



SPECIAL OLYMPICS TEXAS, INC.

Financial Statements

December 31, 2011 (as Restated) and 2010

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

To the Board of Directors
of Special Olympics Texas, Inc.
Austin, Texas:

We have audited the accompanying statement of financial position of Special Olympics Texas, Inc. (a Texas not-for-profit organization) as of December 31, 2011 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Special Olympics Texas, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits. The statement of financial position as of December 31, 2010, and the related statements of activities and cash flows for the year then ended were audited by other auditors whose report dated April 5, 2011, expressed an unqualified opinion on those financial statements.

We conducted our audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, Special Olympics of Texas, Inc. has restated its 2011 statement of activities to properly record contribution revenue and expenses. This restatement resulted in a net increase in unrestricted net assets of \$102,913.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

April 4, 2013
Austin, Texas

SPECIAL OLYMPICS TEXAS, INC.

Statements of Financial Position
As of December 31, 2011 and 2010

	2011	2010
	(As Restated)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 306,379	\$ 1,115,476
Investments	1,577,070	3,738,186
Contributions and accounts receivable, net	376,295	429,528
Inventory	63,744	63,744
Prepaid expenses and other current assets	51,766	148,705
Total current assets	<u>2,375,254</u>	<u>5,495,639</u>
Investments - long term	5,872,045	3,286,691
Property and equipment - net	<u>126,489</u>	<u>127,830</u>
Total Assets	<u>\$ 8,373,788</u>	<u>\$ 8,910,160</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 140,045	\$ 136,378
Accrued employee benefits	99,597	74,547
Deferred revenue	-	150,876
Total current liabilities	<u>239,642</u>	<u>361,801</u>
Net Assets:		
Unrestricted		
Operating	(620,234)	188,466
Board designated	5,644,420	5,525,001
Temporarily restricted	2,524,380	2,249,312
Permanently restricted	<u>585,580</u>	<u>585,580</u>
Total net assets	<u>8,134,146</u>	<u>8,548,359</u>
Total Liabilities and Net Assets	<u>\$ 8,373,788</u>	<u>\$ 8,910,160</u>

See accompanying notes and independent auditors' report.

SPECIAL OLYMPICS TEXAS, INC.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2011 (As Restated)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE AND SUPPORT				
Contributions	\$ 4,011,055	\$ 905,132	\$ -	\$ 4,916,187
In-kind donations	7,129,218	-	-	7,129,218
Fundraising events	2,231,479	-	-	2,231,479
Grants	389,481	357,090	-	746,571
Sale of materials	347,838	-	-	347,838
Program service fees	264,055	-	-	264,055
Net assets released from restrictions	1,215,093	(1,215,093)	-	-
Total Operating Revenue and Support	15,588,219	47,129	-	15,635,348
OPERATING EXPENSES				
Program services	13,788,725	-	-	13,788,725
Development and fundraising	2,412,054	-	-	2,412,054
Management and general	236,353	-	-	236,353
Total Operating Expenses	16,437,132	-	-	16,437,132
Total Operating (Loss) Income	(848,913)	47,129	-	(801,784)
NONOPERATING INCOME (EXPENSE)				
Investment return	178,068	227,939	-	406,007
Investment advisory fees	(18,436)	-	-	(18,436)
Total Nonoperating Income	159,632	227,939	-	387,571
CHANGE IN NET ASSETS	(689,281)	275,068	-	(414,213)
Net assets at beginning of year	5,713,467	2,249,312	585,580	8,548,359
Net assets at end of year	\$ 5,024,186	\$ 2,524,380	\$ 585,580	\$ 8,134,146

See accompanying notes and independent auditors' report.

