

Special Olympics, Inc. and Affiliate

Combined Financial Statements as of and for the
Years Ended December 31, 2010 and 2009, and
Independent Auditors' Report

SPECIAL OLYMPICS, INC. AND AFFILIATE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Special Olympics, Inc.
Washington, DC

We have audited the accompanying combined statements of financial position of Special Olympics, Inc. and affiliate (SOI) as of December 31, 2010 and 2009, and the related combined statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of SOI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SOI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the combined financial position of SOI as of December 31, 2010 and 2009, and the combined changes in their net assets and their combined cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



June 28, 2011

SPECIAL OLYMPICS, INC. AND AFFILIATE

COMBINED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,226,183	\$ 12,806,403
Contributions receivable (Note 3)	433,000	963,920
Program and other receivables — net (Note 4)	5,011,206	1,898,679
Prepaid expenses	1,194,473	1,432,132
Other assets	299,847	290,380
Total current assets	<u>15,164,709</u>	<u>17,391,514</u>
NONCURRENT ASSETS:		
Permanently restricted cash (Note 6)	198,584	198,584
Restricted cash	5,509,140	
Other investments (Note 6)	4,515,939	4,292,740
Economic beneficial interest in trust (Note 6)	49,303,902	45,643,651
Long-term contributions receivable — net (Note 3)	324,398	97,300
Fixed assets — net (Note 5)	462,793	782,315
Other assets	219,126	212,943
Total noncurrent assets	<u>60,533,882</u>	<u>51,227,533</u>
TOTAL	<u>\$ 75,698,591</u>	<u>\$ 68,619,047</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 7,013,108	\$ 5,245,172
Grants and awards payable to affiliates	3,344,473	3,305,538
Deferred income	1,617,958	791,543
Deferred rent (Note 13)	45,258	54,310
Total current liabilities	12,020,797	9,396,563
NONCURRENT LIABILITIES — Deferred rent (Note 13)	-	45,258
Total liabilities	<u>12,020,797</u>	<u>9,441,821</u>
NET ASSETS:		
Unrestricted:		
Undesignated	5,723,770	6,040,746
Designated (Note 7)	<u>54,766,883</u>	<u>51,386,617</u>
Total unrestricted net assets	60,490,653	57,427,363
Temporarily restricted (Note 8)	2,988,557	1,551,279
Permanently restricted (Note 8)	<u>198,584</u>	<u>198,584</u>
Total net assets	<u>63,677,794</u>	<u>59,177,226</u>
TOTAL	<u>\$ 75,698,591</u>	<u>\$ 68,619,047</u>

See notes to combined financial statements.

SPECIAL OLYMPICS, INC. AND AFFILIATE

COMBINED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Direct mail contributions	\$ 35,450,228	\$ -	\$ -	\$35,450,228
Individual and corporate contributions and sponsorships	30,141,274	3,188,647	-	33,329,921
Federal grants	14,291,396	-	-	14,291,396
Non-federal grants	9,898,959	-	-	9,898,959
Accreditation fees	3,024,794	-	-	3,024,794
Royalty income	997,307	-	-	997,307
Appreciation in trust assets — net (Note 6)	5,687,703	-	-	5,687,703
Other investment income — net (Note 6)	648,172	-	-	648,172
Other income	86,533	-	-	86,533
Total revenues, gains, and other support	<u>100,226,366</u>	<u>3,188,647</u>	<u>-</u>	<u>103,415,013</u>
NET ASSETS RELEASED FROM RESTRICTIONS (Note 8):				
Satisfaction of program restrictions	1,451,369	(1,451,369)	-	-
Expiration of time restrictions	<u>300,000</u>	<u>(300,000)</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released from restrictions	<u>101,977,735</u>	<u>1,437,278</u>	<u>-</u>	<u>103,415,013</u>
EXPENSES:				
Program assistance	59,913,567	-	-	59,913,567
Public education and communications	9,137,185	-	-	9,137,185
Sports training and competitions	14,287,626	-	-	14,287,626
Fundraising	11,277,525	-	-	11,277,525
Management and general	<u>4,298,542</u>	<u>-</u>	<u>-</u>	<u>4,298,542</u>
Total expenses	<u>98,914,445</u>	<u>-</u>	<u>-</u>	<u>98,914,445</u>
CHANGES IN NET ASSETS	3,063,290	1,437,278	-	4,500,568
NET ASSETS — Beginning of year	<u>57,427,363</u>	<u>1,551,279</u>	<u>198,584</u>	<u>59,177,226</u>
NET ASSETS — End of year	<u>\$ 60,490,653</u>	<u>\$ 2,988,557</u>	<u>\$ 198,584</u>	<u>\$ 63,677,794</u>

See notes to combined financial statements.

