

Speedway Children's Charities

Financial Report
September 30, 2019

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Independent Auditor's Report

Board of Directors
Speedway Children's Charities

Report on the Financial Statements

We have audited the accompanying financial statements of Speedway Children's Charities (the Organization), which comprise the financial position as of September 30, 2019, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization retrospectively adopted the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in additional footnote disclosures as discussed further in Note 1. Our opinion is not modified with respect to this matter.

RSM US LLP

Charlotte, North Carolina
January 29, 2020

Speedway Children's Charities

Statement of Financial Position

December 31, 2019

Assets

Cash	\$ 2,953,004
Accounts and pledges receivable, net of discount	373,197
Prepaid expenses	21,206
Other assets	26,350
Property and equipment, net	<u>13,966</u>
Total assets	<u><u>\$ 3,387,723</u></u>

Liabilities and Net Assets

Liabilities:

Accounts payable and other liabilities	\$ 95,447
Grants payable	4,800
Deferred income	<u>111,913</u>
Total liabilities	<u><u>212,160</u></u>

Net assets:

Without donor restrictions	2,959,423
With donor restrictions	<u>216,140</u>
	<u><u>3,175,563</u></u>

Total liabilities and net assets **\$ 3,387,723**

See notes to financial statements.

Speedway Children's Charities

Statement of Activities

Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and event revenues:			
Support:			
Contributions	\$ 1,042,938	\$ 216,140	\$ 1,259,078
Special event contributions	2,240,953	-	2,240,953
Donated goods and services	1,692,839	-	1,692,839
Loss on sale of equipment	(2,000)	-	(2,000)
Total support	<u>4,974,730</u>	<u>216,140</u>	<u>5,190,870</u>
Event revenues:			
Special event fundraiser revenue	1,405,451	-	1,405,451
Less direct benefit costs	(1,424,420)	-	(1,424,420)
Net deficit from special event fundraisers (does not include \$2,240,953 of special event contributions or \$452,235 of donated goods and services)	(18,969)	-	(18,969)
Total support and event revenues	<u>4,955,761</u>	<u>216,140</u>	<u>5,171,901</u>
Expenses:			
Program services	2,992,095	-	2,992,095
Fundraising	1,731,186	-	1,731,186
Management and general	202,177	-	202,177
	<u>4,925,458</u>	<u>-</u>	<u>4,925,458</u>
Change in net assets	<u>30,303</u>	<u>216,140</u>	<u>246,443</u>
Net assets:			
Beginning	<u>2,929,120</u>	<u>-</u>	<u>2,929,120</u>
Ending	<u>\$ 2,959,423</u>	<u>\$ 216,140</u>	<u>\$ 3,175,563</u>

See notes to financial statements.

Speedway Children's Charities

**Statement of Functional Expenses
Year Ended September 30, 2019**

	Special Events	Program Services	Fund-Raising	Management and General	Total
Grants	\$ -	\$ 2,979,955	\$ -	\$ -	\$ 2,979,955
Donated goods and services (Note 4)	452,235	-	1,144,022	78,401	1,674,658
Catering, entertainment and other event	911,749	-	-	-	911,749
Salaries	-	11,277	392,502	76,586	480,365
Meetings and other	-	-	68,794	-	68,794
Office expense	35,590	-	19,664	-	55,254
Payroll taxes	-	863	32,273	5,836	38,972
Travel	9,301	-	23,597	2,478	35,376
Employee benefits	-	-	27,140	5,928	33,068
Professional fees	3,500	-	-	23,000	26,500
Advertising and promotion	7,582	-	9,264	-	16,846
Insurance	3,863	-	7,584	2,756	14,203
Tax and license	600	-	-	7,192	7,792
Depreciation	-	-	4,838	-	4,838
Occupancy	-	-	1,508	-	1,508
Total expenses	\$ 1,424,420	\$ 2,992,095	\$ 1,731,186	\$ 202,177	\$ 6,349,878

See notes to financial statements.

