SPECIAL OLYMPICS ARIZONA, INC.

FINANCIAL STATEMENTS
AND UNIFORM GUIDANCE SUPPLEMENTARY REPORTS

Year Ended December 31, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

SPECIAL OLYMPICS ARIZONA, INC.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ***Special Olympics Arizona, Inc.*** (the "Organization"), which comprise the statement of financial position as of December 31, 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2023 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

November 13, 2023

SPECIAL OLYMPICS ARIZONA, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2022

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 2,661,139
Contributions receivable	3,124,697
Prepaid expenses	81,826
Prepaid rent	138,217
Other current assets	838
TOTAL CURRENT ASSETS	6,006,717
INVESTMENTS	2,230,599
PREPAID RENT, net of current portion	2,292,974
OPERATING RIGHT-OF-USE ASSET, net	41,915
PROPERTY AND EQUIPMENT, net	421,133
TOTAL ASSETS	$ 10,993,338

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accrued expenses	$ 230,753
Deferred revenue	272,057
Current portion of operating lease liability	14,736
TOTAL CURRENT LIABILITIES	517,546
Operating lease liability, less current portion	27,459
TOTAL LIABILITIES	545,005
NET ASSETS	
Without donor restrictions:	
Non-board designated	8,262,718
Board designated endowment	2,170,615
Total net assets without donor restrictions	10,433,333
With donor restrictions	15,000
TOTAL NET ASSETS	10,448,333
TOTAL LIABILITIES AND NET ASSETS	$ 10,993,338

SPECIAL OLYMPICS ARIZONA, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended December 31, 2022

	Without donor restrictions	With donor restrictions	Total
SUPPORT AND REVENUE			
Contributions	$ 5,888,977	$ 15,000	$ 5,903,977
Donated materials and services	4,411,681	-	4,411,681
Telemarketing and direct mail	304,038	-	304,038
Merchandise sales	41,652	-	41,652
Investment loss	(103,056)	-	(103,056)
Loss on sale of property and equipment	(464)	-	(464)
Net assets released from restriction	10,034	(10,034)	-
Total support and revenue before special events	10,552,862	4,966	10,557,828
State special events:			
Cash	2,342,250	-	2,342,250
In-kind	433,923	-	433,923
Less cost of direct donor benefits	(964,057)	-	(964,057)
Gross profit on state special events	1,812,116	-	1,812,116
Local special events			
Cash	429,216	-	429,216
In-kind	77,294	-	77,294
Less cost of direct donor benefits	(185,452)	-	(185,452)
Gross profit on local special events	321,058	-	321,058
TOTAL SUPPORT AND REVENUE	12,686,036	4,966	12,691,002
FUNCTIONAL EXPENSES			
Program services:			
State and local programs	3,300,825	-	3,300,825
Competitions	2,698,102	-	2,698,102
Public education	2,106,210	-	2,106,210
Outreach, volunteers, and trainng	1,138,707	-	1,138,707
Total program services	9,243,844	-	9,243,844
Support services:			
General and administrative	246,202	-	246,202
Fundraising	262,842	-	262,842
Total support services	509,044	-	509,044
TOTAL FUNCTIONAL EXPENSES	9,752,888	-	9,752,888
CHAPTER ASSESSMENT	118,553	-	118,553
TOTAL EXPENSES	9,871,441	-	9,871,441
CHANGE IN NET ASSETS	2,814,595	4,966	2,819,561
NET ASSETS, BEGINNING OF YEAR	7,618,738	10,034	7,628,772
NET ASSETS, END OF YEAR	$ 10,433,333	$ 15,000	$ 10,448,333

