

SPECIAL OLYMPICS TEXAS, INC.
INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS
December 31, 2016 and 2015

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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, 2016 and 2015, 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 audit. 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 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 the Special Olympics Texas, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Allman & Associates, Inc.

Austin, Texas
March 31, 2017

SPECIAL OLYMPICS TEXAS, INC.
(A Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 440,898	\$ 364,025
Accounts receivable, net	379,864	318,204
Promises to give - current portion	125,452	130,686
Investments	551,347	1,210,940
Prepaid expenses, deposits, and other current assets	112,994	85,760
Total current assets	1,610,555	2,109,615
Promises to give - long term portion	264,150	52,000
Property and equipment - net	6,852,685	7,055,310
Total Assets	\$ 8,727,390	\$ 9,216,925
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 124,237	\$ 141,472
Accrued employee benefits	258,750	224,602
Line of credit	500,000	90,000
Total Current Liabilities	882,987	456,074
Net Assets:		
Unrestricted		
Operating	5,016,221	5,835,876
Board designated	450,760	841,561
Total Unrestricted	5,466,981	6,677,437
Temporarily restricted	2,033,842	1,497,834
Permanently restricted	343,580	585,580
Total Net Assets	7,844,403	8,760,851
Total Liabilities and Net Assets	\$ 8,727,390	\$ 9,216,925

See accompanying auditors' report and notes to financial statements.

SPECIAL OLYMPICS TEXAS, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
OPERATING REVENUE				
Contributions	\$ 1,280,933	\$ 1,693,773	\$ -	\$ 2,974,706
In-kind donations	9,781,197	5,370	-	9,786,567
Fundraising events	3,788,305	-	-	3,788,305
Grants	1,112,809	18,062	-	1,130,871
Sales of materials	285,938	-	-	285,938
Program services fees	192,276	-	-	192,276
	<u>16,441,458</u>	<u>1,717,205</u>	<u>-</u>	<u>18,158,663</u>
Released from restrictions	1,410,313	(1,168,313)	(242,000)	-
	<u>17,851,771</u>	<u>548,892</u>	<u>(242,000)</u>	<u>18,158,663</u>
OPERATING EXPENSES				
Program services	17,702,789	-	-	17,702,789
Management and general	1,293,574	-	-	1,293,574
Fundraising	122,400	-	-	122,400
	<u>19,118,763</u>	<u>-</u>	<u>-</u>	<u>19,118,763</u>
Total Operating (Loss) Income	<u>(1,266,992)</u>	<u>548,892</u>	<u>(242,000)</u>	<u>(960,100)</u>
NONOPERATING INCOME (EXPENSE)				
Investment return	50,778	-	-	50,778
Investment advisory fees	(7,126)	-	-	(7,126)
	<u>43,652</u>	<u>-</u>	<u>-</u>	<u>43,652</u>
Released Unrealized Accumulated Inv Return	12,884	(12,884)	-	-
	<u>56,536</u>	<u>(12,884)</u>	<u>-</u>	<u>43,652</u>
CHANGE IN NET ASSETS	(1,210,456)	536,008	(242,000)	(916,448)
Net assets, beginning of the year	<u>6,677,437</u>	<u>1,497,834</u>	<u>585,580</u>	<u>8,760,851</u>
Net assets, end of the year	<u>\$ 5,466,981</u>	<u>\$ 2,033,842</u>	<u>\$ 343,580</u>	<u>\$ 7,844,403</u>

See accompanying auditors' report and notes to financial statements.