Speedway Children's Charities

Statement of Cash Flows Year Ended September 30, 2019

Cash flows from operating activities:	
Change in net assets	\$ 246,443
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	4,838
Change in discount on receivables	5,297
Donated assets	(18,181)
Loss on sale of property and equipment	2,000
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(221,400)
Prepaid expenses	(10,288)
Other assets	(1,986)
Decrease in:	
Accounts payable and other liabilities	(18,589)
Grants payable	(72,125)
Deferred income	(10,532)
Net cash used in operating activities	<u>(94,523)</u>
Cash flows from investing activities:	
Cash proceeds from sale of property and equipment	10,000
Purchase of property and equipment	(1,848)
Net cash provided by investing activities	<u>8,152</u>
Net decrease in cash	(86,371)
Cash:	
Beginning	<u>3,039,375</u>
Ending	<u><u>\$ 2,953,004</u></u>
Supplemental schedule of noncash investing activities:	
Donated property and equipment	17,034
Donated other assets	1,147
	<u><u>\$ 18,181</u></u>

See notes to financial statements.

Speedway Children's Charities

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Speedway Children's Charities (the Organization) hosts and sponsors a wide range of events and promotions at various speedways in which contributions are received for the purpose of distributing funds to charitable organizations which provide medical, social and educational services to children.

A summary of the Organization's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are prepared with the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), whereby revenue is recognized when earned, unconditional support is recognized when notification of the contribution is received and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Non-Profit Entities Topic of the FASB ASC, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor (or certain grantor) imposed restrictions, and therefore, available for the support of general operating activities, including acquisition of property and equipment.

Net assets with donor restrictions: Some donor-imposed restrictions that will be met by the passage of time or other events or purpose specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity. Perpetual in nature net asset earnings are used to fund general operations. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. As of September 30, 2019, there was one multi-year pledge that resulted in \$216,140 in time restricted net assets with donor restrictions.

Adopted accounting pronouncement: In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a nonprofit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, net assets with donor restrictions and net assets without donor restrictions, expands disclosures about the nature and amount of any donor restrictions, requires the disclosure of information related to the Organization's short-term liquidity and requires inclusion of information regarding functional expenses. The ASU was retrospectively adopted by the Organization during 2019.

Financial risk: The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant financial risk on cash and cash equivalents.

Speedway Children's Charities

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Accounts and pledges receivable: Receivables represent amounts due for unconditional promises to give and special event revenue. Receivables that are expected to be collected within one year are recorded at their net realizable value. Receivables that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on receivables are computed using a rate commensurate with the risk of the contributions receivable in accordance with fair value accounting standards. Amortization of the discount is included in contribution revenue. Management also determines an allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. All receivables were deemed to be collectible and therefore there was no allowance for doubtful accounts at September 30, 2019.

Property and equipment: Furniture, fixtures and equipment are valued at cost, if purchased, or fair market value at the time of gift, if donated. Generally, the Organization only capitalizes expenditures for items over \$500. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives used in computing depreciation are principally 5 to 15 years.

Contributions: Contributions are generally available for unrestricted use in the year received unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Contributions of cash and other assets are reported as restricted if they are restricted 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, donor restricted net assets are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received with restrictions that are met in the same reporting period are reported as support without donor restrictions.

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, or as decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donated goods and services: Contributions of donated noncash assets are recorded at their fair values in the period received in the accompanying statement of activities. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received. See Note 4 for further descriptions of the donated goods and services.

Special event fund raisers: The Organization holds dinners, golf tournaments, auctions and raffles as its major fund-raising events. Special event fund-raiser revenue is recorded based on the fair value of the benefit received by the donor and is recognized when the event occurs. Any amounts in excess of the fair value of the benefit received are reported as special event contributions. The portion of a special event payment that is a contribution is recognized as revenue when received if the contribution is not conditioned on the event taking place. If the contribution portion of the special event payment is conditioned upon the event taking place, the contribution is recognized at the time of the event. Amounts received from event sponsors are included in special event contributions. For special event fund-raiser revenue and conditional contributions, where cash received prior to event occurring, the funds are recorded as deferred revenue until the event occurs.

Speedway Children's Charities

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates that affect the reported amounts 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 estimates.