See Notes to Financial Statements

SPECIAL OLYMPICS ARIZONA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022

	State and Local Programs	Competitions	Public Education	Outreach, Volunteers, and Training	Total Programs	General and Administrative	Fundraising	Total
Compensation of current officers	$ 41,610	$ 39,946	$ 28,295	$ 31,624	$ 141,475	$ 13,315	$ 11,651	$ 166,441
Other salaries and wages	402,371	386,277	273,613	305,802	1,368,063	128,759	112,664	1,609,486
401(k) contributions	62,600	8,904	6,307	7,049	84,860	2,968	2,597	90,425
Other employee benefits	52,645	50,539	35,798	40,010	178,992	16,846	14,741	210,579
Payroll taxes	95,421	17,725	12,555	14,033	139,734	5,908	5,170	150,812
Consulting and management	393,402	75,655	446,119	41,118	956,294	16,011	178	972,483
Audit and accounting fees	17,567	16,865	11,946	13,351	59,729	5,622	4,919	70,270
Office expense	10,013	35,364	6,809	7,610	59,796	3,012	600	63,408
IT services	38,333	18,975	13,441	15,022	85,771	6,325	5,534	97,630
Occupancy	63,459	232,259	60,209	26,689	382,616	11,235	9,805	403,656
Travel	176,132	394,977	56,473	7,269	634,851	2,828	-	637,679
Conferences, conventions, meetings	23,895	2,313	14,262	1,264	41,734	492	-	42,226
Interest and bank charges	4,596	8,205	21,572	3,465	37,838	1,348	-	39,186
Depreciation	45,341	43,526	30,831	34,458	154,156	13,405	-	167,561
Insurance	27,207	26,119	18,501	20,677	92,504	8,022	-	100,526
Competitions	2,748	27,829	4,950	-	35,527	-	-	35,527
Supplies	481,012	150,033	99,082	25,841	755,968	10,052	318,231	1,084,251
Awards	1,381	25,896	9,882	140	37,299	54	-	37,353
In-kind media	1,156,641	-	874,335	543,285	2,574,261	-	178,961	2,753,222
In-kind volunteer time	503,789	1,093,515	403,634	-	2,000,938	-	21,448	2,022,386
In-kind other	31,798	43,180	61,372	-	136,350	-	10,940	147,290
TOTAL FUNCTIONAL EXPENSES	3,631,961	2,698,102	2,489,986	1,138,707	9,958,756	246,202	697,439	10,902,397
Chapter assessment	29,638	28,453	20,154	22,525	100,770	9,484	8,299	118,553
TOTAL EXPENSES	$ 3,661,599	$ 2,726,555	$ 2,510,140	$ 1,161,232	$ 10,059,526	$ 255,686	$ 705,738	$ 11,020,950

See Notes to Financial Statements

SPECIAL OLYMPICS ARIZONA, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 2,819,561
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	167,561
Non-cash lease expense	14,893
Loss on sale of property and equipment	464
Realized/unrealized losses on investments	226,991
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Contributions receivable	(1,829,508)
Prepaid rent	137,349
Prepaid expenses	(2,653)
Increase (decrease) in:	
Accrued expenses	64,497
Operating lease liabilities	(14,613)
Deferred revenue	145,533
Net cash provided by operating activities	1,730,075
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(354,933)
Proceeds from sale of investments	263,094
Proceeds from sale of property and equipment	30,900
Purchases of property and equipment	(44,922)
Net cash used in investing activities	(105,861)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,624,214
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,036,925
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,661,139
NON CASH INVESTING AND FINANCING ACTIVITIES	
Operating right of use assets recognized upon adoption of FASB ASC Topic 842	$ 56,808

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2022

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

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, who 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 its 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, whereby 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").

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, 2022, investments are classified as long-term assets 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, 2022, all contributions receivable are due within one year. Management considers contributions receivable to be fully collectible at December 31, 2022 and, accordingly, an allowance for doubtful accounts has not been provided.

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

Prepaid rent - 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 was to be funded by the Organization and the facility was to be transferred to the DOC upon completion but used exclusively by the Organization in accordance with the terms of the agreement. In July 2020, the Organization transferred the building to the DOC free and clear of any claim to the building and any fixtures at its total value of $2,764,348. Upon transfer, the Organization began leasing the building from the DOC for a period of 20 years "rent free". The Organization accounted for the agreement as an exchange transaction as the value of the building upon completion approximates the present value of future lease expense. The transfer of the building represents prepaid rent and is being amortized on a straight-line basis over the lease term. See Note 6.