SPECIAL OLYMPICS, INC. AND AFFILIATE

COMBINED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Direct mail contributions	\$ 35,318,210	\$ -	\$ -	\$ 35,318,210
Individual and corporate contributions and sponsorships	28,766,626	1,906,229	-	30,672,855
Federal grants	18,906,475	-	-	18,906,475
Accreditation fees	2,977,754	-	-	2,977,754
Royalty income	528,175	-	-	528,175
Appreciation in trust assets — net (Note 6)	10,344,566	-	-	10,344,566
Other investment income — net (Note 6)	964,228	-	-	964,228
Other income	1,809,382	-	-	1,809,382
Total revenues, gains, and other support	<u>99,615,416</u>	<u>1,906,229</u>	<u>-</u>	<u>101,521,645</u>
NET ASSETS RELEASED FROM RESTRICTIONS (Note 8):				
Satisfaction of program restrictions	2,381,081	(2,381,081)	-	-
Expiration of time restrictions	948,395	(948,395)	-	-
Total revenues and net assets released from restrictions	<u>102,944,892</u>	<u>(1,423,247)</u>	<u>-</u>	<u>101,521,645</u>
EXPENSES:				
Program assistance	56,157,985	-	-	56,157,985
Public education and communications	8,233,401	-	-	8,233,401
Sports training and competitions	12,403,314	-	-	12,403,314
Fundraising	11,982,485	-	-	11,982,485
Management and general	3,510,899	-	-	3,510,899
Total expenses	<u>92,288,084</u>	<u>-</u>	<u>-</u>	<u>92,288,084</u>
CHANGES IN NET ASSETS	10,656,808	(1,423,247)	-	9,233,561
NET ASSETS — Beginning of year	<u>46,770,555</u>	<u>2,974,526</u>	<u>198,584</u>	<u>49,943,665</u>
NET ASSETS — End of year	<u>\$ 57,427,363</u>	<u>\$ 1,551,279</u>	<u>\$ 198,584</u>	<u>\$ 59,177,226</u>

See notes to combined financial statements.

SPECIAL OLYMPICS, INC. AND AFFILIATE

COMBINED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2010

	Program Assistance	Public Education and Communications	Sports Training and Competitions	Fundraising	Management and General	Total
SALARIES	\$ 8,085,137	\$ 1,238,782	\$ 921,132	\$ 1,263,798	\$ 1,794,118	\$ 13,302,967
BENEFITS	<u>1,925,537</u>	<u>326,088</u>	<u>232,158</u>	<u>289,606</u>	<u>423,768</u>	<u>3,197,157</u>
Total salaries and benefits	<u>10,010,674</u>	<u>1,564,870</u>	<u>1,153,290</u>	<u>1,553,404</u>	<u>2,217,886</u>	<u>16,500,124</u>
CONSULTING AND OTHER	11,028,447	2,034,575	192,666	2,966,997	499,123	16,721,808
SUPPLIES	7,381,519	19,351	154,025	3,324	54,021	7,612,240
COMMUNICATION	271,909	53,431	15,922	28,610	42,585	412,457
POSTAGE AND SHIPPING	358,076	2,193,075	8,048	3,359,170	27,653	5,946,022
RENT (Note 13)	923,810	136,181	36,375	131,424	198,834	1,426,624
EQUIPMENT RENT AND REPAIR	482,305	86,988	3,678	20,227	31,573	624,771
TRAVEL, MEETINGS, AND CONFERENCES	2,890,785	682,119	578,114	90,287	269,291	4,510,596
PRINTING	189,238	1,688,078	71,359	2,268,721	10,432	4,227,828
PROFESSIONAL DEVELOPMENT	53,498	67,363	7,925	11,313	14,712	154,811
DATA PROCESSING	634,250	420,341	387	681,231	70,276	1,806,485
DEPRECIATION AND AMORTIZATION	274,646	21,975	2,162	24,818	113,640	437,241
MISCELLANEOUS	<u>446,718</u>	<u>123,838</u>	<u>25,716</u>	<u>97,999</u>	<u>748,516</u>	<u>1,442,787</u>
Subtotal	24,935,201	7,527,315	1,096,377	9,684,121	2,080,656	45,323,670
AWARDS AND GRANTS	<u>24,967,692</u>	<u>45,000</u>	<u>12,037,959</u>	<u>40,000</u>	<u>-</u>	<u>37,090,651</u>
TOTAL EXPENSES	<u>\$ 59,913,567</u>	<u>\$ 9,137,185</u>	<u>\$ 14,287,626</u>	<u>\$ 11,277,525</u>	<u>\$ 4,298,542</u>	<u>\$ 98,914,445</u>

