



Financial Statements for the
Years Ended December 31, 2016 and 2015
and Independent Auditor's Report

SPECIAL OLYMPICS WASHINGTON
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For the Years Ended December 31, 2016 and 2015

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WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Special Olympics Washington
Seattle, Washington

We have audited the accompanying financial statements of Special Olympics Washington (a Washington nonprofit corporation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Special Olympics Washington 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.

Watson & McDermott, PLLC

June 26, 2017

SPECIAL OLYMPICS WASHINGTON
 Statements of Financial Position
 December 31, 2016 and 2015

ASSETS

	2016	2015
Current assets:		
Cash and cash equivalents	\$ 439,611	\$ 415,804
Accounts receivable		
Receivables and promises to give, current portion	97,130	62,376
Related party	80,000	270,888
Awards inventory	11,500	10,517
Prepaid expenses and deposits	82,248	149,702
Total current assets	710,489	909,287
Other assets:		
Receivables and promises to give, net of current portion	22,529	24,197
Investments	1,811,509	1,747,116
Property and equipment, net	5,210	11,436
	1,839,248	1,782,749
	\$ 2,549,737	\$ 2,692,036

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 62,641	\$ 80,144
Accrued liabilities	320,883	140,705
Deferred revenue	63,495	76,744
Margin loan	150,000	
Total current liabilities	597,019	297,593
Deferred rent	10,723	34,773
Total liabilities	607,742	332,366
Net assets (deficit):		
Unrestricted		
Undesignated	(654,487)	(9,574)
Board designated for endowment	892,436	872,676
	237,949	863,102
Temporarily restricted	523,046	355,568
Permanently restricted	1,181,000	1,141,000
Total net assets	1,941,995	2,359,670
	\$ 2,549,737	\$ 2,692,036

The accompanying notes should be read with these financial statements.

SPECIAL OLYMPICS WASHINGTON
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 1,764,687	\$ 328,694	\$ 40,000	\$ 2,133,381
In-kind contributions	33,657			33,657
Souvenir sales	76,899			76,899
Investment gain	99,741			99,741
Special events				
Enhanced raffle	2,544,070			2,544,070
Less direct benefits to donors	(683,426)			(683,426)
Other events	1,237,173			1,237,173
Less direct benefits to donors	(97,627)			(97,627)
	<u>4,975,174</u>	<u>328,694</u>	<u>40,000</u>	<u>5,343,868</u>
Net assets released from restrictions	<u>161,216</u>	<u>(161,216)</u>		
Total support and revenue	<u>5,136,390</u>	<u>167,478</u>	<u>40,000</u>	<u>5,343,868</u>
Expenses:				
Program services	3,620,106			3,620,106
General and administrative	202,517			202,517
Fundraising	1,938,920			1,938,920
Total expenses	<u>5,761,543</u>			<u>5,761,543</u>
Change in net assets	(625,153)	167,478	40,000	(417,675)
Net assets, beginning of year,	<u>863,102</u>	<u>355,568</u>	<u>1,141,000</u>	<u>2,359,670</u>
Net assets, end of year	<u>\$ 237,949</u>	<u>\$ 523,046</u>	<u>\$ 1,181,000</u>	<u>\$ 1,941,995</u>

The accompanying notes should be read with these financial statements.

SPECIAL OLYMPICS WASHINGTON
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 1,511,942	\$ 220,276	\$ 40,000	\$ 1,772,218
In-kind contributions	32,890			32,890
Souvenir sales	51,172			51,172
Investment loss	(76,948)			(76,948)
Special events				
Enhanced raffle	2,947,200			2,947,200
Less direct benefits to donors	(744,456)			(744,456)
Cash raffle	1,021,400			1,021,400
Less direct benefits to donors	(560,650)			(560,650)
Other events	1,162,862			1,162,862
Less direct benefits to donors	(72,238)			(72,238)
	<u>5,273,174</u>	<u>220,276</u>	<u>40,000</u>	<u>5,533,450</u>
Net assets released from restrictions	201,767	(201,767)		
Total support and revenue	<u>5,474,941</u>	<u>18,509</u>	<u>40,000</u>	<u>5,533,450</u>
Expenses:				
Program services	3,249,700			3,249,700
General and administrative	270,370			270,370
Fundraising	<u>2,549,590</u>			<u>2,549,590</u>
Total expenses	<u>6,069,660</u>			<u>6,069,660</u>
Change in net assets	(594,719)	18,509	40,000	(536,210)
Net assets, beginning of year,	<u>1,457,821</u>	<u>337,059</u>	<u>1,101,000</u>	<u>2,895,880</u>
Net assets, end of year	<u>\$ 863,102</u>	<u>\$ 355,568</u>	<u>\$ 1,141,000</u>	<u>\$ 2,359,670</u>

The accompanying notes should be read with these financial statements.