SPECIAL OLYMPICS TEXAS, INC.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUE AND SUPPORT				
Contributions	\$ 5,307,791	\$ 851,609	\$ -	\$ 6,159,400
In-kind donations	6,999,933	-	-	6,999,933
Fundraising events	2,096,214	-	-	2,096,214
Grants	382,081	147,614	-	529,695
Sales of materials	427,555	-	-	427,555
Program service fees	268,518	-	-	268,518
Net assets released from restrictions	945,520	(945,520)	-	-
Total Operating Revenue and Support	<u>16,427,612</u>	<u>53,703</u>	<u>-</u>	<u>16,481,315</u>
OPERATING EXPENSES				
Program services	13,409,034	-	-	13,409,034
Development and fundraising	2,143,430	-	-	2,143,430
Management and general	181,723	-	-	181,723
Total Operating Expenses	<u>15,734,187</u>	<u>-</u>	<u>-</u>	<u>15,734,187</u>
Total Operating Income	<u>693,425</u>	<u>53,703</u>	<u>-</u>	<u>747,128</u>
NONOPERATING INCOME (EXPENSE)				
Investment return	299,742	291,988	-	591,730
Investment advisory fees	(33,663)	-	-	(33,663)
Total Nonoperating Income	<u>266,079</u>	<u>291,988</u>	<u>-</u>	<u>558,067</u>
CHANGE IN NET ASSETS				
	959,504	345,691	-	1,305,195
Net assets at beginning of year	4,753,963	1,903,621	585,580	7,243,164
Net assets at end of year	<u>\$ 5,713,467</u>	<u>\$ 2,249,312</u>	<u>\$ 585,580</u>	<u>\$ 8,548,359</u>

See accompanying notes and independent auditors' report.

SPECIAL OLYMPICS TEXAS, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2011 (As Restated)

	Program Services	Fundraising	Management and General	Total 2011
In-kind expenses	\$ 6,416,297	\$ 712,921	\$ -	\$ 7,129,218
Salaries	2,676,950	347,110	128,484	3,152,544
Direct mail and telemarketing services	568,755	380,468	-	949,223
Area and state games expenses	1,851,975	-	-	1,851,975
Fundraising events direct costs	-	380,255	-	380,255
Occupancy	303,310	91,909	11,463	406,682
Employee benefits	320,140	110,023	16,954	447,117
Travel and training	259,642	96,528	19,774	375,944
Payroll taxes	166,844	57,606	9,916	234,366
Professional fees	171,660	61,447	22,132	255,239
Insurance expense	72,162	41,883	3,357	117,402
Chapter assessment fees	168,094	-	-	168,094
Meetings and workshops	102,531	-	-	102,531
Telephone expense	74,915	25,078	3,304	103,297
Equipment rental and maintenance	46,210	15,520	1,782	63,512
Printing, dues and subscriptions	82,514	36,549	3,558	122,621
Supplies	25,333	3,633	1,236	30,202
Postage and shipping	61,547	27,777	3,522	92,846
Bank charges	1,297	23,347	1,297	25,941
Depreciation	38,294	-	9,574	47,868
Public relations	380,255	-	-	380,255
Total Operating Expenses	\$ 13,788,725	\$ 2,412,054	\$ 236,353	\$ 16,437,132

See accompanying notes and independent auditors' report.

SPECIAL OLYMPICS TEXAS, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2010

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2010</u>
In-kind expenses	\$ 6,915,121	\$ -	\$ -	\$ 6,915,121
Salaries	2,061,143	702,871	116,206	2,880,220
Direct mail and telemarketing services	615,282	615,282	-	1,230,564
Area and state games expenses	1,808,437	-	-	1,808,437
Fundraising events direct costs	-	353,005	-	353,005
Occupancy	311,015	86,589	11,135	408,739
Employee benefits	242,693	83,515	12,949	339,157
Travel and training	188,305	74,375	12,320	275,000
Payroll taxes	145,300	51,088	8,278	204,666
Professional fees	146,928	54,131	6,548	207,607
Insurance expense	85,152	42,344	3,738	131,234
Chapter assessment fees	176,715	-	-	176,715
Meetings and workshops	18,979	-	-	18,979
Telephone expense	86,588	30,459	3,917	120,964
Equipment rental and maintenance	43,155	14,109	1,652	58,916
Printing, dues and subscriptions	84,185	8,981	1,150	94,316
Supplies	39,349	12,790	1,936	54,075
Postage and shipping	34,359	13,891	1,894	50,144
Depreciation	36,737	-	-	36,737
Public relations	369,591	-	-	369,591
Total Operating Expenses	<u>\$ 13,409,034</u>	<u>\$ 2,143,430</u>	<u>\$ 181,723</u>	<u>\$ 15,734,187</u>

See accompanying notes and independent auditors' report.