See notes to combined financial statements.

SPECIAL OLYMPICS, INC. AND AFFILIATE

COMBINED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2009

	Program Assistance	Public Education and Communications	Sports Training and Competitions	Fundraising	Management and General	Total
SALARIES	\$ 7,259,265	\$ 1,089,757	\$ 1,419,321	\$ 1,217,133	\$ 1,794,472	\$ 12,779,948
BENEFITS	<u>1,732,323</u>	<u>321,862</u>	<u>385,316</u>	<u>250,938</u>	<u>415,177</u>	<u>3,105,616</u>
Total salaries and benefits	<u>8,991,588</u>	<u>1,411,619</u>	<u>1,804,637</u>	<u>1,468,071</u>	<u>2,209,649</u>	<u>15,885,564</u>
CONSULTING AND OTHER	10,602,502	2,114,797	179,252	3,318,880	318,448	16,533,879
SUPPLIES	6,677,308	16,777	621,573	2,689	34,386	7,352,733
COMMUNICATION	306,594	263,503	38,928	21,404	35,070	665,499
POSTAGE AND SHIPPING	298,999	1,861,252	43,223	3,795,551	12,986	6,012,011
RENT (Note 13)	802,699	131,730	22,910	126,003	196,450	1,279,792
EQUIPMENT RENT AND REPAIR	409,496	33,571	5,423	27,881	43,678	520,049
TRAVEL, MEETINGS, AND CONFERENCES	3,034,035	714,259	1,048,664	82,592	165,813	5,045,363
PRINTING	266,646	1,243,242	47,213	2,054,290	9,801	3,621,192
PROFESSIONAL DEVELOPMENT	46,504	19,081	600	16,557	13,344	96,086
DATA PROCESSING	270,987	400,990	-	809,572	16,393	1,497,942
DEPRECIATION AND AMORTIZATION	311,819	22,580	3,167	24,704	142,710	504,980
MISCELLANEOUS	<u>469,310</u>	<u>-</u>	<u>18,407</u>	<u>234,291</u>	<u>312,171</u>	<u>1,034,179</u>
Subtotal	23,496,899	6,821,782	2,029,360	10,514,414	1,301,250	44,163,705
AWARDS AND GRANTS	<u>23,669,498</u>	<u>-</u>	<u>8,569,317</u>	<u>-</u>	<u>-</u>	<u>32,238,815</u>
TOTAL EXPENSES	<u>\$ 56,157,985</u>	<u>\$ 8,233,401</u>	<u>\$ 12,403,314</u>	<u>\$ 11,982,485</u>	<u>\$ 3,510,899</u>	<u>\$ 92,288,084</u>

See notes to combined financial statements.

SPECIAL OLYMPICS, INC. AND AFFILIATE

COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 4,500,568	\$ 9,233,561
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation expense	437,241	504,980
Bad debt expense	455,000	-
Accretion of contributions receivable discount	-	(16,826)
Net unrealized gain on investments and economic beneficial interest in trust	(4,413,529)	(14,297,085)
Net realized (gain) loss on investments and economic beneficial interest in trust	(688,862)	4,214,992
(Increase) decrease in assets:		
Contributions receivable	(151,178)	648,217
Program and other receivables	(3,112,527)	246,162
Prepaid expenses	237,659	682,142
Other assets	(15,650)	5,180
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	1,767,936	1,170,395
Grants and awards payable to affiliates	38,935	(163,801)
Deferred income	826,415	35,185
Deferred rent	(54,310)	(54,310)
Net cash (used in) provided by operating activities	<u>(172,302)</u>	<u>2,208,792</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(117,719)	(661,088)
Purchases of investments and economic benefit interest in trust	(16,087,525)	(30,587,935)
Sales of investments and economic benefit interest in trust	<u>17,306,466</u>	<u>32,785,928</u>
Net cash provided by investing activities	<u>1,101,222</u>	<u>1,536,905</u>
CASH FLOWS FROM FINANCING ACTIVITIES —		
Increase in restricted cash	<u>(5,509,140)</u>	<u>-</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,580,220)	3,745,697
CASH AND CASH EQUIVALENTS — Beginning of year	<u>12,806,403</u>	<u>9,060,706</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 8,226,183</u>	<u>\$ 12,806,403</u>

See notes to combined financial statements.