Property and equipment and related depreciation - Purchased property and equipment is valued at cost and donated property and equipment is recorded at 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 2022.

Contributions and grants - In accordance with ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*, 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.

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

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.

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, 2022, 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, 2022, the Organization received $252,057 of funding for which the conditions have not yet been met. These amounts are included in deferred revenue in the accompanying statement of financial position. Additionally, the Organization is the recipient of certain conditional promises to give that will be recognized upon the satisfaction of the grant conditions, which primarily include incurring qualifying expenses. As of December 31, 2022, conditional promises to give that have not been recognized because the conditions have not been met totaled $2,034,135.

Bequests are recognized as contribution revenue in the period the Organization receives notification the court has found the will of the donor’s estate to be valid and all conditions have been substantially met.

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 - In September 2020, the FASB issued Accounting Standards Update (“ASU”) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The Organization implemented ASU 2020-07 during the year ended December 31, 2022 and presents contributed nonfinancial assets separately on the statement of activities and change in net assets as in-kind contributions.

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

The Organization receives various in-kind contributions in the form of donated services, supplies, and other materials. Donated materials and services are reflected in the accompanying financial statements at their estimated fair value as of the date of donation. In-kind contributions are valued using estimated prices of identical or similar services and products in the local retail markets (Level 2 inputs).

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

During the year ended December 31, 2022, there were no donor restrictions on the in-kind contributions.

The Organization received the following donated materials and services during the year ended December 31, 2022:

Donated services	$ 2,022,386
Facilities	65,545
Printing and media	2,753,222
Food and beverage	7,800
Fundraising items	23,385
Equipment rental, uniforms, and supplies	50,560
Total donated materials and services	$ 4,922,898

For the year ended December 31, 2022, $511,217 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.

(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.

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, 2022, 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 2019, 2020 and 2021 are subject to examination by the IRS, generally for three years after they were filed. As of the date of this report, the 2022 return had not yet been filed.

Leases - Effective January 1, 2022, the Organization adopted ASC Topic 842, *Leases*, using the modified retrospective approach. Upon adoption of Topic 842, the Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Organization to not reassess whether a contract is or contains a lease, carry forward the historical lease classification, and use the hindsight approach when determining the lease term. In addition, the Organization made an accounting policy election not to separate non-lease components from lease components for all existing classes of underlying assets. The Organization also made an accounting policy election to not record right of use ("ROU") assets and lease liabilities for leases with an initial term of twelve months or less on the accompanying statement of financial position. The adoption did not have a material impact on the Organization's statement of financial position nor the statement of activities and change in net assets and had no impact on cash flows from operations.

The Organization determines if a contract or arrangement is, or contains, a lease at inception. ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Organization has elected the private company accounting alternative to use a risk-free discount rate for all classes of underlying assets based on the information available at commencement date in determining the present value of lease payments. The ROU asset includes any prepaid lease payments and additional direct costs and excludes lease incentives. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised.

Subsequent events - The Organization has evaluated subsequent events through November 13, 2023, which is the date the financial statements were available to be issued.

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2022

(2) Investments

Investments consist of the following at December 31, 2022:

Mutual funds - equity	$	536,552
Mutual funds - fixed income		1,136,380
Common stock		54,795
Cash and cash equivalents		19,225
MRA Opportunities Fund I A		183,305
MRA Credit Strategies Fund		94,919
Vida Longevity Fund, LP		803
Ceres Farms, LLC		204,620
Total investments	$	2,230,599

Investment loss consists of the following for the year ended December 31, 2022:

Dividend and interest income	$	132,703
Realized/unrealized investment losses		(226,991)
Investment fees		(8,768)
Investment loss	$	(103,056)

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, 2022:

	Level 1	Level 2	Level 3	Total
Mutual funds - equity:				
U.S. large cap	$ 241,886	$ -	$ -	$ 241,886
U.S. small/mid cap	159,800	-	-	159,800
International large cap	134,866			134,866
Common stock	54,795	-	-	54,795
Mutual fund - fixed income	1,136,380	-	-	1,136,380
Total	$ 1,727,727	$ -	$ -	$ 1,727,727

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, 2022:

(3) Fair value measurements (continued)

	Fair Value	Unfunded Commitments	Frequency	Notice Period
MRA Opportunities Fund I A	$ 183,305	$ -	N/A	5 year lock up
MRA Credit Strategies Fund	94,919	-	N/A	N/A
Vida Longevity Fund, LP	803	-	Quarterly	180 days notice
Ceres Farms, LLC	204,620	-	Annually	Written notice by September 30th each year
Total	$ 483,647	$ -		

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 - 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.

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, 2022:

Contributions and grants	$ 420,242
Bequest receivable	2,584,362
Special Olympics International	120,093
Total contributions receivable	$ 3,124,697

As of December 31, 2022, the Organization has contributions receivable from one donor totaling approximately 83% of the total contributions receivable in the accompanying statement of financial position. The entire balance of the bequest receivable is due from a single estate.

(5) Property and equipment

Property and equipment consists of the following at December 31, 2022:

Cost and donated value:	
Office furniture and equipment	$ 1,244,595
Software and licenses	382,554
Vehicles	563,365
Total cost and donated value	2,190,514
Accumulated depreciation	(1,769,381)
Property and equipment, net	$ 421,133

Depreciation expense charged to operations was $167,561 for the year ended December 31, 2022.

(6) Operating leases

The Organization has entered into non-cancelable operating lease agreements for office and storage space and equipment expiring through 2026. The operating lease right-of-use assets and operating lease liabilities, current and long-term are recorded as individual, separate items in the statement of financial position as of December 31, 2022. The following summarizes the line items in the statement of activities and change in net assets which include the components of lease expense and cash flow information related to operating leases for the year ended December 31, 2022:

Operating lease expense	$ 14,893
Operating cash flow from operating leases	$ 14,893

The following summarizes the weighted average remaining lease term and discount rate as of December 31, 2022:

Weighted Average Remaining Lease Term - Operating Leases	2.8
Weighted Average Discount Rate - Operating Leases	1.27%

The maturities of lease liabilities as of December 31, 2022 are as follows:

Years Ending December 31,	
2023	$ 15,183
2024	15,183
2025	11,174
2026	998
Total lease payments	42,538
Less: interest	(343)
Present value of lease liabilities	$ 42,195

Rental expense on leases with terms exceeding one month for the year ended December 31, 2022 was $161,692, which includes $137,407 of amortization expense related to the donated in-kind building from the DOC in 2020. In the normal course of business, operating leases for office and storage space and equipment are generally renewed or replaced by other leases.

(6) Operating leases (continued)

As discussed in Note 1 to the financial statements, in July 2020, the Organization entered into a 20 year lease agreement with the DOC. The rent was paid in full at the time that the Organization transferred the full constructed facility to the DOC. The value of the transferred building is being amortized to rent expense on a straight-line basis over the initial 20 year term of the lease.

(7) Line of credit

In April 2020, the Organization entered into a revolving line of credit agreement with a bank. The line of credit agreement is collateralized by substantially all of the Organization's assets. The Organization could make advances up to $500,000 until May 1, 2021. Upon maturity of the line of credit, the agreement was renewed and amended to decrease the line of credit to $250,000 and extend the maturity date to May 1, 2023. Advances on the line of credit are subject to an interest rate of the Bank prime rate plus 1.00% (7.5% at December 31, 2022). The line of credit was not used during the year ended December 31, 2022, nor was it subsequently renewed upon maturity.

(8) 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.

(9) Net assets with donor restrictions

Net assets with donor restrictions consisted of contributions received with donor-restricted purposes as of December 31, 2022. Releases from restriction represent capital expenditures throughout 2022.

