

Special Olympics, Inc.

Financial Statements as of and for the Years
Ended December 31, 2008 and 2007, and
Independent Auditors' Report

SPECIAL OLYMPICS, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Special Olympics, Inc. (SOI) as of December 31, 2008 and 2007, and the related 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 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 financial position of SOI as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, effective January 1, 2008, SOI adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*.

As discussed in Note 8 to the financial statements, effective December 31, 2008, SOI adopted Financial Accounting Standards Board Staff Position (FSP) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*.


June 2, 2009

SPECIAL OLYMPICS, INC.

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,006,854	\$ 10,559,037
Board-designated cash and cash equivalents	1,053,852	1,053,852
Short-term investments (Note 6)	172,551	-
Contributions receivable (Note 3)	1,312,980	4,123,080
Program and other receivables — net (Note 4)	2,144,841	2,942,734
Prepaid expenses	2,114,274	1,356,804
Other assets	<u>295,560</u>	<u>421,034</u>
Total current assets	<u>15,100,912</u>	<u>20,456,541</u>
NONCURRENT ASSETS:		
Restricted cash equivalents	198,584	198,584
Long-term contributions receivable — net (Note 3)	379,631	660,001
Other investments (Note 6)	3,734,085	5,930,431
Economic beneficial interest in trust (Note 6)	38,145,655	59,770,622
Fixed assets — net (Note 5)	626,207	679,619
Other assets	<u>212,943</u>	<u>85,386</u>
Total noncurrent assets	<u>43,297,105</u>	<u>67,324,643</u>
TOTAL	<u>\$ 58,398,017</u>	<u>\$ 87,781,184</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 4,074,777	\$ 4,992,982
Grants and awards payable to affiliates	3,469,339	5,659,146
Deferred income	756,358	542,434
Deferred rent (Note 13)	<u>55,767</u>	<u>55,767</u>
Total current liabilities	8,356,241	11,250,329
NONCURRENT LIABILITIES — Deferred rent (Note 13)	<u>98,111</u>	<u>152,421</u>
Total liabilities	<u>8,454,352</u>	<u>11,402,750</u>
COMMITMENTS AND CONTINGENCIES (Notes 10 and 13)		
NET ASSETS:		
Unrestricted:		
Undesignated	2,572,333	5,390,722
Designated (Note 7)	<u>44,198,222</u>	<u>67,316,419</u>
Total unrestricted net assets	46,770,555	72,707,141
Temporarily restricted (Note 8)	2,974,526	3,472,709
Permanently restricted (Note 8)	<u>198,584</u>	<u>198,584</u>
Total net assets	<u>49,943,665</u>	<u>76,378,434</u>
TOTAL	<u>\$ 58,398,017</u>	<u>\$ 87,781,184</u>

See notes to financial statements.

SPECIAL OLYMPICS, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2008

	Unrestricted		Temporarily Restricted		Permanently Restricted		Total
	Undesignated	Designated	Unrestricted	Restricted	Restricted	Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:							
Direct mail contributions	\$ 35,848,492	\$ -	\$ 35,848,492	\$ -	\$ -	\$ -	\$ 35,848,492
Individual and corporate contributions and sponsorships	22,101,972	1,865,979	23,967,951	2,669,674	-	-	26,637,625
Federal grants	-	10,170,252	10,170,252	-	-	-	10,170,252
Program assessments	3,076,468	-	3,076,468	-	-	-	3,076,468
Royalty income	99,750	881,620	981,370	-	-	-	981,370
Net appreciation in trust assets (Note 6)	-	(18,736,964)	(18,736,964)	-	-	-	(18,736,964)
Net investment income (Note 6)	(1,188,698)	(494,749)	(1,683,447)	-	-	-	(1,683,447)
Other income	71,882	516,102	587,984	-	-	-	587,984
Total revenues, losses, and other support	60,009,866	(5,797,760)	54,212,106	2,669,674	-	-	56,881,780
NET ASSETS RELEASED FROM RESTRICTIONS (Note 8):							
Satisfaction of program restrictions	-	2,822,857	2,822,857	(2,822,857)	-	-	-
Expiration of time restrictions	345,000	-	345,000	(345,000)	-	-	-
Total revenues and net assets released from restrictions	60,354,866	(2,974,903)	57,379,963	(498,183)	-	-	56,881,780
EXPENSES:							
Program assistance	35,080,485	13,458,884	48,539,369	-	-	-	48,539,369
Public education and communications	8,537,812	290,026	8,827,838	-	-	-	8,827,838
Sports training and competitions	4,398,825	6,386,160	10,784,985	-	-	-	10,784,985
Fundraising	11,841,980	-	11,841,980	-	-	-	11,841,980
Management and general	3,314,153	8,224	3,322,377	-	-	-	3,322,377
Total expenses	63,173,255	20,143,294	83,316,549	-	-	-	83,316,549
CHANGES IN NET ASSETS							
NET ASSETS — Beginning of year	(2,818,389)	(23,118,197)	(25,936,586)	(498,183)	-	-	(26,434,769)
NET ASSETS — End of year	5,390,722	67,316,419	72,707,141	3,472,709	198,584	-	76,378,434
NET ASSETS — End of year	\$ 2,572,333	\$ 44,198,222	\$ 46,770,555	\$ 2,974,526	\$ 198,584	-	\$ 49,943,665