SPECIAL OLYMPICS, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. ORGANIZATION AND PURPOSE

Special Olympics, Inc. (SOI or “Special Olympics”), a District of Columbia not-for-profit corporation, was incorporated in 1968. The mission of Special Olympics is to provide year-round sports training and athletic competition in a variety of Olympic-type sports for children and adults with intellectual disabilities, giving them continuing opportunities to develop physical fitness, demonstrate courage, experience joy, and participate in the sharing of gifts, skills, and friendship with their families, other Special Olympics athletes, and the community. SOI accomplishes its mission through its approximately 200 independent accredited programs worldwide, plus independent games organizing committees responsible for organizing, financing, and conducting world and regional games. SOI does not have a financial controlling interest in its accredited programs or the games organizing committees, and the accompanying financial statements do not include the accounts of these accredited programs and games organizing committees (Note 4).

On December 25, 1997, the Christmas Records Trust (the “Trust”) was established as a grantor trust to support the charitable mission of SOI and the Special Olympics movement through the royalty income and accumulated principal earned from the *A Very Special Christmas* albums. The Trust has six trustees, two of whom are SOI board members. As of December 31, 2010 and 2009, the Trust’s assets had a fair market value of \$49,303,902 and \$45,643,651, respectively (Note 6).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The financial statements of SOI are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

Principles of Combination — The accompanying financial statements include the accounts of Special Olympics and its affiliated organization, SO Europe Eurasia Foundation (the “Foundation”). The Foundation was formed on June 23, 2009 as a tax-exempt organization in the country of Ireland. Its principal activities are to benefit the community through the provision of financial assistance to support the Special Olympics mission. SOI controls the board of directors of the Foundation and exerts significant influence over its activities. All intercompany accounts and transactions have been eliminated.

Net Assets — SOI classifies net assets into four categories: unrestricted undesignated, unrestricted designated, temporarily restricted, and permanently restricted. All contributions are considered to be available for unrestricted undesignated use, unless specifically designated by the Board of Directors or restricted by the donor. Unrestricted designated contributions represent unrestricted contributions that have been designated for a specified purpose by the Board of Directors (Note 7). Temporarily restricted net assets are contributions with donor-imposed time and/or program restrictions. These temporary restrictions require that resources be used for specific purposes and/or in a later period or after a specified date. Temporarily restricted net assets become unrestricted when the time restrictions expire or when the funds are used for their restricted purposes, at which time they are reported in the statements of activities as net assets released from restrictions (Note 8). Permanently restricted net assets represent endowments to be held in perpetuity (Note 8).

Individual and Corporate Contributions and Sponsorships — SOI records pledges as contributions receivable when there is an unconditional promise to give, supported by evidence of the amount, timing, and nature of the contributions. Unconditional promises to give that are expected to be collected in future years are discounted to present value and are reported at their net realizable value. SOI reports gifts of cash and other assets as restricted support if they are received with donor-imposed time or purpose restrictions. When a donor restriction expires or is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statements of activities as net assets released from restrictions.

SOI reports contributions of goods and services (value-in-kind) as contribution revenue and program expense (program assistance, public education and communications, and sports training and competitions) upon receipt. SOI reports contributions of goods and services as restricted support if they are received with donor-imposed time or purpose restrictions. When a donor restriction expires or is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statements of activities as net assets released from restrictions. Contributed goods and services received were \$16,512,954 and \$15,698,551 for the years ended December 31, 2010 and 2009, respectively.

Donated securities and other than cash assets are recorded as contributions at their estimated fair market value on the date of receipt.

SOI reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations of how long those long-lived assets must be maintained, SOI reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Federal Grants — Revenue from federal grants is recognized when the related expense is incurred.

Non-Federal Grants — Revenue from non-federal grants is recognized when the related expense is incurred.