SPECIAL OLYMPICS TEXAS, INC.

Statements of Cash Flows

Years Ended

December 31, 2011 and 2010

	2011	2010
	(As Restated)	
Cash flows from operating activities:		
Change in net assets	\$ (414,213)	\$ 1,305,195
Adjustments to reconcile change in net assets to net cash provided by (used in) operations:		
Depreciation	47,868	36,737
Noncash donation of furniture and equipment	-	(41,602)
Gain on sale of investments	(40)	23,127
Appreciation in investments	(227,174)	(401,771)
(Increase) decrease in operating assets:		
Contributions and other accounts receivable	53,233	(106,016)
Inventory	-	(43,210)
Prepaid expenses and other current assets	96,939	(87,782)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	3,667	33,956
Accrued employee benefits	25,050	21,979
Deferred revenue	(150,876)	43,155
Net cash (used in) provided by operating activities	<u>(565,546)</u>	<u>783,768</u>
Cash flows from investing activities:		
Purchases of property and equipment	(46,527)	(35,096)
Purchases of investments, net	(197,024)	(236,935)
Net cash used in investing activities	<u>(243,551)</u>	<u>(272,031)</u>
Cash flows from financing activities:	<u>-</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(809,097)	511,737
Cash and cash equivalents at beginning of year	1,115,476	603,739
Cash and cash equivalents at end of year	<u>\$ 306,379</u>	<u>\$ 1,115,476</u>

See accompanying notes and independent auditors' report.

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2011 and 2010

(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 mission is to provide continuing opportunities to develop physical fitness, demonstrate courage, experience joy and participate in 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, completion assistants, speech coaches 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 (GAAP). For financial statement purposes, the Organization distinguishes between contributions of unrestricted assets, temporarily restricted assets, and permanently restricted assets.

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, highly liquid investments with a purchase maturity date of three months or less to be cash equivalents.

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 unrestricted net assets unless the donor placed restrictions on the income's use. The change in fair value between years is reflected in the statement of activities in the year of the change as depreciation or appreciation in investments.

Net Asset Classifications - In accordance with GAAP, the Organization classifies its net assets into three categories as follows:

Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Temporarily Restricted - Net assets the use of which is 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. Temporarily restricted net assets include the portion of donor-restricted endowment funds that have not been appropriated for expenditure by the Organization.

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be used for any purpose or designated for specific purposes by action of the Board of Governors.

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2011 and 2010

(Continued)

Contributions and Accounts Receivable - Contributions received (including unconditional promises to give) are recorded as unrestricted, temporarily restricted, or permanently restricted support 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. Contributions which are peripheral or incidental are recognized as gains. Conditional promises to give are recognized as the conditions upon which they depend are substantially met. 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.

The Organization reports contributions as restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted. Support that is not restricted by the donor is reported as an increase in unrestricted net assets 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.

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 collection 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, 2011 and 2010.

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, 2011 and 2010 of \$7,129,218 and \$6,999,993 respectively.

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. For the year ended December 31, 2010 in-kind donations in the form of fixed assets total \$41,602. There were no fixed asset in-kind donations made during 2011.

Inventory - Inventory, which consists of fund raising and program materials, is stated at the lower of cost or market.

Property and Equipment - Property and equipment is 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.

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2011 and 2010

(Continued)

Income Taxes - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Unrelated business income, of which the Organization had no significant amounts for the years ended December 31, 2011 and 2010, is subject to federal income taxes. The Organization assesses uncertainties in income tax recognition in its financial statements and uses a threshold of more-likely-than-not for recognition and derecognition of tax provisions taken. There is no provision or liability for federal income taxes in the accompanying financial statements. The Organization's management believes it is no longer subject to income tax examinations for years prior to 2008.

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.

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.

Concentration of Credit Risk - Financial instruments which potentially subject the Organization to concentrations of credit risk consists principally of cash and cash equivalents, investments and contributions receivable. There were no amounts that exceeded the maximum federal deposit insurance corporation limits at December 31, 2011 or 2010 as the balances were fully guaranteed by the Federal Deposit Insurance Corporation's temporary Transaction Account Guarantee Program.

