GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

Special Olympics Oregon, Inc.

Financial Statements and Other Information
as of and for the Year Ended December 31, 2016
and Report of Independent Accountants

SPECIAL OLYMPICS OREGON, INC.

TABLE OF CONTENTS

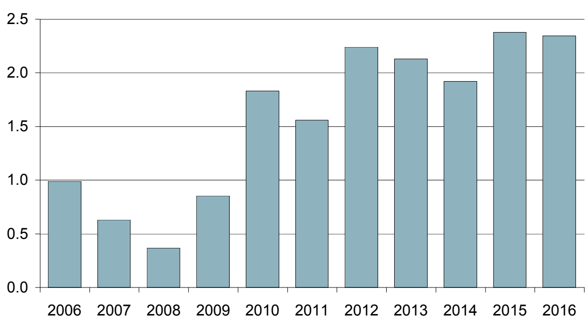
The Year in Review

Years ended December 31,

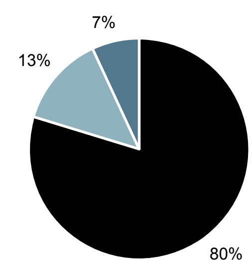
Total Revenues	$ 7.8 million
Total In-Kind Contributions (included in total revenues)	$ 3.5 million
Total Expenses	$ 8.0 million
Total Program Support of Special Olympics Athletes	$ 6.4 million
Total Assets	$ 2.3 million
Total Net Assets	$ 944 thousand

Funding Highlights

ASSETS OF SPECIAL OLYMPICS OREGON 2006-2016
(in millions)

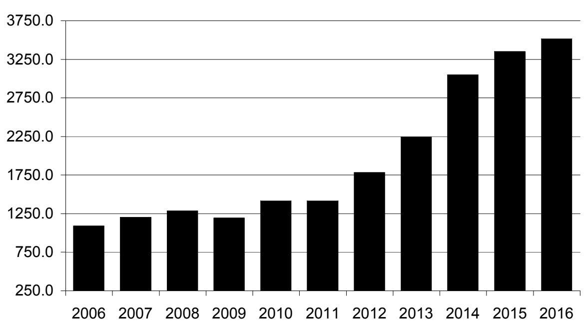


DISTRIBUTION OF OPERATING EXPENSES 2016

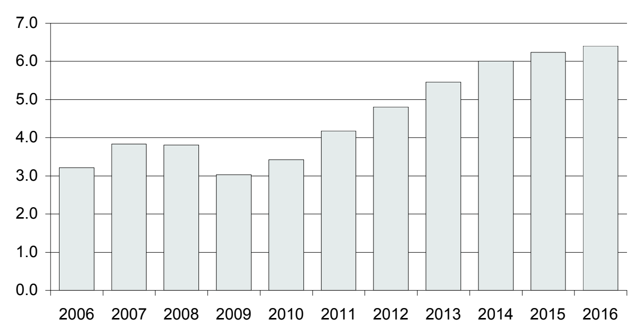


80% Program activities. $6.41 million
13% Fundraising. $1.07 million
7% Management and general. $562 thousand

IN-KIND DONATIONS 2006-2016
(in thousands)



TOTAL DIRECT MISSION SUPPORT 2006-2016
(in millions)



Letter from Special Olympics Oregon's Chief Executive Officer

Special Olympics Oregon…*Revealing the Champion in All of Us*.

Mia Hamm, the great two-time Olympic Gold Medalist in soccer and Women's World Cup winner, said "True champions aren't always the ones that win, but those with the most guts."

Year-round and statewide, Special Olympics Oregon serves the largest disability population in the state: individuals with intellectual disabilities. Champions? We know thousands of them. Guts? We see real courage every day as the participants in our life-changing programs overcome pronounced and unique challenges to meet their goals. Winners? There are many, not only the 14,000 we serve, but all those privileged to work with and on behalf of these true champions.

Special Olympics Oregon's programs focus on the development of "tools for life" for those with intellectual disabilities, many of whom have physical disabilities as well. The result is profound and measurable improvement in personal development, including:

- Increased social and communication skills (90% of participants' family members report improvement in relationship skills and friendships)
- Increased self-esteem and confidence
- Increased motor skills
- Improved cognitive skills
- Improved physical fitness
- Increased training in health care
- Increased independence and greater potential to hold a job and/or live alone

And in every Special Olympics activity, there is a common thread: the revealing of the champion in all of us. Our athletes make *us* better, they make us dig deep, find the courage and strength to reach higher and do more than we ever thought we could.

