

Special Olympics North Carolina, Inc.
Report on Audits of Financial Statements
for the years ended December 31, 2016 and 2015

McMillan Pate & Company LLP
Certified Public Accountants
615 OBERLIN ROAD, SUITE 200
RALEIGH, NC 27605



615 OBERLIN ROAD, SUITE 200 | RALEIGH, NC 27605
TELEPHONE (919) 836-9200 | FACSIMILE (919) 836-9288

J. MICAH PATE, III
ANGELA W. BANASK
THOMAS M. DOHERTY
BRIAN T. BENNETT
ALEX LEHMANN

Independent Auditors' Report

To the Board of Directors of
Special Olympics North Carolina, Inc.

We have audited the accompanying statements of financial position of Special Olympics North Carolina, Inc. as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Special Olympics North Carolina, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McMillan Pate & Company LLP
May 4, 2017

SPECIAL OLYMPICS NORTH CAROLINA, INC.

Statements of Financial Position

December 31, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 1,358,138	\$ 1,026,443
Marketable securities	4,303,169	4,007,898
Receivables:		
Pledges, net	48,830	38,906
Special Olympics, Inc.	145,638	34,949
Contributions	265,070	215,405
Sales tax receivable	32,423	31,727
Total receivables	<u>491,961</u>	<u>320,987</u>
Prepaid expenses	20,045	11,485
Inventories	24,765	20,581
Total current assets	<u>6,198,078</u>	<u>5,387,394</u>
Property and equipment:		
Office equipment and technology	174,569	194,640
Furniture and fixtures	22,871	22,871
Vehicles	109,000	119,852
Program equipment	49,899	40,988
Leasehold improvements	30,681	28,391
	<u>387,020</u>	<u>406,742</u>
Less accumulated depreciation and amortization	289,095	280,999
Property and equipment, net	<u>97,925</u>	<u>125,743</u>
Noncurrent portion of contributions receivable, net	<u>98,039</u>	<u>194,156</u>
Security deposits	<u>5,395</u>	<u>9,180</u>
	<u>\$ 6,399,437</u>	<u>\$ 5,716,473</u>

The accompanying notes are an integral part of the financial statements.

<u>Liabilities and Net Assets</u>	<u>2016</u>	<u>2015</u>
Current liabilities:		
Current obligations under capital lease	\$ 10,798	\$ 10,751
Accounts payable trade	159,908	133,524
Accrued compensation	<u>64,452</u>	<u>62,484</u>
Total current liabilities	<u>235,158</u>	<u>206,759</u>
Noncurrent liabilities:		
Obligations under capital lease, excluding current maturities	8,130	18,928
Deferred rent	<u>195,010</u>	<u>90,183</u>
Total noncurrent liabilities	<u>203,140</u>	<u>109,111</u>
Net assets:		
Unrestricted:		
Designated:		
Athlete Development	576,972	576,972
Undesignated	<u>5,111,128</u>	<u>4,426,392</u>
Temporarily restricted	<u>5,688,100</u>	<u>5,003,364</u>
Total net assets	<u>273,039</u>	<u>397,239</u>
	<u>5,961,139</u>	<u>5,400,603</u>
	\$ <u>6,399,437</u>	\$ <u>5,716,473</u>

SPECIAL OLYMPICS NORTH CAROLINA, INC.
 Statements of Activities
 for the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets:		
Revenues and gains (losses):		
Sponsorships	\$ 1,320,478	\$ 1,385,485
In kind sponsorships	2,240,020	2,104,018
Special events	1,847,106	1,727,315
Individual sources	1,041,648	838,223
Grants	733,370	532,063
Investment income (loss):		
Realized gains (losses) on marketable securities, net	32,157	109,126
Unrealized appreciation (depreciation) on marketable securities, net	171,688	(317,784)
Interest and dividends	<u>99,921</u>	<u>122,325</u>
Total operating revenue and gains (losses)	7,486,388	6,500,771
Net assets released from restriction	<u>149,200</u>	<u>25,000</u>
Total revenues and gains (losses)	<u>7,635,588</u>	<u>6,525,771</u>
Expenses and losses:		
Programs and games	5,998,794	5,942,316
Fundraising	800,541	772,139
Management and general	<u>151,517</u>	<u>152,210</u>
Total expenses	6,950,852	6,866,665
Loss on disposal of land held for investment	-	12,484
Loss on disposal of property and equipment	-	1,611
Total expenses and losses	<u>6,950,852</u>	<u>6,880,760</u>
Increase (decrease) in unrestricted net assets	<u>684,736</u>	<u>(354,989)</u>
Changes in temporarily restricted net assets:		
Sponsorships	-	319,156
Grants	25,000	3,083
Net assets released from restriction	<u>(149,200)</u>	<u>(25,000)</u>
Increase (decrease) in temporarily restricted net assets	<u>(124,200)</u>	<u>297,239</u>
Changes in net assets	560,536	(57,750)
Net assets, beginning of year	<u>5,400,603</u>	<u>5,458,353</u>
Net assets, end of year	\$ <u>5,961,139</u>	\$ <u>5,400,603</u>

The accompanying notes are an integral part of the financial statements.

