

Special Olympics North Carolina, Inc.
Report on Audits of Financial Statements
for the years ended December 31, 2021 and 2020

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of Special Olympics North Carolina, Inc., which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Special Olympics North Carolina, Inc. as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Special Olympics North Carolina, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

MFC Company LLP

March 22, 2022

Special Olympics of North Carolina, Inc.
 Statements of Financial Position
 December 31, 2021 and 2020

<u>Assets</u>	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 3,381,304	\$ 2,002,558
Marketable securities	7,098,787	6,368,898
Receivables:		
Accounts receivable	-	9,658
Promises to give, net	-	9,860
Special Olympics, Inc.	188,436	84,502
Contributions and grants	103,379	81,480
Employee retention credit receivable	159,793	-
Sales tax receivable	<u>22,582</u>	<u>11,850</u>
Total receivables	<u>474,190</u>	<u>197,350</u>
Prepaid expenses	48,239	19,988
Inventories	<u>30,572</u>	<u>30,292</u>
Total current assets	<u>11,033,092</u>	<u>8,619,086</u>
Property and equipment:		
Office equipment and technology	125,171	106,774
Furniture and fixtures	21,794	21,794
Vehicles	33,599	29,561
Program equipment	77,922	75,075
Leasehold improvements	<u>26,286</u>	<u>26,286</u>
	284,772	259,490
Less accumulated depreciation and amortization	<u>209,738</u>	<u>173,701</u>
Property and equipment, net	<u>75,034</u>	<u>85,789</u>
Investments - deferred compensation	<u>33,147</u>	<u>28,942</u>
Security deposits	<u>4,334</u>	<u>5,395</u>
Total assets	\$ <u>11,145,607</u>	\$ <u>8,739,212</u>

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

<u>Liabilities and Net Assets</u>	<u>2021</u>	<u>2020</u>
Current liabilities:		
Current obligations under capital lease	\$ 8,660	\$ 8,020
Accounts payable	70,897	33,022
Accrued compensation	<u>50,172</u>	<u>43,028</u>
Total current liabilities	<u>129,729</u>	<u>84,070</u>
Noncurrent liabilities:		
Obligations under capital lease, excluding current maturities	3,810	12,470
Deferred rent	146,675	165,116
Deferred compensation	<u>33,147</u>	<u>28,942</u>
Total noncurrent liabilities	<u>183,632</u>	<u>206,528</u>
Total liabilities	<u>313,361</u>	<u>290,598</u>
Net assets:		
Without donor restrictions:		
Undesignated	10,073,830	7,788,262
Designated by the Board for athlete development	<u>576,972</u>	<u>576,972</u>
	<u>10,650,802</u>	<u>8,365,234</u>
With donor restrictions:		
Time restrictions	35,000	83,380
Purpose restrictions	<u>146,444</u>	<u>-</u>
	<u>181,444</u>	<u>83,380</u>
Total net assets	<u>10,832,246</u>	<u>8,448,614</u>
Total liabilities and net assets	\$ <u>11,145,607</u>	\$ <u>8,739,212</u>

Special Olympics of North Carolina, Inc.
 Statements of Activities
 for the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Changes in net assets without donor restrictions:		
Revenues and gains:		
Sponsorships	\$ 750,703	\$ 734,450
In-kind sponsorships and property contributions	1,050,045	1,028,392
Special events	1,785,332	1,289,396
Individual sources	888,539	905,720
Grants	1,001,123	637,568
Paycheck protection program	321,580	305,568
Employee retention credit	159,793	-
Net investment return	738,024	739,424
Gain (loss) on disposal of equipment	-	600
Net assets released from restrictions	<u>157,187</u>	<u>103,000</u>
Total revenues and gains	<u>6,852,326</u>	<u>5,744,118</u>
Expenses:		
Programs and games	3,754,897	3,545,995
Fundraising	617,652	555,748
Management and general	<u>194,209</u>	<u>165,810</u>
Total expenses	<u>4,566,758</u>	<u>4,267,553</u>
Increase in net assets without donor restrictions	<u>2,285,568</u>	<u>1,476,565</u>
Changes in net assets with donor restrictions:		
Sponsorship	82,251	-
Special events	-	20,000
Individual sources	18,000	-
Grants	155,000	63,380
Net assets released from restrictions	<u>(157,187)</u>	<u>(103,000)</u>
Increase (decrease) in net assets with donor restrictions	<u>98,064</u>	<u>(19,620)</u>
Changes in net assets	2,383,632	1,456,945
Net assets, beginning of year	<u>8,448,614</u>	<u>6,991,669</u>
Net assets, end of year	\$ <u>10,832,246</u>	\$ <u>8,448,614</u>