SPECIAL OLYMPICS TEXAS, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
OPERATING REVENUE				
Contributions	\$ 2,375,218	\$ 1,531,102	\$ -	\$ 3,906,320
In-kind donations	9,420,331	5,314	-	9,425,645
Fundraising events	3,859,501	10,010	-	3,869,511
Grants	854,786	174,850	-	1,029,636
Sales of materials	279,412	-	-	279,412
Program services fees	223,099	-	-	223,099
	<u>17,012,347</u>	<u>1,721,276</u>	<u>-</u>	<u>18,733,623</u>
Released from restrictions	3,307,475	(3,307,475)	-	-
	<u>20,319,822</u>	<u>(1,586,199)</u>	<u>-</u>	<u>18,733,623</u>
OPERATING EXPENSES				
Program services	17,388,637	-	-	17,388,637
Management and general	1,557,773	-	-	1,557,773
Fundraising	110,139	-	-	110,139
	<u>19,056,549</u>	<u>-</u>	<u>-</u>	<u>19,056,549</u>
Total Operating Expenses	<u>19,056,549</u>	<u>-</u>	<u>-</u>	<u>19,056,549</u>
Total Operating (Loss) Income	<u>1,263,273</u>	<u>(1,586,199)</u>	<u>-</u>	<u>(322,926)</u>
NONOPERATING INCOME (EXPENSE)				
Investment return	(4,116)	-	-	(4,116)
Investment advisory fees	(12,329)	-	-	(12,329)
	<u>(16,445)</u>	<u>-</u>	<u>-</u>	<u>(16,445)</u>
Released Unrealized Accumulated Inv Return	42,395	(42,395)	-	-
	<u>25,950</u>	<u>(42,395)</u>	<u>-</u>	<u>(16,445)</u>
Total Nonoperating (Loss) Income	<u>25,950</u>	<u>(42,395)</u>	<u>-</u>	<u>(16,445)</u>
CHANGE IN NET ASSETS				
	1,289,223	(1,628,594)	-	(339,371)
Net assets, beginning of the year	<u>5,388,214</u>	<u>3,126,428</u>	<u>585,580</u>	<u>9,100,222</u>
Net assets, end of the year	<u>\$ 6,677,437</u>	<u>\$ 1,497,834</u>	<u>\$ 585,580</u>	<u>\$ 8,760,851</u>

See accompanying auditors' report and notes to financial statements.

SPECIAL OLYMPICS TEXAS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016

	Program Services	Management and General	Development and Fundraising	Total 2016
Area and state game expenses	\$ 2,018,952	\$ -	\$ -	\$ 2,018,952
Bank charges	71,453	5,556	2,399	79,408
Bad debt expense	20,463	1,592	682	22,737
Chapter assessment fees	203,932	15,861	6,798	226,591
Depreciation	168,860	33,772	22,514	225,146
Direct mail and telemarketing services	38,390	38,390	-	76,780
Employee benefits	407,291	52,035	9,365	468,691
Equipment rental and maintenance	129,737	8,316	421	138,474
Fundraising events direct costs	338,755	338,755	-	677,510
In-kind expenses	9,786,567	-	-	9,786,567
Insurance expense	132,728	10,323	4,424	147,475
Meeting and workshops	69,824	-	-	69,824
Occupancy	347,454	23,495	1,986	372,935
Payroll taxes	231,060	48,606	4,082	283,748
Postage and shipping	34,226	2,662	1,141	38,029
Professional fees	163,429	9,866	3,909	177,204
Salaries	3,126,823	662,776	58,247	3,847,846
Supplies	41,938	3,262	1,398	46,598
Telephone expense	136,506	10,617	4,550	151,673
Travel and training	234,401	27,690	484	262,575
	<u>\$ 17,702,789</u>	<u>\$ 1,293,574</u>	<u>\$ 122,400</u>	<u>\$ 19,118,763</u>

See accompanying auditors' report and notes to financial statements.

SPECIAL OLYMPICS TEXAS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

	Program Services	Management and General	Development and Fundraising	Total 2015
Area and state game expenses	\$ 2,063,053	\$ -	\$ -	\$ 2,063,053
Bank charges	22,656	4,531	3,021	30,208
Chapter assessment fees	188,801	14,685	6,293	209,779
Depreciation	112,097	22,419	14,946	149,463
Direct mail and telemarketing services	322,411	322,411	-	644,821
Employee benefits	337,646	83,441	10,104	431,190
Equipment rental and maintenance	134,689	14,965	-	149,654
Fundraising events direct costs	-	313,311	-	313,311
In-kind expenses	9,425,646	-	-	9,425,646
Insurance expense	116,314	4,985	3,582	124,881
Meeting and workshops	49,959	-	-	49,959
Occupancy	392,205	18,486	2,757	413,448
Payroll taxes	223,292	46,159	3,499	272,949
Postage and shipping	30,859	8,643	6,150	45,652
Professional fees	184,779	4,689	-	189,467
Public relations	313,311	-	-	313,311
Salaries	3,006,954	633,401	47,164	3,687,519
Supplies	68,927	14,382	978	84,286
Telephone expense	127,940	14,655	8,605	151,200
Travel and training	267,100	36,611	3,042	306,752
	<u>\$ 17,388,637</u>	<u>\$ 1,557,773</u>	<u>\$ 110,139</u>	<u>\$ 19,056,549</u>

See accompanying auditors' report and notes to financial statements.