SPECIAL OLYMPICS WASHINGTON
Statement of Functional Expenses
For the Year Ended December 31, 2016

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 1,517,905	\$ 129,934	\$ 214,719	\$ 1,862,558
Sports programming	1,416,592			1,416,592
Development and special event			229,505	229,505
In-kind	26,268		7,388	33,656
Support services	158,615	24,233	37,451	220,299
Professional services	170,788	18,142	28,038	216,968
Occupancy	137,093	20,945	32,369	190,407
Travel, lodging and meals	82,399	8,578	30,022	120,999
Telemarketing	23,961		23,961	47,922
Depreciation	<u>4,482</u>	<u>685</u>	<u>1,058</u>	<u>6,225</u>
Expenses before enhanced raffle and SOI assessment	3,538,103	202,517	604,511	4,345,131
	81%	5%	14%	100%
Enhanced raffle			1,334,409	1,334,409
SOI assessment	<u>82,003</u>			<u>82,003</u>
Total expenses	<u>\$ 3,620,106</u>	<u>\$ 202,517</u>	<u>\$ 1,938,920</u>	<u>\$ 5,761,543</u>
Percentage of total expenses	62%	4%	34%	100%

The accompanying notes should be read with these financial statements.

SPECIAL OLYMPICS WASHINGTON
Statement of Functional Expenses
For the Year Ended December 31, 2015

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 1,218,233	\$ 199,989	\$ 330,486	\$ 1,748,708
Sports programming	1,382,854			1,382,854
Development and special event			194,822	194,822
In-kind	22,708		10,182	32,890
Support services	149,470	22,836	35,291	207,597
Professional services	127,404	12,026	18,586	158,016
Occupancy	136,332	20,828	32,189	189,349
Travel, lodging and meals	105,220	13,304	24,612	143,136
Telemarketing	28,112		28,112	56,224
Depreciation	<u>9,083</u>	<u>1,387</u>	<u>2,144</u>	<u>12,614</u>
Expenses before enhanced raffle and SOI assessment	3,179,416	270,370	676,424	4,126,210
	77%	7%	16%	100%
Enhanced raffle			1,409,081	1,409,081
Cash raffle			464,085	464,085
SOI assessment	<u>70,284</u>			<u>70,284</u>
Total expenses	<u>\$ 3,249,700</u>	<u>\$ 270,370</u>	<u>\$ 2,549,590</u>	<u>\$ 6,069,660</u>
Percentage of total expenses	54%	4%	42%	100%

The accompanying notes should be read with these financial statements.

SPECIAL OLYMPICS WASHINGTON
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (417,675)	\$ (536,210)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,225	12,614
Contributions for endowment	(40,000)	(40,000)
Unrealized loss (gain) on investments	(112,506)	68,248
Realized loss on investments	37,857	33,159
Decrease (increase) in assets:		
Accounts receivable	157,802	(97,492)
Awards inventory	(983)	4,562
Prepaid expenses and deposits	67,454	106,673
Increase (decrease) in liabilities:		
Accounts payable	(17,503)	(35,029)
Accrued liabilities	180,178	(33,365)
Deferred revenue	(13,249)	76,744
Deferred rent	(24,050)	(6,783)
Net cash provided by (used in) operating activities	(176,450)	(446,879)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(350,771)	(645,312)
Proceeds from sale and maturities of investments	361,028	487,505
Net cash provided by (used in) investing activities	10,257	(157,807)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from margin loan	350,000	
Payments on margin loan	(200,000)	
Endowment contributions received	40,000	40,000
Net cash provided by (used in) financing activities	190,000	40,000
Net increase (decrease) in cash and cash equivalents	23,807	(564,686)
Cash and cash equivalents, beginning of year	415,804	980,490
Cash and cash equivalents, end of year	\$ 439,611	\$ 415,804

The accompanying notes should be read with these financial statements.