SPECIAL OLYMPICS NORTH CAROLINA, INC.
Notes to Financial Statements
December 31, 2016 and 2015

1. ORGANIZATION

Special Olympics North Carolina, Inc. (the Organization or SONC) is a nonprofit corporation authorized and accredited by Special Olympics, Incorporated (SOI). The Organization was established in 1971 to contribute to the physical, social and psychological development of citizens with intellectual disabilities through successful experience in sports training and competition. Based on information collected for the Special Olympics 2016 Global Athlete Census, SONC involves approximately 40,000 athletes throughout North Carolina in 19 sports. The accompanying financial statements include the activities of the Special Olympics North Carolina, Inc. headquarters (accredited US program office) and all affiliated units located throughout North Carolina. All North Carolina affiliated units are owned and operated under the direction of the Organization's chapter office.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of SONC are prepared on the accrual basis of accounting and in accordance with the principles contained in the audit and accounting guide, *Not-for-Profit Entities*, published by the American Institute of Certified Public Accountants.

Reclassification

Certain 2015 amounts have been reclassified to conform to the 2016 financial statement presentation with no effect on previously reported net assets and changes in net assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all investments with original maturity of 90 days or less to be cash equivalents. At December 31, 2016 and 2015, there were cash deposits of \$1,131,472 and \$796,717 in excess of amounts insured by the Federal Deposit Insurance Corporation.

Use of Estimates in the Preparation of Financial Statements

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Based on experience, management believes that the entire amounts are fully collectible. Therefore, no allowance for doubtful accounts has been recorded. In the unlikely event that an outstanding balance could not be collected, it would be written down with a charge against bad debt expense and a credit to the receivable balance. Pledges receivable consist of pledges made through consumer and business telemarketing campaigns recorded based on historical collection rates.

SPECIAL OLYMPICS NORTH CAROLINA, INC.
Notes to Financial Statements
December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables (continued)

Receivables that are expected to be collected within one year are recorded at net realizable value. Receivables that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using interest rates applicable to the years in which the contributions are unconditionally committed.

Inventories

Inventories at December 31, 2016 and 2015 consist of medals awarded during competitions and souvenirs. Inventories are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment

Expenditures for property and equipment are stated at cost. Donated property and equipment is recorded at fair value at the date of receipt. Equipment under capital lease is stated at the lower of the present value of minimum lease payments at the beginning of the lease term or fair value of the equipment at the inception of the lease. Depreciation and amortization is provided over the estimated useful lives of the respective assets using the straight-line method. Equipment under capital lease and leasehold improvements are amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the asset. The estimated useful lives range as follows:

Equipment and technology	3- 5 years
Furniture and fixtures	7 years
Vehicles	5 years
Leasehold improvements	3-10 years

Expenditures for repairs and maintenance are charged to expense as incurred. Upon disposition of property and equipment, the related asset and accumulated depreciation and amortization accounts are removed and any gain or loss is reflected in the statement of activities for the period.

Depreciation and amortization expense for the years ended December 31, 2016 and 2015 was \$41,639 and \$33,641, respectively.

Contributions

The Organization reports monetary gifts as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization reports donor-restricted grants whose restrictions are met in the same year as unrestricted revenue.

The Board of Directors has designated portions of the unrestricted net assets for the purpose of carrying out programs in sports training and competition. Marketable securities and cash equivalents in the amount of \$576,972 are designated at December 31, 2016 and 2015.

SPECIAL OLYMPICS NORTH CAROLINA, INC.
Notes to Financial Statements
December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (continued)

All contributions are considered available for the general games program of the Organization, unless specifically restricted by the donor. The Organization is the beneficiary under various wills and trust agreements; the total realizability of which is not presently determinable. Such amounts are recorded when the proceeds are measurable.

The Organization recognizes conditional promises to give when the conditions stipulated by the donor are substantially met. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote. The Organization recognizes unconditional promises to give at their net realizable value.

In-kind contributions are reflected as contributions at their estimated fair value at the date of donation. The Organization reports gifts of land, buildings, equipment and other nonmonetary contributions as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from North Carolina income taxes, accordingly, no income taxes have been provided in the accompanying financial statements.