SPECIAL OLYMPICS TEXAS, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Current year's excess revenues over expenses	\$ (916,448)	\$ (339,371)
Adjustments to reconcile change in excess revenues to net cash provided by operating activities		
Depreciation expense	225,146	149,463
(Appreciation) depreciation in investments	(50,778)	63,174
Changes in assets and liabilities:		
Accounts receivable and other receivables	(61,660)	137,215
Promises to give	(206,916)	1,388,920
Prepaid expenses and other current assets	(27,234)	41,291
Accounts payable and accrued expenses	(17,235)	(742,110)
Accrued employee benefits	34,148	22,524
Net Cash From Operating Activities	<u>(1,020,977)</u>	<u>721,106</u>
Cash Flows From Investing Activities:		
Purchases of property and equipment	(22,521)	(2,900,251)
Proceeds from sales of investments, net	710,371	2,283,851
Net Cash From Investing Activities	<u>687,850</u>	<u>(616,400)</u>
Cash Flows From Financing Activities:		
Proceeds from revolving line of credit	410,000	-
Payments of revolving line of credit	-	(410,000)
Net Cash Flows From Financing Activities	<u>410,000</u>	<u>(410,000)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	76,873	(305,294)
Beginning Cash and Cash Equivalents	364,025	669,319
Ending Cash and Cash Equivalents	<u>\$ 440,898</u>	<u>\$ 364,025</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
Cash paid for interest expense	<u>\$ -</u>	<u>\$ -</u>

See accompanying auditors' report and notes to financial statements.

SPECIAL OLYMPICS TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

SPECIAL OLYMPICS TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Net Assets 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.

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.

SPECIAL OLYMPICS TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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, 2016 and 2015.

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, 2016 and 2015 of \$9,786,567 and \$9,425,646, 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 2016 or 2015.

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.

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.

SPECIAL OLYMPICS TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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 GAAP, 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, 2016, and 2015. The Organization is subject to income tax audits for the previous three years, which are open. 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.

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 cash or cash equivalent accounts that exceeded the maximum Federal Deposit Insurance Corporation limits at December 31, 2016 or 2015.

At December 31, 2016 and 2015, investment balances were \$551,347 and \$1,210,940, 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.

SPECIAL OLYMPICS TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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.

2. INVESTMENTS

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

	<u>2016</u>	<u>2015</u>
Equity securities	\$ 340,124	\$ 947,558
US government and agency securities	130,238	-
Corporate bonds	<u>80,985</u>	<u>263,382</u>
Total investments	<u>\$ 551,347</u>	<u>\$ 1,210,940</u>

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

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 22,941	\$ 59,058
Unrealized gain (loss)	<u>27,837</u>	<u>(63,174)</u>
Total investment return	<u>\$ 50,778</u>	<u>\$ (4,116)</u>

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The requirements of Fair Value Measurements and Disclosures of the Accounting Standards Codification apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement is the same in both cases – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price). Fair Value Measurements and Disclosures also establish a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

SPECIAL OLYMPICS TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

3. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

- Level 1 Inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included with Level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3 Inputs – Unobservable inputs for the asset or liability.

The following table represents assets measured at fair value on a recurring basis as reported on the statement of financial position as of December 31, 2016 and 2015, and by level within the fair value measurement hierarchy:

Description	Amount	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016				
Equity securities	\$ 340,124	\$ 340,124	\$ -	\$ -
U.S. Government and agency securities	130,238	130,238	-	-
Corporate bonds	80,985	-	80,985	-
	<u>\$ 551,347</u>	<u>\$ 470,362</u>	<u>\$ 80,985</u>	<u>\$ -</u>
2015				
Equity securities	\$ 947,558	\$ 947,558	\$ -	\$ -
U.S. Government and agency securities	-	-	-	-
Corporate bonds	263,382	-	263,382	-
	<u>\$ 1,210,940</u>	<u>\$ 947,558</u>	<u>\$ 263,382</u>	<u>\$ -</u>

The carrying values of the remaining current assets and current liabilities approximate their fair value due to their short-term, highly liquid nature.

