $232,927 for the year ended December 31, 2019.

(5) Property and equipment (continued)

In October 2018, the Organization signed an agreement with the Arizona Department of Corrections (the "DOC") to build a new site on land owned by the DOC. The construction is funded by the Organization, and is intended to be donated to the DOC but used exclusively by the Organization in accordance with the terms of the agreement. The building was funded through contributions received through the capital campaign or through liquidating investments. Under the agreement, the Organization will not own the land and will contribute the building upon completion to the DOC free and clear of any claim to the building and any fixtures. Once the building is completed, the Organization will lease the building from the DOC for a period of 20 years rent free. Construction was completed in June 2020, at a total cost of approximately $2.6 million.

The Organization will account for the exchange portion of the agreement as a lease upon completion of the building. Any portion of this agreement that is determined to be a contribution will be accounted for in accordance with ASC 958-605. As of December 31, 2019, due to the conditions within the contract, any amount deemed to be a contribution will not be recorded until the conditions are met, which is considered to be when title passes to the DOC.

(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:

Years Ending December 31,		
2020	$	42,733
2021		5,178
Total minimum future rental payments	$	47,911

Rental expense on leases with terms exceeding one month for the year ended December 31, 2019 was $65,979. Upon expiration of the office and storage space agreements in June 2020, the leases were not renewed as the Organization moved into their new site (Note 5). In the normal course of business, operating leases for equipment are generally renewed or replaced by other leases.

(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, 2019.

The changes in endowment net assets for the year ended December 31, 2019 were as follows:

Endowment net assets, beginning of year	$ 2,150,168
Investment return:	
Investment income, net	97,671
Net appreciation (realized and unrealized)	76,156
Other changes:	
Withdrawals	-
Endowment net assets, end of year	$ 2,323,995

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.

(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. Effective August 1, 2019, the Organization matches 100% of employees' contributions up to 6% of their total compensation. Contributions made by the Organization were $63,777 for the year ended December 31, 2019.

(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	$	950,334
Contributions receivable		477,460
Investments		2,361,538
Total financial assets		3,789,332
Less:		
Cash restricted to investment in property and equipment		(10,031)
Board designated investments		(2,323,995)
Alternative investments with liquidity restrictions		(411,258)
Financial assets available to meet cash needs for general expenditure within one year	$	1,044,048

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 were approximately $2.1 million and is the project is financed from operating cash as well as contributions of $850,000. The facility was completed in June 2020.