

SPECIAL OLYMPICS TENNESSEE, INC.

**FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION AND
INDEPENDENT AUDITOR'S REPORT**

December 31, 2004 and 2003

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Special Olympics Tennessee, Inc.

We have audited the accompanying statements of financial position of Special Olympics Tennessee, Inc. (a nonprofit organization) as of December 31, 2004 and 2003, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the financial statements referred to above present fairly, in all material respects, the financial position of Special Olympics Tennessee, Inc. as of December 31, 2004 and 2003, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Special Olympics Tennessee, Inc. taken as a whole. The accompanying schedules on pages 18 to 21 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in those schedules has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Fraser, Dean & Howard, PLLC

May 27, 2005

SPECIAL OLYMPICS TENNESSEE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--|----------------------------|----------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 998,971 | \$ 1,073,510 |
| Investments | 642,987 | 522,977 |
| Contributed support receivable and other receivables | 155,346 | 209,245 |
| Prepaid expenses | 12,873 | 3,217 |
| Inventory | <u>-</u> | <u>3,043</u> |
| Total current assets | <u>1,810,177</u> | <u>1,811,992</u> |
| Property and equipment | 863,359 | 911,417 |
| Less accumulated depreciation | <u>(219,070)</u> | <u>(243,357)</u> |
| | <u>644,289</u> | <u>668,060</u> |
| Total assets | <u><u>\$ 2,454,466</u></u> | <u><u>\$ 2,480,052</u></u> |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 10,249 | \$ 1,427 |
| Accrued retirement plan contribution | 30,289 | 25,581 |
| Current portion of notes payable | <u>258,444</u> | <u>271,024</u> |
| Total current liabilities | 298,982 | 298,032 |
| Notes payable, net of current portion | <u>-</u> | <u>-</u> |
| Total liabilities | <u>298,982</u> | <u>298,032</u> |
| Net assets: | | |
| Unrestricted | 2,095,309 | 2,115,275 |
| Temporarily restricted | <u>60,175</u> | <u>66,745</u> |
| Total net assets | <u>2,155,484</u> | <u>2,182,020</u> |
| Total liabilities and net assets | <u><u>\$ 2,454,466</u></u> | <u><u>\$ 2,480,052</u></u> |

See notes to financial statements.

SPECIAL OLYMPICS TENNESSEE, INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2004

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|---------------------|
| Revenues, gains and other support: | | | |
| Direct marketing contributions | \$ 571,040 | \$ - | \$ 571,040 |
| Other contributions | 583,424 | - | 583,424 |
| Federal and state financial assistance | 70,427 | - | 70,427 |
| Special events | 459,635 | - | 459,635 |
| Investment income, net | 59,586 | 126 | 59,712 |
| Other income | 49,393 | - | 49,393 |
| Net assets released from restrictions | | | |
| Satisfaction of program restrictions | <u>6,696</u> | <u>(6,696)</u> | <u>-</u> |
| Total revenues, gains and other support | <u>1,800,201</u> | <u>(6,570)</u> | <u>1,793,631</u> |
| Expenses: | | | |
| Games/competition | 958,689 | - | 958,689 |
| Training | 142,377 | - | 142,377 |
| Other program expenses | 429,551 | - | 429,551 |
| Management and general | 98,617 | - | 98,617 |
| Fundraising | <u>190,933</u> | <u>-</u> | <u>190,933</u> |
| Total expenses | <u>1,820,167</u> | <u>-</u> | <u>1,820,167</u> |
| Change in net assets | <u>(19,966)</u> | <u>(6,570)</u> | <u>(26,536)</u> |
| Net assets at beginning of year | <u>2,115,275</u> | <u>66,745</u> | <u>2,182,020</u> |
| Net assets at end of year | <u>\$ 2,095,309</u> | <u>\$ 60,175</u> | <u>\$ 2,155,484</u> |

See notes to financial statements.

SPECIAL OLYMPICS TENNESSEE, INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2003

