

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINED FINANCIAL STATEMENTS
December 31, 2012 and 2011

SPECIAL OLYMPICS TENNESSEE, INC.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined financial statements of Special Olympics Tennessee, Inc. (a nonprofit organization) which comprise the combined statements of financial position as of December 31, 2012 and 2011, and the related combined statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Special Olympics Tennessee, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Combining Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 22 to 25 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual components, and it is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Frasier, Dean & Howard, PLLC

May 8, 2013

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINED STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 354,803	\$ 382,284
Investments	907,607	785,468
Contributed support receivable and other receivables	89,071	71,898
Prepaid expenses	1,951	10,167
	<u>1,353,432</u>	<u>1,249,817</u>
Total current assets		
	<u>1,353,432</u>	<u>1,249,817</u>
Beneficial interest in assets at Community Foundation of Middle Tennessee	105,101	97,770
	<u>105,101</u>	<u>97,770</u>
Property and equipment	837,433	829,869
Less accumulated depreciation	(379,163)	(353,965)
	<u>458,270</u>	<u>475,904</u>
Total assets	<u>\$ 1,916,803</u>	<u>\$ 1,823,491</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 27,349	\$ 14,224
Accrued vacation	33,571	33,577
Note payable, current portion	9,252	149,131
	<u>70,172</u>	<u>196,932</u>
Total current liabilities		
	<u>70,172</u>	<u>196,932</u>
Note payable, net of current portion	127,994	-
	<u>127,994</u>	<u>-</u>
Total liabilities	<u>198,166</u>	<u>196,932</u>
Net assets:		
Unrestricted:		
Undesignated	1,492,782	1,441,208
Designated by board as agency endowment	105,101	97,770
Temporarily restricted	120,754	87,581
	<u>1,718,637</u>	<u>1,626,559</u>
Total net assets		
	<u>1,718,637</u>	<u>1,626,559</u>
Total liabilities and net assets	<u>\$ 1,916,803</u>	<u>\$ 1,823,491</u>

See accompanying notes.

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINED STATEMENT OF ACTIVITIES
For the year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains and other support:			
Direct marketing contributions	\$ 785,436	\$ -	\$ 785,436
Other contributions (including inkind of \$58,990)	526,248	-	526,248
Special events	499,836	-	499,836
Other income	44,455	67,111	111,566
Other grants	12,498	-	12,498
Investment income, net	105,716	-	105,716
Gain on beneficial interest in assets at Community Foundation of Middle Tennessee	12,531	-	12,531
Net assets released from restrictions:			
Satisfaction of program restrictions	33,938	(33,938)	-
Total revenues, gains and other support	<u>2,020,658</u>	<u>33,173</u>	<u>2,053,831</u>
Expenses:			
Games/Competition	755,060	-	755,060
Training	73,919	-	73,919
Other program expenses	589,456	-	589,456
Management and general	86,393	-	86,393
Fundraising	456,925	-	456,925
Total expenses	<u>1,961,753</u>	<u>-</u>	<u>1,961,753</u>
Change in net assets	<u>58,905</u>	<u>33,173</u>	<u>92,078</u>
Net assets at beginning of year	<u>1,538,978</u>	<u>87,581</u>	<u>1,626,559</u>
Net assets at end of year	<u><u>\$ 1,597,883</u></u>	<u><u>\$ 120,754</u></u>	<u><u>\$ 1,718,637</u></u>

See accompanying notes.

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINED STATEMENT OF ACTIVITIES
For the year ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains and other support:			
Direct marketing contributions	\$ 818,449	\$ -	\$ 818,449
Other contributions (including inkind of \$43,420)	467,279	-	467,279
Special events	420,151	-	420,151
Other income	38,526	-	38,526
Other grants	7,768	-	7,768
Investment income, net	2,128	-	2,128
Loss on beneficial interest in assets at Community Foundation of Middle Tennessee	(2,130)	-	(2,130)
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>20,954</u>	<u>(20,954)</u>	<u>-</u>
Total revenues, gains and other support	<u>1,773,125</u>	<u>(20,954)</u>	<u>1,752,171</u>
Expenses:			
Games/Competition	739,334	-	739,334
Training	86,823	-	86,823
Other program expenses	567,825	-	567,825
Management and general	83,352	-	83,352
Fundraising	<u>427,753</u>	<u>-</u>	<u>427,753</u>
Total expenses	<u>1,905,087</u>	<u>-</u>	<u>1,905,087</u>
Change in net assets	<u>(131,962)</u>	<u>(20,954)</u>	<u>(152,916)</u>
Net assets at beginning of year	<u>1,670,940</u>	<u>108,535</u>	<u>1,779,475</u>
Net assets at end of year	<u><u>\$ 1,538,978</u></u>	<u><u>\$ 87,581</u></u>	<u><u>\$ 1,626,559</u></u>

See accompanying notes.