See notes to financial statements.

SPECIAL OLYMPICS, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2007

	Unrestricted		Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Designated				
REVENUES, GAINS, AND OTHER SUPPORT:						
Direct mail contributions	\$ 37,055,666	-	\$ 37,055,666	\$ -	\$ -	\$ 37,055,666
Individual and corporate contributions and sponsorships	37,424,903	3,023,963	40,448,866	5,130,859	122,664	45,702,389
Federal grants	2,731,355	6,961,677	6,961,677	-	-	6,961,677
Program assessments	57,917	-	2,731,355	-	-	2,731,355
Royalty income	-	48,511	106,428	-	-	106,428
Net appreciation in trust assets (Note 6)	1,031,978	5,248,642	5,248,642	-	-	5,248,642
Net investment income (Note 6)	1,651,187	6,115	1,038,093	-	-	1,038,093
Other income		1,168,396	2,819,583	-	-	2,819,583
Total revenues, gains, and other support	79,953,006	16,457,304	96,410,310	5,130,859	122,664	101,663,833
NET ASSETS RELEASED FROM RESTRICTIONS (Note 8):						
Satisfaction of program restrictions	-	4,905,144	4,905,144	(4,905,144)	-	-
Expiration of time restrictions	619,700	-	619,700	(619,700)	-	-
Total revenues and net assets released from restrictions	80,572,706	21,362,448	101,935,154	(393,985)	122,664	101,663,833
EXPENSES:						
Program assistance	42,541,733	12,856,272	55,398,005	-	-	55,398,005
Public education and communications	18,287,918	166,721	18,454,639	-	-	18,454,639
Sports training and competitions	5,739,055	5,663,931	11,402,986	-	-	11,402,986
Fundraising	11,992,656	-	11,992,656	-	-	11,992,656
Management and general	3,752,032	9,807	3,761,839	-	-	3,761,839
Total expenses	82,313,394	18,696,731	101,010,125	-	-	101,010,125
CHANGES IN NET ASSETS						
NET ASSETS — Beginning of year	(1,740,688)	2,665,717	925,029	(393,985)	122,664	653,708
NET ASSETS — End of year	7,131,410	64,650,702	71,782,112	3,866,694	75,920	75,724,726
	\$ 5,390,722	\$ 67,316,419	\$ 72,707,141	\$ 3,472,709	\$ 198,584	\$ 76,378,434

See notes to financial statements.