Accreditation Fees — Accredited Programs (Note 4) are assessed a fixed percentage of either their operating expenses (in the case of U.S. Programs) or their adjusted gross revenues (for non U.S. Programs) as accreditation fees. These fees are recognized in the year to which the fees relate and are reported as accreditation fees in the accompanying statements of activities.

Royalty Income — SOI enters into licensing and sponsorship agreements with sponsors, whereby it grants the sponsor use of its name, logos, and other trademarks. Where these agreements provide for a guaranteed minimum annual royalty over the term of the agreement, SOI recognizes income as earned. Cash receipts in excess of revenue recognized are deferred to future periods; revenues in excess of cash receipts are recorded as receivables. Where these agreements do not provide for a guaranteed minimum royalty, income is recognized when received.

Expenses — The costs of providing the various SOI programs and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based on reasonable methodologies.

Grants — SOI provides grants to various accredited programs for assistance in achieving SOI's mission. The full amount of grants is expensed and accrued as grants payable upon authorization by management.

Cash and Cash Equivalents — For financial statement purposes, SOI considers cash and cash equivalents to include cash in financial institutions and liquid investments with original maturities of three months or less. Restricted cash is donor restricted for Special Olympics Endowment Fund, Inc.

Investments — Investments, which consist of readily marketable securities, are recorded at fair market value, with any unrealized gain (loss) included in investment income or net appreciation (depreciation) in Trust assets in the statements of activities. Equity securities traded on a national securities exchange are valued at the closing price; fixed income securities are valued at the last bid price; and the net asset values of mutual funds are based on valuations computed by the National Association of Securities Dealers.

Concentration of Risk — Cash and cash equivalents that potentially subject SOI to concentrations of credit risk consist principally of bank accounts and short-term investments. Noninterest bearing bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) with no limit. Investment accounts are insured by the Securities Investor Protection Corporation (SIPC). Investment balances are insured up to \$500,000, with a limit of \$250,000 for cash. At December 31, 2010 and 2009, SOI had cash and cash equivalents of \$2,966,262 and \$2,264,222, respectively, in excess of FDIC and SIPC insured limits. Additionally, SOI has cash and cash equivalents in the amounts of \$2,119,624 and \$1,192,737, respectively, in foreign bank accounts, some of which may be subject to withdrawal restrictions.

Restricted Cash — Restricted cash consists of amounts held by the Bank of Ireland as collateral for a letter of credit in the same amount. The letter of credit was issued in connection with the Foundation's grant with the European Union.

Fixed Assets — Furnishings, equipment, vehicles, and leasehold improvements are stated at cost if acquired by SOI, or at fair value if donated. They are depreciated or amortized using the straight-line method and useful lives ranging from three to five years.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

Tax Status — SOI has received a favorable determination letter designating it as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as a publicly supported organization under Sections 509(a)(1) and 170(b)(1)(A)(vi). The Trust is a grantor trust that is a not-for-profit organization and is qualified under the exemption of SOI as the Trust's sponsor organization.

GAAP requires management to evaluate tax positions taken by SOI and recognize a tax liability (or asset) if SOI has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by SOI, and has concluded that as of December 31, 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. SOI is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2010 and 2009, consist of the following unconditional promises to give:

	2010	2009
Due in:		
Less than one year	<u>\$ 433,000</u>	<u>\$ 963,920</u>
One to five years	333,000	105,902
Less discount to present value	<u>(8,602)</u>	<u>(8,602)</u>
Receivables — noncurrent — net	<u>324,398</u>	<u>97,300</u>
Total contributions receivable — net	<u>\$ 757,398</u>	<u>\$ 1,061,220</u>

Amounts to be received in future years have been discounted using the average one-year Treasury bill interest rate in the year the pledge was made. The interest rates used to discount the noncurrent receivables range from 2.00% to 3.00%. The amounts considered realizable, however, could be reduced based on management's estimation of collectability.

4. AFFILIATED ORGANIZATIONS AND RELATED-PARTY TRANSACTIONS

Accredited Programs and Games Organizing Committees — SOI biennially accredits organizations as Special Olympics Programs ("Programs") at state and national levels for the purpose of conducting Special Olympics activities in their respective territorial jurisdictions. SOI accredits a Program if it meets specific organizational, programmatic, and legal requirements. Accredited Programs are authorized to use the Special Olympics name and logo, raise funds in the name of Special Olympics, receive grant support, and participate in conferences and international sporting events sanctioned by SOI. Currently, there are accredited Programs in 50 U.S. states, the District of Columbia, Puerto Rico, and in approximately 162 countries outside the United States.

