

SPECIAL OLYMPICS OREGON, INC.

Financial Statements

For the Year Ended December 31, 2017

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Independent Auditor's Report

To the Board of Directors
Special Olympics Oregon, Inc.
Portland, Oregon

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Special Olympics Oregon, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Richard Winkel, CPA". The signature is written in a cursive, slightly slanted style.

Richard Winkel, CPA
October 8, 2018

SPECIAL OLYMPICS OREGON, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2017

	2017
ASSETS	
Current assets:	
Cash	\$ 147,836
Grants and contributions receivable	257,766
Prepaid expenses and other assets	33,926
Total current assets	439,528
Grants and contributions receivable long-term, net	812,872
Investments in certificates of deposit	51,415
Beneficial interest in a charitable trust held by others	305,642
Capital assets, net of depreciation	32,788
Total assets	\$ 1,642,245
LIABILITIES AND NET ASSETS	
Current liabilities:	
Line of credit	\$ 1,000,000
Accounts payable, trade	1,055,451
Accrued payroll	3,990
Total liabilities	2,059,441
Net assets:	
Unrestricted	(2,190,942)
Temporarily restricted	1,722,447
Permanently restricted	51,299
Total net assets	(417,196)
Total liabilities and net assets	\$ 1,642,245

The accompanying notes are an integral part of these financial statements

SPECIAL OLYMPICS OREGON, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Contributions	\$ 2,184,966	\$ 18,553	\$ -	\$ 2,203,519
Grants	266,982	205,000	-	471,982
Special events, less direct costs \$739,685	339,019	-	-	339,019
In-kind contributions	3,688,236	-	-	3,688,236
Net change in carrying value of a charitable trust	-	49,540	-	49,540
Interest income	6	51	-	57
	<u>6,479,209</u>	<u>273,144</u>	<u>-</u>	<u>6,752,353</u>
Release from restrictions	<u>748,495</u>	<u>(748,495)</u>	<u>-</u>	<u>-</u>
Total revenues	7,227,704	(475,351)	-	6,752,353
Program services	6,700,468	-	-	6,700,468
Fundraising	912,332	-	-	912,332
Special events promotion and management	127,732	-	-	127,732
Management and general	373,314	-	-	373,314
Total expenses	<u>8,113,846</u>	<u>-</u>	<u>-</u>	<u>8,113,846</u>
Change in net assets	<u>(886,142)</u>	<u>(475,351)</u>	<u>-</u>	<u>(1,361,493)</u>
Net assets at beginning year	<u>(1,304,800)</u>	<u>2,197,798</u>	<u>51,299</u>	<u>944,297</u>
Net assets at end of year	<u>\$ (2,190,942)</u>	<u>\$ 1,722,447</u>	<u>\$ 51,299</u>	<u>\$ (417,196)</u>

The accompanying notes are an integral part of these financial statements

SPECIAL OLYMPICS OREGON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	2017				
	Program Services	Fundraising	Special Events	Management and General	Total
Salaries and related costs	\$ 1,446,251	\$ 436,790	\$ -	\$ 225,636	\$ 2,108,677
Competition and training	1,053,435	229,933	-	62	1,283,430
Volunteer services	3,688,236	-	-	-	3,688,236
Professional services	263,642	154,267	-	22,908	440,817
Occupancy	94,010	39,584	-	32,798	166,392
Supplies and equipment	15,912	2,578	-	4,449	22,939
Office expenses	2,659	14,327	-	1,828	18,814
Postage and shipping	4,241	4,244	-	3,852	12,337
Travel	19,783	405	-	136	20,324
Printing and copying	9,682	15,602	-	2,688	27,972
Special events promotion	-	-	127,732	-	127,732
National accreditation fees	64,623	-	-	-	64,623
Insurance	13,266	5,038	-	13,067	31,371
Interest and bank fees	25	-	-	58,751	58,776
Depreciation	24,703	9,564	-	7,139	41,406
Total expenses	<u>\$ 6,700,468</u>	<u>\$ 912,332</u>	<u>\$ 127,732</u>	<u>\$ 373,314</u>	<u>\$ 8,113,846</u>