Functional allocation of expenses: The costs of providing various events and programs have been summarized on a functional basis. Expenses are allocated based on estimates of time and effort, supplies and materials usage, and space and equipment usage. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but that provide for the overall support and direction of the organization.

Income taxes: The Organization is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contributions deductions and has been classified as an organization that is not a private foundation. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

Management evaluated the Organization's tax positions and concluded that the Organization has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the guidance under the accounting topic for uncertainty in income taxes. Generally, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2016.

During the year ended September 30, 2019, the Organization had no unrelated taxable business income.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is permitted. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the ASU will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist entities in: (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance; and 2) determining whether a contribution is conditional. The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified perspective basis, although retrospective application is permitted. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. Entities should apply the amendments for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019. Management is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Speedway Children's Charities

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Subsequent events: The Organization evaluated subsequent events through January 29, 2020, which is the date the financial statements were available to be issued.

Subsequent to September 30, 2019, the Organization committed to contribute and disbursed approximately \$2,925,000 to various children's charities.

Note 2. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the balance sheet date comprise the following:

Financial assets:	
Cash	\$ 2,953,004
Accounts and pledges receivable, net	<u>373,197</u>
Total financial assets available	<u>3,326,201</u>
Less those unavailable for general expenditures within one year due to:	
Contractual or donor-imposed restrictions:	
Net assets with donor restrictions	<u>(216,140)</u>
Reduction of available financial assets	<u>(216,140)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 3,110,061</u></u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available when its general expenditures, liabilities and other obligations are due. The Organization has net assets without donor restrictions that are used as reserves to fund program opportunities that are not currently in the budget and to cover unexpected expenses.

Note 3. Accounts and Pledges Receivables

Accounts and pledges receivable at September 30, 2019, are expected to be realized in the following periods:

Less than one year	\$ 290,424
One to two years	<u>88,070</u>
	378,494
Less discount for contributions receivable (discount rate of 2.06%)	<u>(5,297)</u>
	<u><u>\$ 373,197</u></u>

Speedway Children's Charities

Notes to Financial Statements

Note 4. Donated Goods and Services

The Organization received \$1,692,839 in donated goods and services for the year ended September 30, 2019. The donations are reflected in the statement of activities as revenue. The expense related to these donations is included in the statement of functional expenses.

The donations received summarized by category are as follows:

Tickets to events	\$ 366,563
Facility use	339,474
Salary, tax and benefits	329,035
Advertising	208,110
Auction items	199,519
Food and beverage	86,611
Raffle items	40,193
Equipment use	31,936
Professional fees and services	24,570
Prizes	24,507
Office and printing	21,958
Capitalized equipment	17,034
Other	3,329
Total donated goods and services revenue	<u>1,692,839</u>
Less donated assets:	
Capitalized equipment	(17,034)
Other assets	(1,147)
	<u>(18,181)</u>
Total donated goods and services expenses	<u>\$ 1,674,658</u>

Note 5. Property and Equipment

Furniture, fixtures and equipment as of September 30, 2019, are summarized as follows:

Furniture and fixtures	\$ 30,682
Computer equipment	13,813
Vehicles	13,858
	<u>58,353</u>
Less accumulated depreciation	(44,387)
	<u>\$ 13,966</u>

Speedway Children's Charities

Notes to Financial Statements

Note 6. Related Party Transactions

A substantial portion of the funds raised by the Organization come from activities conducted in connection with races at eight speedways which are affiliated, with Speedway Motorsports, LLC and Subsidiaries (SM). The Organization's ability to raise funds in the future depends partially on the continued success of the races at those speedways and the economic conditions in the local communities. During the year ended September 30, 2019, the Organization received \$591,626 in contributions and event revenue and \$1,225,896 in donated goods and services from SM. During the year ended September 30, 2019, the Organization utilized SM resources, comprised of salaries, benefits and event costs, totaling \$690,850. The Organization reimburses SM for these costs. At September 30, 2019, the Organization owed SM \$55,886 for those expense reimbursements, which is in accounts payable and other liabilities in the accompanying statement of financial position.

Contribution revenue recognized from gifts made by the Organization's Board of Directors totaled approximately \$146,000 for the years ended September 30, 2019.