Special Olympics
Unified Champion Schools

Nowhere in all of Special Olympics Oregon programming is this more true than in our **Unified Champion Schools** initiative. In hundreds of Oregon schools, students with and without intellectual disabilities unite in sports teams in our Unified Soccer League and Unified Basketball League, as well as in other Special Olympics Oregon programs. Offered in collaboration with the Oregon School Activities Association (OSAA), Unified Champion Schools provides needed extracurricular activities in our education system, while fostering inclusion and greater understanding of all who have disabilities by those who do not. In addition, many **Unified Champion Schools** are conducting "Respect Campaigns" to combat school bullying. Led and managed by student leaders, the **Respect Campaign** is helping to build a culture of inclusion and acceptance in many schools throughout the state.

In 2016, Special Olympics Oregon experienced exponential growth in its *Unified Champion Schools* program and will see planned additional expansion in 2017 as educators continue to request the addition of *Unified Sports* and the *Respect Campaign* in their schools.

Mia Hamm was right about the best athlete not always being the one that wins the race. In Special Olympics Oregon, everyone is *already* a winner!

Margaret H. Hunt
Chief Executive Officer

Impact of Special Olympics Oregon

TEACHES "TOOLS FOR LIFE" to the largest disability population in Oregon

PROVIDES HEALTH EDUCATION & FITNESS TRAINING to this now underserved population

IMPACTS THE ECONOMY in Oregon communities as this large population learns self-sufficiency

Teaches skills that **INCREASE POTENTIAL FOR EMPLOYMENT** and independence

Provides critical **NETWORKING & INFORMATION EXCHANGE** for families

PROMOTES COMMUNITY VOLUNTEERISM & community unity involving 13,330 volunteers

PROMOTES GREATER RESPECT for individuals with intellectual disability

IMPROVES EDUCATIONAL PERFORMANCE for students with and without intellectual disability

GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Special Olympics Oregon, Inc.:

We have audited the accompanying financial statements of Special Olympics, Oregon, Inc., which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Special Olympics Oregon, Inc. as of December 31, 2016, 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.

808 SW Third Avenue, Suite 700 Portland, Oregon 97204 p: 503 222 2515 f: 503 222 6401 www.garymcgee.com

Summarized Comparative Information

We have previously audited Special Olympic Oregon, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 31, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

November 29, 2017

S P E C I A L O L Y M P I C S O R E G O N , I N C .

STATEMENT OF FINANCIAL POSITION

D E C E M B E R 3 1 , 2 0 1 6

(W I T H C O M P A R A T I V E A M O U N T S F O R 2 0 1 5)

	2016	2015
Assets:		
Cash and cash equivalents	$ 58,360	107,688
Grants and contributions receivable *(note 3)*	1,816,935	1,781,794
Prepaid expenses and other assets	88,425	29,109
Investments in certificates of deposit	51,363	51,312
Beneficial interest in a charitable trust held by others *(note 4)*	256,102	282,478
Property and equipment *(note 5)*	74,194	127,014
Total assets	$ 2,345,379	2,379,395
Liabilities:		
Short-term note payable *(notes 6 and 18)*	651,232	730,281
Accounts payable and accrued expenses	729,850	401,768
Deferred revenue	20,000	33,893
Total liabilities	1,401,082	1,165,942
Net assets:		
Unrestricted	(1,304,800)	(1,172,950)
Temporarily restricted *(note 7)*	2,197,798	2,335,104
Permanently restricted *(note 7)*	51,299	51,299
Total net assets	944,297	1,213,453
Commitments *(notes 3, 6, 13, and 15)*		
Total liabilities and net assets	$ 2,345,379	2,379,395

See accompanying notes to financial statements.