SPECIAL OLYMPICS WASHINGTON
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 1 – ORGANIZATION

Special Olympics Washington (SOWA), an accredited affiliate of Special Olympics Inc (SOI), was organized in the State of Washington as a not-for-profit corporation in 1975. The mission of Special Olympics Washington is to provide year-round sports training and athletic competition in a variety of Olympic-type sports for children and adults with intellectual disabilities, giving them 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 Olympic athletes and the community. Activities are funded primarily through donor contributions and fund raising events. The organizational structure consists of a State Chapter office in Seattle, Washington and remote staff located in Kennewick and Spokane, Washington.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

SOWA's financial statements are presented on the accrual basis of accounting. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of SOWA and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations. SOWA has two categories of unrestricted net assets:

Undesignated

Consists of net assets available for current operations and programs.

Board Designated for Endowment

Includes assets set aside by the Board of Directors for the quasi-endowment. See Note 11 for the specific board designated endowment amounts.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulation that will be met either by action of SOWA or the passage of time. See Note 10 for the specific temporarily restricted amounts.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that will be maintained permanently by SOWA. See Note 11 for the specific permanently restricted amounts.

SPECIAL OLYMPICS WASHINGTON
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial statement presentation, continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets. It is SOWA's policy to recognize restricted contributions in the unrestricted net asset class if the restrictions have been met in the same year they were received.

Revenue recognition

Contributions are recognized in the period received, including unconditional pledges at their fair value. Special event revenue is recognized when the event occurs.

Operating activities

The statements of activities and changes in net assets include a measure of change in net assets from operating activities. Changes in net assets which are excluded from operating results include gains or losses on the disposal of assets and contributions to SOWA's donor restricted endowment.

Cash and cash equivalents

For the purpose of the statement of cash flows, SOWA considers highly liquid investments purchased with a maturity of three months or less to be cash equivalents, except those held as part of its investment portfolio.

Concentration of credit risk

Financial instruments that potentially subject SOWA to concentrations of credit risk consist of cash and cash equivalents and investments. At December 31, 2015, SOWA's deposits were \$83,222 over the federally insured limits. SOWA has not experienced any losses in such accounts. SOWA believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

At December 31, 2016 and 2015, the investments consisted of money market and exchange traded funds held in brokerage accounts.

SPECIAL OLYMPICS WASHINGTON
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Receivables and promises to give

Unconditional promises to give are recognized as revenues in the period received and classified based upon donor restrictions, if any. Promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows.

Collectability of receivables and promises to give is reviewed on a monthly basis by management. SOWA's management determined that an allowance was not deemed necessary as of December 31, 2016 and 2015.

Advertising costs

SOWA expenses advertising costs when the advertising campaign takes place. Advertising expense for the years ended December 31, 2016 and 2015, was \$513,737 and \$919,679, respectively.

Awards inventory

Awards inventory is recorded using the first-in, first out (FIFO) method at the lower of identified cost or market value.

Property and equipment and depreciation

Property and equipment are stated at cost if purchased or, in the case of donated assets, at estimated fair value at the date of contribution. SOWA capitalizes acquisitions of property and equipment in excess of \$2,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from three to five years. Leasehold improvements are depreciated over the shorter of the lease term or the expected useful life.

Donated goods and services

SOWA receives numerous donations of food, supplies, property and equipment, and the use of facilities for program services and events. Such goods are recognized as support at their estimated fair value on the date of receipts. Donated goods for the years ended December 31, 2016 and 2015, were \$20,135 and \$25,465, respectively.

SOWA recognizes donated services if the services create or enhance nonfinancial assets, or require specialized skills and are provided by individuals possessing those skills, which would typically need to be purchased if not donated. Donated services for the years ended December 31, 2016 and 2015, were \$13,522 and \$7,425, respectively. Many volunteers donate significant amounts of time to SOWA's activities. The services of these volunteers are not recorded in the financial statements as they do not meet the criteria for recognition under generally accepted accounting principles.

SPECIAL OLYMPICS WASHINGTON
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Federal income tax

The Internal Revenue Service (IRS) has determined that SOWA is exempt from federal income tax under Section 501(c)(3) and is classified as an organization other than a private foundation under Section 509(a)(1); accordingly, no provision has been made for federal income tax in the financial statements. SOWA files tax filings with the U.S., state and various local governments. SOWA's income tax filings are subject to examination by various taxing authorities.

SOWA follows the provisions of uncertain tax positions as addressed in FASB Codification Subtopic 740-10, *Income Taxes*. SOWA believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based on the benefits derived.