(10) 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 Organization 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 Organization in a manner consistent with the standard of prudence prescribed by MCFA. The Organization has no donor-restricted endowment funds at December 31, 2022. The endowment assets are included within investments on the statement of financial position.

(10) Net assets without donor restrictions (continued)

The changes in endowment net assets for the year ended December 31, 2022 were as follows:

Endowment net assets, beginning of year	$ 2,289,346
Investment return:	
Investment income, net	89,429
Net depreciation (realized and unrealized)	(208,160)
Other changes:	
Withdrawals	-
Endowment net assets, end of year	$ 2,170,615

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. During 2022, there were no withdrawals from the endowment to support the operating cash flows of the Organization.

(11) 401(k) plan

The Organization has a 401(k) profit sharing plan covering eligible employees. The Organization matches 100% of employees' contributions up to 6% of their total compensation. Contributions made by the Organization were $90,425 for the year ended December 31, 2022.

(12) Concentrations of credit risk

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

(13) 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 and cash equivalents	$ 2,661,139
Contributions receivable	3,124,697
Investments	2,230,599
Total financial assets	8,016,435
Less:	
Board designated investments	(2,170,615)
Alternative investments with liquidity restrictions	(278,224)
Financial assets available to meet cash needs for general expenditure within one year	$ 5,567,596

(13) Liquidity and availability of resources (continued)

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 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.

UNIFORM GUIDANCE
SUPPLEMENTARY REPORTS

SPECIAL OLYMPICS ARIZONA, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2022

Federal Grantor / Pass-Through Grantor /Program or Cluster Title	Assistance Listing Number	Pass-through Grantor's Identifying Number	Federal Expenditures
U.S. Department of the Treasury			
Passed through the Arizona State Office of the Governor:			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	022622-01	$ 249,581
Passed through Maricopa County:			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	C-73-22-060-X-00	127,934
Subtotal 21.027			377,515
Total U.S. Department of the Treasury			377,515
U.S. Department of Education			
Passed through Special Olympics North America:			
Special Education - Special Olympics Education Programs	84.380W	21 800 02	459,299
Passed through the Arizona Department of Education:			
COVID-19 - American Rescue Plan – Elementary and Secondary School Emergency Relief (ARP ESSER)	84.425U	CTR059765	236,090
Total U.S. Department of Education			695,389
U.S. Department of Health and Human Services			
Passed through Special Olympics North America:			
Disabilities Prevention	93.184	2021-1991; 2022-2798; 2022-2605	144,188
Passed through Arizona Family Health Partnership (AFFIRM):			
Family Planning Services	93.217	UNKNOWN	205,331
Passed through Arizona Developmental Disabilities Planning Council:			
Developmental Disabilities Basic Support and Advocacy Grants	93.630	ADDPC-FFY22-CON/TRN-020-01	4,954
Total U.S. Department of Health and Human Services			354,473
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,427,377

SPECIAL OLYMPICS ARIZONA, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2022

(1) <u>Basis of presentation</u>

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of ***Special Olympics Arizona, Inc.*** under programs of the federal government for the year ended December 31, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of ***Special Olympics Arizona, Inc.***, it is not intended to and does not present the financial position, change in net assets or cash flows of ***Special Olympics Arizona, Inc. Special Olympics Arizona, Inc.*** did not provide federal awards to sub-recipients during the year ended December 31, 2022.

(2) <u>Summary of significant accounting policies</u>

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. ***Special Olympics Arizona, Inc.*** has not elected to use the ten percent de minimus indirect cost rate allowed under the Uniform Guidance.