The accompanying notes are an integral part of these financial statements

SPECIAL OLYMPICS OREGON, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

	<u>2017</u>
Cash flows from operating activities:	
Cash received from contributions and grants	\$ 3,421,798
Cash received from special events	339,019
Cash received from others	5
Cash paid to employees, suppliers, and others	<u>(4,020,114)</u>
Net cash used in operating activities	<u>(259,292)</u>
Cash flows from financing activities:	
Proceeds from line of credit	843,768
Payments on line of credit	<u>(495,000)</u>
Net cash provided by financing activities	<u>348,768</u>
Net increase in cash and cash equivalents	<u>89,476</u>
Cash and cash equivalents at beginning of year	<u>58,360</u>
Cash and cash equivalents at end of year	<u>\$ 147,836</u>
Cash paid for interest	<u>\$ 44,871</u>

The accompanying notes are an integral part of these financial statements

Special Olympics Oregon
Notes to the Financial Statements
December 31, 2017

NOTE A – ORGANIZATION

Special Olympics Oregon, Inc. (the “Organization”) is a private, not-for-profit organization founded in Oregon in 1968 to provide year-round sports training and athletic competition in a variety of Olympic-style sports for individuals with intellectual disabilities. The organization provides individuals with continuing opportunities to develop physical fitness, demonstrate courage, experience joy, and participate in a sharing of gifts, skills, and friendship with their families, other Special Olympics athletes, and the community. Special Olympics Oregon is affiliated with, and accredited by, Special Olympics, Inc., the national organization.

The Organization is funded through grants and contributions.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies applied in the preparation of the accompanying financial statements follows.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting and in accordance with Accounting Standards Codification (ASC) of the Financial Accounting Standards Board 958. ASC 958 is the standard for external financial reporting for not-for-profit organizations.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets are net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets are net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets are net assets subject to donor-imposed stipulations that they be maintained permanently by the organization. The donors of these assets generally permit the organization to use the investment return generated on related investments for either general or specific purposes.

Support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Temporary restrictions expire when the donor-stipulated purpose has been fulfilled and/or the donor-stipulated time period has elapsed. Expirations of temporary restrictions result in the reclassification of temporarily restricted net assets to unrestricted net assets and are reported in the statement of activities as net assets released from restriction.

Special Olympics Oregon
Notes to the Financial Statements
December 31, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include accounts with financial institutions covered by the Federal Deposit Insurance Corporation (FDIC) of \$250,000. For purposes of the statement of cash flows, the Organization considers all short-term investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments consist of certificates of deposit with initial maturities of greater than three months. Interest income is accrued as earned.

Contributions

Contributions, which include unconditional promises to give (“pledges”), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Pledges are reported net of an allowance for uncollectible amounts and a discount for the present value of future cash flows. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management’s judgement, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributions of Long-Lived Assets

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class, the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Benefits Provided to Donors at Special Events

Special Olympics Oregon conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of the benefits received by participants at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals, entertainments, and other benefits provided at special events is measured at the actual cost to the organization.

Revenue Recognition

All grants and contributions are considered available for unrestricted use unless specifically restricted by the donor. Revenues for services are recognized at the time services are provided and the revenues are earned. Proceeds from fundraising events are recognized as support when the event takes place. Deferred revenue consists of sponsorships and ticket proceeds received for tournaments and fundraising events that will occur after the end of the fiscal year.

Special Olympics Oregon
Notes to the Financial Statements
December 31, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Grants

Revenues from federal grants are recognized when the related expense is incurred.

Outstanding Legacies

Special Olympics Oregon is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The organization's share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

Beneficial Interest in a Charitable Trust

Special Olympics Oregon is the remainder beneficiary of a charitable trust in which a donor-designated beneficiary retains a life interest. The assets are invested and administered by an independent trustee, and distributions are made to the beneficiary during the term of the agreement. The funds in the trust are invested in equity and debt securities, and the Organization records its beneficial interest in the trust based on estimated future cash receipts. The initial recognition of the gift was reported as a contribution, and subsequent adjustments to the assets' carrying values are reported in the accompanying financial statements as a change in the carrying value of the charitable trust. The beneficial interest is classified as temporarily restricted due to the existence of the donor-imposed time restriction.

Advertising Expenses

Advertising and promotional costs are charged to expense as they are incurred.

Endowment Funds and Interpretation of Relevant Law

Effective January 1, 2008, the State of Oregon adopted the Uniform Prudent Management of Institutional Funds Act ("UP-MIFA") which governs Oregon charitable institutions with respect to the management, investment, and expenditure of endowment funds.