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 92,078	\$ (152,916)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	25,199	34,000
Loss on sale of property and equipment	-	359
Net unrealized and realized (gain) loss on investments	(78,666)	20,835
Net unrealized and realized (gain) loss on beneficial interest in assets at Community Foundation of Middle Tennessee	(12,531)	2,130
Changes in operating assets and liabilities:		
Contributed support receivable and other receivables	(17,173)	63,368
Prepaid expenses	8,216	10,386
Accounts payable	13,125	6,226
Accrued vacation	(6)	36
Net cash provided by (used in) operating activities	<u>30,242</u>	<u>(15,576)</u>
Cash flows from investing activities:		
Distribution from beneficial interest in assets at Community Foundation of Middle Tennessee	5,200	5,100
Purchases of investments	(100,490)	(20,040)
Proceeds from sales of investments	57,017	25,000
Purchases of property and equipment	(7,565)	(4,132)
Net cash (used in) provided by investing activities	<u>(45,838)</u>	<u>5,928</u>
Cash flows from financing activities:		
Payments on note payable	(11,885)	(15,878)
Net cash used in financing activities	<u>(11,885)</u>	<u>(15,878)</u>
Net decrease in cash and cash equivalents	(27,481)	(25,526)
Cash and cash equivalents, beginning of year	382,284	407,810
Cash and cash equivalents, end of year	<u>\$ 354,803</u>	<u>\$ 382,284</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 15,715</u>	<u>\$ 11,973</u>
Supplemental schedule of noncash investing and financing activities:		
Note payable refinanced	<u>\$ 138,788</u>	<u>\$ -</u>

See accompanying notes.

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2012

	Games/ Competition	Training	Other Program Expenses	Management and General	Fundraising	Total
Salaries	\$ 209,214	\$ 40,619	\$ 168,039	\$ 49,521	\$ 89,027	\$ 556,420
Payroll taxes and benefits	57,691	11,200	46,336	13,655	24,549	153,431
Subtotal salaries/benefits	266,905	51,819	214,375	63,176	113,576	709,851
Direct marketing costs	-	-	184,401	-	184,401	368,802
Special events (including \$2,000 inkind)	-	-	29,190	-	116,760	145,950
Travel/meetings/conferences	98,587	2,559	9,102	2,555	4,593	117,396
Contracted services (including \$21,621 inkind)	54,707	7,007	28,986	8,542	15,357	114,599
Miscellaneous	60,878	2,308	9,548	2,815	5,059	80,608
Supplies	66,532	1,201	4,967	1,464	2,632	76,796
Meals (including \$6,952 inkind)	59,563	-	-	-	-	59,563
Facilities/lodging (including \$28,417 inkind)	53,541	-	-	-	-	53,541
Awards	40,809	-	-	-	450	41,259
SOI program support	-	-	40,444	-	-	40,444
Insurance	-	-	39,241	-	-	39,241
Rent	20,767	1,076	4,452	1,312	2,359	29,966
Depreciation	9,475	1,840	7,610	2,242	4,032	25,199
Interest	5,909	1,147	4,746	1,399	2,514	15,715
Telephone	4,591	891	3,687	1,087	1,954	12,210
Grants	5,187	2,594	2,594	-	-	10,375
Equipment rental/maintenance	3,715	721	2,985	879	1,581	9,881
Communications	1,643	319	1,319	389	699	4,369
Postage/shipping	1,226	238	985	290	522	3,261
Dues and subscriptions	999	194	803	237	425	2,658
Printing/production	26	5	21	6	11	69
Subtotal other expenses	488,155	22,100	375,081	23,217	343,349	1,251,902
Total expenses	\$ 755,060	\$ 73,919	\$ 589,456	\$ 86,393	\$ 456,925	\$ 1,961,753

See accompanying notes.