At December 31, 2011 and 2010, investment balances were \$7,449,115 and \$7,024,877, respectively and were held in uninsured accounts. In management's opinion, the Organization's cash, cash equivalents, and investments do not represent a significant concentration of credit risk due to the diversification or the Organization's portfolio among institutions, instruments, and issuers.

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

Subsequent Events - The Organization evaluates events that occur subsequent to the statement of financial position date of periodic reports, but before financial statements are issued for periods ending on such dates, for possible adjustment to such financial statements or other disclosure. This evaluation generally occurs through the date at which the Organization's financial statements are issued. For the financial statements as of and for the year ending December 31, 2011, this date was April 4, 2013.

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2011 and 2010

(Continued)

(2) RESTATEMENT OF AMOUNTS

The Organization restated contribution revenue in 2011 to properly record contributions received during 2011 that were previously recorded as deferred revenue. This correction resulted in an increase in contribution revenue and unrestricted net assets of approximately \$103,000 and an offsetting decrease in deferred revenue of \$103,000. The Organization also restated contribution revenue and development and fundraising expense to reduce both by approximately \$537,000 to eliminate these amounts in the statement of activities. Certain amounts were reclassified between program services, development and fundraising expense and management and general expense to more accurately reflect those expenses. These reclassifications did not result in a change in overall operating expenses. The net results of these adjustments to the 2011 financial statements are as follows:

	2011	2011	Net
	As Restated	As Originally	Impact
	As Restated	Reported	Impact
Statement of Net Assets:			
Total Assets	\$ 8,373,788	\$ 8,373,788	\$ -
Liabilities:			
Deferred revenue	\$ -	\$ 102,913	\$ (102,913)
Net Assets	\$ 8,134,146	\$ 8,031,233	\$ 102,913
Total Liabilities and Net Assets	\$ 8,373,788	\$ 8,373,788	\$ -
Statement of Activities:			
Revenue and Support:			
Contributions	\$ 4,916,187	\$ 5,369,233	\$ (453,046)
Grants	\$ 746,571	\$ 727,821	\$ 18,750
Total Operating Revenue and Support	\$ 15,635,348	\$ 16,069,644	\$ (434,296)
Expenses:			
Program Services	\$ 13,788,725	\$ 13,548,413	\$ 240,312
Development and fundraising expense	\$ 2,412,054	\$ 3,212,889	\$ (800,835)
Management and general	\$ 236,353	\$ 213,039	\$ 23,314
Total Operating Expenses	\$ 16,437,132	\$ 16,974,341	\$ (537,209)

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2011 and 2010

(Continued)

(3) INVESTMENTS

Investments are stated at fair value and consist of the following as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Money Market Funds	\$ 1,098,536	\$ 650,388
Equity Securities	4,072,939	3,776,638
Corporate Bonds and U.S. Government Securities	2,277,640	2,597,851
Total investments	<u>\$ 7,449,115</u>	<u>\$ 7,024,877</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 178,793	\$ 213,086
Realized gain (loss) on sale of investments	40	(23,127)
Unrealized gain	227,174	401,771
Total investment returns	<u>\$ 406,007</u>	<u>\$ 591,730</u>

(4) FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies.

Financial instruments are considered Level 1 when their values are determined using quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1, such as quoted prices for similar assets in active or inactive markets, inputs other than quoted prices that are observable for the asset, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2011 and 2010

(Continued)

The following table represents the Organization's fair value hierarchy for its investments measured at fair value on a recurring basis as of December 31, 2011:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Money market funds	\$ 1,098,536	\$ -	\$ -	\$ 1,098,536
Equity securities	4,072,939	-	-	4,072,939
Corporate bonds	-	1,155,508	-	1,155,508
Government securities	1,122,132	-	-	1,122,132
	<u>\$ 6,293,607</u>	<u>\$ 1,155,508</u>	<u>\$ -</u>	<u>\$ 7,449,115</u>