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

Special Olympics of North Carolina, Inc.
 Statements of Cash Flows
 for the years ended December 31, 2020 and 2019

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Changes in net assets	\$ 2,383,632	\$ 1,456,945
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
In-kind property and equipment contributions	(12,938)	-
Depreciation and amortization expense	36,037	32,159
(Gain) loss on disposal of property and equipment	-	(600)
Contributed stock	(5,631)	(17,516)
Realized and unrealized (gain) loss on investments	(457,952)	(534,069)
Paycheck Protection Program loan forgiveness	(321,580)	(305,568)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Receivables	(276,840)	112,548
Prepaid expenses	(28,251)	36,391
Inventories	(280)	3,830
Investments - deferred compensation	(4,205)	(2,905)
Security deposits	1,060	-
Increase (decrease) in liabilities:		
Accounts payable	35,876	(67,352)
Accrued compensation	7,144	(44,563)
Deferred compensation	4,205	(22,095)
Net cash provided by operating activities	<u>1,360,277</u>	<u>647,205</u>
Cash flows from investing activities:		
Sales (purchases) of marketable securities, net	(266,306)	(177,994)
Proceeds from sale of property and equipment	-	600
Capital expenditures	(10,344)	(33,560)
Deferred rent	(18,441)	(14,299)
Net cash used in investing activities	<u>(295,091)</u>	<u>(225,253)</u>
Cash flows from financing activities:		
Principal payments of capital lease obligations	(8,020)	(7,426)
Proceeds from Payroll Protection Program loan	321,580	305,568
Net cash provided by financing activities	<u>313,560</u>	<u>298,142</u>
Increase in cash and cash equivalents	1,378,746	720,094
Cash and cash equivalents, beginning of year	2,002,558	1,282,464
Cash and cash equivalents, end of year	<u>\$ 3,381,304</u>	<u>\$ 2,002,558</u>
Supplemental disclosure of cash flows information:		
Cash paid for interest	\$ 1,300	\$ 1,893
Capital expenditures included in accounts payable	\$ 2,000	\$ -
Supplemental disclosure of noncash investing and financing activity:		
Contributed property and equipment	\$ 12,938	\$ -

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

Special Olympics North Carolina, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

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, health programs and competition. Based on information collected for the Special Olympics 2021 Global Athlete Census, SONC involves approximately 40,000 athletes throughout North Carolina in 20 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.

The 2021 year continued as an unusual one for Special Olympics North Carolina in terms of the implementation of the Special Olympics mission because of the COVID-19 pandemic that began in North Carolina in March 2020. Although the majority of programming occurred through virtual and at-home activities, late in the year SONC began offering smaller in person sports invitationals conducted as day-only outdoor sports events. Special precautions were taken into account for the health safety of all athletes and volunteers. Online sports training sessions continued in 2021 for participants to take part as well as other in-home training materials for athletes with and without access to online technology. Even though the majority of in-person activity was on pause, Special Olympics North Carolina continued the work of its mission virtually in engaging ways and began to phase in safe in-person events.

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.

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, 2021 and 2020, there were cash deposits of \$3,154,509 and \$1,786,678 in excess of amounts insured by the Federal Deposit Insurance Corporation.

Investments

The Organization records investment purchases at cost, or if donated, at fair value on the date of the donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return (loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses.

Special Olympics North Carolina, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Promises to give receivables consist of promises made through consumer and business telemarketing campaigns recorded based on historical collection rates.

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, 2021 and 2020 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, 2021 and 2020 was \$36,037 and \$32,159, respectively.

Net Assets

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

Special Olympics North Carolina, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Directors has designated, from net assets without donor restrictions, net assets for carrying out programs in sports training and competition. Marketable securities and cash equivalents in the amount of \$576,972 are designated at December 31, 2021 and 2020.

Net Assets With Donor Restrictions – Net assets subject to donor or grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Contributions restricted by donors are recorded as increase in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

Revenue is recognized when an unconditional promise to give is received or when earned and 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 amounts to be received of which is not presently determinable. Such amounts are recorded when the proceeds are measurable.