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2011

	Games/ Competition	Training	Other Program Expenses	Management and General	Fundraising	Total
Salaries	\$ 227,295	\$ 51,505	\$ 163,473	\$ 48,706	\$ 68,860	\$ 559,839
Payroll taxes and benefits	60,637	13,741	43,611	12,994	18,371	149,354
Subtotal salaries/benefits	287,932	65,246	207,084	61,700	87,231	709,193
Direct marketing costs	-	-	189,240	-	189,240	378,480
Special events	-	-	1,219	-	120,760	121,979
Travel/meetings/conferences	101,001	1,891	5,457	1,626	2,299	112,274
Contracted services (including \$15,850 inkind)	50,628	7,184	25,971	6,795	11,189	101,767
Miscellaneous	57,490	2,500	8,915	3,773	3,343	76,021
Supplies (including \$947 inkind)	50,615	1,272	7,342	1,203	1,701	62,133
Meals (including \$10,667 inkind)	56,408	-	-	-	-	56,408
Insurance	-	-	42,848	-	-	42,848
SOI program support	-	-	39,244	-	-	39,244
Facilities/lodging (including \$13,618 inkind)	38,950	-	-	-	-	38,950
Awards (including \$645 inkind)	37,035	-	-	-	318	37,353
Rent	24,867	1,465	4,650	1,385	1,959	34,326
Depreciation	13,804	3,128	9,928	2,958	4,182	34,000
Telephone (including \$794 inkind)	6,290	1,425	4,524	1,348	1,905	15,492
Grants	-	-	12,794	-	-	12,794
Interest	4,860	1,102	3,496	1,042	1,473	11,973
Equipment rental/maintenance (including \$549 inkind)	3,496	792	2,515	749	1,059	8,611
Communications	3,808	331	1,051	313	443	5,946
Postage/shipping (including \$350 inkind)	1,364	309	982	292	414	3,361
Dues and subscriptions	735	166	528	157	222	1,808
Printing/production	51	12	37	11	15	126
Subtotal other expenses	451,402	21,577	360,741	21,652	340,522	1,195,894
Total expenses	<u>\$ 739,334</u>	<u>\$ 86,823</u>	<u>\$ 567,825</u>	<u>\$ 83,352</u>	<u>\$ 427,753</u>	<u>\$ 1,905,087</u>

See accompanying notes.

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012 and 2011

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 intellectual 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 combined 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 combined statements 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, 2012 and 2011.

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 COMBINED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

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 combined 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.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. See Note 2 for discussion of fair value measurements. Gains or losses on such investments are reported as a change in net assets in the period they occur.

Contributed Support Receivable and Other Receivables

Contributed support receivable and other receivables are reviewed annually as to their collectability. Based on collection experience and management's review, no allowance for doubtful amounts is considered necessary at December 31, 2012 and 2011.

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:

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

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

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 that 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 combined 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 combined 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.

The Organization follows Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidance related to unrecognized tax benefits. The guidance clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

interpretation prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax years that remain open for examination include years ended December 31, 2009 through December 31, 2012. The Organization has no tax penalties or interest reported in the accompanying combined financial statements.

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization evaluated subsequent events through May 8, 2013 when these combined financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the combined statement of financial position date but prior to the filing of this report that would have a material impact on the combined financial statements.

NOTE 2 – INVESTMENTS

Investments at December 31, 2012 and 2011 consist of the following:

	2012		2011	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mutual funds	\$ 767,964	\$ 855,745	\$ 664,977	\$ 681,511
Exchange traded funds	-	-	18,569	28,185
Common stock and options	18,025	25,010	18,050	23,292
Fixed income securities	<u>25,094</u>	<u>26,852</u>	<u>50,420</u>	<u>52,480</u>
Total investments	<u>\$ 811,083</u>	<u>\$ 907,607</u>	<u>\$ 752,016</u>	<u>\$ 785,468</u>

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 2 – INVESTMENTS (Continued)

The Organization's investment policy is generally to maintain 15% - 75% of its portfolio in equities, 15% - 75% in fixed income securities, and 0% - 50% in cash and cash equivalents.

The Organization's investments are subject to normal market risks. Such risks may cause various fluctuations in value. Management attempts to manage such risks by maintaining a diversified portfolio of investments.