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|----------------------------|-----------------------------------|----------------------------|
| Revenues, gains and other support: | | | |
| Direct marketing contributions | \$ 644,615 | \$ - | \$ 644,615 |
| Other contributions | 640,468 | - | 640,468 |
| Federal and state financial assistance | 65,000 | - | 65,000 |
| Special events | 553,642 | - | 553,642 |
| Investment income, net | 83,115 | 256 | 83,371 |
| Other (loss) income | (18,670) | - | (18,670) |
| Net assets released from restrictions | | | |
| Satisfaction of program restrictions | <u>6,428</u> | <u>(6,428)</u> | <u>-</u> |
| Total revenues, gains and other support | <u>1,974,598</u> | <u>(6,172)</u> | <u>1,968,426</u> |
| Expenses: | | | |
| Games/competition | 927,516 | - | 927,516 |
| Training | 170,762 | - | 170,762 |
| Other program expenses | 314,484 | - | 314,484 |
| Management and general | 100,738 | - | 100,738 |
| Fundraising | <u>292,257</u> | <u>-</u> | <u>292,257</u> |
| Total expenses | <u>1,805,757</u> | <u>-</u> | <u>1,805,757</u> |
| Change in net assets | <u>168,841</u> | <u>(6,172)</u> | <u>162,669</u> |
| Net assets at beginning of year | <u>1,946,434</u> | <u>72,917</u> | <u>2,019,351</u> |
| Net assets at end of year | <u><u>\$ 2,115,275</u></u> | <u><u>\$ 66,745</u></u> | <u><u>\$ 2,182,020</u></u> |

See notes to financial statements.

SPECIAL OLYMPICS TENNESSEE, INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|---|-------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (26,536) | \$ 162,669 |
| Adjustment to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 50,130 | 46,633 |
| Net unrealized and realized (gain) loss on investments | (35,636) | (60,219) |
| Loss on disposals of assets | - | 12,090 |
| Changes in operating assets and liabilities: | | |
| Contributed support receivable and other receivables | 53,899 | 15,579 |
| Prepaid expenses | (9,656) | 3,069 |
| Inventory | 3,043 | - |
| Accounts payable | 8,822 | (26,264) |
| Accrued retirement plan contribution | 4,708 | 2,556 |
| Net cash provided by operating activities | <u>48,774</u> | <u>156,113</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | (185,118) | (113,901) |
| Proceeds from sales of investments | 100,744 | 110,429 |
| Purchases of property and equipment | (26,359) | (53,390) |
| Net cash used in investing activities | <u>(110,733)</u> | <u>(56,862)</u> |
| Cash flows from financing activities: | | |
| Payment on notes payable | (12,580) | (17,160) |
| Net cash used in financing activities | <u>(12,580)</u> | <u>(17,160)</u> |
| Net (decrease) increase in cash and cash equivalents | (74,539) | 82,091 |
| Cash and cash equivalents, beginning of year | <u>1,073,510</u> | <u>991,419</u> |
| Cash and cash equivalents, end of year | <u>\$ 998,971</u> | <u>\$ 1,073,510</u> |
| Supplemental disclosure of cash flow information: | | |
| Interest paid during the year | <u>\$ 16,643</u> | <u>\$ 16,777</u> |

See notes to financial statements.

SPECIAL OLYMPICS TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2004

| | Games | Training | Other Program | Management and General | Fund- raising | Total |
|-------------------------------|-------------------|-------------------|-------------------|------------------------------|-------------------|---------------------|
| Salaries | \$ 258,371 | \$ 78,112 | \$ 156,224 | \$ 54,077 | \$ 54,078 | \$ 600,862 |
| Payroll taxes and benefits | 48,922 | 14,790 | 29,581 | 10,239 | 10,239 | 113,771 |
| Retirement plan contributions | 16,197 | 4,897 | 9,794 | 3,390 | 3,391 | 37,669 |
| Subtotal salaries/benefits | 323,490 | 97,799 | 195,599 | 67,706 | 67,708 | 752,302 |
| Travel/meetings/conferences | 133,830 | 8,622 | 13,160 | 4,608 | 3,937 | 164,157 |
| Special events | - | - | 55,674 | - | 94,117 | 149,791 |
| Rent | 56,138 | 11,283 | 22,567 | 7,812 | 7,811 | 105,611 |
| Facilities/lodging | 94,502 | - | - | - | - | 94,502 |
| Meals | 91,031 | - | - | - | - | 91,031 |
| Miscellaneous | 76,031 | 2,113 | 6,733 | 2,876 | 1,086 | 88,839 |
| Supplies | 58,542 | 3,686 | 13,049 | 2,552 | 2,552 | 80,381 |
| Contracted services | 44,787 | 4,446 | 9,491 | 3,078 | 3,378 | 65,180 |
| Depreciation | 21,556 | 6,517 | 13,034 | 4,511 | 4,512 | 50,130 |
| Insurance | - | - | 34,591 | - | - | 34,591 |
| SOI program support | - | - | 32,153 | - | - | 32,153 |
| Awards | 30,604 | - | - | - | - | 30,604 |
| Telephone | 9,159 | 2,769 | 5,538 | 1,917 | 1,918 | 21,301 |
| Grants | 1,975 | - | 16,620 | - | - | 18,595 |
| Interest | 7,156 | 2,164 | 4,327 | 1,497 | 1,498 | 16,642 |
| Postage/shipping | 4,468 | 1,351 | 2,702 | 935 | 936 | 10,392 |
| Equipment rental/maintenance | 2,782 | 842 | 2,742 | 582 | 935 | 7,883 |
| Printing/production | 1,542 | 454 | 908 | 314 | 315 | 3,533 |
| Dues and subscriptions | 1,096 | 331 | 663 | 229 | 230 | 2,549 |
| Subtotal other expenses | 635,199 | 44,578 | 233,952 | 30,911 | 123,225 | 1,067,865 |
| Total expenses | <u>\$ 958,689</u> | <u>\$ 142,377</u> | <u>\$ 429,551</u> | <u>\$ 98,617</u> | <u>\$ 190,933</u> | <u>\$ 1,820,167</u> |