The Organization recognizes conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - when the conditions stipulated by the donor are substantially met.

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 without donor restriction 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 statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. 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.

Special Olympics North Carolina, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, and those differences could be material.

Subsequent Events

The Organization has evaluated events and transactions that occurred between December 31, 2021 and March 22, 2022, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,381,304	\$ 2,002,558
Marketable securities	7,098,787	6,368,898
Receivables	<u>474,190</u>	<u>197,350</u>
Total financial assets	10,954,281	8,568,806
Less amounts not available for general expenditures within one year:		
Current obligations under capital lease	(8,660)	(8,020)
Purpose restricted contributions	<u>(146,444)</u>	<u>(40,000)</u>
Total financial assets available to meet general expenditures within one year	\$ <u>10,799,177</u>	\$ <u>8,520,786</u>

Board-designated amounts could be made available, if necessary, for general expenditures and are therefore reflected in the amounts above.

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization is also supported by restricted contributions. Because a donor or grantor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resource to meet those responsibilities to its donor or grantor. Thus, financial assets may not be available for general expenditures within one year.

Special Olympics North Carolina, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

4. 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, 2021 and 2020, the Organization had mutual funds that were carried at fair value for which the disclosure requirements of FASB ASC 820 applies.

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>2021</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>7,098,787</u>	\$ <u>7,098,787</u>	\$ _____ -	\$ _____ -

<u>2020</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>6,368,898</u>	\$ <u>6,368,898</u>	\$ _____ -	\$ _____ -

5. 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, 2021 and 2020, the aggregate fair market value of marketable securities exceeded their aggregate cost by \$2,283,036 and \$2,100,667, respectively. The Organization realized gains of \$275,584 and \$43,344 from the sale of marketable securities for the years ended December 31, 2021 and 2020, 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 \$182,369 and \$490,725 for the years ended December 31, 2021 and 2020, respectively. The Organization incurred investment fees of \$33,473 and \$26,900 for the years ended December 31, 2021 and 2020, respectively.

Special Olympics North Carolina, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

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 \$1,050,045 and \$1,028,392 have been recognized in the accompanying statements of activities for the years ended December 31, 2021 and 2020, respectively.

The Organization received \$12,938 of donated vehicles, equipment, and technology to support program services in 2021.

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 \$26,241 and \$4,734 for the years ended December 31, 2021 and 2020, respectively have been allocated as follows:

	<u>2021</u>	<u>2020</u>
Programs and games	\$ 19,681	\$ 3,593
Fundraising	<u>6,560</u>	<u>1,141</u>
	<u>\$ 26,241</u>	<u>\$ 4,734</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 \$37,281 and \$34,314, for the years ended December 31, 2021 and 2020, respectively.

In 2018 the Organization's Board approved the establishment of a deferred compensation plan for two key positions under IRC section 457(b). The plan became effective January 1, 2019 and allows for employer elective contributions but does not allow for employee contributions. The Board did not approve contributions to the plan for the years ended December 31, 2021 and 2020.

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, 2021 and 2020 was \$1,384,374 and \$947,219, respectively, of which \$188,436 and \$84,502, respectively, was in accounts receivable at December 31, 2021 and 2020.

Special Olympics North Carolina, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

9. RELATED PARTY TRANSACTIONS

The Organization recorded dues, planned giving collaborative, and other various payments to SOI of \$102,640 and \$187,885 for the years ended December 31, 2021 and 2020, respectively.

Members of the board and employees contributed \$34,321 and \$42,813 to the Organization in 2021 and 2020, respectively.

The Organization received donated legal services from the firm of a member of the board of \$4,900 and \$4,620 for the years ended December 31, 2021 and 2020, respectively.

The Organization received \$3,000 of contributions to the Over the Edge program from a company owned by a board member.

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 \$193,596 and \$212,259 for the years ended December 31, 2021 and 2020, 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 payment more than rental expenses in the amount of \$18,441 and \$10,212 has been reflected in the accompanying statements of activities for the years ended December 31, 2021 and 2020, respectively. Deferred rent is \$146,675 and \$165,116 at December 31, 2021 and 2020, respectively.

