

Financial Statements
(With Independent Auditors'
Report Thereon)

Special Olympics Texas, Inc.

December 31, 2014 and 2013



Independent Auditors' Report

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

We have audited the accompanying financial statements of Special Olympics Texas, Inc. (a Texas not-for-profit organization) which comprise the statements of financial position as of December 31, 2014 and 2013, the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Special Olympics Texas, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

April 14, 2015
Austin, Texas

SPECIAL OLYMPICS TEXAS, INC.

Statements of Financial Position
As of December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 669,319	\$ 213,339
Accounts receivable, net	455,419	288,402
Promises to give	1,571,606	1,515,034
Investments	654,800	205,677
Prepaid expenses, deposits, and other current assets	<u>127,051</u>	<u>135,970</u>
Total current assets	<u>3,478,195</u>	<u>2,358,422</u>
Investments - long-term	2,903,165	6,733,441
Property and equipment - net	<u>4,304,524</u>	<u>1,722,074</u>
Total Assets	<u>\$ 10,685,884</u>	<u>\$ 10,813,937</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 883,585	\$ 216,833
Accrued employee benefits	202,077	113,203
Line of credit	<u>500,000</u>	<u>200,000</u>
Total current liabilities	<u>1,585,662</u>	<u>530,036</u>
Net Assets:		
Unrestricted		
Operating	1,955,220	(2,009,099)
Board designated	<u>3,432,994</u>	<u>4,996,004</u>
Total Unrestricted	5,388,214	2,986,905
Temporarily restricted	3,126,428	6,711,416
Permanently restricted	<u>585,580</u>	<u>585,580</u>
Total net assets	<u>9,100,222</u>	<u>10,283,901</u>
Total Liabilities and Net Assets	<u>\$ 10,685,884</u>	<u>\$ 10,813,937</u>

See accompanying notes and independent auditors' report.

SPECIAL OLYMPICS TEXAS, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUE AND SUPPORT				
Contributions	\$ 2,334,673	\$ 1,286,709	\$ -	\$ 3,621,382
In-kind donations	7,931,879	-	-	7,931,879
Fundraising events	3,141,325	7,230	-	3,148,555
Grants	564,997	148,305	-	713,302
Sale of materials	278,587	-	-	278,587
Program service fees	287,738	-	-	287,738
Net assets released from restrictions	5,254,568	(5,254,568)	-	-
Total Operating Revenue and Support	<u>19,793,767</u>	<u>(3,812,324)</u>	<u>-</u>	<u>15,981,443</u>
OPERATING EXPENSES				
Program services	16,000,621	-	-	16,000,621
Development and fundraising	1,428,487	-	-	1,428,487
Management and general	98,905	-	-	98,905
Total Operating Expenses	<u>17,528,013</u>	<u>-</u>	<u>-</u>	<u>17,528,013</u>
Total Operating (Loss) Income	<u>2,265,754</u>	<u>(3,812,324)</u>	<u>-</u>	<u>(1,546,570)</u>
NONOPERATING INCOME (EXPENSE)				
Investment return	164,762	227,336	-	392,098
Investment advisory fees	(29,207)	-	-	(29,207)
Total Nonoperating Income	<u>135,555</u>	<u>227,336</u>	<u>-</u>	<u>362,891</u>
CHANGE IN NET ASSETS	2,401,309	(3,584,988)	-	(1,183,679)
Net assets at beginning of year	2,986,905	6,711,416	585,580	10,283,901
Net assets at end of year	<u>\$ 5,388,214</u>	<u>\$ 3,126,428</u>	<u>\$ 585,580</u>	<u>\$ 9,100,222</u>

See accompanying notes and independent auditors' report.