SOI contracts with local games organizing committees to conduct various international and regional Special Olympics games.

During 2010 and 2009, SOI made awards and grants of \$37,090,651 and \$32,238,815, respectively, to accredited Programs, which are allocated to functional expenses in the accompanying statements of activities.

Program and Other Receivables — As of December 31, 2010 and 2009, amounts due from related parties and accredited Programs have been included in Program and other receivables:

	2010	2009
Notes receivable from accredited Programs	\$ 8,948	\$ 8,948
Accounts receivable from SOI regional operations	2,574,884	496,761
Other related-party receivables	50,572	98,616
Program accreditation fees — net of allowance of \$317,182 and \$192,182	130,427	541,859
Grants receivable	1,036,399	593,206
Other receivables	<u>1,209,976</u>	<u>159,289</u>
Program and other receivables — net	<u>\$5,011,206</u>	<u>\$1,898,679</u>

Allowance for Doubtful Accounts — The realization of Program accreditation fees receivable is dependent on the ability of the accredited Program to generate sufficient income in order to repay the note or pay its accreditation fee. The amounts considered realizable, however, could be reduced if estimates of the Program's future income are reduced below management's original expectation. From time to time, management has forgiven certain amounts due from certain Programs and has considered the forgiveness to be a grant expenditure of SOI. No receivables or outstanding accreditation fees were forgiven in 2010 and 2009. Although realization is not assured, management believes that the recorded balance of receivables, net of the allowance for doubtful accounts, as of December 31, 2010 and 2009, will be realized.

5. FIXED ASSETS

Fixed assets at December 31, 2010 and 2009, consist of the following:

	2010	2009
Furnishings	\$ 335,571	\$ 335,571
Equipment	3,688,677	3,593,828
Leasehold improvements	<u>407,134</u>	<u>407,134</u>
	4,431,382	4,336,533
Less accumulated depreciation	<u>(3,968,589)</u>	<u>(3,554,218)</u>
Fixed assets — net	<u>\$ 462,793</u>	<u>\$ 782,315</u>

6. INVESTMENTS

Fair Value Measurement — Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. SOI applies fair value measurements to certain assets, including SOI's investments and its economic beneficial interest in trust.

SOI maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value, which enables a reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 — Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability.

Level 3 — Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability.

The following table presents SOI's assets that are measured at fair value on a recurring basis for each hierarchy level, including both current and noncurrent portions as of December 31, 2010 and 2009. The fair value of these assets is based on actively-quoted market prices.

Fair Value Measurements at Reporting Date Using				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
2010	Total			
Assets:				
Fixed income:				
Government	\$ 6,227,459	\$ 6,227,459	\$ -	\$ -
Corporate	5,431,172	5,431,172	-	-
Mortgage/asset backed	<u>3,142,186</u>	<u>3,142,186</u>	<u>-</u>	<u>-</u>
	<u>14,800,817</u>	<u>14,800,817</u>	<u>-</u>	<u>-</u>
Cash	<u>1,052,428</u>	<u>1,052,428</u>	<u>-</u>	<u>-</u>
Equity:	-	-	-	-
Small cap	1,813,364	1,813,364	-	-
Commodity	1,101,349	1,101,349	-	-
Emerging markets	3,293,739	3,293,739	-	-
International	12,410,381	12,410,381	-	-
Growth	7,945,377	7,945,377	-	-
Value	6,465,146	6,465,146	-	-
Real estate	2,243,550	2,243,550	-	-
Mid cap	686,933	686,933	-	-
Large cap	<u>2,205,341</u>	<u>2,205,341</u>	<u>-</u>	<u>-</u>
	<u>38,165,180</u>	<u>38,165,180</u>	<u>-</u>	<u>-</u>
	<u>\$ 54,018,425</u>	<u>\$ 54,018,425</u>	<u>\$ -</u>	<u>\$ -</u>