Future minimum lease payments under non-cancelable operating lease agreements at December 31, 2021 are as follows:

2022	\$ 174,110
2023	178,463
2024	182,925
2025	187,497
2026	<u>141,144</u>
Total	<u>\$ 864,139</u>

Capital Leases

In February 2018 the Organization acquired a capital lease for copiers in the amount of \$49,810 with an effective interest rate of 0.021% expiring April 2023. The cost of the copier under capital lease is included in the statement of financial position under the caption "office equipment and technology". The cost of the copier was \$38,571 at December 31, 2021 and 2020, respectively. Accumulated amortization on the leased copiers at December 31, 2021 and 2020 was \$30,857 and \$23,143, respectively. Amortization of assets under capital lease is included in depreciation expense.

Special Olympics North Carolina, Inc.
Notes to Financial Statements
December 31, 2021 and 2020

10. LEASES (Continued)

Capital Leases (Continued)

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments at December 31, 2021, are as follows:

Year ending December 31:

2022		\$	9,320		
2023			<u>3,883</u>		
			13,203		
Less amounts representing interest			<u>733</u>		
Present value of net minimum lease payments			12,470		
Less current obligations under capital lease			<u>8,660</u>		
Noncurrent portion of capital lease obligations		\$	<u><u>3,810</u></u>		

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows at December 31:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for the specified purpose:		
County sports programs	\$ 18,000	\$ 20,000
Special events	82,251	20,000
Health initiative program	46,193	-
Subject to the passage of time	<u>35,000</u>	<u>43,380</u>
	<u>\$ 181,444</u>	<u>\$ 83,380</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time for the years ended December 31, 2021 and 2020 as follows:

	<u>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions:		
County sports programs	\$ 20,000	\$ 53,000
Special events	20,000	50,000
Satisfaction of the passage of time	<u>43,380</u>	-
	<u>\$ 83,380</u>	<u>\$ 103,000</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.

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12. **CONCENTRATIONS** (Continued)

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 19% and 14% of its revenues from contributions generated through the NC Law Enforcement Torch Run during the years ended December 31, 2021 and 2020, respectively.

Approximately 40% and 43% of the Organization's receivables were due from Special Olympics, Inc. at December 31, 2021 and 2020, respectively. Approximately 34% of the Organization's receivables was due from one federal agency at December 31, 2021.

Approximately 55% and 63% of the Organization's payables were due to two and three vendors at December 31, 2021 and 2020, respectively.

13. **CONDITIONAL GRANT**

During the year ended December 31, 2021, the Organization received a conditional grant totaling \$650,000. During 2021 the Organization received and recorded grant revenue of \$325,000 as conditions were met. The remainder of the grant, \$325,000, is due upon meeting certain conditions. As these conditions have not been met as of December 31, 2021, they have not been recorded as grant revenue in 2021.

During the year ended December 31, 2020, the Organization received a conditional grant totaling \$400,000. During 2020 the Organization received and recorded grant revenue of \$160,000 as conditions were met. The remainder of the grant, \$240,000 is due upon meeting certain conditions. As these conditions were met in 2021, they have been recorded as grant revenue in 2021.

14. **FUNCTIONAL EXPENSES**

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facility rental and utilities which are allocated on a square footage basis, as well as salaries, payroll taxes, benefits, uniform and clothing, meals, housing, awards and recognition, subscriptions and resources, and telephone, which are allocated on the basis of estimates of time and effort.

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15. PAYCHECK PROTECTION PROGRAM (PPP) LOAN

In 2021 and 2020, the Organization received loan proceeds in the amount of \$321,580 and \$305,568, respectively, under the Paycheck Protection Program ("PPP") administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" of twenty-four weeks if the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities.

The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period.

The Organization initially recorded the loans as a refundable advance and subsequently recognized revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization has recognized \$321,580 and \$305,568 as revenue for the years ended December 31, 2021 and 2020, respectively.

The Organization has received full forgiveness for the 2021 and 2020 PPP loans.

16. EMPLOYEE RETENTION CREDIT (ERC)

The CARES Act provides an employee retention credit ("CARES Employee Retention credit"), which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. Additional relief provisions were passed by the United States government, which extend and slightly expand the qualified wage caps on these credits through December 31, 2021. Based on these additional provisions, the tax credit is now equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee has been increased to \$10,000 of qualified wages per quarter.

The Organization qualifies for the tax credit under the CARES Act in 2021. During the year ended December 31, 2021, the Organization recorded revenues and receivables of \$159,793 related to the CARES Employee Retention credit on the statements of activities and on the statements of financial position, respectively. The Organization did not qualify for any credits related to the fiscal year ended December 31, 2020.