

Special Olympics, Inc.

Financial Statements as of and for the
Years Ended December 31, 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006, 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.



August 13, 2008

SPECIAL OLYMPICS, INC.

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$10,559,037	\$12,993,798
Board-designated cash and cash equivalents	1,053,852	1,053,852
Contributions receivable (Note 3)	4,123,080	3,677,827
Program and other receivables — net (Note 4)	2,942,734	2,610,392
Prepaid expenses	1,356,804	1,319,702
Other assets	421,034	463,156
Total current assets	<u>20,456,541</u>	<u>22,118,727</u>
NONCURRENT ASSETS:		
Restricted cash equivalents	198,584	75,920
Long-term contributions receivable — net (Note 3)	660,001	691,648
Investments (Note 6)	5,930,431	6,138,055
Economic beneficial interest in trust (Note 6)	59,770,622	59,011,113
Fixed assets — net (Note 5)	679,619	485,653
Other assets	85,386	85,386
Total noncurrent assets	<u>67,324,643</u>	<u>66,487,775</u>
TOTAL	<u>\$87,781,184</u>	<u>\$88,606,502</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 4,992,982	\$ 3,952,840
Grants and awards payable to affiliates	5,659,146	8,518,163
Deferred income	542,434	212,191
Deferred rent (Note 13)	55,767	-
Total current liabilities	11,250,329	12,683,194
NONCURRENT LIABILITIES — Deferred rent (Note 13)	152,421	198,582
Total liabilities	<u>11,402,750</u>	<u>12,881,776</u>
COMMITMENTS AND CONTINGENCIES (Notes 10 and 13)		
NET ASSETS:		
Unrestricted:		
Undesignated	5,390,722	7,131,410
Designated (Note 7)	67,316,419	64,650,702
Total unrestricted net assets	72,707,141	71,782,112
Temporarily restricted (Note 8)	3,472,709	3,866,694
Permanently restricted (Note 8)	198,584	75,920
Total net assets	<u>76,378,434</u>	<u>75,724,726</u>
TOTAL	<u>\$87,781,184</u>	<u>\$88,606,502</u>

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	9,985,640	47,410,543	5,130,859	122,664	52,664,066
Program assessments	2,731,355	-	2,731,355	-	-	2,731,355
Royalty income	57,917	48,511	106,428	-	-	106,428
Net appreciation in trust assets (Note 6)	-	5,248,642	5,248,642	-	-	5,248,642
Investment income (Note 6)	1,031,978	6,115	1,038,093	-	-	1,038,093
Other income	1,651,187	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	(1,740,688)	2,665,717	925,029	(393,985)	122,664	653,708
NET ASSETS — Beginning of year	7,131,410	64,650,702	71,782,112	3,866,694	75,920	75,724,726
NET ASSETS — End of year	\$ 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 ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2006

	Unrestricted		Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Designated				
REVENUES, GAINS, AND OTHER SUPPORT:						
Direct mail contributions	\$ 36,292,869	\$ -	\$ 36,292,869	\$ -	\$ -	\$ 36,292,869
Individual and corporate contributions and sponsorships	27,633,048	4,291,865	31,924,913	4,455,243	-	36,380,156
Program assessments	2,379,416	-	2,379,416	-	-	2,379,416
Royalty income	63,428	1,523,726	1,587,154	-	-	1,587,154
Net appreciation in trust assets (Note 6)	-	6,463,168	6,463,168	-	-	6,463,168
Investment income (Note 6)	999,210	198,463	1,197,673	-	-	1,197,673
Other income	185,656	279,325	464,981	-	-	464,981
Total revenues, gains, and other support	67,553,627	12,756,547	80,310,174	4,455,243	-	84,765,417
NET ASSETS RELEASED FROM RESTRICTIONS (Note 8):						
Satisfaction of program restrictions	-	3,103,321	3,103,321	(3,103,321)	-	-
Expiration of time restrictions	476,330	-	476,330	(476,330)	-	-
Total revenues and net assets released from restrictions	68,029,957	15,859,868	83,889,825	875,592	-	84,765,417
EXPENSES:						
Program assistance	43,014,681	7,333,244	50,347,925	-	-	50,347,925
Public education and communications	10,846,196	5,239	10,851,435	-	-	10,851,435
Sports training and competitions	1,573,865	3,118,955	4,692,820	-	-	4,692,820
Fundraising	11,733,335	-	11,733,335	-	-	11,733,335
Management and general	3,534,013	8,859	3,542,872	-	-	3,542,872
Total expenses	70,702,090	10,466,297	81,168,387	-	-	81,168,387
CHANGES IN NET ASSETS	(2,672,133)	5,393,571	2,721,438	875,592	-	3,597,030
NET ASSETS — Beginning of year	9,803,543	59,257,131	69,060,674	2,991,102	75,920	72,127,696
NET ASSETS — End of year	\$ 7,131,410	\$ 64,650,702	\$ 71,782,112	\$ 3,866,694	\$ 75,920	\$ 75,724,726

