



**MAKE-A-WISH FOUNDATION[®] OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Financial Statements

August 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Directors
Make-A-Wish Foundation[®] of Massachusetts
and Rhode Island, Inc.:

We have audited the accompanying statements of financial position of Make-A-Wish Foundation[®] of Massachusetts and Rhode Island, Inc. (the Foundation) as of August 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation'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, the financial statements referred to above present fairly, in all material respects, the financial position of Make-A-Wish Foundation[®] of Massachusetts and Rhode Island, Inc. as of August 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

December 19, 2012

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Statements of Financial Position

August 31, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	\$ 1,614,942	1,381,190
Investments	6,579,987	6,170,047
Due from related entities	103,180	206,335
Prepaid expenses and other assets	32,915	22,905
Contributions receivable, net	818,676	247,504
Property and equipment, net	13,644	14,674
Total assets	\$ 9,163,344	8,042,655
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 219,620	179,450
Accrued pending wish costs	1,401,082	1,327,758
Due to related entities	14,581	3,719
Total liabilities	1,635,283	1,510,927
Commitments and contingencies		
Net assets:		
Unrestricted:		
Operating	1,271,606	1,019,916
Board and donor designated	5,257,039	5,126,543
Total unrestricted	6,528,645	6,146,459
Temporarily restricted	944,972	330,825
Permanently restricted	54,444	54,444
Total net assets	7,528,061	6,531,728
Total liabilities and net assets	\$ 9,163,344	8,042,655

See accompanying notes to financial statements.

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Statement of Activities

Year ended August 31, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues, gains, and other support:				
Public support:				
Contributions	\$ 4,254,977	198,018	—	4,452,995
In-kind contributions	982,099	102,671	—	1,084,770
Grants	108,338	—	—	108,338
Total public support	<u>5,345,414</u>	<u>300,689</u>	<u>—</u>	<u>5,646,103</u>
Special events	306,655	—	—	306,655
Less direct benefit costs to donor	<u>(306,655)</u>	<u>—</u>	<u>—</u>	<u>(306,655)</u>
Total special events, net	—	—	—	—
Appropriation of endowment assets for operations	275,900	—	—	275,900
Wish assist fee	8,850	—	—	8,850
Net assets released from restrictions	<u>257,786</u>	<u>(257,786)</u>	<u>—</u>	<u>—</u>
Total operating revenues, gains, and other support	<u>5,887,950</u>	<u>42,903</u>	<u>—</u>	<u>5,930,853</u>
Operating expenses:				
Program services:				
Wish granting	3,250,719	—	—	3,250,719
Program-related support	<u>1,233,953</u>	<u>—</u>	<u>—</u>	<u>1,233,953</u>
Total program services	<u>4,484,672</u>	<u>—</u>	<u>—</u>	<u>4,484,672</u>
Support services:				
Fundraising	532,352	—	—	532,352
Management and general	<u>623,575</u>	<u>—</u>	<u>—</u>	<u>623,575</u>
Total support services	<u>1,155,927</u>	<u>—</u>	<u>—</u>	<u>1,155,927</u>
Total operating expenses	<u>5,640,599</u>	<u>—</u>	<u>—</u>	<u>5,640,599</u>
Change in net assets from operations	<u>247,351</u>	<u>42,903</u>	<u>—</u>	<u>290,254</u>
Nonoperating activities:				
Interest income and investment return, net	406,317	4,304	—	410,621
Appropriation of endowment assets for operations	<u>(272,047)</u>	<u>(3,853)</u>	<u>—</u>	<u>(275,900)</u>
Major gifts	—	565,862	—	565,862
Other income	565	5,000	—	5,565
Change in value of split-interest agreements	<u>—</u>	<u>(69)</u>	<u>—</u>	<u>(69)</u>
Change in net assets from nonoperating activities	<u>134,835</u>	<u>571,244</u>	<u>—</u>	<u>706,079</u>
Change in net assets	382,186	614,147	—	996,333
Net assets, beginning of the year	6,146,459	330,825	54,444	6,531,728
Net assets, end of the year	<u>\$ 6,528,645</u>	<u>944,972</u>	<u>54,444</u>	<u>7,528,061</u>

See accompanying notes to financial statements.