See notes to financial statements.

SPECIAL OLYMPICS TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2003

| | Games | Training | Other Program | Management and General | Fund- raising | Total |
|-------------------------------|-------------------|-------------------|-------------------|------------------------------|-------------------|---------------------|
| Salaries | \$ 260,077 | \$ 82,752 | \$ 130,039 | \$ 53,198 | \$ 65,019 | \$ 591,085 |
| Payroll taxes and benefits | 49,948 | 15,892 | 24,974 | 10,217 | 12,487 | 113,518 |
| Retirement plan contributions | 11,123 | 3,539 | 5,562 | 2,275 | 2,781 | 25,280 |
| Subtotal salaries/benefits | 321,148 | 102,183 | 160,575 | 65,690 | 80,287 | 729,883 |
| Special events | - | - | - | - | 156,258 | 156,258 |
| Supplies | 127,932 | 11,915 | 11,763 | 3,664 | 2,272 | 157,546 |
| Facilities/lodging | 98,868 | - | - | - | - | 98,868 |
| Travel/meetings/conferences | 79,521 | 11,366 | 15,383 | 6,260 | 20,823 | 133,353 |
| Meals | 87,319 | 1,740 | - | - | - | 89,059 |
| Contracted services | 86,025 | 5,344 | 10,314 | 3,443 | 4,685 | 109,811 |
| Rent | 35,381 | 11,433 | 19,421 | 7,999 | 10,342 | 84,576 |
| Miscellaneous | 574 | 2,524 | 23,911 | 4,024 | 3,102 | 34,135 |
| Awards | 31,941 | - | 8,638 | - | 2,705 | 43,284 |
| Depreciation | 20,519 | 6,529 | 10,259 | 4,196 | 5,130 | 46,633 |
| SOI program support | - | - | 28,867 | - | - | 28,867 |
| Insurance | 9,385 | 9,385 | 9,668 | - | - | 28,438 |
| Telephone | 10,386 | 3,305 | 5,193 | 2,124 | 2,597 | 23,605 |
| Interest | 7,382 | 2,349 | 3,691 | 1,510 | 1,845 | 16,777 |
| Postage/shipping | 4,694 | 1,431 | 2,841 | 1,019 | 1,222 | 11,207 |
| Equipment rental/maintenance | 4,150 | 653 | 1,162 | 420 | 514 | 6,899 |
| Printing/production | 390 | - | 1,847 | - | - | 2,237 |
| Dues and subscriptions | 1,901 | 605 | 951 | 389 | 475 | 4,321 |
| Subtotal other expenses | 606,368 | 68,579 | 153,909 | 35,048 | 211,970 | 1,075,874 |
| Total expenses | <u>\$ 927,516</u> | <u>\$ 170,762</u> | <u>\$ 314,484</u> | <u>\$ 100,738</u> | <u>\$ 292,257</u> | <u>\$ 1,805,757</u> |

See notes to financial statements.

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Special Olympics Tennessee, Inc. (the "Organization") is a Tennessee nonprofit corporation that provides sports training and athletic competition in a variety of Olympic-type sports for children and adults with developmental disabilities. The Organization includes the combined accounts of the state office located in Nashville, and approximately thirty area programs located throughout Tennessee.

Transactions and intercompany balances between the state and area offices have been eliminated for financial reporting purposes.

The following is a summary of the Organization's significant accounting policies:

Basis of Presentation

The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are reported as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. The Organization had no permanently restricted net assets at December 31, 2004 and 2003.

Use of Estimates in the Preparation of Financial Statements

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

Contributions are recognized when the donor makes a promise to the Organization that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor restricted contributions are generally reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year the contributions are recognized.