The Board of Directors has interpreted Oregon's adoption of UPMIFA as requiring the organization to adopt investment and spending policies that preserve the fair value of the original gift as of the date of gift, absent explicit donor stipulations to the contrary. Although the organization has a long-term fiduciary duty to the donor (and to others) for a fund of perpetual duration, the preservation of the endowment's purchasing power is only one of several factors that are considered in managing and investing these funds. Furthermore, in accordance with UPMIFA, a portion of the endowment's historic dollar value be appropriated for expenditure in support of the restricted purposes of the endowment if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA.

As a result of this interpretation, the organization classifies a permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation as added to the fund.

Special Olympics Oregon
Notes to the Financial Statements
December 31, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net earnings (realized and unrealized) on the investment of endowment assets are classified as temporarily restricted if the terms of the gift impose restrictions on the use of the income, until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA and until expended in a manner consistent with the purpose of time restrictions, if any, imposed by the donor. Any investment return classified as permanently restricted represents only those amounts required to be retained permanently as a result of explicit donor stipulations.

During the year ended December 31, 2017, the organization's Board of Directors did not appropriate any endowment assets for expenditure.

Concentration of Credit Risk

Special Olympics Oregon's financial instruments that are exposed to concentrations of credit risk consist primarily of certificates of deposit. These financial instruments may subject the organization to concentrations of credit risk as, from time to time, balances may exceed amounts insured by the Federal Deposit Insurance Corporation.

Certain receivables may also, from time to time, subject to organization to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible accounts.

Capital Assets

Capital assets are recorded at cost. When assets are retired or otherwise disposed of, the related carrying value, and accumulated depreciation are removed from their respective accounts and the net difference less any amount realized from disposition is reflected in earnings. Depreciation on furniture and equipment is calculated on the straight line method over the estimated useful lives of the assets, which is generally between 5 and 7 years.

Maintenance and repairs, including the replacement of non-significant items are expensed as incurred, and significant additions to capital assets are capitalized.

Income Taxes

The Organization received a tax determination letter indicating that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. It is management's opinion that none of the Organization's present activities are subject to unrelated business income taxes. Therefore, no provision for income taxes has been recorded in the accompanying financial statements.

Special Olympics Oregon
Notes to the Financial Statements
December 31, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C – GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable are summarized as follows at December 31, 2017. These are unconditional promises expected to be collected within:

Less than 1 year	\$ 257,766
One year to 5 years	579,500
More than 5 years	<u>300,000</u>
	1,137,266
Less discount	<u>(66,628)</u>
	<u><u>\$ 1,070,637</u></u>

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 1.74%.

NOTE D – BENEFICIAL INTEREST IN A CHARITABLE TRUST HELD BY OTHERS

Special Olympics Oregon is the beneficiary of a charitable remainder trust established by the will of a donor. Upon the death of the income beneficiary, the organization will receive 50% of the remaining assets of the trust. The trust's assets are managed by a third-party trustee not affiliated with Special Olympics Oregon. Total trust assets at December 31, 2017 are valued at \$1,988,840. A contribution receivable of \$305,642 is recorded at December 31, 2017, representing the actuarially determined present value of the estimated future cash flows that will insure to the organization, using a discount rate of 7.0%.

Special Olympics Oregon
Notes to the Financial Statements
December 31, 2017

NOTE E – PROPERTY, PLANT, AND EQUIPMENT

Major classes of property and equipment consist of the following at December 31, 2017:

Software	\$	323,418
Computer equipment		56,096
Leasehold improvements		72,849
Office equipment		32,835
Furniture		<u>22,140</u>
		507,338
Less accumulated depreciation		<u>(474,550)</u>
	\$	<u><u>32,788</u></u>

Depreciation expense for the year ended December 31, 2017 was \$41,406.

NOTE F – SHORT-TERM NOTE PAYABLE

Special Olympics maintains a line of credit for up to \$1,000,000, secured by all of the organization's assets and bearing interest at 3.5%. The line was extended to mature on April 20, 2018. At December 31, 2017, \$1,000,000 was outstanding.

The agreement with the bank requires that the organization maintain a minimum tangible net worth (interpreted by the bank to mean total net asset balances) of not less than \$1,000,000, measured annually. The agreement also requires that, for 30 consecutive days during the calendar year, the aggregate principal advances outstanding under the note should not exceed \$500,000.