The Organization follows the Fair Value Measurements and Disclosures topic of the FASB ASC, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Short-term investments are valued at cost which approximates fair value. The Organization's fixed income securities and equities are valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 2 – INVESTMENTS (Continued)

its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Moderate allocation	\$ 210,537	\$ -	\$ -	\$ 210,537
Large blend	180,335	-	-	180,335
World allocation	174,227	-	-	174,227
Large growth	94,832	-	-	94,832
Foreign large blend	68,710	-	-	68,710
Intermediate term bond	49,968	-	-	49,968
Multi-sector bond	40,811	-	-	40,811
Short-term bond	30,043	-	-	30,043
Foreign large value	<u>6,282</u>	<u>-</u>	<u>-</u>	<u>6,282</u>
Total mutual funds	<u>855,745</u>	<u>-</u>	<u>-</u>	<u>855,745</u>
Common stock and options:				
Consumer goods	10,094	-	-	10,094
Healthcare	7,500	-	-	7,500
Technology	<u>7,416</u>	<u>-</u>	<u>-</u>	<u>7,416</u>
Total common stock and options	<u>25,010</u>	<u>-</u>	<u>-</u>	<u>25,010</u>
Fixed income securities:				
Corporate bonds	<u>26,852</u>	<u>-</u>	<u>-</u>	<u>26,852</u>
Total investments at fair value	<u>\$ 907,607</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 907,607</u>

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 2 – INVESTMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Moderate allocation	\$ 178,939	\$ -	\$ -	\$ 178,939
World allocation	155,824	-	-	155,824
Large blend	147,245	-	-	147,245
Large growth	74,468	-	-	74,468
Foreign large blend	53,964	-	-	53,964
Multi-sector bond	37,846	-	-	37,846
Short-term bond	25,342	-	-	25,342
Foreign large value	5,285	-	-	5,285
Europe stock	<u>2,598</u>	<u>-</u>	<u>-</u>	<u>2,598</u>
Total mutual funds	<u>681,511</u>	<u>-</u>	<u>-</u>	<u>681,511</u>
Exchange traded funds:				
Consumer staples	7,721	-	-	7,721
Health	6,672	-	-	6,672
Commodities precious metals	5,684	-	-	5,684
Mid-cap value	1,672	-	-	1,672
Commodities industrial metals	1,548	-	-	1,548
Large growth	1,271	-	-	1,271
Diversified Pacific/Asia	1,237	-	-	1,237
Commodities agriculture	1,213	-	-	1,213
Inflation protected bond	<u>1,167</u>	<u>-</u>	<u>-</u>	<u>1,167</u>
Total exchange traded funds	<u>28,185</u>	<u>-</u>	<u>-</u>	<u>28,185</u>
Common stock and options:				
Consumer goods	9,457	-	-	9,457
Technology	7,237	-	-	7,237
Healthcare	<u>6,598</u>	<u>-</u>	<u>-</u>	<u>6,598</u>
Total common stock and options	<u>23,292</u>	<u>-</u>	<u>-</u>	<u>23,292</u>
Fixed income securities:				
Corporate bonds	<u>52,480</u>	<u>-</u>	<u>-</u>	<u>52,480</u>
Total investments at fair value	<u>\$ 785,468</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 785,468</u>

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 2 – INVESTMENTS (Continued)

During 2012 and 2011, interest and dividends earned from these investments totaled \$27,050 and \$22,963, respectively. Net unrealized and realized gains (losses) on investments amounted to \$78,666 and (\$20,835) for 2012 and 2011, respectively.

NOTE 3 – CONTRIBUTED SUPPORT RECEIVABLE AND OTHER RECEIVABLES

Contributed support receivable and other receivables at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Special Olympics International	\$ 11,916	\$ 10,229
Unconditional pledges	33,132	26,140
Other contributed support receivable and other receivables	<u>44,023</u>	<u>35,529</u>
Total contributed support receivable and other receivables	89,071	71,898
Less noncurrent receivables	<u>-</u>	<u>-</u>
Current contributed support receivable and other receivables	<u>\$ 89,071</u>	<u>\$ 71,898</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 60,356	\$ 60,356
Land improvements	9,624	9,624
Building	532,416	532,416
Building improvements	62,645	62,645
Equipment and fixtures	121,347	113,783
Automobiles	<u>51,045</u>	<u>51,045</u>
	837,433	829,869
Less accumulated depreciation	<u>(379,163)</u>	<u>(353,965)</u>
	<u>\$ 458,270</u>	<u>\$ 475,904</u>