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.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2006

	Program Assistance	Public Education and Communications	Sports Training and Competitions	Fundraising	Management and General	Total
SALARIES	\$ 7,497,434	\$ 1,011,800	\$ 929,843	\$ 1,297,251	\$1,704,743	\$12,441,071
BENEFITS	<u>1,734,629</u>	<u>265,496</u>	<u>231,607</u>	<u>265,231</u>	<u>419,384</u>	<u>2,916,347</u>
Total salaries and benefits	<u>9,232,063</u>	<u>1,277,296</u>	<u>1,161,450</u>	<u>1,562,482</u>	<u>2,124,127</u>	<u>15,357,418</u>
CONSULTING AND OTHER	6,388,439	1,778,330	92,280	3,637,158	386,418	12,282,625
SUPPLIES	7,327,473	543,047	110,564	3,054	52,182	8,036,320
COMMUNICATION	434,555	3,076,073	48,311	21,802	41,935	3,622,676
POSTAGE AND SHIPPING	349,636	1,829,203	20,426	3,387,751	37,902	5,624,918
OCCUPANCY (Note 13)	753,373	134,068	82,081	112,931	206,316	1,288,769
EQUIPMENT RENT AND REPAIR	325,476	63,299	38,702	52,894	98,268	578,639
TRAVEL, MEETINGS, AND CONFERENCES	3,247,835	235,714	958,388	147,215	217,360	4,806,512
PRINTING	220,167	1,503,628	51,152	2,199,760	10,623	3,985,330
PROFESSIONAL DEVELOPMENT	42,854	42,299	2,769	16,802	22,567	127,291
DATA PROCESSING	336,585	329,991	16,900	556,650	10,796	1,250,922
DEPRECIATION AND AMORTIZATION	192,185	25,746	15,734	21,455	60,790	315,910
MISCELLANEOUS	<u>613,730</u>	<u>12,741</u>	<u>33,961</u>	<u>13,381</u>	<u>273,588</u>	<u>947,401</u>
Subtotal	20,232,308	9,574,139	1,471,268	10,170,853	1,418,745	42,867,313
AWARDS AND GRANTS	<u>20,883,554</u>	<u>-</u>	<u>2,060,102</u>	<u>-</u>	<u>-</u>	<u>22,943,656</u>
TOTAL EXPENSES	<u>\$50,347,925</u>	<u>\$10,851,435</u>	<u>\$4,692,820</u>	<u>\$11,733,335</u>	<u>\$3,542,872</u>	<u>\$81,168,387</u>

See notes to financial statements.