2009	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Fixed income:				
Government	\$ 2,291,087	\$ 2,291,087	\$ -	\$ -
Corporate	\$ 12,012,739	12,012,739	-	-
Mortgage/asset backed	\$ 101,905	101,905	-	-
	<u>14,405,731</u>	<u>14,405,731</u>	<u>-</u>	<u>-</u>
Cash	<u>835,885</u>	<u>835,885</u>	<u>-</u>	<u>-</u>
Equity:	-	-	-	-
Small cap	1,630,474	1,630,474	-	-
Commodity	-	-	-	-
Emerging markets	2,980,356	2,980,356	-	-
International	11,560,090	11,560,090	-	-
Growth	8,337,521	8,337,521	-	-
Value	6,689,949	6,689,949	-	-
Real estate	1,316,477	1,316,477	-	-
Mid cap	504,030	504,030	-	-
Large cap	<u>1,874,462</u>	<u>1,874,462</u>	<u>-</u>	<u>-</u>
	<u>34,893,359</u>	<u>34,893,359</u>	<u>-</u>	<u>-</u>
	<u>\$ 50,134,975</u>	<u>\$ 50,134,975</u>	<u>\$ -</u>	<u>\$ -</u>

Investments as of December 31, 2010 and 2009, consist of the following:

	2010	2009
Permanently restricted cash	\$ 198,584	\$ 198,584
Other investments	4,515,939	4,292,740
Economic beneficial interest in trust	<u>49,303,902</u>	<u>45,643,651</u>
Total investments	<u>\$ 54,018,425</u>	<u>\$ 50,134,975</u>

Investment income for the years ended December 31, 2010 and 2009, consists of the following:

	2010	2009
Interest and dividends	\$ 151,981	\$ 148,406
Realized gains (losses) on sales of investments — net	358,359	(197,408)
Unrealized gains — net	<u>137,832</u>	<u>1,013,230</u>
Total investment income	<u>\$ 648,172</u>	<u>\$ 964,228</u>

Net appreciation in Trust assets for the years ended December 31, 2010 and 2009, consists of the following:

	2010	2009
Interest and dividends	\$ 1,081,503	\$ 1,078,295
Realized gains (losses) on sales of investments — net	330,503	(4,017,584)
Unrealized gains — net	<u>4,275,697</u>	<u>13,283,855</u>
Total net appreciation in Trust assets	<u>\$ 5,687,703</u>	<u>\$ 10,344,566</u>

Investment management fees were \$172,854 and \$187,796 for the years ended December 31, 2010 and 2009, respectively.

7. UNRESTRICTED DESIGNATED NET ASSETS

Unrestricted designated net assets at December 31, 2010 and 2009, consist of the following:

	2010	2009
Christmas Records Trust	\$ 49,303,902	\$ 45,643,651
Spirit Fund	1,016,863	1,016,863
Other	<u>4,446,118</u>	<u>4,726,103</u>
Total unrestricted designated net assets	<u>\$ 54,766,883</u>	<u>\$ 51,386,617</u>

Substantially, all the unrestricted designated net assets of SOI relate to the Trust. These assets were generated by royalties paid to SOI by a third party for the use of SOI's rights to certain recordings and other intangible assets related to the *A Very Special Christmas* albums. The purpose of the Trust is to fund new SOI initiatives having a direct impact on persons with intellectual disabilities. The grants from the Trust may not be used for "day-to-day" overhead or general operational expenses of SOI.

The Spirit Fund of \$1,016,863 and \$1,016,863 as of December 31, 2010 and 2009, is also a component of unrestricted designated net assets and is held for purposes consistent with the purposes of SOI, to be designated by the founder of Special Olympics.

Other internally unrestricted designated net assets of \$4,268,666 and \$4,726,103 as of December 31, 2010 and 2009, respectively, were generated from revenue resulting from various sponsorship, licensing, and other agreements, and are held for specific programmatic purposes or events.

8. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at December 31, 2010 and 2009:

	2010	2009
Program restrictions:		
Program assistance	\$ 1,275,931	\$ 891,631
Sports training and competitions	654,100	359,648
Public education and communications	58,526	-
Time restricted for periods after December 31	<u>1,000,000</u>	<u>300,000</u>
Total temporarily restricted net assets	<u>\$ 2,988,557</u>	<u>\$ 1,551,279</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time as follows:

Program assistance	\$ 901,117	\$ 1,250,292
Public education and communications	79,543	54,580
Sports training and competitions	<u>470,709</u>	<u>1,076,209</u>
Total	1,451,369	2,381,081
Expiration of time restrictions	<u>300,000</u>	<u>948,395</u>
Total net assets released from restrictions	<u>\$ 1,751,369</u>	<u>\$ 3,329,476</u>

Endowment — Permanently restricted net assets of \$198,584 at December 31, 2010 and 2009, consist of the Special Olympics Endowment Fund, Inc., which was established to generate income to finance special projects or unusual expenditures that will enhance the mission of SOI. The investment income earned on permanently restricted net assets is unrestricted.

