

SPECIAL OLYMPICS TEXAS, INC.
INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS
December 31, 2019 and 2018

SPECIAL OLYMPICS TEXAS, INC.

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Independent Auditors' Report

To the Board Of Directors
Special Olympics Texas, Inc.

We have audited the accompanying financial statements of Special Olympics Texas, Inc. (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2019 and 2018, 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 Texas, Inc. as of December 31, 2019 and 2018, and the result of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Atchley & Associates, LLP

Austin, Texas

June 22, 2020

SPECIAL OLYMPICS TEXAS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,494,229	\$ 460,682
Accounts receivable, net	150,040	145,747
Grant receivable	-	250,000
Investments	3,233,964	1,607,782
Prepaid expenses, deposits, and other current assets	89,994	184,464
Total Current Assets	4,968,227	2,648,675
Property and equipment - net	788,041	6,410,636
Total Assets	\$ 5,756,268	\$ 9,059,311
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 34,680	\$ 310,197
Accrued employee benefits	153,653	161,976
Deferred revenue	-	42,824
Note payable, current	-	70,708
Line of credit	-	498,000
Other liability	8,500	-
Total Current Liabilities	196,833	1,083,705
Note Payable, net of current	-	1,817,344
Total Liabilities	196,833	2,901,049
Net Assets:		
Without donor restrictions:		
Operating	737,418	1,896,756
Board designated	1,855,209	1,325,886
Total Without Donor Restrictions	2,592,627	3,222,642
With donor restrictions	2,966,808	2,935,620
Total Net Assets	5,559,435	6,158,262
Total Liabilities and Net Assets	\$ 5,756,268	\$ 9,059,311

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

SPECIAL OLYMPICS TEXAS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING REVENUE			
Contributions	\$ 1,746,412	\$ 1,048,168	\$ 2,794,580
In-kind donations	9,046,531	-	9,046,531
Fundraising events	3,458,291	-	3,458,291
Grants	979,215	1,630,605	2,609,820
Sales of materials	178,393	-	178,393
Program services fees	205,461	-	205,461
Other revenue	-	-	-
	<u>15,614,303</u>	<u>2,678,773</u>	<u>18,293,076</u>
Released from restrictions	<u>2,723,013</u>	<u>(2,723,013)</u>	<u>-</u>
Total Operating Revenue	<u>18,337,316</u>	<u>(44,240)</u>	<u>18,293,076</u>
OPERATING EXPENSES			
Program services	16,827,245	-	16,827,245
Management and general	227,434	-	227,434
Development and fundraising	482,171	-	482,171
Total Operating Expenses	<u>17,536,850</u>	<u>-</u>	<u>17,536,850</u>
Total Operating Income (Loss)	<u>800,466</u>	<u>(44,240)</u>	<u>756,226</u>
NONOPERATING INCOME (EXPENSE)			
Investment return, net	219,386	75,428	294,814
Cost of merchandise	(319,681)	-	(319,681)
Building sale expense	(288,133)	-	(288,133)
Loss on sale	(1,042,053)	-	(1,042,053)
Total Nonoperating Income (Loss)	<u>(1,430,481)</u>	<u>75,428</u>	<u>(1,355,053)</u>
Change in Net Assets	(630,015)	31,188	(598,827)
Net Assets, Beginning of the Year	<u>3,222,642</u>	<u>2,935,620</u>	<u>6,158,262</u>
Net Assets, End of the Year	<u>\$ 2,592,627</u>	<u>\$ 2,966,808</u>	<u>\$ 5,559,435</u>