Subsequent Events

The Organization has evaluated events and transactions that occurred between December 31, 2016 and May 4, 2017 which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

3. FAIR VALUE MEASUREMENTS

The Organization follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which establishes a single definition of fair value and a framework for measuring fair value in generally accepted accounting principles (GAAP). At December 31, 2016 and 2015, the Organization had exchange traded funds, mutual funds, and, land held for investment that were carried at fair value for which the disclosure requirements of FASB ASC 820 applies.

SPECIAL OLYMPICS NORTH CAROLINA, INC.
Notes to Financial Statements
December 31, 2016 and 2015

3. FAIR VALUE MEASUREMENTS (Continued)

FASB ASC 820 establishes three levels of inputs that may be used to measure fair value: Level 1: Quoted prices in active markets for identical assets or liabilities at the measurement date; Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active market for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or Level 3: Unobservable inputs that are supported by little or no market activity and that reflect the Organization's own assumptions about market participants and prices.

Fair value of assets measured on a recurring basis at December 31 are as follows:

<u>2016</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds	\$ <u>4,303,169</u>	\$ <u>4,303,169</u>	\$ _____	\$ _____

<u>2015</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds	\$ <u>4,007,898</u>	\$ <u>4,007,898</u>	\$ _____	\$ _____

4. MARKETABLE SECURITIES

Marketable debt and equity securities are reported at fair market values based on quotations obtained from national securities exchanges or brokerage firms.

At December 31, 2016 and 2015, the aggregate fair market value of marketable securities exceeded their aggregate cost by \$181,344 and \$9,656, respectively. The Organization realized gains of \$32,157 and \$109,126 from the sale of marketable securities for the years ended December 31, 2016 and 2015, respectively. For purposes of determining the gain or loss on a sale, the cost of marketable securities is based on the average cost of all shares of each such investment fund at the date of sale. Unrealized appreciation (depreciation) related to marketable securities was \$171,688 and \$(317,784) for the years ended December 31, 2016 and 2015, respectively. The Organization incurred investment fees of \$29,486 and \$29,125 for the years ended December 31, 2016 and 2015, respectively.

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable are estimated to be collected as follows at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Within one year	\$ 265,070	\$ 215,405
In one to five years	<u>100,000</u>	<u>200,000</u>
	365,070	415,405
Less discount to net present value at 2%	<u>1,961</u>	<u>5,844</u>
	\$ <u>363,109</u>	\$ <u>409,561</u>

SPECIAL OLYMPICS NORTH CAROLINA, INC.
Notes to Financial Statements
December 31, 2016 and 2015

6. CONTRIBUTED SERVICES, FACILITIES AND MATERIALS

The Organization recognizes contributions of services received if such services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not contributed. Contributed specialized services, facilities, advertising, printing, property and equipment in the amounts of \$2,240,020 and \$2,104,018 have been recognized in the accompanying statements of activities for the years ended December 31, 2016 and 2015, respectively.

7. JOINT COST ALLOCATION

The Organization accounts for all joint activity costs in accordance with FASB ASC 958-720-20, *Accounting for Costs of Activities of Not-For-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*. This statement requires that certain criteria be met before joint activity costs are allocated between functions. If the criteria are not met, all joint activity costs are considered fund raising costs.

Joint cost activity related to telemarketing costs for volunteer recruitment, athlete recruitment and support of programs in the amounts of \$286,678 and \$319,193 for the years ended December 31, 2016 and 2015, respectively have been allocated as follows:

	<u>2016</u>	<u>2015</u>
Programs and games	\$ 215,009	\$ 239,394
Fundraising	<u>71,669</u>	<u>79,799</u>
	<u>\$ 286,678</u>	<u>\$ 319,193</u>

8. EMPLOYEE BENEFIT PLANS

The Organization has a defined contribution pension plan, which covers all permanent employees that have completed one year of service. Contributions are made to the plan at 3% of the participants' gross salary. Retirement expense was \$32,229 and \$29,422, for the years ended December 31, 2016 and 2015, respectively.

9. RELATED PARTY TRANSACTIONS

Special Olympics Inc. (SOI) distributes mailings to individuals and corporations requesting contributions on behalf of the Organization. SOI also collects contributions from its website and through other fund raising initiatives on behalf of the Organization. SOI collects these contributions and remits them to the Organization. SOI also awards grants to the Organization. Total revenue from SOI recognized during the years ended December 31, 2016 and 2015 was \$947,939 and \$708,317, respectively, of which \$145,638 and \$34,949, respectively, was in accounts receivable at December 31, 2016 and 2015.

The Organization recorded dues and other various payments to SOI of \$112,486 and \$107,559 for the years ended December 31, 2016 and 2015, respectively, of which \$0 and \$8,752 was in accounts payable at December 31, 2016 and 2015, respectively.

Members of the board and employees contributed \$27,947 and \$25,000 to the Organization in 2016 and 2015, respectively.