(3) <u>Assistance listing numbers</u>

The program titles and assistance listing numbers were obtained from the 2022 Assistance Listings.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COPMLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of

SPECIAL OLYMPICS ARIZONA, INC.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ***Special Olympics Arizona, Inc.*** (the "Organization"), which comprise the statement of financial position as of December 31, 2022, and the related statement 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, and have issued our report thereon dated November 13, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Special Olympics Arizona, Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

November 13, 2023

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of

SPECIAL OLYMPICS ARIZONA, INC.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited ***Special Olympics Arizona, Inc.'s*** (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2022. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America (Government Auditing Standards); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-002 and 2022-003 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-004 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express not opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

November 13, 2023

SPECIAL OLYMPICS ARIZONA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2022

Section I - Summary of Auditors' Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	Yes
b. Significant deficiency(ies) identified?	None Reported
3. Noncompliance material to financial statements noted?	No

Federal Awards

1. Internal control over major programs:	
a. Material weakness(es) identified?	Yes
b. Significant deficiency(ies) identified?	Yes
2. Type of auditors' report issued on compliance for major federal programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

4. Identification of major federal programs:

Assistance Listing Numbers	Name of Federal Program or Cluster
21.027	Coronavirus State and Local Fiscal Recovery Funds
84.425U	American Rescue Plan – Elementary and Secondary School Emergency Relief (ARP ESSER)

5. Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
6. Auditee qualified as a low-risk auditee?	No

SPECIAL OLYMPICS ARIZONA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2022

Section II – Financial Statement Findings

Item:	2022-001
Subject:	Timeliness in Reporting and Adequacy of Staffing
Criteria or Specific Requirement:	Organizations receiving single audits are required to submit their financial and federal award information to the Federal Audit Clearinghouse within 9 months after their fiscal year end.
Condition:	The financial statements and data collection form were not submitted to the Clearinghouse until after September 30, 2023, at which time, the submission became delinquent.
Cause:	Significant delays in Special Olympics Arizona, Inc.'s close and financial reporting process were caused by a lack of resources as a result of reduced staffing from employee turnover within those overseeing the major programs tested.
Effect:	***Special Olympics Arizona, Inc.*** was not able to meet its financial reporting, audit requirements, and deadlines. This also impacted decision-makers' ability to rely on financial information that is not provided in a timely manner. Additionally, the delay in the federal award reporting resulted in the Special Olympics Arizona, Inc.'s delay in issuing its single audit reporting package which was due on September 30, 2023 and could result in actions being taken by federal grantors on various federal awards. This is deemed to be a material weakness in internal control over financial reporting.
Identification as a Repeat Finding:	Not a repeat finding
Recommendation:	We recommend that management implement standard operating procedures in which information is recorded, shared, or otherwise disbursed among multiple employees such that the departure of a key employee does not result in a loss of information regarding judgments made in overseeing major programs.
Views of Responsible Officials:	Management of the Organization concurs with the finding. See Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs

Item:	2022-002
Assistance Listing Number:	21.027
Programs:	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
Federal Agency:	U.S. Department of the Treasury
Pass-Through Agencies:	Arizona State Office of the Governor; Maricopa County
Pass-Through Grantor Identifying Number:	Unknown
Award Year:	January 1, 2022 to December 31, 2024; January 28, 2022 to June 30, 2023

SPECIAL OLYMPICS ARIZONA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2022

Compliance Requirement:	Allowable Activities and Costs
Criteria:	In accordance with 2 CFR § 200.430 – Compensation – the entity's system of internal controls should include a process to review after-the-fact interim charges made to federal awards based upon budget or allocation estimates.
Condition:	The entity's system of internal controls did not include a process to review after-the-fact interim payroll charges made to federal awards based upon budget or allocation estimates.
Questioned Costs:	n/a
Context:	In a population of over 250 payroll costs charged to the program, we conducted a non-statistical sample of 40 payroll costs charged to the program. In our sample of 40, we noted that all selections were charged to the program based on budget estimates. Payroll records and the nature of the Organization's programs evidenced that allowable cost and activities occurred. Recordkeeping regarding the measurement of actual effort compared to budgeted or allocated effort was inadequate. As such, this is deemed to be a material weakness in internal control over compliance.
Effect:	The system of internal controls is not properly designed to detect potential adjustments needed to the amounts that were billed based upon budget or allocation estimates.
Cause:	***Special Olympics Arizona, Inc.*** did not design processes and controls to perform the after-the-fact review.
Identification as a Repeat Finding:	Not a repeat finding
Recommendation:	The entity should design processes and controls to perform the after-the-fact review or implement a process that will allow for billing of actual expenses rather than budgeted expenses.
Views of Responsible Officials:	Management of the Organization concurs with the finding. See Corrective Action Plan.