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

SPECIAL OLYMPICS TEXAS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
Contributions	\$ 1,284,276	\$ 1,058,823	\$ 2,343,099
In-kind donations	10,452,171	-	10,452,171
Fundraising events	3,613,286	-	3,613,286
Grants	734,323	672,835	1,407,158
Sales of materials	330,237	-	330,237
Program services fees	191,115	-	191,115
Other revenue	700	-	700
	<u>16,606,108</u>	<u>1,731,658</u>	<u>18,337,766</u>
Released from restrictions	1,176,387	(1,176,387)	-
Total Operating Revenue	<u>17,782,495</u>	<u>555,271</u>	<u>18,337,766</u>
OPERATING EXPENSES			
Program services	16,860,753	-	16,860,753
Management and general	261,622	-	261,622
Development and fundraising	1,868,034	-	1,868,034
Total Operating Expenses	<u>18,990,409</u>	<u>-</u>	<u>18,990,409</u>
Total Operating Income (Loss)	<u>(1,207,914)</u>	<u>555,271</u>	<u>(652,643)</u>
NONOPERATING INCOME (EXPENSE)			
Investment return, net	(6,337)	(2,061)	(8,398)
Cost of merchandise	-	-	-
Building sale expense	-	-	-
Loss on sale	-	-	-
Total Nonoperating Income (Loss)	<u>(6,337)</u>	<u>(2,061)</u>	<u>(8,398)</u>
Change in Net Assets	(1,214,251)	553,210	(661,041)
Net Assets, Beginning of the Year	<u>4,436,893</u>	<u>2,382,410</u>	<u>6,819,303</u>
Net Assets, End of the Year	<u>\$ 3,222,642</u>	<u>\$ 2,935,620</u>	<u>\$ 6,158,262</u>

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

SPECIAL OLYMPICS TEXAS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Services	Management and General	Development and Fundraising	Total
Area and state game expenses	\$ 2,372,969	\$ 3,596	\$ -	\$ 2,376,565
Bad debt expense	-	2,050	-	2,050
Bank charges	-	104,499	-	104,499
Chapter assessment fees	133,453	-	-	133,453
Depreciation	181,632	-	-	181,632
Direct mail and telemarketing services	46,188	-	14,978	61,166
Employee benefits	227,935	4,799	7,198	239,932
Equipment rental and maintenance	138,950	7,126	-	146,076
Fundraising events direct costs	-	-	341,037	341,037
In-kind expenses	8,911,711	-	-	8,911,711
Insurance expense	174,478	1,585	-	176,063
Meeting and workshops	59,645	1,847	-	61,492
Occupancy	203,867	22,627	-	226,494
Other fees	8,500	-	-	8,500
Payroll taxes	262,522	5,527	8,290	276,339
Postage and shipping	17,157	-	-	17,157
Professional fees	143,472	-	-	143,472
Salaries	3,504,466	73,778	110,668	3,688,912
Supplies	37,497	-	-	37,497
Telephone expense	84,583	-	-	84,583
Travel and training	318,220	-	-	318,220
Total	<u>\$16,827,245</u>	<u>\$ 227,434</u>	<u>\$ 482,171</u>	<u>\$17,536,850</u>

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

SPECIAL OLYMPICS TEXAS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Development and Fundraising	Total
Area and state game expenses	\$ 1,943,946	\$ -	\$ -	\$ 1,943,946
Bad debt expense	-	39,579	-	39,579
Bank charges	-	170,478	-	170,478
Chapter assessment fees	189,437	-	-	189,437
Depreciation	168,036	2,240	53,772	224,048
Direct mail and telemarketing services	43,037	-	43,036	86,073
Employee benefits	251,709	3,356	80,547	335,612
Equipment rental and maintenance	134,949	-	-	134,949
Fundraising events direct costs	288,702	-	288,702	577,404
In-kind expenses	10,452,171	-	-	10,452,171
Insurance expense	115,771	1,544	37,046	154,361
Meeting and workshops	41,450	-	-	41,450
Occupancy	278,197	3,709	89,022	370,928
Other fees	-	-	-	-
Payroll taxes	176,130	2,710	92,129	270,969
Postage and shipping	14,723	227	7,701	22,651
Professional fees	93,278	1,244	29,848	124,370
Salaries	2,473,852	35,341	1,024,881	3,534,074
Supplies	16,189	270	10,522	26,981
Telephone expense	60,046	924	31,408	92,378
Travel and training	119,130	-	79,420	198,550
Total	<u>\$ 16,860,753</u>	<u>\$ 261,622</u>	<u>\$ 1,868,034</u>	<u>\$ 18,990,409</u>