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 5 – NOTE PAYABLE

Note payable is as follows at December 31:

	<u>2012</u>	<u>2011</u>
Note payable to bank, refinanced during 2012, with interest payable monthly equal to the Prime Rate plus 1.05% and a minimum interest rate of 4.30% (4.30% at December 31, 2012). Principal payments of \$771 are due monthly along with accrued interest between November 2012 and September 2017, remaining principal balance due in October 2017. The note is secured by the Organization's building and certain commercial guarantees.	\$ 137,246	\$ 149,131
Less current portion	<u>(9,252)</u>	<u>(149,131)</u>
Note payable, net of current portion	<u>\$ 127,994</u>	<u>\$ -</u>

Aggregate maturities of the note payable are as follows:

Year ending <u>December 31,</u>	
2013	\$ 9,252
2014	9,252
2015	9,252
2016	9,252
2017	<u>100,238</u>
	<u>\$ 137,246</u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at December 31
:

	<u>2012</u>	<u>2011</u>
Area 2 activities	\$ 52,111	\$ -
Area 13 activities	19,546	31,071
Area 27 activities	<u>49,097</u>	<u>56,510</u>
	<u>\$ 120,754</u>	<u>\$ 87,581</u>

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

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 the years ended December 31:

	<u>2012</u>	<u>2011</u>
<u>Combined Statements of Activities</u>		
SOI cooperative national fundraising projects:		
Contributions and promotions	\$ 35,752	\$ 11,750
Direct mail	<u>125,658</u>	<u>139,750</u>
Total support	<u>\$ 161,410</u>	<u>\$ 151,500</u>
Payments to SOI: Program support	<u>\$ 40,444</u>	<u>\$ 39,244</u>
	<u>2012</u>	<u>2011</u>
<u>Combined Statements of Financial Position</u>		
Contributions receivable from SOI National fundraising projects	<u>\$ 11,916</u>	<u>\$ 10,229</u>

NOTE 8 – DIRECT MARKETING CAMPAIGN

The Organization conducts marketing campaigns through an outside vendor, 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, 2012 and 2011 resulted in contributions of \$785,436 and \$818,449, respectively. The Organization’s vendor provided services relating to direct mail and telemarketing for total costs of \$368,802 and \$378,480, during 2012 and 2011, respectively. The arrangement with the Organization’s vendor extends through December 2014.

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 9 – OTHER CONTRIBUTIONS

Other contributions as reflected in the accompanying combined statements of activities consist of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Foundations	\$ 82,463	\$ 122,170
Individuals	65,888	81,981
Corporate	130,711	59,669
Civitans	3,500	3,000
United Way designations	10,395	8,085
In-kind facilities, rent, services, meals and other	58,990	43,420
Other	<u>174,301</u>	<u>148,954</u>
	<u>\$ 526,248</u>	<u>\$ 467,279</u>

NOTE 10 – 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 Polar Bear Plunge, Over the Edge, the Golf Classic and various other community events. Proceeds from special events totaled \$499,836 and \$420,151 during 2012 and 2011, respectively.

NOTE 11 – SUPPORTING SERVICES

Management and general expenses include expenses that are not directly related to specific programs. Management and general expenses totaled \$86,393 and \$83,352 in 2012 and 2011, respectively, which approximate 4% of revenues, gains, and other support for 2012 and 2011. Together, fundraising and management and general expenses represent 26% and 29% of revenues, gains, and other support in 2012 and 2011, respectively.

NOTE 12 – EMPLOYEE RETIREMENT PLAN

The Organization maintained a 403(b) Tax-Sheltered Annuity retirement program available for eligible employees. Any employee who was at least 21 years old and had completed two years of service was permitted to participate in the plan. Effective December 31, 2008, the Organization ceased accepting contributions to its 403(b) plan and replaced it with a new 401(k) plan beginning January 1, 2009. Under the 401(k) plan, contributions are not required; however, 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. The Organization did not make any contributions into the plan during 2012 or 2011.

SPECIAL OLYMPICS TENNESSEE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)
December 31, 2012 and 2011

NOTE 13 – CONCENTRATION

At times, 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.

NOTE 14 – LEASES

The Organization leases a portion of its building to a tenant. The lease arrangement required monthly payments of \$2,203 through June 30, 2011. The lease arrangement with the tenant is currently considered to be month-to-month. Total rental income approximated \$25,000 in 2012 and \$26,000 in 2011.