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Statement of Activities
Year ended August 31, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues, gains, and other support:				
Public support:				
Contributions	\$ 3,829,971	206,041	—	4,036,012
In-kind contributions	1,245,488	109,465	—	1,354,953
Grants	152,618	500	—	153,118
Total public support	<u>5,228,077</u>	<u>316,006</u>	<u>—</u>	<u>5,544,083</u>
Special events	259,024	—	—	259,024
Less direct benefit costs to donor	<u>(259,024)</u>	<u>—</u>	<u>—</u>	<u>(259,024)</u>
Total special events, net	—	—	—	—
Appropriation of endowment assets for operations	262,400	—	—	262,400
Wish assist fee	8,100	—	—	8,100
Net assets released from restrictions	<u>281,092</u>	<u>(281,092)</u>	<u>—</u>	<u>—</u>
Total operating revenues, gains, and other support	<u>5,779,669</u>	<u>34,914</u>	<u>—</u>	<u>5,814,583</u>
Operating expenses:				
Program services:				
Wish granting	3,424,854	—	—	3,424,854
Program-related support	<u>1,205,759</u>	<u>—</u>	<u>—</u>	<u>1,205,759</u>
Total program services	<u>4,630,613</u>	<u>—</u>	<u>—</u>	<u>4,630,613</u>
Support services:				
Fundraising	563,455	—	—	563,455
Management and general	<u>599,811</u>	<u>—</u>	<u>—</u>	<u>599,811</u>
Total support services	<u>1,163,266</u>	<u>—</u>	<u>—</u>	<u>1,163,266</u>
Total operating expenses	<u>5,793,879</u>	<u>—</u>	<u>—</u>	<u>5,793,879</u>
Change in net assets from operations	<u>(14,210)</u>	<u>34,914</u>	<u>—</u>	<u>20,704</u>
Nonoperating activities:				
Interest income and investment return, net	607,844	—	—	607,844
Appropriation of endowment assets for operations	<u>(262,400)</u>	<u>—</u>	<u>—</u>	<u>(262,400)</u>
Other income	11,689	—	—	11,689
Change in value of split-interest agreements	<u>—</u>	<u>145</u>	<u>—</u>	<u>145</u>
Change in net assets from nonoperating activities	<u>357,133</u>	<u>145</u>	<u>—</u>	<u>357,278</u>
Change in net assets	342,923	35,059	—	377,982
Net assets, beginning of the year	5,803,536	295,766	54,444	6,153,746
Net assets, end of the year	<u>\$ 6,146,459</u>	<u>330,825</u>	<u>54,444</u>	<u>6,531,728</u>

See accompanying notes to financial statements.

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Statement of Functional Expenses

Year ended August 31, 2012

	Program services			Support services			Total
	Wish granting	Program-related support	Total program services	Fundraising	Management and general	Total support services	
Direct costs of wishes	\$ 3,250,719	—	3,250,719	—	—	—	3,250,719
Salaries, taxes, and benefits	—	787,375	787,375	324,213	432,485	756,698	1,544,073
Printing, subscriptions, and publications	—	7,567	7,567	30,007	2,158	32,165	39,732
Professional fees	—	90,957	90,957	66,804	67,725	134,529	225,486
Rent and utilities	—	108,089	108,089	45,077	60,104	105,181	213,270
Postage and delivery	—	7,907	7,907	6,548	2,774	9,322	17,229
Travel	—	4,238	4,238	1,775	10,587	12,362	16,600
Meetings and conferences	—	4,283	4,283	4,141	3,787	7,928	12,211
Office supplies	—	5,374	5,374	15,020	3,222	18,242	23,616
Communications	—	10,713	10,713	4,482	6,013	10,495	21,208
Repairs and maintenance	—	14,082	14,082	5,745	7,652	13,397	27,479
Membership dues	—	—	—	—	13	13	13
Volunteer training	—	165	165	—	—	—	165
National partnership dues	—	130,438	130,438	22,022	16,940	38,962	169,400
Miscellaneous	—	58,414	58,414	4,727	7,727	12,454	70,868
Depreciation and amortization	—	4,351	4,351	1,791	2,388	4,179	8,530
	<u>\$ 3,250,719</u>	<u>1,233,953</u>	<u>4,484,672</u>	<u>532,352</u>	<u>623,575</u>	<u>1,155,927</u>	<u>5,640,599</u>

See accompanying notes to financial statements.