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

SPECIAL OLYMPICS TEXAS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	\$ (598,827)	\$ (661,041)
Adjustments to reconcile change in excess revenues to net cash used in operating activities:		
Depreciation expense	181,632	224,048
(Appreciation) depreciation in investments	(248,406)	46,454
Bad debt expense	2,050	39,579
(Gain) loss on disposal of fixed assets	1,042,053	-
Changes in assets and liabilities:		
Accounts receivable and other receivables	(6,343)	28,780
Grant receivable	250,000	(250,000)
Promises to give	-	1,175
Prepaid expenses and other current assets	94,470	(34,855)
Accounts payable and accrued expenses	(275,517)	117,475
Accrued employee benefits	(8,323)	(7,779)
Deferred revenue	(42,824)	(17,656)
Other liability	8,500	-
Net Cash Flows from Operating Activities	398,465	(513,820)
Cash Flows from Investing Activities:		
Acquisition of fixed assets	(873,553)	-
Proceeds from sale of fixed assets	5,272,463	-
Purchases of investments, net of sales	(1,377,776)	190,413
Net Cash Flows from Investing Activities	3,021,134	190,413
Cash Flows from Financing Activities:		
Proceeds from revolving line of credit, net of payments	(498,000)	498,000
Payments on note payable	(1,888,052)	(75,822)
Net Cash Flows from Financing Activities	(2,386,052)	422,178
Net Increase (Decrease) in Cash and Cash Equivalents	1,033,547	98,771
Beginning Cash and Cash Equivalents	460,682	361,911
Ending Cash and Cash Equivalents	\$ 1,494,229	\$ 460,682
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest expense	\$ 20,000	\$ 13,169

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

SPECIAL OLYMPICS TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 and 2018

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Special Olympics Texas, Inc. (the Organization) provides year-round athletic training and Olympic-type sports competition to children and adults with mental/intellectual disabilities and other closely related developmental disabilities. The Organization's mission is to provide continuing opportunities to develop physical fitness, demonstrate courage, experience joy, and participate in the sharing of gifts, skills and friendship with their families, other Special Olympians, and the community. Events are held at the area, regional, and state levels culminating in the Summer, Winter, and Fall Classic Games. Special Olympics Texas, Inc. is a registered 501(c)(3) not-for-profit organization supported by private donations from individuals, corporations, and organizations throughout the state. The program is dependent on volunteers who serve as coaches, officials, committee members, and more.

Summary of Significant Accounting Policies

Basis of Presentation - The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. For financial statement purposes, the Organization distinguishes between contributions with donor restrictions and without donor restrictions.

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash and cash equivalents consist of cash held in bank deposit accounts, and short-term and highly liquid investments with an original purchase maturity date of three months or less.

Contributions and Accounts Receivable - Contributions received (including unconditional promises to give) are recorded as support with or without donor restrictions in the period received depending on the existence and/or nature of any donor restrictions. Contributions received which are part of the Organization's ongoing major or central activities are recognized as revenue. Conditional promises to give are recognized as the conditions upon which they depend are substantially met. The Organization measures promises to give with time horizons of cash flow greater than one year using an appropriate discount rate that is consistent with the general principles of fair value measurement. Promises to give are recognized as revenue only if sufficient evidence exists in the form of verifiable documentation that a promise was made and received.

SPECIAL OLYMPICS TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 and 2018

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Organization reports contributions as restricted if the support is 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 purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as without donor restrictions. Support that is not restricted by the donor is reported as an increase in net assets without donor restrictions in the reporting period in which the support is recognized. Donated assets are recorded at their estimated fair market values at the date of receipt.

Investments - Investments in equity securities with readily determinable fair values are based on quoted market values while the time deposits are estimated at fair value by summing the principal investment plus accrued interest. Investment income and unrealized gains and losses are reported as increases in net assets without donor restrictions unless the donor placed restrictions on the use of earnings. The change in fair value between years is reflected in the statement of activities in the year of the change as investment return.

Fair Value Measurements - The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

SPECIAL OLYMPICS TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 and 2018

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets Classifications - The Organization classifies its net assets into two categories as follows:

Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be used for any purpose or designated for specific purposes by action of the Board of Directors.

With Donor Restrictions - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. Net assets with donor restrictions include the portion of donor-restricted endowment funds that have not been appropriated for expenditure by the Organization. The Organization received \$2,678,773 and \$1,731,658 in restricted support in the years ending December 31, 2019 and 2018, respectively.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Allowance for Doubtful Accounts - The Organization provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Organization's estimate is based on historical collections, and a review of the current status of the accounts receivable. Management has determined that no allowance for doubtful accounts is necessary as of December 31, 2019 and 2018.