Item:	2022-003
Assistance Listing Number:	84.425U
Programs:	COVID-19 - American Rescue Plan – Elementary and Secondary School Emergency Relief (ARP ESSER)
Federal Agency:	U.S. Department of Education
Pass-Through Agencies:	Arizona Department of Education
Pass-Through Grantor Identifying Number:	Unknown
Award Year:	April 19, 2022 to September 30, 2024

Compliance Requirement:	Allowable Activities and Costs
Criteria:	In accordance with 2 CFR § 200.430 – Compensation – the entity's system of internal controls should include a process to review after-the-fact interim charges made to federal awards based upon budget or allocation estimates.
Condition:	The entity's system of internal controls did not include a process to review after-the-fact interim payroll charges made to federal awards based upon budget or allocation estimates.
Questioned Costs:	n/a
Context:	In a population of 182 payroll costs charged to the program, we conducted a non-statistical sample of 18 payroll costs charged to the program. In our sample of 18, we noted that all selections were charged to the program based on estimated allocations determined in advance based on job descriptions and duties. We noted that actual time incurred was not used to charge expenditures to the program. Payroll records and the nature of the Organization's programs evidenced that allowable cost and activities occurred. Recordkeeping regarding the measurement of actual effort compared to budgeted or allocated effort was inadequate. As such, this is deemed to be a material weakness in internal control over compliance.
Effect:	The system of internal controls is not properly designed to detect potential adjustments needed to the amounts that were billed based upon budget or allocation estimates.
Cause:	***Special Olympics Arizona, Inc.*** did not design processes and controls to perform the after-the-fact review.
Identification as a Repeat Finding:	Not a repeat finding
Recommendation:	The entity should design processes and controls to perform the after-the-fact review or implement a process that will allow for billing of actual expenses rather than budgeted expenses.
Views of Responsible Officials:	Management of the Organization concurs with the finding. See Corrective Action Plan.
Item:	2022-004
Assistance Listing Number:	21.027
Programs:	Coronavirus State and Local Fiscal Recovery Funds
Federal Agency:	U.S. Department of the Treasury
Pass-Through Agencies:	Arizona State Office of the Governor; Maricopa County
Pass-Through Grantor Identifying Number:	Unknown
Award Year:	January 1, 2022 to December 31, 2024; January 28, 2022 to June 30, 2023

SPECIAL OLYMPICS ARIZONA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2022

Compliance Requirement:	Procurement, suspension and debarment
Criteria:	In accordance with 2 CFR § 200.318 - General procurement standards - the entity must use its own documented procurement procedures which reflect applicable. State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in 2 CFR § 200.318.
Condition:	The entity does not have a documented procurement policy and procedures that address the provisions of 2 CFR § 200.318
Questioned Costs:	n/a
Context:	In a population of 79 procurements for program costs, we conducted a non-statistical sample of 8 transactions. In our sample of 8 transactions, it was noted that all procurements were below the micro-purchase threshold, but there was no documented procurement policies or controls to ensure compliance with 2 CFR § 200.318.
Effect:	Undocumented procurement decisions could violate the requirements of 2 CFR § 200.318
Cause:	***Special Olympics Arizona, Inc.*** did not prepare written procurement policies, nor implement controls to ensure adherence to the policies, that conform to 2 CFR § 200.318.
Identification as a Repeat Finding:	Not a repeat finding
Recommendation:	The entity should prepare written procurement policies and implement controls to ensure adherence to the policies that conform to 2 CFR § 200.318.
Views of Responsible Officials:	Management of the Organization concurs with the finding. See Corrective Action Plan.