SOWA utilizes an outside firm to conduct telemarketing and direct mail campaigns to distribute information regarding Special Olympics and to appeal for funds. For 2016 and 2015, the joint costs incurred during the campaigns are allocated 50 percent to program services and 50 percent to development. Telemarketing and direct mail campaign expense was \$47,922 and \$56,224 for the years ending December 31, 2016 and 2015, respectively.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Certain amounts from prior-year financial statements have been reclassified to conform to the current-year presentation.

SPECIAL OLYMPICS WASHINGTON
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31st:

	<u>2016</u>	<u>2015</u>
Promises to give		
To be collected in less than one year	\$ 6,000	\$ 26,000
To be collected in one to five years	<u>22,529</u>	<u>24,197</u>
Total promises to give	28,529	50,197
Receivables from others	91,130	36,376
Receivable from related party	<u>80,000</u>	<u>270,888</u>
	<u>\$ 199,659</u>	<u>\$ 357,461</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31st:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 123,250	\$ 123,250
Leasehold improvements	<u>13,046</u>	<u>13,046</u>
	136,296	136,296
Less accumulated depreciation	<u>(131,086)</u>	<u>(124,860)</u>
	<u>\$ 5,210</u>	<u>\$ 11,436</u>

NOTE 5 – INVESTMENTS

Fair value measurements

U.S. GAAP defines fair value, provides a framework for measuring fair value, and requires certain disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

SPECIAL OLYMPICS WASHINGTON
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 5 – INVESTMENTS, CONTINUED

Valuation techniques

Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices of identical assets and liabilities within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management’s assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine the fair value are consistently applied.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016.

Money market funds – Valued at cost plus accrued interest, which approximates fair value.

Exchange traded funds – Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by SOWA at year end.

SOWA’s estimate of fair value for investments held as of December 31, 2016 and 2015, is based on observable Level 1 inputs.

Investments consisted of the following at December 31st:

	<u>2016</u>	<u>2015</u>
Money market funds	<u>\$ 16,509</u>	<u>\$ 12,236</u>
Exchange traded funds		
US Large/Mid Cap	518,168	445,359
US Small Cap	89,498	78,554
International	251,374	250,961
Emerging Markets	92,384	94,881
US Taxable Bonds	503,071	610,792
International Bonds	99,161	134,862
Commodities	48,497	73,859
Inflation Protected	152,160	
REIT’s	<u>40,687</u>	<u>43,612</u>
Total exchange traded funds	<u>1,795,000</u>	<u>1,734,880</u>
	<u>\$ 1,811,509</u>	<u>\$ 1,747,116</u>

SPECIAL OLYMPICS WASHINGTON
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 5 – INVESTMENTS, CONTINUED

Investment income was as follows for the years ended December 31st:

	2016	2015
Dividends and interest	\$ 36,462	\$ 37,660
Investment expenses	(11,370)	(13,201)
Realized loss	(37,857)	(33,159)
Unrealized gain (loss)	112,506	(68,248)
	\$ 99,741	\$ (76,948)

Investment income is reported net of related investment expenses in the statement of activities. The amount of expenses netted with revenues was \$11,370 and \$13,201 for the years ended December 31, 2016 and 2015, respectively.

Collateralized and pledged investments

SOWA has a margin loan with its investment custodian as discussed in Note 12. Additionally, SOWA has pledged investments to guarantee a line of credit with a related party as discussed in Note 6.

NOTE 6 – RELATED PARTY TRANSACTIONS

As an accredited affiliate of SOI, SOWA is required to remit annual assessments determined by SOI, these assessments are included on the schedule of functional expense. In addition, SOWA receives telemarketing and direct mailing contributions and grants through agreements with SOI. The contributions through SOI are included in total contributions on the statement of activities and changes in net assets.

During December 2015, 2018 Special Olympics USA Games (2018 Games), a Washington not-for-profit corporation was formed for the planning, funding and operating of the Special Olympics USA Games to be held in Seattle, Washington in July of 2018. Two members of the SOWA Board of Directors will also serve on the 2018 Games Board. During the year ended December 31, 2015, SOWA advanced Board designated endowment funds in the amount of \$208,635 to help fund start-up operations of 2018 Games. This advance was repaid in full during 2016.