Contributed Services and Assets - Contributed assets and services are recorded at their estimated fair value on the date of donation. The Organization received in-kind contributions and donated services for the years ended December 31, 2019 and 2018, of \$9,046,531 and \$10,452,171, respectively, and primarily represent contributed services related to coaches' time and services for the winter and spring games. In addition, many individuals volunteer their time to assist the Organization, but these services do not meet the criteria for recognition as contributed services, and therefore have not been recorded in the accompanying financial statements.

The Organization reports contributions of land, buildings, and equipment as unrestricted unless explicit donor stipulations specify how the donated assets must be used. Gifts of assets with explicit restrictions that specify how the assets are to be used are accounted for as restricted support. The Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. There were no fixed asset in-kind donations made during 2019 or 2018.

SPECIAL OLYMPICS TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 and 2018

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment - Property and equipment are recorded at cost on the date of acquisition or at fair value on the date of donation. Repairs and maintenance are charged to expenses. Betterments and renewals, which add significantly to the utility or useful lives of the assets, are capitalized. Gains and losses from normal retirements or dispositions are credited or charged to revenue.

The Organization currently capitalizes property and equipment having an estimated useful life of more than one year, and meets or exceeds \$1,000 in cost, individually. Property and equipment are depreciated using the straight-line method over the following useful lives: building 30 years, building improvements 10 years, and furniture and equipment 5 years.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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 estimated.

Income Taxes – The Organization is exempt from federal income taxes pursuant to the provisions of Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Therefore, no provision for federal income taxes has been reflected in the financial statements.

The Organization has adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon examination by taxing authorities. The Organization has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. The Organization believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial position, changes in net assets, or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2019 and 2018. The tax returns for the years ending December 31, 2016, and after are open to examination by federal, local, and state authorities. There are currently no income tax audits for any tax periods in progress.

Functional Expenses - The expense information contained in the statements of activities and functional expenses is presented on a functional basis. Accordingly, certain expenses are allocated between functional categories based on management's estimates. Depreciation, insurance, and occupancy expense are allocated based on square footage. All other expenses are allocated based on time and effort.

SPECIAL OLYMPICS TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 and 2018

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Concentration of Credit Risk - Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, contributions and accounts receivable, and investments. There was \$936,159 in cash or cash equivalent accounts that exceeded the maximum Federal Deposit Insurance Corporation limits at December 31, 2019.

In management's opinion, the Organization's cash and cash equivalents and investments do not represent a significant concentration of credit risk due to the diversification of the Organization's portfolio among institutions, instruments, and issuers.

For contributions and promises to give, the Organization performs ongoing credit evaluations of the donor's financial condition.

Reclassifications in Prior Year Financial Statements - Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

Recently Issued Accounting Pronouncements - The Organization adopted FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and additional ASUs issued to clarify the guidance in ASU 2014-09, which amends the existing accounting standards for revenue recognition. The Organization adopted the new revenue standard utilizing the full retrospective method. The Organization did not restate information reported in prior periods as the adoption for the new revenue standard did not have a material impact on previously reported amounts.

Subsequent Events - Subsequent events have been evaluated through the date of the Independent Auditors' Report, which is the date the financial statements were available to be issued. (See Note 14)

2. AVAILABLE RESOURCES AND LIQUIDITY

The following represents the Organization's financial assets at December 31, 2019:

Financial assets at year-end	2019	2018
Cash and cash equivalents	\$ 1,494,229	\$ 460,682
Accounts receivable	150,040	145,747
Grant receivable	-	250,000
Investments, less endowment	2,890,384	1,264,202
Financial assets available to meet cash needs for general expenditures over the next twelve months	\$ 4,534,653	\$ 2,120,631

SPECIAL OLYMPICS TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 and 2018

2. AVAILABLE RESOURCES AND LIQUIDITY - CONTINUED

The Organization considers contributions restricted for programs which are ingoing and central to its annual operations to be available to meet cash needs for general expenditures. In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates only incurring expenses if adequate funds are available to pay for them. The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments.

