

Special Olympics, Inc.

Financial Statements as of and for the Years
Ended December 31, 2009 and 2008, 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, 2009 and 2008, 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 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 financial position of SOI as of December 31, 2009 and 2008, 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 accounting guidance relating to fair value measurements.

As discussed in Note 8 to the financial statements, effective December 31, 2008, SOI adopted accounting guidance related to the net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act.



May 28, 2010

SPECIAL OLYMPICS, INC.

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,806,403	\$ 9,060,706
Other investments (Note 6)	1,614	172,551
Contributions receivable (Note 3)	963,920	1,312,980
Program and other receivables — net (Note 4)	1,898,679	2,144,841
Prepaid expenses	1,432,132	2,114,274
Other assets	290,380	295,560
Total current assets	<u>17,393,128</u>	<u>15,100,912</u>
NONCURRENT ASSETS:		
Restricted cash	198,584	198,584
Other investments (Note 6)	4,291,126	3,734,085
Economic beneficial interest in trust (Note 6)	45,643,651	38,145,655
Long-term contributions receivable — net (Note 3)	97,300	379,631
Fixed assets — net (Note 5)	782,315	626,207
Other assets	212,943	212,943
Total noncurrent assets	<u>51,225,919</u>	<u>43,297,105</u>
TOTAL	<u>\$ 68,619,047</u>	<u>\$ 58,398,017</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 5,245,172	\$ 4,074,777
Grants and awards payable to affiliates	3,305,538	3,469,339
Deferred income	791,543	756,358
Deferred rent (Note 13)	54,310	55,767
Total current liabilities	9,396,563	8,356,241
NONCURRENT LIABILITIES — Deferred rent (Note 13)	45,258	98,111
Total liabilities	<u>9,441,821</u>	<u>8,454,352</u>
NET ASSETS:		
Unrestricted:		
Undesignated	6,040,746	2,572,333
Designated (Note 7)	51,386,617	44,198,222
Total unrestricted net assets	57,427,363	46,770,555
Temporarily restricted (Note 8)	1,551,279	2,974,526
Permanently restricted (Note 8)	198,584	198,584
Total net assets	<u>59,177,226</u>	<u>49,943,665</u>
TOTAL	<u>\$ 68,619,047</u>	<u>\$ 58,398,017</u>

See notes to financial statements.

SPECIAL OLYMPICS, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2009

	Unrestricted		Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Designated				
REVENUES, GAINS, AND OTHER SUPPORT:						
Direct mail contributions	\$ 35,318,210	\$ -	\$ 35,318,210	\$ -	\$ -	\$ 35,318,210
Individual and corporate contributions and sponsorships	26,647,495	2,119,131	28,766,626	1,906,229	-	30,672,855
Federal grants	-	18,906,475	18,906,475	-	-	18,906,475
Accreditation fees	2,977,754	-	2,977,754	-	-	2,977,754
Royalty income	72,790	455,385	528,175	-	-	528,175
Appreciation in trust assets — net (Note 6)	-	10,344,566	10,344,566	-	-	10,344,566
Other investment income — net (Note 6)	737,946	226,282	964,228	-	-	964,228
Other income	1,416,764	392,618	1,809,382	-	-	1,809,382
Total revenues, gains, and other support	67,170,959	32,444,457	99,615,416	1,906,229	-	101,521,645
NET ASSETS RELEASED FROM RESTRICTIONS (Note 8):						
Satisfaction of program restrictions	-	2,381,081	2,381,081	(2,381,081)	-	-
Expiration of time restrictions	948,395	-	948,395	(948,395)	-	-
Total revenues and net assets released from restrictions	68,119,354	34,825,538	102,944,892	(1,423,247)	-	101,521,645
EXPENSES:						
Program assistance	39,578,213	16,579,772	56,157,985	-	-	56,157,985
Public education and communications	8,178,821	54,580	8,233,401	-	-	8,233,401
Sports training and competitions	1,936,125	10,467,189	12,403,314	-	-	12,403,314
Fundraising	11,454,368	528,117	11,982,485	-	-	11,982,485
Management and general	3,503,414	7,485	3,510,899	-	-	3,510,899
Total expenses	64,650,941	27,637,143	92,288,084	-	-	92,288,084
CHANGES IN NET ASSETS	3,468,413	7,188,395	10,656,808	(1,423,247)	-	9,233,561
NET ASSETS — Beginning of year	2,572,333	44,198,222	46,770,555	2,974,526	198,584	49,943,665
NET ASSETS — End of year	\$ 6,040,746	\$ 51,386,617	\$ 57,427,363	\$ 1,551,279	\$ 198,584	\$ 59,177,226

See notes to financial statements.