As of and for the year ended December 31, 2017, the organization was not in compliance with either covenant. In September 2018, the short term note payable was renegotiated with the lender forgiving \$500,000 and the remaining balance refinanced through a short term note with a private lender. See the Subsequent Events disclosure in Note R below.

NOTE G – CONTRIBUTIONS

During the year ended December 31, 2017 the Organization received \$618,610 in contributions from direct marketing.

Special Olympics Oregon
Notes to the Financial Statements
December 31, 2017

NOTE H – RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Temporarily restricted net assets consist of the following at December 31, 2017:

Expendable grants and contributions:	
For games, competitions, and training	\$ 912,047
Respect Campaign/Unified and Unified Schools	78,209
Support for the Special Olympics Oregon program in Cottage Grove	9,602
Metro Youth programs	7,500
Oregon Team Wellness	75,000
Other programs	67,500
For operations in future periods	266,831
Beneficial interest in charitable trust held by others	<u>305,642</u>
	1,722,331
Expendable endowment earnings not yet appropriated for expenditure	<u>116</u>
	<u><u>\$ 1,722,447</u></u>

At December 31, 2017, the organization held a single donor-restricted endowment fund in the amount of \$51,415, representing \$51,299 as the original value of gifts donated to the permanent endowment and \$116 in accumulated endowment earnings. The investment earnings generated by this endowment can be used for such general, unrestricted purposes as determined by the Board of Directors.

The following summarizes the organization's endowment-related activities for the year ended December 31, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 65	\$ 51,299	\$ 51,364
Investment income	51	-	51
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u><u>\$ 116</u></u>	<u><u>\$ 51,299</u></u>	<u><u>\$ 51,415</u></u>

At December 31, 2017, the organization's endowment funds were invested in certificates of deposit.

Special Olympics Oregon
Notes to the Financial Statements
December 31, 2017

NOTE I – IN-KIND CONTRIBUTIONS

Special Olympics Oregon receives contributed services from a large number of volunteers who assist in fundraising and program efforts through their participation in a range of activities. In accordance with FASB ASC No. 958-605, significant services received that create or enhance a non-financial asset or require specialized skills that the organization would have purchased if not donated are recognized in the statement of activities.

In addition, in-kind contributions of equipment, materials, and the free use of facilities are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of the organization's activities.

Special Olympics Oregon's in-kind contributions for the year ended December 31, 2017 are summarized as follows:

Program services:	
Volunteer certified coaches	\$ 2,439,720
Volunteer local program coordinators and managers	740,840
Materials and supplies	206,572
Services	45,982
Free use of facilities	121,080
 Fundraising:	
Special events promotion	<u>134,042</u>
	 <u>\$ 3,688,236</u>

NOTE J – NET ASSETS RELEASED FROM RESTRICTIONS

During the year ended December 31, 2017, \$748,495 of net assets were released from temporary restrictions for operating purposes by incurring expenses in satisfaction of the restricted purposes specified by the organization's donors, or by the occurrence of other events specified by donors.

NOTE K – EXPENSES

The costs of providing the various programs and other activities of the organization have been summarized on a functional basis in the statement of functional expenses.

In accordance with generally accepted accounting principles, certain of the organization's fundraising costs qualify as costs of a joint activity (i.e., an activity that combines a fundraising function with one or more program functions) and have been allocated between the fundraising and program categories. During the year ended December 31, 2017, the organization incurred joint costs of \$232,333 through the conduct of telephone solicitation campaigns, of which 42% were allocated to program services and 58% to fundraising.

Special Olympics Oregon
Notes to the Financial Statements
December 31, 2017

NOTE L – OPERATING LEASES

Special Olympics Oregon leases its administrative offices under an agreement expiring on December 31, 2018.

Total rent expense was \$147,206 for the year ended December 31, 2017 under the terms of these operating leases.

Future minimum payments under the operating lease are as follows:

<u>Year ending December 31,</u>	
2018	<u>\$ 168,816</u>
	<u><u>\$ 168,816</u></u>

NOTE M – RETIREMENT PLAN

The organization provides all employees who are scheduled to work 30 hours or more each week with a qualified retirement plan, as described under Section 401(k) of the Internal Revenue Code. All employees may make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law, from their first day of employment. There are no employer contributions to the plan. Employees select from among several investment options.