SPECIAL OLYMPICS TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

4. PROPERTY AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Land	\$ 465,601	\$ 465,601
Buildings	6,460,929	6,460,929
Leasehold improvements	9,251	9,251
Computer equipment	795,673	785,235
Office, fitness and other equipment	450,564	438,482
Total	<u>8,182,018</u>	<u>8,159,498</u>
Accumulated depreciation	<u>(1,329,333)</u>	<u>(1,104,188)</u>
Fixed assets, net	<u>\$ 6,852,685</u>	<u>\$ 7,055,310</u>

Depreciation expense was \$225,146 and \$149,463 for the years ended December 31, 2016 and 2015, respectively.

5. CLASSIFICATION OF 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 \$448,819 and \$739,624 at December 31, 2016 and 2015, respectively, and a fixed income investment account in which all investment earnings are distributed for current operations totaling \$1,941 and \$101,937, at December 31, 2016 and 2015. A three-fourths vote of the Board of Directors is required before the funds may be used.

Temporarily Restricted

Temporarily restricted net assets were \$2,033,842 and \$1,497,834, at December 31, 2016 and 2015, respectively, and they are 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, 2016 and 2015.

SPECIAL OLYMPICS TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

5. CLASSIFICATION OF NET ASSETS (CONTINUED)

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 \$343,580 and \$585,580 at December 31, 2016 and 2015.

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:

- 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.

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6. ENDOWMENTS (CONTINUED)

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>
2016				
Donor Restricted	\$ -	\$ -	\$ 343,580	\$ 343,580
2015				
Donor restricted	\$ -	\$ -	\$ 585,580	\$ 585,580

The summary of changes in endowment assets for the year ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment assets at December 31, 2015	\$ -	\$ -	\$ 585,580
Appropriation of endowment assets for expenditure	-	-	(242,000)
Endowment assets at December 31, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343,580</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, 2016 or 2015, respectively.

7. 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.

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7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2016 are as follows:

<u>For the year ended December 31,</u>	<u>Amount</u>
2017	\$ 137,305
2018	125,115
2019	88,048
2020	64,542
2021	55,042
	<u>\$ 470,052</u>

Rent expense for the years ended December 31, 2016 and 2015 was \$248,125 and \$335,578, respectively.

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, 2016 and 2015 were \$131,906 and \$131,439, 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, 2016 and 2015 resulted in gross contributions of \$1,088,425 and \$610,728, respectively. The campaigns incurred total costs for the years ended December 31, 2016 and 2015 of \$331,604 and \$342,898, respectively, for activities that included both a fundraising appeal and public education content.

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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, 2016 and 2015, the Organization received \$731,740 and \$1,076,596, respectively, from SOI cooperative national fund raising projects and incurred expenses of \$241,591 and \$228,688 in 2016 and 2015, respectively, to SOI for program support.

11. PROMISES TO GIVE

Promises to give consist of amounts pledged for the capital campaign. The Organization anticipates collection of all promises to give; therefore, no allowance has been recorded as of December 31, 2016. Promises to give are \$389,602 and \$182,681 at December 31, 2016 and 2015. Due to the immaterial amount of discount calculated as of December 31, 2016 and 2015, no discount to present value is reflected in these financial statements. At December 31, 2016, collections of pledges were expected as follows:

2017	\$	125,452
2018		66,850
2019		65,850
2020		62,850
2021 and thereafter		68,600
Total	\$	<u>389,602</u>

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, and August 10, 2016 with interest at the BBA LIBOR daily floating rate plus 3%, due July 31, 2017.

Outstanding balances on the line of credit as of December 31, 2016 and 2015 were \$500,000 and \$90,000, respectively. The Organization was in compliance with all restrictive covenants pertaining to the line of credit as of December 31, 2016.

13. CONCENTRATIONS

Approximately 62% of total Organization promises to give were derived from one source as of December 31, 2016. No single source of promises to give or trade receivables accounted for a significant percentage of receivables as of December 31, 2015.

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14. 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, 2016, this date was March 31, 2017.