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Statement of Functional Expenses

Year ended August 31, 2011

	Program services			Support services			Total
	Wish granting	Program-related support	Total program services	Fundraising	Management and general	Total support services	
Direct costs of wishes	\$ 3,424,854	—	3,424,854	—	—	—	3,424,854
Salaries, taxes, and benefits	—	711,280	711,280	291,329	392,057	683,386	1,394,666
Printing, subscriptions, and publications	—	3,418	3,418	21,908	4,358	26,266	29,684
Professional fees	—	81,208	81,208	66,777	87,881	154,658	235,866
Rent and utilities	—	108,449	108,449	46,509	60,621	107,130	215,579
Postage and delivery	—	9,326	9,326	6,457	4,811	11,268	20,594
Travel	—	3,121	3,121	3,318	7,425	10,743	13,864
Meetings and conferences	—	2,517	2,517	1,552	4,738	6,290	8,807
Office supplies	—	5,357	5,357	14,044	2,684	16,728	22,085
Communications	—	10,686	10,686	8,064	6,021	14,085	24,771
Advertising and media	—	7,300	7,300	70,500	—	70,500	77,800
Repairs and maintenance	—	7,483	7,483	4,943	4,304	9,247	16,730
Membership dues	—	56	56	23	106	129	185
Volunteer training	—	1,134	1,134	—	19	19	1,153
National partnership dues	—	117,739	117,739	19,878	15,291	35,169	152,908
Miscellaneous	—	132,924	132,924	6,604	7,430	14,034	146,958
Depreciation and amortization	—	3,761	3,761	1,549	2,065	3,614	7,375
	<u>\$ 3,424,854</u>	<u>1,205,759</u>	<u>4,630,613</u>	<u>563,455</u>	<u>599,811</u>	<u>1,163,266</u>	<u>5,793,879</u>

See accompanying notes to financial statements.

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Statements of Cash Flows

Years ended August 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 996,333	377,982
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,530	7,375
Net realized and unrealized gains on investments	(270,332)	(461,168)
Contributed stock	50,000	—
Change in value of split-interest agreements	69	(145)
Change in discount to present value of contributions receivable	14,138	—
Changes in operating assets and liabilities:		
Due from related entities	103,086	(171,333)
Prepaid expenses and other assets	(10,010)	(12,608)
Contributions receivable	(585,310)	(11,831)
Accounts payable and accrued expenses	40,170	(1,816)
Accrued pending wish costs	73,324	176,687
Due to related entities	10,862	(2,466)
Net cash provided by (used in) operating activities	430,860	(99,323)
Cash flows from investing activities:		
Purchases of investments	(1,663,451)	(2,152,841)
Proceeds from sales of investments	1,473,843	1,706,831
Purchases of property and equipment	(7,500)	(2,232)
Net cash used in investing activities	(197,108)	(448,242)
Net increase (decrease) in cash and cash equivalents	233,752	(547,565)
Cash and cash equivalents, beginning of year	1,381,190	1,928,755
Cash and cash equivalents, end of year	\$ 1,614,942	1,381,190
Supplemental cash flow information:		
Contributed services	\$ 89,516	178,106
In-kind contributions	995,254	1,176,847

See accompanying notes to financial statements.

**MAKE-A-WISH FOUNDATION[®] OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Notes to Financial Statements

August 31, 2012 and 2011

(1) Organization

Make-A-Wish Foundation[®] of Massachusetts and Rhode Island, Inc. (the Foundation) is a Massachusetts not-for-profit corporation, organized for the purpose of granting wishes to children with life-threatening medical conditions in Massachusetts and Rhode Island. The Foundation is an independently operating organization of Make-A-Wish Foundation[®] of America. The Foundation raises funds locally to support the mission and operations in Massachusetts and Rhode Island. The Make-A-Wish Foundation[®] of America operates to support the local entities with national level public relations programs, fundraising promotions and in-kind support for wish granting. In addition, the Foundation is obligated to comply with an organization agreement with the Make-A-Wish Foundation[®] of America and such guidelines, resolutions, and policies as may be adopted by the Make-A-Wish Foundation[®] of America's board of directors.