SPECIAL OLYMPICS OREGON, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

	2016				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2015
Revenues, gains, and other support:					
Contributions *(note 8)*	$ 2,125,193	408,985	–	2,534,178	1,813,031
Corporate support	–	439,601	–	439,601	1,625,781
Foundation grants	–	332,774	–	332,774	405,431
Special events, less direct costs of $829,776 in 2016 and $883,293 in 2015 *(note 9)*	869,872	–	–	869,872	936,146
Outside events *(note 9)*	83,952	–	–	83,952	36,390
In-kind contributions *(note 10)*	3,516,907	–	–	3,516,907	3,353,099
Net change in the carrying value of a charitable trust	–	(26,376)	–	(26,376)	(35,000)
Merchandise sales and other	20,190	51	–	20,241	6,642
Total revenues and gains	6,616,114	1,155,035	–	7,771,149	8,141,520
Net assets released from restrictions *(note 11)*	1,292,341	(1,292,341)	–	–	–
Total revenues, gains, and other support	7,908,455	(137,306)	–	7,771,149	8,141,520
Expenses *(note 12)*:					
Program services	6,407,481	–	–	6,407,481	6,236,912
Fundraising	889,031	–	–	889,031	950,726
Special events promotion and and management	181,659	–	–	181,659	212,507
Management and general	562,134	–	–	562,134	529,911
Total expenses	8,040,305	–	–	8,040,305	7,930,056
Increase (decrease) in net assets	(131,850)	(137,306)	–	(269,156)	211,464
Net assets at beginning of year	(1,172,950)	2,335,104	51,299	1,213,453	1,001,989
Net assets at end of year	$ (1,304,800)	2,197,798	51,299	944,297	1,213,453

See accompanying notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	2016					
	Program services	Fund-raising	Special events promotion and management	Management and general	Total	2015
Salaries and related costs	$ 1,104,886	559,945	–	433,163	2,097,994	1,985,041
Competition and training	1,558,642	–	–	–	1,558,642	1,630,387
Volunteer services	3,025,620	–	–	–	3,025,620	2,844,080
Professional services	210,194	222,052	–	30,594	462,840	502,911
Occupancy	95,111	34,996	–	27,072	157,179	159,310
Supplies and equipment	25,059	6,148	–	4,756	35,963	51,386
Telephone	17,916	9,080	–	7,024	34,020	31,970
Postage and shipping	8,848	5,116	–	4,574	18,538	24,947
Travel	73,981	–	–	4,150	78,131	100,598
Printing and copying	36,510	15,382	–	11,900	63,792	47,232
Special events promotion	–	–	181,659	–	181,659	212,507
National accreditation fees	58,748	–	–	–	58,748	53,021
Insurance	26,106	346	–	268	26,720	27,390
Interest	–	–	–	35,048	35,048	30,271
Depreciation	47,538	2,641	–	2,641	52,820	54,760
Other	118,322	33,325	–	944	152,591	174,245
Total expenses	$ 6,407,481	889,031	181,659	562,134	8,040,305	7,930,056

See accompanying notes to financial statements.

SPECIAL OLYMPICS OREGON, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

	2016	2015
Cash flows from operating activities:		
Cash received from grants, contributions, and others	$ 5,061,360	5,132,135
Cash paid to employees, suppliers, and others	(4,996,540)	(5,280,307)
Cash paid for interest	(35,048)	(30,271)
Net cash provided by (used in) operating activities	29,772	(178,443)
Cash flows from investing activities:		
Purchase of capital assets	–	(14,040)
Reinvestment of interest income	(51)	(58)
Proceeds from the sale of investments	–	9,052
Net cash used in investing activities	(51)	(5,046)
Cash flows from financing activities:		
Net drawdown on (reimbursement of) line of credit	(79,049)	142,829
Net cash provided by (used in) financing activities	(79,049)	142,829
Net decrease in cash and cash equivalents	(49,328)	(40,660)
Cash and cash equivalents at beginning of year	107,688	148,348
Cash and cash equivalents at end of year	$ 58,360	107,688

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Organization

Special Olympics Oregon, Inc. is a private, nonprofit 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.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the organization are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Presentation – Special Olympics Oregon has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 958-605, *Revenue Recognition*, and FASB ASC No. 958-205, *Presentation of Financial Statements*. Under these provisions, net assets and all balances and transactions are presented 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* – Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the organization and/or the passage of time.
- *Permanently restricted net assets* – 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.

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. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, such differences, if any, would not be significant.

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 judgment, 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, entertainment, and other benefits provided at special events is measured at the actual cost to the organization.

Cash Equivalents – For purposes of the financial statements, the organization considers all liquid investments having initial maturities 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.

Capital Assets and Depreciation – Generally, property and equipment in excess of $1,000 are capitalized and reported at cost when purchased, and at fair value when acquired by gift. Depreciation is generally provided on a straight-line basis over the estimated useful lives of the respective assets, which is 3 to 7 years for office and certain computer equipment and software, 5 to 7 years for furniture, and over the term of the lease for leasehold improvements (which is generally 5 years).

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.

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 ("UPMIFA") 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 may 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 as 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 is added to the fund.

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 or 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, 2016, the organization's Board of Directors did not appropriate any endowment assets for expenditure.