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Federal and state financial assistance is recognized as unrestricted revenue to the extent and in the period that applicable expenditures are made. The excess of such revenue received over applicable expenditures is recorded as deferred revenue until applicable expenditures are made.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all cash funds, cash bank accounts, money market funds and highly liquid debt instruments purchased with an original maturity when purchased of three months or less to be cash equivalents.

Contributed Support Receivable and Other Receivables

Contributed support receivable and other receivables are reviewed annually as to their collectibility. Based on collection experience and management's review, no allowance for doubtful amounts is considered necessary at December 31, 2004 and 2003.

Investments

The Organization has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." SFAS No. 124 requires not-for-profit organizations to report investments in equity securities with readily determinable fair values and all investments in debt securities in the statements of financial position at fair value and report realized and unrealized gains and losses in the statements of activities.

Inventory

Inventory consisting of caps and shirts is stated at the lower of cost or market, with cost determined using the first-in, first-out method.

Property and Equipment

Property and equipment is recorded at cost. Expenditures for ordinary maintenance and repairs are charged to operations. Renewals and betterments that materially extend the life of the asset are capitalized. Depreciation is provided in amounts necessary to allocate the cost of the various classes of assets over their estimated useful lives using the straight-line method. Estimated useful lives of all major classes are as follows:

| | |
|------------------------|--------------|
| Building | 40 years |
| Building improvements | 10 years |
| Land improvements | 20 years |
| Equipment and fixtures | 5 years |
| Automobiles | 3 to 5 years |

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Contributions

The Organization records various types of in-kind support including contributed facilities, materials, equipment and professional services. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses.

Additionally, the Organization receives a significant amount of contributed time from volunteers that does not meet the recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Functional Expenses

Costs of providing the Organization's programs are summarized and reported on a functional basis. Expenses of each program include costs directly associated with the program and other indirect costs determined to benefit that program. These costs have been allocated between program and supporting services based on estimates made by management.

Income Taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income taxes has been made.

NOTE 2 - INVESTMENTS

Investments at December 31, 2004 and 2003 consist of the following:

| | <u>2004</u> | <u>2003</u> |
|---------------------------------|---------------|---------------|
| <u>Equity Securities</u> | | |
| <i>Common stocks</i> | | |
| Tyco, Inc. | \$ <u>178</u> | \$ <u>133</u> |
| Total common stocks | <u>178</u> | <u>133</u> |

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 2 - INVESTMENTS (Continued)

| | <u>2004</u> | <u>2003</u> |
|---|----------------|----------------|
| <i>Equity mutual funds</i> | | |
| Euro Pacific Growth Fund SBI | \$ 50,274 | \$ 33,204 |
| Growth Fund of America, Inc. | 46,045 | 31,465 |
| Blackrock Small Cap Growth | 5,572 | - |
| Hartford Capital | 8,528 | - |
| Oppenheimer Developing Markets Fund | 6,633 | - |
| Nations Marsico Focused Equity | 9,639 | 16,734 |
| Royce Penn Mutual Fund | 5,872 | 6,336 |
| The Oakmark Fund | 12,473 | 14,612 |
| One Group Government Bond Fund | - | 3,967 |
| AIM Small Cap Growth Fund | - | 5,606 |
| First Eagle | - | 5,959 |
| Victory Diversified Stock Fund | 11,407 | 9,366 |
| Phoenix-Engemann Capital Growth Fund | 5,538 | 5,548 |
| Fidelity Adv. Div. International | <u>7,267</u> | <u>6,027</u> |
| Total equity mutual funds | <u>169,248</u> | <u>138,824</u> |
| Total equity securities | <u>169,426</u> | <u>138,957</u> |
| <u>Fixed Income Securities</u> | | |
| <i>Certificates of deposit and bonds</i> | | |
| Jackson City and County Employee's Credit Union Certificate due March 29, 2004 (1.10%) | - | 12,000 |
| Wilson Bank & Trust Certificate | - | 15,000 |
| Wilson Bank & Trust Certificate | - | 5,000 |
| Dayton Hudson Corp. Notes, Reg. Dtd. September 1, 1992 due September 1, 2004 (7.25%) | - | 25,801 |
| Merrill Lynch & Co. Notes, Dtd. November 15, 2002, due November 15, 2007 (4.00%) | 25,248 | - |
| Bank of America Cap. Corp. Notes Dtd. July 22, 2003, due August 15, 2008 (3.25%) | 24,573 | - |
| General Electric Cap. Corp. Notes, Dtd. June 10, 2004, due December 15, 2009 (4.25%) | 25,173 | - |
| GTE Southwest Debentures, Series B, Reg. Dtd. December 1, 1993, due December 1, 2005 (6.54%) | 25,754 | 27,030 |
| Loews Corp. Notes, Dtd. December 9, 1996, due December 15, 2006 (6.75%) | 26,460 | 27,052 |
| Calvert Income Fund | 7,372 | - |
| Eaton Vance Floating Rate High Income Fund | 4,896 | - |
| FPA New Income, Inc. | 6,310 | - |
| Loomis Sayles Bond Fund | 7,630 | - |
| Pimco Real Return Bond Fund | 6,556 | - |
| Blackrock Core Bond | - | 8,523 |