3. INVESTMENTS

Investments are stated at fair value and consisted of the following as of December 31:

	2019	2018
Equity securities	\$ 1,879,330	\$ 292,707
U.S. government and agency securities	2,459	202,601
Corporate bonds	1,352,175	1,112,474
Total Investments	<u>\$ 3,233,964</u>	<u>\$ 1,607,782</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31:

	2019	2018
Interest and dividends	\$ 49,942	\$ 40,838
Unrealized gain (loss)	248,406	(46,454)
Investment fees	(3,534)	(2,782)
Total Investment Return	<u>\$ 294,814</u>	<u>\$ (8,398)</u>

4. FAIR VALUES

The following schedule summarizes the investments and their classification in the statements of financial position.

December 31, 2019	Level 1	Level 2	Level 3	Total
Equity securities	\$ 1,879,330	\$ -	\$ -	\$ 1,879,330
U.S. government and agency securities	2,459	-	-	2,459
Corporate bonds	-	1,352,175	-	1,352,175
	<u>\$ 1,881,789</u>	<u>\$ 1,352,175</u>	<u>\$ -</u>	<u>\$ 3,233,964</u>

SPECIAL OLYMPICS TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 and 2018

4. FAIR VALUES - CONTINUED

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ 292,707	\$ -	\$ -	\$ 292,707
U.S. government and agency securities	202,601	-	-	202,601
Corporate bonds	-	1,112,474	-	1,112,474
	<u>\$ 495,308</u>	<u>\$ 1,112,474</u>	<u>\$ -</u>	<u>\$ 1,607,782</u>

The majority of the Organization's investments in equity securities that are measured at fair value on a recurring basis consist of strategic investments in publicly traded companies. The valuation of these securities is based on quoted prices in active markets.

The majority of the Organization's debt securities consists of various fixed income securities such as U.S. government and agencies, and U.S. corporate. The valuation of the U.S. government and agency securities is based on quoted prices in active markets. Valuation of corporate bonds is based on pricing models whereby all significant inputs, including benchmark yields, reported trades, broker-dealer quotes, issue spreads, benchmark securities, bids, offers, and other market related data, are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset. Inputs are documented in accordance with the fair value measurements hierarchy. The Organization reviews security pricing and assesses liquidity on a quarterly basis.

5. PROPERTY AND EQUIPMENT

Property and equipment as of December 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ -	\$ 3,542,703
Buildings and improvements	-	3,383,827
Leasehold improvements	-	11,851
Automobiles	739,636	-
Computer equipment	799,472	835,735
Office, fitness and other equipment	60,277	410,502
Total	<u>1,599,385</u>	<u>8,184,618</u>
Accumulated depreciation	<u>(811,344)</u>	<u>(1,773,982)</u>
Property and equipment, net	<u>\$ 788,041</u>	<u>\$ 6,410,636</u>

Depreciation expense was \$181,632 and \$224,048 for the years ended December 31, 2019 and 2018, respectively.

SPECIAL OLYMPICS TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
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6. CLASSIFICATION OF NET ASSETS

Without Donor Restrictions - Operating

Net assets, which are free of donor-imposed restrictions, consist of all revenues, expenses, gains, and losses that are not changes in net assets with donor restrictions or with board designations. These funds are to be used to fund current operations at management's discretion.

Without Donor Restrictions - Board Designated

The Organization's Board of Directors has designated the use of a building fund cash savings account and the value of certain investments. Board designated investments include an equity investment account in which all the investment earnings are reinvested totaling \$1,704,747 and \$103,265 at December 31, 2019 and 2018, respectively, and a fixed income investment account in which all investment earnings are distributed for current operations totaling \$150,462 and \$1,222,621, at December 31, 2019 and 2018, respectively. A three-fourth's vote of the Board of Directors is required before the funds may be used.

With Donor Restrictions

Net assets with time and purpose donor restrictions were \$2,623,228 and \$2,592,040, at December 31, 2019 and 2018, respectively, and they are restricted primarily for team funds. Net assets with donor restrictions that are to be used into perpetuity consist of endowed gifts received from various donors. Earnings on the related investments may be expended on specific programs of the Organization which were stipulated by the respective donors in accordance with endowment policies. Net assets with donor restrictions that are to be used into perpetuity totaled \$343,580 for each of the years ended December 31, 2019 and 2018.

7. ENDOWMENTS

The Organization's endowment consists of donor-restricted funds, which are restricted for the purpose of furthering the Organization's mission. Net assets associated with the endowment funds, which may include funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

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7. ENDOWMENTS - CONTINUED

The Organization has interpreted Texas Uniform Prudent Management of Institutional Funds Act (Texas UPMIFA) 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. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by Texas UPMIFA.