SPECIAL OLYMPICS, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2008

	Program Assistance	Public Education and Communications	Sports Training and Competitions	Fundraising	Management and General	Total
SALARIES	\$ 7,811,109	\$ 1,303,551	\$ 1,345,402	\$ 753,582	\$ 1,528,967	\$ 12,742,611
BENEFITS	<u>1,775,192</u>	<u>353,843</u>	<u>333,271</u>	<u>197,372</u>	<u>437,042</u>	<u>3,096,720</u>
Total salaries and benefits	<u>9,586,301</u>	<u>1,657,394</u>	<u>1,678,673</u>	<u>950,954</u>	<u>1,966,009</u>	<u>15,839,331</u>
CONSULTING AND OTHER	8,120,976	2,655,712	146,721	3,913,725	394,815	15,231,949
SUPPLIES	3,872,424	34,376	766,152	5,924	60,651	4,739,527
COMMUNICATION	401,386	785,465	53,507	19,751	25,218	1,285,327
POSTAGE AND SHIPPING	334,290	1,711,340	18,901	3,676,963	23,948	5,765,442
OCCUPANCY (Note 13)	1,016,051	153,066	66,967	95,666	158,329	1,490,079
EQUIPMENT RENT AND REPAIR	449,459	30,248	20,886	17,870	29,477	547,940
TRAVEL, MEETINGS, AND CONFERENCES	2,839,421	217,691	3,674,067	77,981	245,947	7,055,107
PRINTING	220,682	1,182,586	113,737	2,276,660	4,691	3,798,356
PROFESSIONAL DEVELOPMENT	29,009	31,811	3,603	12,462	11,901	88,786
DATA PROCESSING	33,824	313,065	400	679,790	17,785	1,044,864
DEPRECIATION AND AMORTIZATION	160,614	21,266	9,304	13,291	122,021	326,496
MISCELLANEOUS	<u>532,338</u>	<u>33,818</u>	<u>12,122</u>	<u>100,943</u>	<u>261,585</u>	<u>940,806</u>
Subtotal	18,010,474	7,170,444	4,886,367	10,891,026	1,356,368	42,314,679
AWARDS AND GRANTS	<u>20,942,594</u>	-	<u>4,219,945</u>	-	-	<u>25,162,539</u>
TOTAL EXPENSES	<u>\$ 48,539,369</u>	<u>\$ 8,827,838</u>	<u>\$ 10,784,985</u>	<u>\$ 11,841,980</u>	<u>\$ 3,322,377</u>	<u>\$ 83,316,549</u>

See notes to financial statements.

SPECIAL OLYMPICS, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2007

	Program Assistance	Public Education and Communications	Sports Training and Competitions	Fundraising	Management and General	Total
SALARIES	\$ 8,006,031	\$ 1,306,452	\$ 1,127,404	\$ 1,060,396	\$ 1,729,851	\$ 13,230,134
BENEFITS	<u>1,764,564</u>	<u>337,259</u>	<u>291,223</u>	<u>238,306</u>	<u>445,999</u>	<u>3,077,351</u>
Total salaries and benefits	<u>9,770,595</u>	<u>1,643,711</u>	<u>1,418,627</u>	<u>1,298,702</u>	<u>2,175,850</u>	<u>16,307,485</u>
CONSULTING AND OTHER	8,100,957	2,191,471	228,585	3,686,193	402,208	14,609,414
SUPPLIES	9,594,793	179,512	804,162	3,674	33,044	10,615,185
COMMUNICATION	411,025	9,707,625	74,739	25,321	27,462	10,246,172
POSTAGE AND SHIPPING	427,433	1,812,931	60,578	3,740,334	57,227	6,098,503
OCCUPANCY (Note 13)	990,118	152,908	94,321	78,809	170,306	1,486,462
EQUIPMENT RENT AND REPAIR	658,509	45,352	40,327	21,102	45,833	811,123
TRAVEL, MEETINGS, AND CONFERENCES	4,319,977	969,497	5,203,561	111,958	287,097	10,892,090
PRINTING	375,734	1,379,825	295,775	2,329,089	13,359	4,393,782
PROFESSIONAL DEVELOPMENT	39,770	23,869	2,897	16,324	16,890	99,750
DATA PROCESSING	29,523	305,114	1,955	644,268	10,965	991,825
DEPRECIATION AND AMORTIZATION	183,684	21,884	13,413	11,295	47,029	277,305
MISCELLANEOUS	<u>583,744</u>	<u>20,940</u>	<u>293,882</u>	<u>25,587</u>	<u>474,569</u>	<u>1,398,722</u>
Subtotal	25,715,267	16,810,928	7,114,195	10,693,954	1,585,989	61,920,333
AWARDS AND GRANTS	<u>19,912,143</u>	<u>-</u>	<u>2,870,164</u>	<u>-</u>	<u>-</u>	<u>22,782,307</u>
TOTAL EXPENSES	<u>\$ 55,398,005</u>	<u>\$ 18,454,639</u>	<u>\$ 11,402,986</u>	<u>\$ 11,992,656</u>	<u>\$ 3,761,839</u>	<u>\$ 101,010,125</u>

See notes to financial statements.