SOI's endowment consists of amounts held in money market funds with the objective of preserving the corpus of the endowment fund. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law — SOI interprets the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”) of Washington D.C. 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, SOI 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by SOI in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, SOI considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment Net Asset Composition as of December 31, 2010 and 2009, is as follows:

Permanently Restricted	2010	2009
Donor-restricted endowment funds	<u>\$ 198,584</u>	<u>\$ 198,584</u>

9. ALLOCATION OF JOINT COSTS

SOI conducts direct mail campaigns in the United States to raise funds, to increase public knowledge and awareness of Special Olympics, its mission and its activities, and to recruit volunteers. In 2010 and 2009, SOI conducted direct mail activities that included requests for contributions, as well as program components. The cost of conducting those activities in 2010 and 2009 included a total of \$14,616,156 and \$14,389,731, respectively, of joint activities. Costs of \$9,274,928 and \$9,601,491, respectively, were charged to fund-raising expenses during 2010 and 2009. Costs of \$5,341,228 and \$4,788,240, respectively, were allocated to SOI’s public education program during 2010 and 2009.

10. CREDIT FACILITIES

Special Olympics has one line of credit arrangement for \$3,000,000 with a domestic bank that provides borrowings bearing interest at the prime rate less 1%. As of December 31, 2010 and 2009, Special Olympics had no borrowings against this line of credit arrangement.

11. SUPPORTING SERVICES

Management and general expenses include expenses that are not directly related to specific SOI programs. During 2010 and 2009, management and general expenses were \$4,298,542 and \$3,510,899, respectively.

During 2010 and 2009, fundraising expenses for marketing and development and multistate fundraising projects were \$11,277,525 and \$11,982,485, respectively, which represented 11.62% and 13.36% of the revenue resulting from fundraising, defined as direct mail contributions, individual and corporate contributions and sponsorships, federal grants, non-federal grants, accreditation fees, and other income in the statements of activities. Management and general expenses represent 4.43% and 3.91% of revenues resulting from fundraising activities. Together, management and general and fundraising expenses represent approximately 16.05% and 17.27% of revenues from fundraising activities.

12. EMPLOYEE BENEFITS

SOI has a defined contribution pension plan that covers substantially all U.S. employees. Pension expense under this plan was \$573,391 and \$592,830 for the years ended December 31, 2010 and 2009, respectively. In addition, employees may also take advantage of a Tax Deferred Annuity Plan sponsored by SOI.

13. LEASE COMMITMENT

SOI entered into a sublease agreement for its Washington, D.C. headquarters commencing on November 1, 2004, that expires in October 2011, with options to extend the lease through January 2016. On December 27, 2010, SOI exercised the option to extend the sublease agreement. The sublease agreement provides SOI with the option of terminating the lease with 12 months notice effective May 30, 2008, and every six months thereafter, until the expiration of the lease. The base rent is inclusive of all charges, such as operating costs, cost of living increases, real estate taxes, and basic janitorial services. The sublease provided for two-month rent abatement at the commencement of the lease, as well as scheduled step-ups in monthly rent payments. Rent expense is recognized on a straight-line basis over the life of the lease. The difference between the rent expense and related cash payments is deferred and recognized over the lease term. As of December 31, 2010 and 2009, deferred rent was \$45,258 and \$99,568, respectively.

Rent payments commenced on January 1, 2005, and are payable monthly through the end of the lease term. The future minimum lease payments under the SOI's Washington, D.C. headquarters' operating lease are as follows:

December 31

2011	\$ 989,319
2012	1,062,729
2013	1,100,932
2014	1,140,663
2015	1,181,984
2016	101,463
Total	<u>\$ 5,577,090</u>

Rent expense for the Washington, D.C., headquarters, and regional office space was \$1,426,624 and \$1,279,792 for the years ended December 31, 2010 and 2009, respectively.

SOI leases office space for various employees throughout the world. The majority of these leases are month-to-month.

14. SUBSEQUENT EVENTS

SOI has evaluated all events or transactions that occurred after December 31, 2010 through June 28, 2011, the date the financial statements were issued. During this period, there were no material subsequent events.

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