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 2 - INVESTMENTS (Continued)

| | <u>2004</u> | <u>2003</u> |
|--|-------------------|-------------------|
| <u>Fixed Income Securities</u> (Continued) | | |
| Dreyfus Premier Short Term | \$ - | \$ 4,219 |
| ML Aggregate Bond Index | 6,350 | 10,323 |
| ML Bond Fund Core Bond | <u>-</u> | <u>5,936</u> |
| Total certificates of deposit and bonds | <u>166,322</u> | <u>140,884</u> |
| Total fixed income securities | <u>166,322</u> | <u>140,884</u> |
| <u>Balanced Securities</u> | | |
| <i>Balanced mutual funds</i> | | |
| Capital Income Fund | 102,447 | 78,021 |
| Income Fund of America, Inc. | 95,470 | 75,194 |
| Investment Co. of America | <u>109,322</u> | <u>89,921</u> |
| Total balanced mutual funds | <u>307,239</u> | <u>243,136</u> |
| Total balanced securities | <u>307,239</u> | <u>243,136</u> |
| Total investments | <u>\$ 642,987</u> | <u>\$ 522,977</u> |

During 2004 and 2003, interest and dividends earned from these investments totaled \$24,076 and \$23,152, respectively. Net unrealized and realized gains (losses) on investments amounted to \$35,636 and \$60,219 for 2004 and 2003, respectively.

NOTE 3 - CONTRIBUTED SUPPORT RECEIVABLE AND OTHER RECEIVABLES

Contributed support receivable and other receivables at December 31, 2004 and 2003 consists of the following:

| | <u>2004</u> | <u>2003</u> |
|--|-------------------|-------------------|
| Special Olympics International | \$ 3,398 | \$ 12,162 |
| Department of Mental Health and Developmental Disabilities | 34,350 | 34,350 |
| Unconditional pledges | 20,617 | 33,447 |
| Other contributed support receivable and other receivables | <u>96,981</u> | <u>129,286</u> |
| Total contributed support receivable and other receivables | 155,346 | 209,245 |
| Less noncurrent receivables | <u>-</u> | <u>-</u> |
| Current contributed support receivable and other receivables | <u>\$ 155,346</u> | <u>\$ 209,245</u> |

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2004 and 2003:

| | <u>2004</u> | <u>2003</u> |
|-------------------------------|-------------------|-------------------|
| Land | \$ 60,356 | \$ 60,356 |
| Land improvements | 5,400 | 5,400 |
| Building | 532,416 | 532,416 |
| Building improvements | 58,285 | 49,964 |
| Equipment and fixtures | 137,007 | 193,386 |
| Automobiles | <u>69,895</u> | <u>69,895</u> |
| | 863,359 | 911,417 |
| Less accumulated depreciation | <u>(219,070)</u> | <u>(243,357)</u> |
| | <u>\$ 644,289</u> | <u>\$ 668,060</u> |

NOTE 5 - NOTES PAYABLE

Notes payable at December 31, 2004 and 2003 are summarized as follows:

| | <u>2004</u> | <u>2003</u> |
|---|------------------|------------------|
| Note payable to bank, interest payable at 6.00%, due on demand, however, if no demand is made, due in monthly principal and interest payments of \$2,435 between November 2002 and September 2007, remaining principal balance due in October 2007. | \$ 258,444 | \$ 271,024 |
| Less current maturities | <u>(258,444)</u> | <u>(271,024)</u> |
| Notes payable less current maturities | <u>\$ -</u> | <u>\$ -</u> |

Aggregate maturities of the note payable for the next five years are as follows, assuming no demand is made for payment:

| <u>Year ending December 31,</u> | |
|---------------------------------|-------------------|
| 2005 | \$ 14,047 |
| 2006 | 14,914 |
| 2007 | 229,483 |
| 2008 | - |
| 2009 | <u>-</u> |
| | <u>\$ 258,444</u> |

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 5 - NOTES PAYABLE (Continued)