SPECIAL OLYMPICS, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (26,434,769)	\$ 653,708
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation expense	326,496	277,305
Noncash donation of fixed assets	-	(171,873)
Amortization of contributions receivable discount	(24,688)	(14,456)
(Gain) loss on disposal of fixed assets	(8,000)	2,046
Permanently restricted contributions	-	(122,664)
Net unrealized loss (gain) on investments and economic beneficial interest in trust	23,422,014	(718,770)
Net realized gain on investments and economic beneficial interest in trust	(1,147,845)	(3,174,801)
Decrease (increase) in contributions receivable	3,115,158	(399,150)
Decrease (increase) in program and other receivables	797,893	(332,342)
Increase in prepaid expenses	(757,470)	(37,102)
(Increase) decrease in other assets	(2,083)	42,122
(Decrease) increase in accounts payable and accrued liabilities	(918,205)	1,040,142
(Decrease) in grants and awards payable to affiliates	(2,189,807)	(2,859,017)
Increase in deferred income	213,924	330,243
(Decrease) increase in deferred rent	(54,310)	9,606
	<u>(3,661,692)</u>	<u>(5,475,003)</u>
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(265,084)	(301,444)
Purchases of investments and economic benefit interest in trust	(22,273,122)	(7,848,481)
Sales of investments and economic benefit interest in trust	23,647,715	11,067,503
	<u>1,109,509</u>	<u>2,917,578</u>
Net cash provided by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES — permanently restricted contributions		
	<u>-</u>	<u>122,664</u>
Net cash provided by financing activities		
	<u>-</u>	<u>122,664</u>
NET DECREASE IN UNRESTRICTED AND BOARD-DESIGNATED CASH AND CASH EQUIVALENTS	(2,552,183)	(2,434,761)
UNRESTRICTED AND BOARD-DESIGNATED CASH AND CASH EQUIVALENTS — Beginning of year	<u>11,612,889</u>	<u>14,047,650</u>
UNRESTRICTED AND BOARD-DESIGNATED CASH AND CASH EQUIVALENTS — End of year	<u>\$ 9,060,706</u>	<u>\$ 11,612,889</u>

See notes to financial statements.

SPECIAL OLYMPICS, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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, 2008 and 2007, the Trust's assets had a fair market value of \$38,145,655 and \$59,770,622, 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 accordance with accounting principles generally accepted in the United States of America (GAAP).

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 \$14,175,764 and \$28,969,281 for the years ended December 31, 2008 and 2007, respectively.

Donated securities and fixed 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.

Program Assessments — 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 program assessments revenue 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 and their 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 equivalents are donor-restricted for Special Olympics Endowment Fund, Inc. Board-designated cash and cash equivalents have been designated for a specific purpose by the Board of Directors.

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.

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.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2008 and 2007, consist of the following unconditional promises to give:

	2008	2007
Due in:		
Less than one year	<u>\$1,312,980</u>	<u>\$4,123,080</u>
One to five years	405,060	710,118
Less discount to present value	<u>(25,429)</u>	<u>(50,117)</u>
Receivables — noncurrent — net	<u>379,631</u>	<u>660,001</u>
Total contributions receivable — net	<u>\$1,692,611</u>	<u>\$4,783,081</u>

In accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, contributions receivable 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 1.00% to 5.24%.

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 2008 and 2007, SOI made awards and grants of \$25,162,539 and \$22,782,307, respectively, to accredited Programs, which are allocated to functional expenses in the accompanying statements of activities.