Concentrations 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 the 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.

Income Taxes – Special Olympics Oregon is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. The organization derives its public charity status as an organization described in Sections 170(b)(1)(A)(vi) and 509(a)(1) of the Internal Revenue Code.

In addition, the organization has adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. Special Olympics Oregon has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates, and believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the organization's financial condition, results of operations or cash flows. Accordingly, Special Olympics Oregon has not recorded any reserves, or related accruals for interest and penalties, for uncertain income tax positions at December 31, 2016.

Recent Accounting Pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Special Olympics Oregon is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

Subsequent Events – As required by FASB ASC No. 855-10, *Subsequent Events,* subsequent events have been evaluated by management through November 29, 2017, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2015 – The accompanying financial information as of and for the year ended December 31, 2015 is presented for comparative purposes only and is not intended to represent a complete financial statement presentation.

Other Significant Accounting Policies – Other significant accounting policies are set forth in the financial statements and the following notes.

3. Grants and Contributions Receivable

Grants and contributions receivable are summarized as follows at December 31, 2016:

Unconditional promises expected to be collected within:	
Less than one year	$ 971,887
One year to five years	615,000
More than five years	300,000
	1,886,887
Less discount [1]	(69,952)
	$ 1,816,935

[1] 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 1.75%.

Conditional Grants

At December 31, 2016, Special Olympics Oregon had been awarded, through Special Olympics, Inc., $150,000 in federal funding. Because the award is conditioned upon the organization meeting certain programmatic benchmarks and incurring allowable expenditures, it has not been included in the accompanying financial statements and will be recognized as revenues at the time the conditions are satisfied.

In addition, at December 31, 2016 the organization held $209,275 in signed corporate sponsorships agreements for special fundraising events to be held in future years. Because the receipt of these sponsorships are conditioned upon the events being held, these revenues have not been included in the accompanying financial statements, and will be recognized at the time the events are held.

4. 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, 2016 are valued at $1,846,515. A contribution receivable of $256,102 is recorded at December 31, 2016, representing the actuarially-determined present value of the estimated future cash flows that will inure to the organization, using a discount rate of 7.0%.

5. Property and Equipment

A summary of property and equipment at December 31, 2016 is as follows:

Software	$ 323,418
Computer equipment	56,096
Leasehold improvements	72,849
Office equipment	32,835
Furniture	22,140
	507,338
Less accumulated depreciation	(433,144)
	$ 74,194

6. 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 3.50%. The line expired on August 10, 2017 and was subsequently extended to October 31, 2017. At December 31, 2016, $651,232 is 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, 2016, the organization was not in compliance with either covenant. However, subsequent to December 31, 2016, management requested and received a waiver of compliance from the bank for the second covenant violation. No waiver has been issued for the first covenant violation.

7. Restrictions and Limitations on Net Asset Balances

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31, 2016:

Expendable grants and contributions:	
For games, competitions, and training	$ 1,195,048
Respect Campaign/Unified and Unified Schools	280,719
Oregon Team Wellness	20,000
To support the Special Olympics Oregon program in Cottage Grove	14,034
Metro Youth programs	7,500
For operations in future periods	424,331
Beneficial interest in charitable trust held by others	256,102
	2,197,734
Expendable endowment earnings:	
Purpose unrestricted earnings not yet appropriated for expenditure	64
	$ 2,197,798

PERMANENTLY RESTRICTED NET ASSETS

At December 31, 2016, the organization held a single donor-restricted endowment fund in the amount of $51,363, representing $51,299 as the original value of gifts donated to the permanent endowment and $64 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, 2016:

	Temporarily restricted	Permanently restricted	Total
Endowment net assets at beginning of year	$ 13	51,299	51,312
Investment income	51	–	51
Appropriation of endowment assets for expenditure	–	–	–
Endowment net assets at end of year	$ 64	51,299	51,363

At December 31, 2016, the organization's endowment funds were invested in certificates of deposit.

8. Contributions

The following summarizes the sources of the organization's contributions for the year ended December 31, 2016:

Direct marketing	$ 870,838
Other contributions	1,663,340
	$ 2,534,178

9. Special Events and Outside Events

During the year ended December 31, 2016, the organization benefited from the following special events:

- Polar Plunge Statewide
- Governors' Gold Awards
- Law Enforcement Torch Runs
- The Bite of Oregon
- Breakfast with Champions
- 27-Hour Radiothon
- Global Business Awards
- Other community events

The above events resulted in gross revenues totaling $1,699,647, with net revenues totaling $869,872 after direct costs of $829,776.