The note payable is secured by the Organization's land and building as well as certain vehicles. This note has certain covenants requiring restrictions on the amount of capital expenditures made, the incurrence of additional debt, and a minimum debt service coverage ratio. At December 31, 2004 and 2003, the Organization was in compliance with these covenants.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2004 and 2003 consists of the following:

| | <u>2004</u> | <u>2003</u> |
|------------------------|------------------|------------------|
| Unified Sports Program | \$ 27,685 | \$ 34,255 |
| Capital campaign | <u>32,490</u> | <u>32,490</u> |
| | <u>\$ 60,175</u> | <u>\$ 66,745</u> |

The Unified Sports Program Funds amounts were substantially received in 1995 as the result of a settlement agreement from certain litigation by the State of New York against Reebok International.

Amounts raised for the capital campaign are restricted for debt service relating to the Organization's note payable to bank.

NOTE 7 - AFFILIATED ORGANIZATION

The Organization is accredited by Special Olympics International, Inc. (SOI) to conduct Special Olympics activities within Tennessee. Following is a summary of transactions with SOI during 2004 and 2003:

| | <u>2004</u> | <u>2003</u> |
|---|-------------------|-------------------|
| <u>Statements of Activities</u> | | |
| SOI cooperative national fundraising projects: | | |
| Contributions and promotions | \$ 55,801 | \$ 56,047 |
| Direct mail | <u>130,664</u> | <u>117,956</u> |
| Total support | <u>\$ 186,465</u> | <u>\$ 174,003</u> |
| Payments to SOI for program support | \$ 32,153 | \$ 28,867 |
| <u>Statements of Financial Position</u> | | |
| Contributions receivable from SOI National fundraising projects | \$ 3,398 | \$ 12,162 |

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 8 - DIRECT MARKETING CAMPAIGN

The Organization conducts marketing campaigns, including direct mail and telemarketing, to raise funds and to increase public knowledge and awareness of the Organization's mission and activities.

Direct mail and telemarketing projects for the years ended December 31, 2004 and 2003 resulted in contributions of \$571,040 and \$644,615, respectively. The Organization's vendor provides revenues generated for the Organization relating to direct mail and telemarketing on a net basis. Accordingly, there are no costs reflected during 2004 or 2003 related to these campaigns in the accompanying statements of activities.

NOTE 9 - OTHER CONTRIBUTIONS

Other contributions as reflected in the accompanying statements of activities consist of the following:

| | <u>2004</u> | <u>2003</u> |
|-------------------------|-------------------|-------------------|
| Foundations | \$ 123,948 | \$ 145,554 |
| Individuals | 59,099 | 82,495 |
| Corporate | 100,447 | 136,025 |
| Civitans | 3,450 | 3,075 |
| United Way designations | 16,594 | 11,665 |
| In-kind | 65,574 | 55,345 |
| Other | <u>214,312</u> | <u>206,309</u> |
| | <u>\$ 583,424</u> | <u>\$ 640,468</u> |

NOTE 10 - IN-KIND CONTRIBUTIONS

Special Olympics Tennessee, Inc. received in-kind contributions of goods and services for the years ended December 31, 2004 and 2003 consisting of the following:

| | <u>2004</u> | <u>2003</u> |
|-----------------------|------------------|------------------|
| Professional services | \$ 6,670 | \$ 16,185 |
| Equipment | - | 100 |
| Supplies | 4,100 | 8,800 |
| Facilities and rent | 39,949 | 19,923 |
| Meals | 7,388 | 1,457 |
| Telephone | 490 | - |
| Photography | - | 2,120 |
| Lodging | - | 3,996 |
| Fundraising | 6,676 | 2,366 |
| Miscellaneous | <u>301</u> | <u>398</u> |
| | <u>\$ 65,574</u> | <u>\$ 55,345</u> |

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2004 and 2003

NOTE 11 - SPECIAL EVENTS

The Organization receives support from various special events, some of which are conducted by the Organization and its volunteers throughout the state. Such events include law enforcement Torch Run sponsorships, Nashville Golf Classic, Spring Fling, Adelphia Harley Ride and various other community events.

Proceeds from special events totaled \$459,635 and \$553,642 during 2004 and 2003, respectively.

NOTE 12 - SUPPORTING SERVICES

Management and general expenses include expenses that are not directly related to specific programs. Management and general expenses totaled \$98,617 and \$100,738, which approximate 5 percent, of revenues, gains, and other support for 2004 and 2003. Together, fundraising and management and general expenses represent 16 and 20 percent of revenues, gains, and other support in 2004 and 2003, respectively.