NOTE N – UNEMPLOYMENT INSURANCE COVERAGE

The organization participates in the Northwest Agencies Trust for funding of unemployment insurance. Use of the Trust is intended to reduce the organization's unemployment costs. The Trust provides the organization with a program of self-insurance, with stop-loss insurance purchased to cover unusual amounts of unemployment costs. The Trust bills the organization for amounts intended to reach a predetermined reserve level. The assessments, billed quarterly, consider any investment income and adjust for administrative costs, payment to former employees, and insurance payments. During the year ended December 31, 2017, the organization contributed \$24,085 to the Trust, the Trust paid out \$18,950 in benefits and charged \$3,853 in insurance and participation costs.

NOTE O – INVESTMENTS

ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, maximizes the use of observable inputs, and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent resources while unobservable inputs reflect estimates about market data.

Special Olympics Oregon
Notes to the Financial Statements
December 31, 2017

NOTE O – INVESTMENTS (Continued)

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level I: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level II: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level III: Unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

At December 31, 2017, the beneficial interest in charitable trust held by others is measured at fair value on a recurring basis. This asset is measured at fair value using the information received from the trustee as a level III investment.

A summary of the change in valuation of this asset during the year ended December 31, 2017 is as follows:

Balance, December 31, 2016	\$	256,102
Net change in carrying value		<u>49,540</u>
Balance, December 31, 2017	\$	<u>305,642</u>

NOTE P – STATEMENT OF CASH FLOWS RECONCILIATION

The following presents a reconciliation of the decrease in net assets (as reported on the statement of activities) to net cash used in operating activities (as reported on the statement of cash flows):

Change in net assets	\$	(1,361,493)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Gain on investment in trust		(49,540)
Gain on investment in certificates of deposit		(52)
Depreciation		41,406
Net changes in:		
Grants receivable, net		746,297
Prepaid assets		54,499
Accounts payable		325,601
Accrued payroll		3,990
Deferred income		<u>(20,000)</u>
Net cash used in operating activities	\$	<u>(259,292)</u>

Special Olympics Oregon
Notes to the Financial Statements
December 31, 2017

NOTE Q – LIQUIDITY AND GOING CONCERN

In August of 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-15, Presentation of Financial Statements – Going Concern, which requires that management assess 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 within one year after the financial statements are issued.

The 2017 financial statements report a decrease in unrestricted net assets of \$886,142 and a decrease in total net assets of \$1,361,493. This follows decreases in net assets in 2016, 2015 and 2014. As a result, the organization’s cumulative unrestricted net assets deficit has increased from (\$1,304,800) at December 31, 2016 to (\$2,190,942) at December 31, 2017. In addition, during 2017, outstanding trade payables grew by \$325,601 and the line of credit increased by \$348,768. At December 31, 2017, current liabilities exceeded current assets by \$1,619,913. All of these factors affect the organization’s liquidity.

At December 31, 2017, the Organization had outstanding borrowings of \$1,000,000 on its line of credit, with no additional amounts available to be drawn. The Organization’s lender has waived compliance with certain financial covenants under the Credit Agreement applicable to the year ended December 31, 2017 (see footnote F) until April 20, 2018. The Organization entered into negotiations on a forbearance agreement, which was executed July 3, 2018, and provided for 90 days for the Organization’s new management to present a payment proposal. In September 2018, the short-term note payable was renegotiated with the lender forgiving \$500,000 and the remaining balance refinanced through a short term note with a private lender.

The Organization’s ability to continue as a going concern is dependent on many factors, including successful efforts to raise additional contributions and grants and successful cost reduction plans.

The Organization is undertaking significant actions designed to return the Organization to profitability and to generate positive cash flows to fund its operations. Under new management as of June 1, 2018, the Organization has executed on dramatic cost reductions including staff downsizing, moving to donated office space, and pausing in mission delivery at the local, regional and state level, including the Summer and Fall 2018 and Winter 2019 State Games. The Organization has secured interim donation-based funding to assist in the debt restructuring and fundraising efforts. The Organization’s leadership is confident these changes will allow the Organization to continue as a going concern in the near term.

The Organization’s financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or the amounts of liabilities should it be unable to continue as a going concern.

Special Olympics Oregon
Notes to the Financial Statements
December 31, 2017

NOTE R – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 8, 2018, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2017.

In September 2018, the short-term note payable was renegotiated with the lender forgiving \$500,000 and the remaining balance refinanced through a short term note with a private lender. The short-term note is payable at the earlier of December 2019 or on demand. The note bears interest at 2.195% per annum and is unsecured. Interest is payable at maturity.