The Organization has entered into operating leases for certain office space and office equipment. The future minimum lease payments are as follows:

<u>Years Ending</u> <u>December 31,</u>	
2013	\$ 15,595
2014	15,895
2015	<u>14,437</u>
	<u>\$ 45,927</u>

NOTE 15 – COMMUNITY FOUNDATION OF MIDDLE TENNESSEE

The Community Foundation of Middle Tennessee (the "Foundation") maintains agency investments on behalf of the Organization. The investments result from unrestricted amounts transferred by the Organization to the Foundation in prior years. The Organization has recorded the related asset "beneficial interest in assets at Community Foundation of Middle Tennessee" in the accompanying combined statements of financial position. Changes in the value of the asset are recorded in the accompanying combined statements of activities.

ADDITIONAL INFORMATION

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2012

	<u>State Office</u>	<u>Area Units</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 115,585	\$ 239,218	\$ -	\$ 354,803
Investments	704,188	203,419	-	907,607
Contributed support receivable and other receivables	124,743	177,450	(213,122)	89,071
Prepaid expenses	1,946	5	-	1,951
Total current assets	<u>946,462</u>	<u>620,092</u>	<u>(213,122)</u>	<u>1,353,432</u>
Beneficial interest in assets at Community Foundation of Middle Tennessee	<u>105,101</u>	<u>-</u>	<u>-</u>	<u>105,101</u>
Property and equipment	761,856	75,577	-	837,433
Less accumulated depreciation	<u>(306,025)</u>	<u>(73,138)</u>	<u>-</u>	<u>(379,163)</u>
	<u>455,831</u>	<u>2,439</u>	<u>-</u>	<u>458,270</u>
Total assets	<u><u>\$ 1,507,394</u></u>	<u><u>\$ 622,531</u></u>	<u><u>\$ (213,122)</u></u>	<u><u>\$ 1,916,803</u></u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 176,474	\$ 63,997	\$ (213,122)	\$ 27,349
Accrued vacation	33,571	-	-	33,571
Note payable, current portion	<u>9,252</u>	<u>-</u>	<u>-</u>	<u>9,252</u>
Total current liabilities	<u>219,297</u>	<u>63,997</u>	<u>(213,122)</u>	<u>70,172</u>
Note payable, net of current portion	<u>127,994</u>	<u>-</u>	<u>-</u>	<u>127,994</u>
Total liabilities	<u>347,291</u>	<u>63,997</u>	<u>(213,122)</u>	<u>198,166</u>
Net assets:				
Unrestricted:				
Undesignated	1,002,891	489,891	-	1,492,782
Designated by board as agency endowment	105,101	-	-	105,101
Temporarily restricted	<u>52,111</u>	<u>68,643</u>	<u>-</u>	<u>120,754</u>
Total net assets	<u>1,160,103</u>	<u>558,534</u>	<u>-</u>	<u>1,718,637</u>
Total liabilities and net assets	<u><u>\$ 1,507,394</u></u>	<u><u>\$ 622,531</u></u>	<u><u>\$ (213,122)</u></u>	<u><u>\$ 1,916,803</u></u>

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2011

	State Office	Area Units	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 120,805	\$ 261,479	\$ -	\$ 382,284
Investments	645,276	140,192	-	785,468
Contributed support receivable and other receivables	76,707	111,575	(116,384)	71,898
Prepaid expenses	10,162	5	-	10,167
Total current assets	852,950	513,251	(116,384)	1,249,817
Beneficial interest in assets at Community Foundation of Middle Tennessee	97,770	-	-	97,770
Property and equipment	756,076	73,793	-	829,869
Less accumulated depreciation	(306,026)	(47,939)	-	(353,965)
	450,050	25,854	-	475,904
Total assets	<u>\$ 1,400,770</u>	<u>\$ 539,105</u>	<u>\$ (116,384)</u>	<u>\$ 1,823,491</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 123,143	\$ 7,465	\$ (116,384)	\$ 14,224
Accrued vacation	33,577	-	-	33,577
Note payable, current portion	149,131	-	-	149,131
Total current liabilities	305,851	7,465	(116,384)	196,932
Note payable, net of current portion	-	-	-	-
Total liabilities	305,851	7,465	(116,384)	196,932
Net assets:				
Unrestricted:				
Undesignated	997,149	444,059	-	1,441,208
Designated by board as agency endowment	97,770	-	-	97,770
Temporarily restricted	-	87,581	-	87,581
Total net assets	1,094,919	531,640	-	1,626,559
Total liabilities and net assets	<u>\$ 1,400,770</u>	<u>\$ 539,105</u>	<u>\$ (116,384)</u>	<u>\$ 1,823,491</u>