Outside Events – In addition, during the year ended December 31, 2016, the organization also benefited from the following "outside" events (i.e., events conducted by another organization on behalf of Special Olympics Oregon), receiving $83,952 in revenues from the following:

- Rip City 3-on-3
- LPGA Golf Tournament

10. 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 nonfinancial 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, 2016 are summarized as follows:

Program services:	
Volunteer certified coaches	$ 2,433,660
Volunteer local program coordinators and managers	591,960
Competitions:	
Materials and supplies	201,927
Donated services	87,844
Free use of facilities	121,516
Fundraising:	
Special events promotion	80,000
	$ 3,516,907

11. Net Assets Released from Restrictions

During the year ended December 31, 2016, $1,292,341 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.

12. 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 activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses by their natural classification are presented 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, 2016, the organization incurred joint costs of $314,662 through the conduct of telephone solicitation campaigns, of which 42% were allocated to program services and 58% to fundraising.

13. Operating Leases

Special Olympics Oregon leases its administrative offices under an agreement expiring on December 31, 2018. The organization also leases various office equipment under noncancelable, long-term leases expiring at various dates through December of 2017.

Minimum future lease payments under these leases as of December 31, 2016 are as follows:

Years ending December 31,	
2017	$ 174,343
2018	168,815
	$ 343,158

Rent expense under all lease agreements, net of $18,989 in property taxes credits, totaled $160,040 for the year ended December 31, 2016.

14. 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. Employees select from among several investment options.

15. 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, payments to former employees, and insurance payments. During the year ended December 31, 2016, the organization contributed $26,382 to the Trust; the Trust paid out $21,431 in benefits and charged $4,946 in insurance and participation costs.

16. Fair Value Measurements

The accompanying financial statements report the organization's beneficial interest in charitable trust held by others at fair value. These assets have been classified, for disclosure purposes, based on a hierarchy defined by FASB ASC No. 820, *Fair Value Measurements and Disclosures*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3).

At December 31, 2016, 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 information received from the trustee (i.e., level 3). A summary of the change in valuation of this asset during the year ended December 31, 2016 is as follows:

Fair value at beginning of year	$ 282,478
Net change in the carrying value of a charitable trust	(26,376)
Fair value at end of year	$ 256,102

17. 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 provided by operating activities (as reported on the statement of cash flows):

Decrease in net assets	$ (269,156)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	52,820
Net change in the carrying value of a charitable trust	26,376
Net changes in:	
Grants and contributions receivable	(35,141)
Prepaid expenses and other assets	(59,316)
Accounts payable and accrued expenses	328,082
Deferred revenue	(13,893)
Total adjustments	298,928
Net cash provided by operating activities	$ 29,772

18. 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. This ASU was effective for the organization's annual reporting period ended December 31, 2016. The adoption of this new disclosure standard did not have any effect on the organization's financial position, results of operations, or cash flows.

The 2016 financial statements report a net operating loss of $131,850 and a decline in total net assets of $269,156. This follows operating losses in 2014 and 2015, and a decline in new grant and contribution commitments in 2016. As a result, the organization's cumulative unrestricted net asset deficit has increased from negative $1,172,950 in 2015 to negative $1,304,800 at December 31, 2016. In addition, during 2016, outstanding trade payables grew by $328,082, and cash balances declined to $58,360, representing only 5 days of operating outflows. At December 31, 2016, all available expendable assets, less current liabilities due and payable on that date, stood at a negative $282,346, meaning that current liabilities were greater than current assets by this amount. Subsequent to the organization's 2016 year-end, outstanding trade payables increased to more than $1.0 million. All of these factors affect the organization's liquidity.

As of December 31, 2016, the organization had outstanding borrowings of $651,232 on its line of credit, with an additional $348,768 available under its $1.0 million credit facility (see note 6). Subsequent to the organization's 2016 year-end, outstanding borrowings increased to $1.0 million at September 30, 2017. The organization's Lender has waived compliance, through the close of business on October 31, 2017, with certain financial covenants under the Credit Agreement applicable to the year ended December 31, 2016 (see note 6). However, upon expiration of the most recent amendment (October 31, 2017), the organization does not expect to be in compliance with certain financial covenants under the credit agreement. If unable to continue to obtain amendments from the Lender that waive compliance with these financial covenants, the Lender could place the organization in default under the terms of the Credit Agreement. A default under the Credit Agreement would enable the Lender to seek immediate payment in full of any amounts outstanding under the credit facility and to exercise various remedies as secured

Continued

creditors, which may severely or completely constrain the organization's ability to continue to operate its business. This uncertain financial position may also further disrupt the organization's relationships with vendors.