SPECIAL OLYMPICS WASHINGTON
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 6 – RELATED PARTY TRANSACTIONS, CONTINUED

SOWA had the following transactions and balances with related parties for the years ended December 31st:

	<u>2016</u>	<u>2015</u>
Contributions from SOI	\$ 769,600	\$ 504,105
Assessments paid to SOI	82,003	70,284
Receivables from SOI	80,000	62,253
Receivables from 2018 Games		208,635

Pledged investments

During 2016, SOWA pledged investments in the amount of \$252,483 as guarantor on a \$150,000 line of credit for 2018 Games. The 2018 Games line of credit requires the collateral value of the underlying investments to equal or exceed \$150,000 at all times. If the underlying value of the investments is less than the required amount, 2018 Games or SOWA would be required to reduce principal on the line of credit or deposit additional funds.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Leases

In June 2011, SOWA entered into an office lease that expires in July 2018 and includes escalating monthly payments of \$11,352 to \$12,404. Rental expense for this lease was approximately \$129,458 and \$130,815 for the years ended December 31, 2016 and 2015, respectively.

In June 2016, SOWA entered into an office equipment lease that expires in June 2021 and includes monthly minimum payments of \$2,185 plus overages if applicable. Rental expense was \$30,872 and \$34,824, respectively for the years ended December 31, 2016 and 2015.

SPECIAL OLYMPICS WASHINGTON
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 7 – COMMITMENTS AND CONTINGENCIES, CONTINUED

Future minimum rent payments to third parties under noncancelable operating leases are as follows:

Years ending December 31,	
2017	\$ 172,541
2018	113,048
2019	26,220
2020	26,220
2021	<u>13,110</u>
	<u>\$ 351,139</u>

Other contingencies

In October 2016, SOWA entered into a six-month lease option agreement which required total payments of \$60,000, to purchase a single family residence intended for use in SOWA's 2017 fundraising Dream House Raffle. The agreement required \$20,000 paid upon execution of the agreement and two payments of \$20,000. The option to purchase the residence was not exercised and the option agreement terminated May 26, 2017. Option payments for the residence of \$20,000 were included in prepaid expenses and deposits as of December 31, 2016.

In December 2015, SOWA entered into a six-month lease option agreement which required total payments of \$82,000, to purchase a single family residence intended for use in SOWA's 2016 fundraising Dream House Raffle. The agreement requires \$10,000 paid upon execution of the agreement and six monthly payments of \$12,000. The option to purchase the residence terminated May 27, 2016. Option payments for the residence of \$34,000 were included in prepaid expenses and deposits as of December 31, 2015.

In the normal course of its activities, SOWA may encounter claims in process, matters in litigation, and other contingencies. In management's opinion, the outcome from these matters will not materially impact SOWA's financial position or results of its activities as of December 31, 2016.

SPECIAL OLYMPICS WASHINGTON
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 8 – RETIREMENT PLAN

SOWA sponsors a 403(b) salary reduction plan (the Plan) for the benefit of employees that meet certain age and hour of service requirements. Under the terms of the Plan, SOWA is required to match 100 percent of each participant’s contributions up to five percent of compensation. Total employer contributions to the Plan were \$39,625 and \$38,912 for the years ended December 31, 2016 and 2015, respectively.

NOTE 9 –TRUST RESERVE

SOWA is a member of the Nonprofit Trust (the Trust). The Trust facilitates the utilization by member agencies of the reimbursement financing method of meeting obligations under State Unemployment Insurance Statutes. At December 31, 2016 and 2015, SOWA had \$1,471 on deposit with the Trust to fund these obligations. This deposit is included in prepaid expenses and deposits on the statement of financial position. Any potential claims that may exist cannot be fully estimated at December 31, 2016, and therefore have not been accrued.

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31st:

	<u>2016</u>	<u>2015</u>
Sports equipment and uniforms	\$ 348,606	\$ 219,196
Games	134,426	100,000
Project Unify	17,102	11,791
Time-restricted	<u>22,912</u>	<u>24,581</u>
	<u>\$ 523,046</u>	<u>\$ 355,568</u>

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NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

SOWA’s endowments consist of funds established to support the operations of SOWA. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). As required by U.S. GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

SOWA has interpreted the Washington State Prudent Management of Institutional Funds Act (PMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, SOWA classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by SOWA in a manner consistent with the standard of prudence prescribed by PMIFA.

In accordance with PMIFA, SOWA considers the following factors in making a determination to release or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the donor-restricted endowment fund;
- General economic conditions;
- Possible effects of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of SOWA; and
- The investment policies of SOWA.