The Organization received donated legal services from the firm of a member of the board of \$18,322 and \$7,382 for the years ended December 31, 2016 and 2015, respectively.

SPECIAL OLYMPICS NORTH CAROLINA, INC.

Notes to Financial Statements

December 31, 2016 and 2015

10. LEASES

Operating Leases

The Organization leases facilities under non-cancelable operating leases scheduled to expire at various dates through September 2026. Total rental expense under these leases was \$158,659 and \$187,253 for the years ended December 31, 2016 and 2015, respectively. The Organization's Raleigh and Charlotte facility leases both have options to renew for an additional five years.

Certain of these facility lease agreements include rent abatement and contain rent escalation clauses; thus, payments under these facility leases vary during the term of the related lease. FASB ASC 840, Leases, requires that rental expense be recognized on a straight-line basis. As such, rental expense more than rental payments in the amount of \$104,827 and \$78,143 has been reflected in the accompanying statements of activities for the years ended December 31, 2016 and 2015, respectively. Deferred rent is \$195,010 and \$90,183 at December 31, 2016 and 2015, respectively.

Future minimum lease payments under non-cancelable operating lease agreements at December 31, 2016 are as follows:

2017		\$	166,480
2018			163,080
2019			161,679
2020			165,721
2021			169,864
Thereafter			<u>864,139</u>
Total			<u>\$ 1,690,963</u>

Capital Leases

The Organization leases copiers under a capital lease arrangement with an effective interest rate of 0.44% and expiring September 2018. The cost of the copiers under capital lease is included in the statement of financial position under the caption office equipment and technology. The cost of the copiers was \$51,486 at December 31, 2016 and 2015. Accumulated amortization on the leased copiers at December 31, 2016 and 2015 was \$29,246 and \$18,650, respectively. Amortization of assets under capital lease is included in depreciation expense.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments at December 31, 2016, are as follows:

Year ending December 31:

2017		\$	10,859
2018			<u>8,144</u>
Total minimum lease payments			19,003
Less amounts representing interest			<u>75</u>
Present value of net minimum lease payments			18,928
Less current obligations under capital lease			<u>10,798</u>
Noncurrent portion of capital lease obligations			<u>\$ 8,130</u>

SPECIAL OLYMPICS NORTH CAROLINA, INC.
Notes to Financial Statements
December 31, 2016 and 2015

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available as follows at December 31:

	<u>2016</u>	<u>2015</u>
Purpose Restrictions:		
Sponsorships	\$ 248,039	\$ 379,156
Health Screenings	-	3,083
Time Restrictions:		
Contributions	<u>25,000</u>	<u>15,000</u>
	<u>\$ 248,039</u>	<u>\$ 397,239</u>

12. CONCENTRATIONS

The NC Law Enforcement Torch Run for Special Olympics is an annual initiative that involves hundreds of law enforcement officers representing more than 200 agencies throughout the state raising awareness and funds for SONC. The fundraising is carried out through a multitude of special events held during the year such as golf tournaments, polar plunges, 5K races, Tip-A-Cop promotions, Building Sits and more. The officers also accept donations from the public in exchange for an annual commemorative T-shirt. Additionally, the officers raise funds through sponsorships from corporations and businesses. The Law Enforcement Torch Run® for Special Olympics is officially endorsed by the International Association of Chiefs of Police, the North Carolina Association of Chiefs of Police, the National Sheriff's Association, the North Carolina Sheriff's Association, the International Association of Campus Law Enforcement Administrators, the National Association of School Resource Officers, NC Association of School Resource Officers, NC Department of Justice and the NC Department of Public Safety. The Organization derived approximately 15% of its revenues from contributions generated through the NC Law Enforcement Torch Run during both the years ended December 31, 2016 and 2015.

Approximately 25% of the Organization's receivables were due from Special Olympics, Inc. at December 31, 2016. Approximately 34% and 57% of the Organization's receivables were due from a contributing organization at December 31, 2016 and 2015, respectively.

Approximately 25% and 40% of the Organization's payables were due to a national marketing agency at December 31, 2016 and 2015, respectively. At December 31, 2015, approximately 12% of the Organization's payables were due to a lessor for rent.

13. CONDITIONAL GRANT

During the year ended December 31, 2016, the Organization received a conditional grant totaling \$270,000. During 2016 the Organization received and recorded grant revenue of \$135,000 as conditions were met. The remainder of the grant, \$135,000 is due upon meeting certain conditions. As these conditions have not been met as of December 31, 2016, they have not been recorded as grant revenue in 2016.

During the year ended December 31, 2015, the Organization received a conditional grant totaling \$159,300. During 2015 the Organization received and recorded grant revenue of \$63,720. The remainder of the grant, \$95,580, was received and recorded as grant revenue in 2016 when all conditions were met.