SPECIAL OLYMPICS, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 653,708	\$ 3,597,030
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation expense	277,305	315,910
Noncash donation of fixed assets	(171,873)	-
Amortization of contributions receivable discount	(14,456)	(29,582)
Loss on disposal of fixed assets	2,046	-
Permanently restricted contributions	(122,664)	-
Net unrealized gain on investments and economic beneficial interest in trust	(718,770)	(3,229,637)
Net realized gain on investments and economic beneficial interest in trust	(3,174,801)	(2,202,717)
Increase in contributions receivable	(399,150)	(2,305,524)
(Increase) decrease in program and other receivables	(332,342)	922,560
Increase in prepaid expenses	(37,102)	(360,323)
Decrease in other assets	42,122	22,835
Increase in accounts payable and accrued liabilities	1,040,142	712,139
(Decrease) increase in grants and awards payable to affiliates	(2,859,017)	168,089
Increase (decrease) in deferred income	330,243	(246,238)
Increase in deferred rent	9,606	22,389
Net cash used in operating activities	<u>(5,475,003)</u>	<u>(2,613,069)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(301,444)	(169,034)
Purchases of investments and economic benefit interest in trust	(7,848,481)	(8,097,268)
Sales of investments and economic benefit interest in trust	<u>11,067,503</u>	<u>10,992,118</u>
Net cash provided by investing activities	<u>2,917,578</u>	<u>2,725,816</u>
CASH FLOWS FROM FINANCING ACTIVITIES —		
Permanently restricted contributions	<u>122,664</u>	<u>-</u>
Net cash provided by financing activities	<u>122,664</u>	<u>-</u>
NET (DECREASE) INCREASE IN UNRESTRICTED AND BOARD-DESIGNATED CASH AND CASH EQUIVALENTS	(2,434,761)	112,747
UNRESTRICTED AND BOARD-DESIGNATED CASH AND CASH EQUIVALENTS — Beginning of year	<u>14,047,650</u>	<u>13,934,903</u>
UNRESTRICTED AND BOARD-DESIGNATED CASH AND CASH EQUIVALENTS — End of year	<u>\$ 11,612,889</u>	<u>\$ 14,047,650</u>

See notes to financial statements.

SPECIAL OLYMPICS, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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, 2007 and 2006, the Trust’s assets had a fair market value of \$59,770,622 and \$59,011,113, respectively.

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.

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 \$28,969,281 and \$15,788,567 for the years ended December 31, 2007 and 2006, 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.

Revenue from federal grants is recognized when the related expense is incurred. Revenue from federal grants is included in Individual and corporate contributions and sponsorships.

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 accounting principles generally accepted in the United States of America 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, 2007 and 2006, consist of the following unconditional promises to give:

	2007	2006
Due in:		
Less than one year	<u>\$4,123,080</u>	<u>\$3,677,827</u>
One to five years	710,118	876,140
Less allowance for uncollectible contributions receivable	-	(100,000)
Less discount to present value	<u>(50,117)</u>	<u>(84,492)</u>
Receivables — noncurrent — net	<u>660,001</u>	<u>691,648</u>
Total contributions receivable — net	<u>\$4,783,081</u>	<u>\$4,369,475</u>

In accordance with Financial Accounting Standards Board Statement 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 2007 and 2006, SOI made awards and grants of \$22,782,307 and \$22,943,656, respectively, to accredited Programs, which are allocated to functional expenses in the accompanying statements of activities.

Program and Other Receivables — As of December 31, 2007 and 2006, amounts due from related parties and accredited Programs have been included in Program and other receivables:

	2007	2006
Notes receivable from accredited Programs	\$ 81,009	\$ 197,112
Advances to SOI regional operations	738,930	600,360
Other related-party receivables	222,395	223,976
Program accreditation fees	527,167	396,659
Grants receivable	1,020,955	898,214
Other receivables	<u>352,278</u>	<u>420,794</u>
Subtotal	2,942,734	2,737,115
Less allowance for doubtful accounts	<u>-</u>	<u>(126,723)</u>
Program and other receivables — net	<u>\$2,942,734</u>	<u>\$2,610,392</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 2007 and 2006. Although realization is not assured, management believes that the recorded balance of receivables, net of the allowance for doubtful accounts, as of December 31, 2007 and 2006, will be realized.

5. FIXED ASSETS

Fixed assets at December 31, 2007 and 2006, consist of the following:

	2007	2006
Furnishings	\$ 335,571	\$ 162,693
Equipment	2,754,484	2,490,072
Leasehold improvements	<u>335,172</u>	<u>334,005</u>
	3,425,227	2,986,770
Less accumulated depreciation	<u>(2,745,608)</u>	<u>(2,501,117)</u>
Fixed assets — net	<u>\$ 679,619</u>	<u>\$ 485,653</u>

6. INVESTMENTS

Investments as of December 31, 2007 and 2006, consist of the following:

	2007	2006
Fixed-income securities	\$ 1,773,109	\$ 2,304,450
U.S. corporate equity securities	3,198,736	3,093,465
International equity securities	<u>958,586</u>	<u>740,140</u>
Total investments	<u>\$ 5,930,431</u>	<u>\$ 6,138,055</u>

Investment income for the years ended December 31, 2007 and 2006, consists of the following:

	2007	2006
Interest and dividends	\$ 576,929	\$ 586,500
Realized gains on sales of investments — net	226,369	109,287
Unrealized gains — net	<u>234,795</u>	<u>501,886</u>
Total investment income	<u>\$ 1,038,093</u>	<u>\$ 1,197,673</u>

The investments for the Trust are stated at fair market value as of December 31, 2007 and 2006, and consist of the following:

	2007	2006
Cash	\$ 301,438	\$ 1,003,870
Fixed-income securities	18,743,811	18,256,780
U.S. corporate equity securities	25,345,251	28,480,164
International equity securities	<u>15,380,122</u>	<u>11,270,299</u>
Total economic beneficial interest in Trust	<u>\$ 59,770,622</u>	<u>\$ 59,011,113</u>

Net appreciation in Trust assets for the years ended December 31, 2007 and 2006, consists of the following:

	2007	2006
Interest and dividends	\$ 1,816,235	\$ 1,641,987
Realized gains on sales of investments — net	2,948,432	2,093,430
Unrealized gains — net	<u>483,975</u>	<u>2,727,751</u>
Total net appreciation in Trust assets	<u>\$ 5,248,642</u>	<u>\$ 6,463,168</u>

7. UNRESTRICTED DESIGNATED NET ASSETS

Unrestricted designated net assets at December 31, 2007 and 2006, consist of the following:

	2007	2006
Christmas Records Trust	\$ 60,744,006	\$ 57,882,125
Spirit Fund	1,096,329	1,096,329
Other	<u>5,476,084</u>	<u>5,672,248</u>
Total unrestricted designated net assets	<u>\$ 67,316,419</u>	<u>\$ 64,650,702</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, 2007 and 2006, 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 \$5,476,084 and \$5,672,248 as of December 31, 2007 and 2006, 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, 2007 and 2006:

	2007	2006
Satisfaction of program restrictions:		
Program assistance	\$ 973,476	\$ 1,223,689
Sports training and competitions	941,071	967,293
Public education and communications	10,778	-
Time restricted for periods after December 31	<u>1,547,384</u>	<u>1,675,712</u>
Total temporarily restricted net assets	<u>\$ 3,472,709</u>	<u>\$ 3,866,694</u>

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

	2007	2006
Satisfaction of program restrictions:		
Program assistance	\$ 1,639,181	\$ 1,280,865
Public education and communications	166,721	-
Sports training and competitions	<u>3,099,242</u>	<u>1,822,456</u>
Total	4,905,144	3,103,321
Expiration of time restrictions	<u>619,700</u>	<u>476,330</u>
Total net assets released from restrictions	<u><u>\$5,524,844</u></u>	<u><u>\$3,579,651</u></u>

Permanently restricted net assets of \$198,584 and \$75,920 at December 31, 2007 and 2006, 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.

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 2007 and 2006, SOI conducted direct mail activities that included requests for contributions, as well as program components. The cost of conducting those activities in 2007 and 2006 included a total of \$15,147,457 and \$14,480,801 of joint activities, respectively. Costs of \$10,186,449 and \$10,154,272 were charged to fund-raising expenses during 2007 and 2006, respectively. Costs of \$4,961,008 and \$4,326,529 were allocated to SOI's public education program during 2007 and 2006, respectively.

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%, 8.25% and 9.25% at December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, 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 2007 and 2006, management and general expenses were \$3,761,839 and \$3,542,872.

Fundraising expenses for marketing and development and multistate fundraising projects were \$11,992,656 and \$11,733,335, respectively, which represented 12.6% and 15.5% of the revenue resulting from fundraising, defined as direct mail contributions, individual and corporate contributions and sponsorships, program assessments, and other income in the statements of activities. Management and general expenses represent 4.0% and 4.7% of revenues resulting from fundraising activities. Together, management and general and fundraising expenses represent approximately 16.5% and 20.2% 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 \$579,568 and \$605,790 for the years ended December 31, 2007 and 2006, 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 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, 2007 and 2006, deferred rent was \$208,188 and \$198,582, 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 operating lease are as follows:

Years Ending December 31	
2008	\$ 930,275
2009	930,275
2010	930,275
2011	<u>775,229</u>
 Total	 <u>\$3,566,054</u>

Rent expense for the Washington, D.C., headquarters and regional office space was \$1,486,462 and \$1,288,769 for the years ended December 31, 2007 and 2006, 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 2007 or 2006.

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