Endowment net assets consisted of the following at December 31, 2016:

	Unrestricted Board <u>Designated</u>	Unrestricted - <u>Other</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor restricted		\$ (22,602)	\$ 1,181,000	\$ 1,158,398
Quasi-endowment	\$ 892,436			892,436
	<u>\$ 892,436</u>	<u>\$ (22,602)</u>	<u>\$ 1,181,000</u>	<u>\$ 2,050,834</u>

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NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS, CONTINUED

Endowment net assets consisted of the following at December 31, 2015:

	Unrestricted Board <u>Designated</u>	Unrestricted - <u>Other</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor restricted		\$ (65,731)	\$ 1,141,000	\$ 1,075,269
Quasi-endowment	\$ 872,676			872,676
	<u>\$ 872,676</u>	<u>\$ (65,731)</u>	<u>\$ 1,141,000</u>	<u>\$ 1,947,945</u>

Changes to endowment net assets were as follows for the year ended December 31, 2016:

	Unrestricted Board <u>Designated</u>	Unrestricted - <u>Other</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2016	\$ 872,676	\$ (65,731)		\$ 1,141,000	\$ 1,947,945
Contributions				40,000	40,000
Investment income	10,651		\$ 25,873		36,524
Net appreciation	19,760	43,129			62,889
Appropriated for expenditure	<u>(10,651)</u>		<u>(25,873)</u>		<u>(36,524)</u>
Endowment net assets, December 31, 2016	<u>\$ 892,436</u>	<u>\$ (22,602)</u>	<u>\$</u>	<u>\$ 1,181,000</u>	<u>\$ 2,050,834</u>

Changes to endowment net assets were as follows for the year ended December 31, 2015:

	Unrestricted Board <u>Designated</u>	Unrestricted - <u>Other</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2015	\$ 590,000			\$ 1,101,000	\$ 1,691,000
Additions	331,553				331,553
Contributions				40,000	40,000
Investment income	14,884		\$ 22,776		37,660
Net depreciation	(48,877)	\$ (65,731)			(114,608)
Appropriated for expenditure	<u>(14,884)</u>		<u>(22,776)</u>		<u>(37,660)</u>
Endowment net assets, December 31, 2015	<u>\$ 872,676</u>	<u>\$ (65,731)</u>	<u>\$</u>	<u>\$ 1,141,000</u>	<u>\$ 1,947,945</u>

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NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS, CONTINUED

Funds with deficiencies

At December 31, 2016 and 2015, the fair value of invested assets assigned to individual donor restricted endowment asset balances required in perpetuity had a \$22,602 and \$65,731 deficiency, respectively. From time to time, the value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or PMIFA requires an organization to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occur after the investment of new permanently restricted contributions and continued appropriation for certain programs as deemed prudent by the Board of Directors.

Return objectives and risk parameters

SOWA desires an endowment investment performance that provides reasonable opportunities over the long term for growth of assets and generation of income, while protecting principal to ensure long term sustainability of the programs of SOWA. SOWA has adopted an investment policy in which endowment assets are invested in a manner that is intended to provide a positive rate of return annually. The target investment class allocation is determined by the SOWA Investment Committee of the Board of Directors, based on recommendations from investment consultants.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, SOWA relies on an investment strategy that achieves both capital appreciation (realized and unrealized) and current yield (interest and dividends). SOWA targets a diversified asset allocation that can be adjusted by the Investment Committee based on market conditions.

Spending policy and how the investment objectives relate to spending policy

The endowments are to be thought of as permanent funds. SOWA has classified the earnings of the donor-restricted endowment funds as temporarily restricted net assets until appropriation for expenditure. SOWA has adopted a policy whereby all income earned on its endowment and quasi-endowment is immediately appropriated for expenditure and released from restriction unless directed otherwise by the donor.

NOTE 12 – MARGIN LOAN

SOWA has a margin loan with its investment custodian. Investments in the amount of \$1,555,244 are pledged as collateral under this loan. Interest on the loan accrues at the margin interest rate of 2.5%. The margin loan had a balance of \$150,000 at December 31, 2016, which was paid in full as of May 4, 2017.

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NOTE 13 – SUBSEQUENT EVENTS

SOWA has evaluated subsequent events through June 26, 2017, which is the date the financial statements were available to be issued, and has determined that other than the margin loan payoff (Note 12), there are no material subsequent events that require recognition or additional disclosure.