SPECIAL OLYMPICS TEXAS, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUE AND SUPPORT				
Contributions	\$ 2,582,363	\$ 3,545,503	\$ -	\$ 6,127,866
In-kind donations	6,953,702	-	-	6,953,702
Fundraising events	3,394,330	141,166	-	3,535,496
Grants	313,033	187,264	-	500,297
Sale of materials	296,038	-	-	296,038
Program service fees	235,178	-	-	235,178
Net assets released from restrictions	1,091,857	(1,091,857)	-	-
Total Operating Revenue and Support	<u>14,866,501</u>	<u>2,782,076</u>	<u>-</u>	<u>17,648,577</u>
OPERATING EXPENSES				
Program services	14,657,902	-	-	14,657,902
Development and fundraising	1,501,630	-	-	1,501,630
Management and general	102,434	-	-	102,434
Total Operating Expenses	<u>16,261,966</u>	<u>-</u>	<u>-</u>	<u>16,261,966</u>
Total Operating (Loss) Income	<u>(1,395,465)</u>	<u>2,782,076</u>	<u>-</u>	<u>1,386,611</u>
NONOPERATING INCOME (EXPENSE)				
Investment return	200,336	801,129	-	1,001,465
Investment advisory fees	(33,756)	-	-	(33,756)
Total Nonoperating Income	<u>166,580</u>	<u>801,129</u>	<u>-</u>	<u>967,709</u>
CHANGE IN NET ASSETS	(1,228,885)	3,583,205	-	2,354,320
Net assets at beginning of year	4,215,790	3,128,211	585,580	7,929,581
Net assets at end of year	<u>\$ 2,986,905</u>	<u>\$ 6,711,416</u>	<u>\$ 585,580</u>	<u>\$ 10,283,901</u>

See accompanying notes and independent auditors' report.

SPECIAL OLYMPICS TEXAS, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2014

	Program Services	Development and Fundraising	Management and General	Total 2014
Area and state games expenses	\$ 2,120,994	\$ -	\$ -	\$ 2,120,994
Bank charges	20,680	4,136	2,757	27,573
Chapter assessment fees	177,954	13,841	5,932	197,727
Depreciation	31,846	6,369	4,246	42,461
Direct mail and telemarketing services	389,917	335,373	-	725,290
Employee benefits	368,962	64,680	9,074	442,716
Equipment rental and maintenance	121,113	13,457	-	134,570
Fundraising events direct costs	-	282,412	-	282,412
In-kind expenses	7,931,879	-	-	7,931,879
Insurance expense	136,204	6,966	3,806	146,976
Meetings and workshops	61,194	420	-	61,614
Occupancy	423,626	27,744	5,805	457,175
Payroll taxes	235,756	57,125	3,637	296,518
Postage and shipping	29,341	5,705	6,219	41,265
Professional fees	339,451	2,651	-	342,102
Public relations	282,412	-	-	282,412
Salaries	2,863,252	547,399	45,956	3,456,607
Supplies	45,708	7,945	895	54,548
Telephone expense	110,374	13,001	7,382	130,757
Travel and training	309,958	39,263	3,196	352,417
Total Operating Expenses	<u>\$ 16,000,621</u>	<u>\$ 1,428,487</u>	<u>\$ 98,905</u>	<u>\$ 17,528,013</u>

See accompanying notes and independent auditors' report.

SPECIAL OLYMPICS TEXAS, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2013

	Program Services	Development and Fundraising	Management and General	Total 2013
Area and state games expenses	\$ 1,824,507	\$ 343	\$ -	\$ 1,824,850
Bank charges	13,070	2,613	1,743	17,426
Chapter assessment fees	167,074	12,995	5,569	185,638
Depreciation	30,358	6,072	4,047	40,477
Direct mail and telemarketing services	466,659	395,105	-	861,764
Employee benefits	315,777	48,545	5,630	369,952
Equipment rental and maintenance	111,767	12,419	-	124,186
Fundraising events direct costs	-	348,638	-	348,638
In-kind expenses	6,953,702	-	-	6,953,702
Insurance expense	129,670	6,656	3,660	139,986
Meetings and workshops	86,297	3,124	3,124	92,545
Occupancy	405,486	26,173	5,617	437,276
Payroll taxes	198,886	37,440	3,246	239,572
Postage and shipping	36,245	5,505	9,073	50,823
Professional fees	264,421	6,131	163	270,715
Public relations	348,638	-	-	348,638
Salaries	2,778,877	523,878	46,618	3,349,373
Supplies	58,391	7,839	1,675	67,905
Telephone expense	109,351	13,449	8,032	130,832
Travel and training	358,726	44,705	4,237	407,668
Total Operating Expenses	<u>\$ 14,657,902</u>	<u>\$ 1,501,630</u>	<u>\$ 102,434</u>	<u>\$ 16,261,966</u>

See accompanying notes and independent auditors' report.