Special Olympics
Arizona

Corrective Action Plan

Item:	2022-001
Subject:	Timeliness in Reporting and Adequacy of Staffing
Criteria or Specific Requirement:	Organizations receiving single audits are required to submit their financial and federal award information to the Federal Audit Clearinghouse within 270 days of their fiscal year end.
Condition:	The financial statements and data collection form were not submitted to the Clearinghouse until after September 30, 2023, at which time, the submission became delinquent.
Name of Contact Person:	Doug Taylor, CFO
Phone Number:	(602) 230-1116
Anticipated Completion Date:	December 31, 2023
Views of Responsible Officials and Corrective Actions:	***Special Olympics Arizona, Inc.*** will establish additional policies and procedures to ensure that information will be disbursed and retained such that the departure of key employees does not result in a loss of information over judgments made in overseeing major programs.

Item:	2022-002
Assistance Listing Number:	21.027
Programs:	Coronavirus State and Local Fiscal Recovery Funds
Federal Agency:	U.S. Department of the Treasury
Pass-Through Agencies:	Arizona State Office of the Governor; Maricopa County
Pass-Through Grantor Identifying Number:	Unknown
Award Year:	January 1, 2022 to December 31, 2024; January 28, 2022 to June 30, 2023
Criteria:	In accordance with 2 CFR § 200.430 – Compensation – the entity's system of internal controls should include a process to review after-the-fact interim charges made to federal awards based upon budget or allocation estimates.
Condition:	The entity's system of internal controls did not include a process to review after-the-fact interim payroll charges made to federal awards based upon budget or allocation estimates.
Name of Contact Person:	Doug Taylor, CFO
Phone Number:	(602) 230-1116

Anticipated Completion Date:	December 31, 2023
Views of Responsible Officials and Corrective Actions:	***Special Olympics Arizona, Inc.*** will revise its policies and procedures to require that actual time be recorded on timesheets for the actual efforts spent on Federal awards. Management will utilize actual time and effort when charging expenditures to Federal awards going forward.
Item:	2022-003
Assistance Listing Number:	84.425U
Programs:	American Rescue Plan – Elementary and Secondary School Emergency Relief (ARP ESSER)
Federal Agency:	U.S. Department of Education
Pass-Through Agencies:	Arizona Department of Education
Pass-Through Grantor Identifying Number:	Unknown
Award Year:	April 19, 2022 to September 30, 2024
Criteria:	In accordance with 2 CFR § 200.430 – Compensation – the entity's system of internal controls should include a process to review after-the-fact interim charges made to federal awards based upon budget or allocation estimates.
Condition:	The entity's system of internal controls did not include a process to review after-the-fact interim payroll charges made to federal awards based upon budget or allocation estimates.
Name of Contact Person:	Doug Taylor, CFO
Phone Number:	(602) 230-1116
Anticipated Completion Date:	December 31, 2023
Views of Responsible Officials and Corrective Actions:	***Special Olympics Arizona, Inc.*** will revise its policies and procedures to require that actual time be recorded on timesheets for the actual efforts spent on Federal awards. Management will utilize actual time and effort when charging expenditures to Federal awards going forward.
Item:	2022-004
Assistance Listing Number:	21.027
Programs:	Coronavirus State and Local Fiscal Recovery Funds
Federal Agency:	U.S. Department of the Treasury

Special Olympics Arizona

Pass-Through Agencies:	Arizona State Office of the Governor; Maricopa County
Pass-Through Grantor Identifying Number:	Unknown
Award Year:	January 1, 2022 to December 31, 2024; January 28, 2022 to June 30, 2023
Criteria:	In accordance with 2 CFR § 200.318 - General procurement standards - the entity must use its own documented procurement procedures which reflect applicable. State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in 2 CFR § 200.318.
Condition:	The entity does not have a documented procurement policy and procedures that address the provisions of 2 CFR § 200.318
Name of Contact Person:	Doug Taylor, CFO
Phone Number:	(602) 230-1116
Anticipated Completion Date:	Completed
Views of Responsible Officials and Corrective Actions:	***Special Olympics Arizona, Inc.*** will document in writing its previously unwritten policies and procedures to ensure adherence to the procurement policies that conform to 2 CFR § 200.318.