The following table represents the Organization's fair value hierarchy for its investments measured at fair value on a recurring basis as of December 31, 2010:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Money market funds	\$ 650,388	\$ -	\$ -	\$ 650,388
Equity securities	3,776,638	-	-	3,776,638
Corporate bonds	-	1,236,823	-	1,236,823
Government securities	1,361,028	-	-	1,361,028
	<u>\$ 5,788,054</u>	<u>\$ 1,236,823</u>	<u>\$ -</u>	<u>\$ 7,024,877</u>

(5) PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2011 and 2010 consisted of the following:

	2011	2010
Computer equipment	\$ 716,298	\$ 683,828
Office furniture and equipment	233,754	219,697
Total gross property and equipment	950,052	903,525
Accumulated depreciation	(823,563)	(775,695)
Property and equipment - net	<u>\$ 126,489</u>	<u>\$ 127,830</u>

Depreciation expense was \$47,868 and \$36,737 for the years ended December 31, 2011 and 2010, respectively.

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2011 and 2010

(Continued)

(6) NET ASSETS

Unrestricted - Operating

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

Unrestricted - 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 \$3,167,810 and \$3,468,354 at December 31, 2011 and 2010 respectively, a bond investment account in which all investment earnings are distributed for current operations totaling \$1,820,316 and \$1,792,000, at December 31, 2011 and 2010, respectively, and a money market account with a balance totaling \$500,627 and \$0 at December 31 2011 and 2010 respectively. A three-fourths vote of the Board of Directors is required before the funds may be used. The balance of the building fund cash savings account is included in cash and was \$155,667 and \$264,647 at December 31, 2011 and 2010.

Temporarily Restricted

The part of the net assets of a not-for-profit organization resulting from contributions whose use by the Organization is limited by donor-imposed restrictions that either expire by passage of time or the purpose of which is fulfilled are considered temporarily restricted net assets. Temporarily restricted net assets were \$2,542,380 and \$2,249,312 at December 31 2011 and 2010, respectively, and they were restricted primarily for team funds and future building projects.

Permanently Restricted

Permanently restricted net assets 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. Permanently restricted net assets totaled \$585,580 at December 31, 2011 and 2010.

(7) ENDOWMENTS

The Organization's endowment consists of donor-restricted funds, which are restricted for the purpose of furthering the Organization's mission. As required by GAAP, net assets associated with 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.

The Organization has interpreted 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 permanently restricted net assets (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 that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by Texas UPMIFA.

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2011 and 2010

(Continued)

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:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2012				
Donor restricted	\$ -	\$ -	\$ 585,580	\$ 585,580
2011				
Donor restricted	\$ -	\$ 6,697	\$ 585,580	\$ 592,277

The summary of changes in endowment assets for the year ended December 31, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment assets as of December 31, 2010	\$ -	\$ 6,697	\$ 585,580
Appropriation of endowment assets for expenditure	-	(6,697)	-
Endowment assets as of December 31, 2011	\$ -	\$ -	\$ 585,580

Funds with Deficiencies

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, 2011 or 2010, respectively.

(8) COMMITMENTS AND CONTINGENCIES

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, 2012 are as follows:

Year ended December 31:	
2012	\$ 336,298
2013	245,612
2014	78,607
2015	4,008
Thereafter	1,336
Total	\$ <u>665,861</u>

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2011 and 2010

(Continued)

Rent expense for the years ended December 31, 2011 and 2010 was \$406,682 and \$408,739, respectively.

Contingency

The Organization exposes itself to potential 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.

(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, 2011 and 2010 were \$107,551 and 90,032, respectively.

(10) DIRECT MARKETING PLAN CAMPAIGN

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, 2011 and 2010 results in gross contributions of \$2,231,015 and \$2,658,180, respectively. The campaigns incurred total costs in 2011 and 2010 of \$949,224 and \$1,230,564, respectively, for activities that included both a fund raising appeal (classified as revenue development and fundraising expense) and public education content (classified as program expense).

(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, 2011 and 2010, the Organization received \$920,790 and \$1,097,224 respectively, from SOI cooperative national fund raising projects and incurred expenses of \$205,248 and \$176,715 in 2011 and 2010, respectively, to SOI for program support.