SPECIAL OLYMPICS TEXAS, INC.
 Statements of Cash Flows
 For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ (1,183,679)	\$ 2,354,320
Adjustments to reconcile change in net assets to net cash provided by (used in) operations:		
Depreciation	42,461	40,477
Gain on sale of investments	-	(27)
Appreciation in investments	(227,336)	(801,129)
(Increase) decrease in operating assets:		
Accounts receivable and other receivables	(167,017)	(143,564)
Promises to give	(56,572)	(1,515,034)
Prepaid expenses and other current assets	8,919	(2,004)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	666,752	129,772
Accrued employee benefits	88,874	4,824
Net cash provided by (used in) operating activities	(827,598)	67,635
Cash flows from investing activities:		
Purchases of property and equipment	(2,624,911)	(1,569,861)
Proceeds from sales of investments, net	3,608,489	671,444
Net cash provided by (used in) investing activities	983,578	(898,417)
Cash flows from financing activities:		
Proceeds from revolving line of credit	300,000	200,000
Net cash provided by financing activities	300,000	200,000
Net increase (decrease) in cash and cash equivalents	455,980	(630,782)
Cash and cash equivalents at beginning of year	213,339	844,121
Cash and cash equivalents at end of year	\$ 669,319	\$ 213,339

See accompanying notes and independent auditors' report.

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2014 and 2013

(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 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 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 and highly liquid investments with an original purchase maturity date of three months or less.

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 use of such earnings. The change in fair value between years is reflected in the statement of activities in the year of the change as investment return.

Net Asset Classifications - The Organization classifies its net assets into three categories as follows:

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 Directors.

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

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

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2014 and 2013

(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. 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.

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, 2014 and 2013.

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, 2014 and 2013 of \$7,931,879 and \$6,953,702, 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 2014 or 2013.

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, 2014 and 2013

(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, 2014 and 2013, 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 de-recognition 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 2011.

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 consist principally of cash and cash equivalents, contributions and accounts receivable, and investments. There were no amounts of cash and cash equivalents that exceeded the maximum Federal Deposit Insurance Corporation limits at December 31, 2014 or 2013.

At December 31, 2014 and 2013, investment balances were \$3,557,965 and \$6,939,118 respectively and were held in uninsured accounts. 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.

Subsequent Events - The Organization evaluates events that occur subsequent to the date of the financial statements, 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, 2014, this date was April 14, 2015.

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2014 and 2013

(Continued)

(2) INVESTMENTS

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

	<u>2014</u>		<u>2013</u>
Equity securities	\$ 1,917,193	\$	4,756,842
U.S. government and agency securities	785,668		967,747
Corporate bonds	<u>855,104</u>		<u>1,214,529</u>
Total investments	3,557,965		6,939,118
Less: Short-term investments	<u>654,800</u>		<u>205,677</u>
Long-term investments	<u>\$ 2,903,165</u>	\$	<u>6,733,441</u>

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

	<u>2014</u>		<u>2013</u>
Interest and dividends	\$ 164,762	\$	200,309
Realized gain on sale of investments	-		27
Unrealized gain	<u>227,336</u>		<u>801,129</u>
Total investment return	<u>\$ 392,098</u>	\$	<u>1,001,465</u>

(3) 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, 2014 and 2013

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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:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2014:				
Equity securities	\$ 1,917,193	\$ -	\$ -	\$ 1,917,193
U.S. Government and agency securities	785,668	-	-	785,668
Corporate bonds	-	855,104	-	855,104
	<u>\$ 2,702,861</u>	<u>\$ 855,104</u>	<u>\$ -</u>	<u>\$ 3,557,965</u>
2013:				
Equity securities	\$ 4,756,842	\$ -	\$ -	\$ 4,756,842
U.S. Government and agency securities	967,747	-	-	967,747
Corporate bonds	-	1,214,529	-	1,214,529
	<u>\$ 5,724,589</u>	<u>\$ 1,214,529</u>	<u>\$ -</u>	<u>\$ 6,939,118</u>

The carrying values of other financial assets and liabilities including cash and cash equivalents, contributions and accounts receivable, prepaid expenses, deposits, and other current assets, accounts payable and accrued expenses, accrued employee benefits, and line of credit approximate their fair value due to their short-term, highly liquid nature.