SPECIAL OLYMPICS, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2008

	Unrestricted		Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Designated				
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
Accreditation fees	3,076,468	-	3,076,468	-	-	3,076,468
Royalty income	99,750	881,620	981,370	-	-	981,370
Appreciation in trust assets — net (Note 6)	-	(18,736,964)	(18,736,964)	-	-	(18,736,964)
Other investment income — net (Note 6)	(1,188,698)	(494,749)	(1,683,447)	-	-	(1,683,447)
Other income	71,882	516,102	587,984	-	-	587,984
	<u>60,009,866</u>	<u>(5,797,760)</u>	<u>54,212,106</u>	<u>2,669,674</u>	<u>-</u>	<u>56,881,780</u>
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)	-	-
	<u>60,354,866</u>	<u>(2,974,903)</u>	<u>57,379,963</u>	<u>(498,183)</u>	<u>-</u>	<u>56,881,780</u>
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
	<u>63,173,255</u>	<u>20,143,294</u>	<u>83,316,549</u>	<u>-</u>	<u>-</u>	<u>83,316,549</u>
CHANGES IN NET ASSETS	(2,818,389)	(23,118,197)	(25,936,586)	(498,183)	-	(26,434,769)
NET ASSETS — Beginning of year	5,390,722	67,316,419	72,707,141	3,472,709	198,584	76,378,434
NET ASSETS — End of year	<u>\$ 2,572,333</u>	<u>\$ 44,198,222</u>	<u>\$ 46,770,555</u>	<u>\$ 2,974,526</u>	<u>\$ 198,584</u>	<u>\$ 49,943,665</u>

See notes to financial statements.

SPECIAL OLYMPICS, INC.

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	<u>23,496,899</u>	<u>6,821,782</u>	<u>2,029,360</u>	<u>10,514,414</u>	<u>1,301,250</u>	<u>44,163,705</u>
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 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
RENT (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	<u>18,010,474</u>	<u>7,170,444</u>	<u>4,886,367</u>	<u>10,891,026</u>	<u>1,356,368</u>	<u>42,314,679</u>
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.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 9,233,561	\$ (26,434,769)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	504,980	326,496
Accretion of contributions receivable discount	(16,826)	(24,688)
Loss on disposal of fixed assets	-	(8,000)
Net unrealized (gain) loss on investments and economic beneficial interest in trust	(14,297,085)	23,422,014
Net realized loss (gain) on investments and economic beneficial interest in trust	4,214,992	(1,147,845)
(Increase) decrease in assets:		
Contributions receivable	648,217	3,115,158
Program and other receivables	246,162	797,893
Prepaid expenses	682,142	(757,470)
Other assets	5,180	(2,083)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	1,170,395	(918,205)
Grants and awards payable to affiliates	(163,801)	(2,189,807)
Deferred income	35,185	213,924
Deferred rent	(54,310)	(54,310)
Net cash provided by (used in) operating activities	<u>2,208,792</u>	<u>(3,661,692)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(661,088)	(265,084)
Purchases of investments and economic benefit interest in trust	(30,587,935)	(22,273,122)
Sales of investments and economic benefit interest in trust	<u>32,785,928</u>	<u>23,647,715</u>
Net cash provided by investing activities	<u>1,536,905</u>	<u>1,109,509</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,745,697	(2,552,183)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>9,060,706</u>	<u>11,612,889</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 12,806,403</u>	<u>\$ 9,060,706</u>

See notes to financial statements.

SPECIAL OLYMPICS, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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, 2009 and 2008, the Trust’s assets had a fair market value of \$45,643,651 and \$38,145,655, 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 \$15,698,551 and \$14,175,764 for the years ended December 31, 2009 and 2008, 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.

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.

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 generally accepted accounting principles (“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.

Recent Accounting Pronouncements – Effective July 1, 2009, the Financial Accounting Standards Board Accounting Standards Codification (“ASC”) became the single source of authoritative nongovernmental GAAP. The historical GAAP hierarchy was eliminated and the ASC became the only level of authoritative GAAP, other than guidance issued by the Securities and Exchange Commission. The ASC does not change, however, it significantly changes the way in which the accounting literature is organized. The adoption of this standard did not have a material effect on SOI’s financial statements.