The organization has undertaken significant actions designed to return the organization to profitability and to generate positive cash flows to fund its business, including a restructuring of its financial development (fundraising) function; implementation of an aggressive fundraising campaign to identify new and additional sources of support from corporate sponsors, foundations, and major donors; and several cost reduction initiatives, including reductions in fixed and discretionary expenses, and in other non-critical program costs.

In addition to actions to align the organization's cost structure with expected revenues, the organization is also exploring a range of strategic alternatives to enhance its financial flexibility. However, the organization cannot provide assurance that it will be successful in obtaining additional capital, and any strategic or financing alternative has the potential to increase the organization's cost of capital.

Thus, the organization's ability to continue as a going concern is dependent on many factors, including macro-economic trends, the successful execution of cost reduction plans, successful negotiations with the Lender, and successful efforts to raise additional contributions and grants.

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 or classification of liabilities should it be unable to continue as a going concern.

■

GOVERNING BOARD AND MANAGEMENT

Board of Directors
AS OF MARCH OF 2017

Tommy Kain, *Chair*
Vice President, North America Sports Marketing
Nike, Inc.

Irene Barhyte, *Treasurer*
Senior Associate Dean of Finance
Oregon Health & Science University

Jack Folliard, *Secretary*
Executive Director
Oregon Athletic Officials Association

Chris Bathurst
General Merchandise Manager
Merchandise Planning
Home, Apparel, Electronics
The Kroger Co.

Mike Burrill, Jr.
President
Burrill Development Co., LLC

Gary M. Daniels
Managing Partner
Darksky Technologies

Katie Dunn
Athlete
Special Olympics Oregon

Gerald W. Frank

Brian Guard
President and Owner
Guard Communications

Steven Gaspar
Senior Vice President & Chief Actuarial Officer
Cambia Health Solutions

Mike Golub
President of Business Operations
Portland Timbers & Thorns

Trent Green
Senior Vice President of Strategic Planning &
Business Development
Legacy Health/Legacy Medical Group

Dewayne Hankins
Senior Vice President, Brand Strategy & Digital
Portland Trail Blazers

Gregory Hathaway
Partner
Hathaway Koback Connors, LLP

Tom Imeson
Vice President of Public Affairs
NW Natural

Sgt. Gwen Johns
Newberg-Dundee Police Department
Chair, Oregon LETR Executive Council

Lt. Jeff Kaer
Portland Police Bureau
Chair-Elect, Oregon LETR Executive Council

Megdy Khoury
Vice President/Relationship Manager
Wells Fargo Commercial Banking

Shawn M. Lindsay
Attorney
Berne Christensen, LLP

John Meek
Managing Member
Arcadia Consulting, LLC

Marv Nelson
Vice President of Information/Finance
A-dec, Inc.

Dave Pearson
Director of Business Operations
Aerotek

Continued

GOVERNING BOARD AND MANAGEMENT, CONTINUED

Gary Peck
President
The S Group, Inc.

Butch Pollard
President & Chief Executive Officer
Supply Source, Inc.

Darin Richards, C.F.A.
Chief Investment Officer
AKT Wealth Advisors, LLC

Honorable Barbara Roberts
Retired Governor & Higher Education Administration

Jay Ross
Vice President of Operations
WCP Solutions

Jeffrey J. Snyder
Director, Broker
Newmark Grubb Knight Frank

David Sorenson
Retired KeyBank Executive

Todd Stansbury
Vice President and Director of Athletics
Oregon State University

Roger Thompson
Vice President for Enrollment Management
University of Oregon

Kerry Tymchuck
Executive Director
Oregon Historical Society

Gary A. Wanderscheid
Oregon Central Regional Manager
Les Schwab Tire Centers, Inc.

Management

Margaret Hunt, *Chief Executive Officer*

Catherine Villarreal, *Controller*

Janet Capetty, *Senior Vice President of Field Services*

Mark Hanken, *Senior Vice President of Sports*

INQUIRIES AND OTHER INFORMATION

Administrative offices

SPECIAL OLYMPICS OREGON, INC.
5901 S.W. Macadam Avenue, Suite 200
Portland, Oregon 97239

(503) 248-0600
(503) 248-0603 Fax
info@soor.org

Web

www.soor.org