NOTE 13 - EMPLOYEE RETIREMENT PLAN

The Organization maintains a 403(b) Tax-Sheltered Annuity retirement program available for eligible employees. Any employee who is at least 21 years old and has completed two years of service is permitted to participate in the plan. Although contributions are not required, the Organization may contribute an amount which vests immediately, as determined by the board of directors based on each employee's total compensation. Employees may also make pretax contributions to the plan. Retirement plan expense totaled \$37,669 and \$25,280 for the years ended December 31, 2004 and 2003, respectively.

NOTE 14 - CONCENTRATIONS

The Organization maintains cash and investments in amounts in excess of federally insured limits. In management's opinion, risk relating to such deposits is minimal based on the credit rating of its depositories and based on the diversity of its investments.

ADDITIONAL INFORMATION

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2004

| | State Office | Area Units | Eliminations | Total |
|---|---------------------|-------------------|---------------------|---------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 346,958 | \$ 652,013 | \$ - | \$ 998,971 |
| Investments | 530,945 | 112,042 | - | 642,987 |
| Contributed support receivable and other receivables | 259,983 | 65,294 | (169,931) | 155,346 |
| Prepaid expenses | 12,873 | - | - | 12,873 |
| Inventory | - | - | - | - |
| Total current assets | <u>1,150,759</u> | <u>829,349</u> | <u>(169,931)</u> | <u>1,810,177</u> |
| Property and equipment | 795,549 | 67,810 | - | 863,359 |
| Less accumulated depreciation | <u>(181,804)</u> | <u>(37,266)</u> | <u>-</u> | <u>(219,070)</u> |
| | <u>613,745</u> | <u>30,544</u> | <u>-</u> | <u>644,289</u> |
| Total assets | <u>\$ 1,764,504</u> | <u>\$ 859,893</u> | <u>\$ (169,931)</u> | <u>\$ 2,454,466</u> |
| Liabilities and Net Assets | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 67,163 | \$ 113,017 | \$ (169,931) | \$ 10,249 |
| Accrued retirement plan contribution | 30,289 | - | - | 30,289 |
| Current portion of notes payable | <u>258,444</u> | <u>-</u> | <u>-</u> | <u>258,444</u> |
| Total current liabilities | <u>355,896</u> | <u>113,017</u> | <u>(169,931)</u> | <u>298,982</u> |
| Notes payable, net of current portion | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>355,896</u> | <u>113,017</u> | <u>(169,931)</u> | <u>298,982</u> |
| Net assets: | | | | |
| Unrestricted | 1,348,433 | 746,876 | - | 2,095,309 |
| Temporarily restricted | <u>60,175</u> | <u>-</u> | <u>-</u> | <u>60,175</u> |
| Total net assets | <u>1,408,608</u> | <u>746,876</u> | <u>-</u> | <u>2,155,484</u> |
| Total liabilities and net assets | <u>\$ 1,764,504</u> | <u>\$ 859,893</u> | <u>\$ (169,931)</u> | <u>\$ 2,454,466</u> |

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2003

| | <u>State Office</u> | <u>Area Units</u> | <u>Eliminations</u> | <u>Total</u> |
|---|-------------------------|-----------------------|---------------------|---------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 451,116 | \$ 622,394 | \$ - | \$ 1,073,510 |
| Investments | 387,820 | 135,157 | - | 522,977 |
| Contributed support receivable and other receivables | 299,299 | 80,132 | (170,186) | 209,245 |
| Prepaid expenses | 1,693 | 1,524 | - | 3,217 |
| Inventory | 3,043 | - | - | 3,043 |
| | <u>1,142,971</u> | <u>839,207</u> | <u>(170,186)</u> | <u>1,811,992</u> |
| Total current assets | | | | |
| Property and equipment | 820,878 | 90,539 | - | 911,417 |
| Less accumulated depreciation | <u>(189,401)</u> | <u>(53,956)</u> | <u>-</u> | <u>(243,357)</u> |
| | <u>631,477</u> | <u>36,583</u> | <u>-</u> | <u>668,060</u> |
| Total assets | <u>\$ 1,774,448</u> | <u>\$ 875,790</u> | <u>\$ (170,186)</u> | <u>\$ 2,480,052</u> |
| Liabilities and Net Assets | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 69,363 | \$ 102,250 | \$ (170,186) | \$ 1,427 |
| Accrued retirement plan contribution | 25,581 | - | - | 25,581 |
| Current portion of notes payable | <u>271,024</u> | <u>-</u> | <u>-</u> | <u>271,024</u> |
| Total current liabilities | <u>365,968</u> | <u>102,250</u> | <u>(170,186)</u> | <u>298,032</u> |
| Notes payable, net of current portion | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>365,968</u> | <u>102,250</u> | <u>(170,186)</u> | <u>298,032</u> |
| Net assets: | | | | |
| Unrestricted | 1,341,735 | 773,540 | - | 2,115,275 |
| Temporarily restricted | <u>66,745</u> | <u>-</u> | <u>-</u> | <u>66,745</u> |
| Total net assets | <u>1,408,480</u> | <u>773,540</u> | <u>-</u> | <u>2,182,020</u> |
| Total liabilities and net assets | <u>\$ 1,774,448</u> | <u>\$ 875,790</u> | <u>\$ (170,186)</u> | <u>\$ 2,480,052</u> |