(4) PROPERTY AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Land	\$ 465,601	\$ 465,601
Leasehold improvements	9,251	9,251
Computer equipment	766,548	766,548
Office furniture and equipment	279,873	239,775
Total gross property and equipment	1,521,273	1,481,175
Accumulated depreciation	(954,724)	(912,264)
Construction in progress	3,737,975	1,153,163
Property and equipment - net	<u>\$ 4,304,524</u>	<u>\$ 1,722,074</u>

Depreciation expense was \$42,461 and \$40,477 for the years ended December 31, 2014 and 2013, respectively.

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2014 and 2013

(Continued)

(5) 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 \$2,112,745 and \$3,643,913 at December 31, 2014 and 2013 respectively, a fixed income investment account in which all investment earnings are distributed for current operations totaling \$1,320,249 and \$1,341,286, at December 31, 2014 and 2013, respectively, and a money market account with a balance totaling \$0 and \$10,805 at December 31, 2014 and 2013 respectively. A three-fourths vote of the Board of Directors is required before the funds may be used.

Temporarily Restricted

Temporarily restricted net assets were \$3,126,428 and \$6,711,416, at December 31, 2014 and 2013, respectively, and they were restricted primarily for team funds and the remainder of the building projects, including the building of a new headquarters financed primarily through a capital campaign during the years ended December 31, 2014 and 2013.

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, 2014 and 2013.

(6) 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.

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 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.

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:

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

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(Continued)

- 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 as of December 31:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2014				
Donor restricted	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 585,580</u>	\$ <u> 585,580</u>
2013				
Donor restricted	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 585,580</u>	\$ <u> 585,580</u>

The summary of changes in endowment assets for the year ended December 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment assets as of December 31, 2013	\$ -	\$ -	\$ 585,580
Appropriation of endowment assets for expenditure	<u> -</u>	<u> -</u>	<u> -</u>
Endowment assets as of December 31, 2014	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 585,580</u>

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, 2014 or 2013, respectively.

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

December 31, 2014 and 2013

(Continued)

(7) 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, 2014 are as follows:

Year	Amount
2015	\$ 127,012
2016	87,756
2017	89,165
2018	89,766
2019	55,046
2020 and thereafter	89,683
Total	<u>\$ 538,428</u>

Rent expense for the years ended December 31, 2014 and 2013 was \$435,927 and \$454,972, respectively.

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.

(8) 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, 2014 and 2013 were \$104,263 and \$113,894, respectively.

(9) 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, 2014 and 2013 resulted in gross contributions of \$1,696,914 and \$1,850,705, respectively. The campaigns incurred total costs for the years ended December 31, 2014 and 2013 of \$725,290 and \$861,764, 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).

(10) 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, 2014 and 2013, the Organization received \$786,369 and \$919,010 respectively, from SOI cooperative national fund raising projects and incurred expenses of \$215,456 and \$208,713 in 2014 and 2013, respectively, to SOI for program support.

SPECIAL OLYMPICS TEXAS, INC.

Notes to the Financial Statements

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(Continued)

(11) PROMISES TO GIVE

The Organization anticipates collection of all promises to give; therefore no allowance has been recorded as of December 31, 2014.

(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 and June 25, 2013 with interest at the BBA LIBOR daily floating rate plus 3%, due June 30, 2014.

Outstanding balances on the line of credit as of December 31, 2014 and 2013 were:

	<u>2014</u>	<u>2013</u>
Borrowings at BBA LIBOR plus 3%, secured by equipment and fixtures, inventory, and receivables	\$ <u>500,000</u>	\$ <u>200,000</u>
Total	\$ <u><u>500,000</u></u>	\$ <u><u>200,000</u></u>

The Organization was in compliance with all restrictive covenants pertaining to the line of credit as of December 31, 2014.

(13) CONCENTRATIONS

During the years ended December 31, 2014 and 2013, revenues derived from one source were approximately 13% and 10% of total Organization revenues, respectively. Approximately 87% and 73% of total Organization promises to give, net of discount, were derived from one source as of December 31, 2014 and 2013, respectively. No single source of net trade receivables accounted for a significant percentage of net trade receivables in 2013 or 2014.