Program and Other Receivables — As of December 31, 2008 and 2007, amounts due from related parties and accredited Programs have been included in Program and other receivables:

	2008	2007
Notes receivable from accredited Programs	\$ 8,948	\$ 81,009
Accounts receivable from SOI regional operations	931,617	738,930
Other related-party receivables	26,862	222,395
Program accreditation fees — net of allowance of \$145,012 and \$145,012	428,049	527,167
Grants receivable	631,803	1,020,955
Other receivables	<u>117,562</u>	<u>352,278</u>
Program and other receivables — net	<u>\$2,144,841</u>	<u>\$2,942,734</u>

Allowance for Doubtful Accounts — The realization of notes receivable and 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 and under extenuating circumstances, management has forgiven certain amounts due from certain Programs and has considered the forgiveness to be a grant. No receivables or outstanding accreditation fees were forgiven in 2008 and 2007. Although realization is not assured, management believes that the recorded balance of receivables, net of the allowance for doubtful accounts, as of December 31, 2008 and 2007, will be realized.

5. FIXED ASSETS

Fixed assets at December 31, 2008 and 2007, consist of the following:

	2008	2007
Furnishings	\$ 335,571	\$ 335,571
Equipment	2,939,992	2,754,484
Leasehold improvements	<u>399,882</u>	<u>335,172</u>
	3,675,445	3,425,227
Less accumulated depreciation	<u>(3,049,238)</u>	<u>(2,745,608)</u>
Fixed assets — net	<u>\$ 626,207</u>	<u>\$ 679,619</u>

6. INVESTMENTS

Fair Value Measurement — SOI adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), effective January 1, 2008. SFAS No. 157 establishes a single authoritative definition of fair value, establishes a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 applies to all assets and liabilities that are being measured and reported on

a fair value basis. SFAS No. 157 defines fair value 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.

In accordance with SFAS No. 157, SOI maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The statement enables the 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. The statement requires that assets and liabilities carried at fair value be 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.

SFAS No. 157 requires fair value measurements to be separately disclosed by level within the fair value hierarchy. 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, 2008. The fair value of these assets is based on actively-quoted market prices.

	Total	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)
Assets:				
Investments held in endowment	\$ 198,584	\$ 198,584	\$ -	\$ -
Economic beneficial interest in trust	38,145,655	38,145,655	-	-
Other investments	<u>3,906,636</u>	<u>3,906,636</u>	-	-
Total assets	<u>\$42,250,875</u>	<u>\$42,250,875</u>	<u>\$ -</u>	<u>\$ -</u>

Short-term — Short-term investments carried include certificates of deposit bearing interest at 3.45%–4.01% in 2008, maturing in less than one year.

Long-term — Investments as of December 31, 2008 and 2007 consist of the following:

	2008	2007
Fixed-income securities	\$1,380,070	\$1,773,109
U.S. corporate equity securities	2,048,009	3,198,736
International equity securities	<u>306,006</u>	<u>958,586</u>
Total investments	<u>\$3,734,085</u>	<u>\$5,930,431</u>

Investment (loss) income for the years ended December 31, 2008 and 2007 consists of the following:

	2008	2007
Interest and dividends	\$ 358,064	\$ 576,929
Realized (losses) gains on sales of investments — net	(422,408)	226,369
Unrealized (losses) gains — net	<u>(1,619,103)</u>	<u>234,795</u>
Total investment (loss) income	<u>\$ (1,683,447)</u>	<u>\$ 1,038,093</u>

The investments for the Trust are stated at fair market value as of December 31, 2008 and 2007, and consist of the following:

	2008	2007
Cash	\$ 633,427	\$ 301,438
Fixed-income securities	14,870,199	18,743,811
U.S. corporate equity securities	16,197,623	25,345,251
International equity securities	<u>6,444,406</u>	<u>15,380,122</u>
Total economic beneficial interest in Trust	<u>\$ 38,145,655</u>	<u>\$ 59,770,622</u>

Net (depreciation) appreciation in Trust assets for the years ended December 31, 2008 and 2007, consists of the following:

	2008	2007
Interest and dividends	\$ 1,495,693	\$ 1,816,235
Realized gains on sales of investments — net	1,570,253	2,948,432
Unrealized (losses) gains — net	<u>(21,802,910)</u>	<u>483,975</u>
Total net (depreciation) appreciation in Trust assets	<u>\$ (18,736,964)</u>	<u>\$ 5,248,642</u>

7. UNRESTRICTED DESIGNATED NET ASSETS

Unrestricted designated net assets at December 31, 2008 and 2007, consist of the following:

	2008	2007
Christmas Records Trust	\$ 38,893,724	\$ 60,744,006
Spirit Fund	1,096,329	1,096,329
Other	<u>4,208,169</u>	<u>5,476,084</u>
Total unrestricted designated net assets	<u>\$ 44,198,222</u>	<u>\$ 67,316,419</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 \$1,096,329 as of December 31, 2008 and 2007 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 \$4,208,169 and \$5,476,084 as of December 31, 2008 and 2007, 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, 2008 and 2007:

	2008	2007
Program restrictions:		
Program assistance	\$ 605,831	\$ 973,476
Sports training and competitions	1,066,878	941,071
Public education and communications	74,744	10,778
Time restricted for periods after December 31	<u>1,227,073</u>	<u>1,547,384</u>
 Total temporarily restricted net assets	 <u>\$2,974,526</u>	 <u>\$3,472,709</u>

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

	2008	2007
Satisfaction of program restrictions:		
Program assistance	\$1,404,737	\$1,639,181
Public education and communications	39,034	166,721
Sports training and competitions	<u>1,379,086</u>	<u>3,099,242</u>
 Total	 2,822,857	 4,905,144
 Expiration of time restrictions	 <u>345,000</u>	 <u>619,700</u>
 Total net assets released from restrictions	 <u>\$3,167,857</u>	 <u>\$5,524,844</u>

Endowment — Permanently restricted net assets of \$198,584 at December 31, 2008 and 2007, 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.

SOI adopted Financial Accounting Standards Board Staff Position (FSP) No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment*

Funds, effective December 31, 2008. This FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which serves as a model act approved by the Uniform Law Commission and which serves as a model act for states to use in enacting legislation. This FSP also improves disclosures about an organization's endowment funds. The enhanced disclosures required as a result of the adoption of this FSP have been incorporated within this note.

Interpretation of Relevant Law — SOI interprets the UPMIFA of the 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 the Organization 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, 2008 and 2007:

Permanently Restricted	2008	2007
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 2008 and 2007, SOI conducted direct mail activities that included requests for contributions, as well as program components. The cost of conducting those activities in 2008 and 2007 included a total of \$15,095,899 and \$15,147,457, respectively, of joint activities. Costs of \$10,295,370 and \$10,186,449, respectively, were charged to fund-raising expenses during 2008 and 2007. Costs of \$4,800,529 and \$4,961,008, respectively, were allocated to SOI's public education program during 2008 and 2007.

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, 2008 and 2007, 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 2008 and 2007, management and general expenses were \$3,322,377 and \$3,761,839, respectively.

During 2008 and 2007, fundraising expenses for marketing and development and multistate fundraising projects were \$11,841,980 and \$11,992,656, respectively, which represented 15.5% and 12.6% of the revenue resulting from fundraising, defined as direct mail contributions, individual and corporate contributions and sponsorships, federal grants, program assessments, and other income in the statements of activities. Management and general expenses represent 4.4% and 4.0% of revenues resulting from fundraising activities. Together, management and general and fundraising expenses represent approximately 19.9% and 16.5% 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 \$638,850 and \$579,568 for the years ended December 31, 2008 and 2007, 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. The sublease agreement provides SOI with the option of terminating the lease with 12 months notice effective June 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, 2008 and 2007, deferred rent was \$153,878 and \$208,188, 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's operating lease are as follows:

Years Ending December 31	
2009	\$ 873,650
2010	873,650
2011	<u>728,042</u>
Total	<u>\$2,475,342</u>

Rent expense for the Washington, D.C., headquarters and regional office space was \$1,490,079 and \$1,486,462 for the years ended December 31, 2008 and 2007, respectively.

SOI leases office space for various employees throughout the world. The majority of these leases have terms that are month-to-month or expired in 2008 or 2007.

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