In accordance with Texas UPMIFA, the Organization considers the following factors in making a determination on the amount, if any, to be available for distribution from each endowment fund:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Board of Directors requires the Organization to retain as a fund of perpetual duration. The Organization did not have any funds with deficiencies as of December 31, 2019 and 2018.

The Organization's endowment net asset composition by type of fund was as follows as of December 31:

	2019	2018
Endowment net assets, beginning of year	\$ 343,580	\$ 343,580
Contributions	-	-
Appropriation of endowment	-	-
Endowment net assets, end of year	\$ 343,580	\$ 343,580

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8. COMMITMENTS AND CONTINGENCIES

Contingencies

The Organization is exposed to risk due to the number of volunteers that are involved in carrying out the Organization's programs. The Organization's umbrella insurance coverage adequately covers any potential damages and liabilities arising from claims related to current and future litigation.

Leases

The Organization leases certain office space and office equipment under operating leases. Minimum future rentals for the office space lease and equipment leases as of December 31, 2019, are as follows:

2020	\$	205,209
2021		185,943
2022		126,099
2023		42,000
2024		38,500
	<u>\$</u>	<u>597,751</u>

Rent expense for the years ended December 31, 2019 and 2018, was \$136,446 and \$236,162, respectively.

9. RETIREMENT PLAN

The Organization maintains a 401(k) pension plan for all eligible employees. Employer contributions to the plan are based on the participants' compensation and level of participation and are funded currently. Employer contributions to the plan for the years ended December 31, 2019 and 2018, were \$96,755 and \$110,377, respectively.

10. DIRECT MARKETING PLAN

The Organization conducts direct marketing campaigns, including direct mail and telemarketing, to raise funds and to increase public relations and awareness of the Organization's mission and activities. Such costs are expensed as incurred.

Direct mail and telemarketing projects for the years ended December 31, 2019 and 2018, resulted in gross contributions of \$925,070 and \$610,179, respectively. The campaigns incurred total costs for the years ended December 31, 2019 and 2018, of \$61,166 and \$86,073, respectively, for activities that included both a fundraising appeal and public education content.

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11. AFFILIATED ORGANIZATIONS AND RELATED PARTY TRANSACTIONS

The Organization is accredited by Special Olympics International, Inc. (SOI) to conduct activities within the State of Texas. For the years ended December 31, 2019 and 2018, the Organization received \$1,168,662 and \$872,580, respectively, from SOI cooperative national fundraising projects and incurred expenses of \$143,453 and \$204,437 in 2019 and 2018, respectively, to SOI for program support.

12. LINE OF CREDIT

The Organization entered into a committed line of credit up to \$500,000 on October 15, 2010, amended on December 1, 2011, June 25, 2013, August 10, 2016, and July 5, 2017, with interest at the BBA LIBOR daily floating rate plus 3% (5.93% at December 31, 2018), due July 7, 2019. This line of credit was paid off and retired in 2019. Outstanding balances on the line of credit as of December 31, 2019 and 2018, were \$0 and \$498,000, respectively.

13. NOTE PAYABLE

The Organization entered into a note payable in the amount of \$2,000,000 on July 18, 2017, with an interest rate of 4.23%. The note requires monthly payments of principal and interest of \$12,434, with a final payment of \$1,223,769 on July 21, 2027. The note payable is secured by real property and improvements. This note was paid in full on October 9, 2019. Outstanding balances on the note payable as of December 31, 2019 and 2018, was \$0 and \$1,888,052, respectively.

14. SUBSEQUENT EVENTS

In early 2020, the emergence of the Covid-19 Coronavirus pandemic has led to significant volatility and declines in the local markets. The Organization is monitoring the evolving situation closely and evaluating its potential exposure. The Organization was granted funds under the Paycheck Protection Program in the amount of \$727,000 in May 2020 to cover certain costs as outlined by the program. Payments begin November 15, 2020, with a fixed interest rate of 1% and a maturity date of November 15, 2025. The first six months of interest owed are deferred until the maturity date. The full amount of the loan is expected to be forgiven. As of the date of this report, it is uncertain how long this volatility will continue, and to what extent, if any, it may impact the operations of the Organization.