SPECIAL OLYMPICS TENNESSEE, INC.
 COMBINING STATEMENT OF ACTIVITIES
 For the year ended December 31, 2004

| | State Office | | Area Units | Eliminations | Total |
|--|-------------------------|---------------------------|-----------------------|-----------------|-------------------------|
| | Unrestricted | Temporarily Restricted | | | |
| Revenues, gains and other support: | | | | | |
| Direct marketing contributions | \$ 571,040 | \$ - | \$ - | \$ - | \$ 571,040 |
| Other contributions | 239,005 | - | 344,419 | - | 583,424 |
| Federal and state financial assistance | 70,427 | - | - | - | 70,427 |
| Special events | 274,208 | - | 185,427 | - | 459,635 |
| Investment income (loss) | 50,299 | 126 | 9,287 | - | 59,712 |
| Other income | 253,573 | - | 70,170 | (274,350) | 49,393 |
| Net assets released from restrictions | 6,696 | (6,696) | - | - | - |
| Total revenues, gains and other support | 1,465,248 | (6,570) | 609,303 | (274,350) | 1,793,631 |
| Expenses: | | | | | |
| Games/competition | 663,582 | - | 396,213 | (101,106) | 958,689 |
| Training | 130,559 | - | 42,223 | (30,405) | 142,377 |
| Other program expenses | 425,700 | - | 109,021 | (105,170) | 429,551 |
| Management and general | 88,220 | - | 29,231 | (18,834) | 98,617 |
| Fundraising | 150,489 | - | 59,279 | (18,835) | 190,933 |
| Total expenses | 1,458,550 | - | 635,967 | (274,350) | 1,820,167 |
| Change in net assets | 6,698 | (6,570) | (26,664) | - | (26,536) |
| Net assets at beginning of year | 1,341,735 | 66,745 | 773,540 | - | 2,182,020 |
| Net assets at end of year | <u>\$ 1,348,433</u> | <u>\$ 60,175</u> | <u>\$ 746,876</u> | <u>\$ -</u> | <u>\$ 2,155,484</u> |

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINING STATEMENT OF ACTIVITIES
For the year ended December 31, 2003

| | State Office | | Area Units | Eliminations | Total |
|---|--------------|---------------------------|---------------|--------------|--------------|
| | Unrestricted | Temporarily Restricted | | | |
| Revenues, gains and other support: | | | | | |
| Direct marketing contributions | \$ 644,615 | \$ - | \$ - | \$ - | \$ 644,615 |
| Other contributions | 259,075 | - | 381,393 | - | 640,468 |
| Federal and state financial assistance | 65,000 | - | - | - | 65,000 |
| Special events | 308,940 | - | 244,320 | 382 | 553,642 |
| Investment income | 66,095 | 256 | 17,020 | - | 83,371 |
| Other (loss) income | 214,432 | - | 34,916 | (268,018) | (18,670) |
| Net assets released from restrictions | 6,428 | (6,428) | - | - | - |
| Total revenues, gains and other support | 1,564,585 | (6,172) | 677,649 | (267,636) | 1,968,426 |
| Expenses: | | | | | |
| Games/competition | 698,171 | - | 360,076 | (130,731) | 927,516 |
| Training | 151,024 | - | 41,307 | (21,569) | 170,762 |
| Other program expenses | 334,439 | - | 72,034 | (91,989) | 314,484 |
| Management and general | 87,542 | - | 26,432 | (13,236) | 100,738 |
| Fundraising | 201,916 | - | 100,452 | (10,111) | 292,257 |
| Total expenses | 1,473,092 | - | 600,301 | (267,636) | 1,805,757 |
| Change in net assets | 91,493 | (6,172) | 77,348 | - | 162,669 |
| Net assets at beginning of year | 1,250,242 | 72,917 | 696,192 | - | 2,019,351 |
| Net assets at end of year | \$ 1,341,735 | \$ 66,745 | \$ 773,540 | \$ - | \$ 2,182,020 |