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINING STATEMENT OF ACTIVITIES
For the year ended December 31, 2012

	State Office		Area Units		Eliminations	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted		
Revenues, gains and other support:						
Direct marketing contributions	\$ 785,436	\$ -	\$ -	\$ -	\$ -	\$ 785,436
Other contributions (including inkind of \$58,990)	262,417	-	263,831	-	-	526,248
Special events	202,508	-	299,524	-	(2,196)	499,836
Other income	190,790	67,111	32,791	-	(179,126)	111,566
Other grants	12,498	-	-	-	-	12,498
Investment income, net	87,770	-	17,946	-	-	105,716
Gain on beneficial interest in assets at Community Foundation of Middle Tennessee	12,531	-	-	-	-	12,531
Net assets released from restrictions:						
Satisfaction of program restrictions	15,000	(15,000)	18,938	(18,938)	-	-
Total revenues, gains and other support	1,568,950	52,111	633,030	(18,938)	(181,322)	2,053,831
Expenses:						
Games/Competition	482,385	-	337,487	-	(64,812)	755,060
Training	68,595	-	19,723	-	(14,399)	73,919
Other program expenses	554,874	-	97,817	-	(63,235)	589,456
Management and general	76,245	-	24,041	-	(13,893)	86,393
Fundraising	373,778	-	108,130	-	(24,983)	456,925
Total expenses	1,555,877	-	587,198	-	(181,322)	1,961,753
Change in net assets	13,073	52,111	45,832	(18,938)	-	92,078
Net assets at beginning of year	1,094,919	-	444,059	87,581	-	1,626,559
Net assets at end of year	\$ 1,107,992	\$ 52,111	\$ 489,891	\$ 68,643	\$ -	\$ 1,718,637

SPECIAL OLYMPICS TENNESSEE, INC.
COMBINING STATEMENT OF ACTIVITIES
For the year ended December 31, 2011

	<u>State Office</u>		<u>Area Units</u>		<u>Eliminations</u>	<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>		
Revenues, gains and other support:						
Direct marketing contributions	\$ 818,449	\$ -	\$ -	\$ -	\$ -	\$ 818,449
Other contributions (including inkind of \$43,420)	221,478	-	245,801	-	-	467,279
Special events	184,610	-	235,541	-	-	420,151
Other income	201,763	-	32,423	-	(195,660)	38,526
Other grants	7,768	-	-	-	-	7,768
Investment income (loss), net	1,986	-	142	-	-	2,128
Loss on beneficial interest in assets at Community Foundation of Middle Tennessee	(2,130)	-	-	-	-	(2,130)
Net assets released from restrictions:						
Satisfaction of program restrictions	-	-	20,954	(20,954)	-	-
Total revenues, gains and other support	<u>1,433,924</u>	<u>-</u>	<u>534,861</u>	<u>(20,954)</u>	<u>(195,660)</u>	<u>1,752,171</u>
Expenses:						
Games/Competition	494,549	-	314,620	-	(69,835)	739,334
Training	80,480	-	22,171	-	(15,828)	86,823
Other program expenses	567,181	-	74,516	-	(73,872)	567,825
Management and general	76,158	-	22,160	-	(14,966)	83,352
Fundraising	362,289	-	86,623	-	(21,159)	427,753
Total expenses	<u>1,580,657</u>	<u>-</u>	<u>520,090</u>	<u>-</u>	<u>(195,660)</u>	<u>1,905,087</u>
Change in net assets	<u>(146,733)</u>	<u>-</u>	<u>14,771</u>	<u>(20,954)</u>	<u>-</u>	<u>(152,916)</u>
Net assets at beginning of year	<u>1,241,652</u>	<u>-</u>	<u>429,288</u>	<u>108,535</u>	<u>-</u>	<u>1,779,475</u>
Net assets at end of year	<u>\$ 1,094,919</u>	<u>\$ -</u>	<u>\$ 444,059</u>	<u>\$ 87,581</u>	<u>\$ -</u>	<u>\$ 1,626,559</u>