In 2009, SOI adopted authoritative guidance for subsequent events, which provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The adoption did not have a material effect on SOI’s financial condition, changes in net assets, or cash flows.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2009 and 2008, consist of the following unconditional promises to give:

	2009	2008
Due in:		
Less than one year	\$ 963,920	\$ 1,312,980
One to five years	105,902	405,060
Less discount to present value	<u>(8,602)</u>	<u>(25,429)</u>
Receivables — noncurrent — net	<u>97,300</u>	<u>379,631</u>
Total contributions receivable — net	<u>\$ 1,061,220</u>	<u>\$ 1,692,611</u>

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 3.76% 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 2009 and 2008, SOI made awards and grants of \$32,238,815 and \$25,162,539, respectively, to accredited Programs, which are allocated to functional expenses in the accompanying statements of activities.

Program and Other Receivables — As of December 31, 2009 and 2008, amounts due from related parties and accredited Programs have been included in Program and other receivables:

	2009	2008
Notes receivable from accredited Programs	\$ 8,948	\$ 8,948
Accounts receivable from SOI regional operations	496,761	931,617
Other related-party receivables	98,616	26,862
Program accreditation fees — net of allowance of \$192,182 and \$145,012	541,859	428,049
Grants receivable	593,206	631,803
Other receivables	<u>159,289</u>	<u>117,562</u>
Program and other receivables — net	<u>\$ 1,898,679</u>	<u>\$ 2,144,841</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 2009 and 2008. Although realization is not assured, management believes that the recorded balance of receivables, net of the allowance for doubtful accounts, as of December 31, 2009 and 2008, will be realized.

5. FIXED ASSETS

Fixed assets at December 31, 2009 and 2008, consist of the following:

	2009	2008
Furnishings	\$ 335,571	\$ 335,571
Equipment	3,593,828	2,939,992
Leasehold improvements	<u>407,134</u>	<u>399,882</u>
	4,336,533	3,675,445
Less accumulated depreciation	<u>(3,554,218)</u>	<u>(3,049,238)</u>
Fixed assets — net	<u>\$ 782,315</u>	<u>\$ 626,207</u>

6. INVESTMENTS

Fair Value Measurement — SOI adopted accounting guidance relating to fair value measurements, effective January 1, 2008. Accounting guidance 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.

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, 2009 and 2008. The fair value of these assets is based on actively-quoted market prices.

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:				
Investments held in endowment	\$ 198,584	\$ 198,584	\$ -	\$ -
Economic beneficial interest in trust	45,643,651	45,643,651	-	-
Other investments	4,292,740	4,292,740	-	-
Total assets	<u>\$50,134,975</u>	<u>\$50,134,975</u>	<u>\$ -</u>	<u>\$ -</u>
2008	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:				
Investments held in endowment	\$ 198,584	\$ 198,584	\$ -	\$ -
Economic beneficial interest in trust	38,145,655	38,145,655	-	-
Other investments	3,906,636	3,906,636	-	-
Total assets	<u>\$42,250,875</u>	<u>\$42,250,875</u>	<u>\$ -</u>	<u>\$ -</u>

Short-term — Short-term investments for 2009 include equity instruments. Short-term investments for 2008 include certificate of deposit bearing interest at 3.45-4.01% in 2008, maturing in less than one year.

Long-term — Investments as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Fixed-income securities	\$ 1,115,023	\$ 1,380,070
U.S. corporate equity securities	2,777,929	2,048,009
International equity securities	398,174	306,006
Total investments	<u>\$4,291,126</u>	<u>\$3,734,085</u>

Investment income (loss) for the years ended December 31, 2009 and 2008 consists of the following:

	2009	2008
Interest and dividends	\$ 148,406	\$ 358,064
Realized losses on sales of investments — net	(197,408)	(422,408)
Unrealized gains (losses) — net	<u>1,013,230</u>	<u>(1,619,103)</u>
Total investment income (loss)	<u>\$ 964,228</u>	<u>\$(1,683,447)</u>

The investments for the Trust are stated at fair market value as of December 31, 2009 and 2008, and consist of the following:

	2009	2008
Cash	\$ 637,301	\$ 633,427
Fixed-income securities	13,290,708	14,870,199
U.S. corporate equity securities	17,573,709	16,197,623
International equity securities	<u>14,141,933</u>	<u>6,444,406</u>
Total economic beneficial interest in Trust	<u>\$45,643,651</u>	<u>\$38,145,655</u>

Net appreciation (depreciation) in Trust assets for the years ended December 31, 2009 and 2008, consists of the following:

	2009	2008
Interest and dividends	\$ 1,078,295	\$ 1,495,693
Realized (losses) gains on sales of investments — net	(4,017,584)	1,570,253
Unrealized gains (losses) — net	<u>13,283,855</u>	<u>(21,802,910)</u>
Total net appreciation (depreciation) in Trust assets	<u>\$10,344,566</u>	<u>\$(18,736,964)</u>

7. UNRESTRICTED DESIGNATED NET ASSETS

Unrestricted designated net assets at December 31, 2009 and 2008, consist of the following:

	2009	2008
Christmas Records Trust	\$45,643,651	\$38,893,724
Spirit Fund	1,016,863	1,096,329
Other	<u>4,726,103</u>	<u>4,208,169</u>
Total unrestricted designated net assets	<u>\$51,386,617</u>	<u>\$44,198,222</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 \$1,096,329 as of December 31, 2009 and 2008 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 \$4,726,103 and \$4,208,169 as of December 31, 2009 and 2008, 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, 2009 and 2008:

	2009	2008
Program restrictions:		
Program assistance	\$ 891,631	\$ 605,831
Sports training and competitions	359,648	1,066,878
Public education and communications	-	74,744
Time restricted for periods after December 31	<u>300,000</u>	<u>1,227,073</u>
Total temporarily restricted net assets	<u>\$1,551,279</u>	<u>\$2,974,526</u>

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

	2009	2008
Satisfaction of program restrictions:		
Program assistance	\$ 1,250,292	\$ 1,404,737
Public education and communications	54,580	39,034
Sports training and competitions	<u>1,076,209</u>	<u>1,379,086</u>
Total	2,381,081	2,822,857
Expiration of time restrictions	<u>948,395</u>	<u>345,000</u>
Total net assets released from restrictions	<u>\$3,329,476</u>	<u>\$3,167,857</u>

Endowment — Permanently restricted net assets of \$198,584 at December 31, 2009 and 2008, 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 accounting guidance, effective December 31, 2008 related to the net asset classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent

Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA 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.

Interpretation of Relevant Law — SOI interprets 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 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, 2009 and 2008 is as follows:

Permanently Restricted	2009	2008
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 2009 and 2008, SOI conducted direct mail activities that included requests for contributions, as well as program components. The cost of conducting those activities in 2009 and 2008 included a total of \$14,389,731 and \$15,095,899, respectively, of joint activities. Costs of \$9,601,491 and \$10,295,370, respectively, were charged to fund-raising expenses during 2009 and 2008. Costs of \$4,788,240 and \$4,800,529, respectively, were allocated to SOI's public education program during 2009 and 2008.

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, 2009 and 2008, 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 2009 and 2008, management and general expenses were \$3,510,899 and \$3,322,377.

During 2009 and 2008, fundraising expenses for marketing and development and multistate fundraising projects were \$11,982,485 and \$11,841,980, respectively, which represented 13.36% and 15.52% of the revenue resulting from fundraising, defined as direct mail contributions, individual and corporate contributions and sponsorships, federal grants, accreditation fees, and other income in the statements of activities. Management and general expenses represent 3.91% and 4.35% of revenues resulting from fundraising activities. Together, management and general and fundraising expenses represent approximately 17.27% and 19.85% 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 \$592,830 and \$638,850 for the years ended December 31, 2009 and 2008, 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 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, 2009 and 2008, deferred rent was \$99,568 and \$153,878, 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	
2010	\$ 873,650
2011	<u>728,042</u>
Total	<u>\$1,601,692</u>

Rent expense for the Washington, D.C., headquarters and regional office space was \$1,279,792 and \$1,490,079 for the years ended December 31, 2009 and 2008, 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 2009 or 2008.

14. SUBSEQUENT EVENTS

SOI has evaluated all events or transactions that occurred after December 31, 2009 through May 28, 2010, the date the financial statements were issued. During this period, there were no material subsequent events.

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