Effective October 15, 2009, the Make-A-Wish Foundation[®] of America reassigned the State of Rhode Island territory (Rhode Island Territory) to the Foundation. The Foundation assumed responsibility for fulfilling the Make-A-Wish Foundation's[®] mission in the Rhode Island Territory, the operations of the Rhode Island Territory, and the accrued pending wish liabilities of the Rhode Island Territory. The Foundation received \$50,000 and \$115,818 from the Make-A-Wish Foundation[®] of America for the years ended August 31, 2012 and 2011, respectively. These amounts are included in Grants in the statements of activities.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Foundation are prepared on the accrual basis of accounting in accordance with United States generally accepted accounting principles (GAAP).

(b) Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Included in cash and cash equivalents at August 31, 2012 and 2011 is \$516,587 and \$315,932, respectively, of money market funds, which are designated as Level 1 securities within the fair value hierarchy.

(c) Investments

Investments are recorded at fair value and consist of money market funds, mutual funds, corporate bonds and notes, and equity securities. Investment income, including gains and losses on investments, is recorded as increases or decreases in unrestricted net assets unless their use is limited by donor-imposed restrictions or law.

(d) Contributions Receivable

Contributions receivable are unconditional promises to give. Such promises that are expected to be collected within one year are recorded at expected net realizable value when the promise is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows.

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Notes to Financial Statements

August 31, 2012 and 2011

(e) Property and Equipment, Net

Property and equipment are stated at cost when purchased. Donated assets are capitalized at the estimated fair value at the date of receipt and restrictions are released once the asset has been placed into service. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of the assets, generally 5 to 10 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Foundation first compares undiscounted cash flows expected to be generated by that asset to its carrying value. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

(f) Fair Value Measurements

The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Foundation determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 – quoted prices in active markets for identical assets
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Foundation's own assumptions in determining the fair value or investments).

(g) Net Assets

The Foundation's net assets and changes therein are classified and reported as follows:

- **Permanently restricted net assets** – Net assets subject to donor-imposed restrictions that the principal be maintained in perpetuity. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for unrestricted purposes.
- **Temporarily restricted net assets** – Net assets subject to donor-imposed restrictions that may be met either by actions of the Foundation or the passage of time.
- **Unrestricted net assets** – Net assets that are not subject to donor-imposed restrictions.

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Notes to Financial Statements

August 31, 2012 and 2011

(h) Operations

The statements of activities reports the change in net assets from operating and nonoperating activities. Operating activities consist of those items attributed to public support, special events less direct benefit costs, and related expenses for program services and support services for the purpose of granting wishes to children with life-threatening medical conditions.

Income and realized and unrealized gains and losses from investments, major gifts intended to support future years and other items not related to the Foundation's operations are reported as nonoperating activities.

(i) Revenue Recognition

Unconditional promises to give are recorded as contributions revenue when the promise is received. Conditional promises are recorded as revenue once the conditions are substantially met. Contributions, grants, and bequests are recognized as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. When restrictions are met in the same period as the contribution is received, the Foundation records the contribution and the expense as unrestricted. Contributions of assets other than cash are recorded at their estimated fair value. Contributions of services are recognized if the services received (a) create or enhance nonfinancial 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.

The Foundation received in-kind contributions of assets and services that are included in the accompanying statements of activities. Such in-kind contributions were reported as follows:

	2012	2011
Wish related	\$ 989,074	1,176,847
Professional services	89,516	107,606
Advertising and media	—	70,500
Property and equipment	6,180	—
Total	\$ 1,084,770	1,354,953

The Foundation considers as contributions that portion of the revenue received from special events and other fundraising events in excess of the fair value received by the participant. Accordingly, \$306,655 and \$259,024 of special event revenues and direct benefit costs to donors reflects the fair value of goods or services for which the participant paid and received, respectively, and contributions include \$1,143,150 and \$772,051 representing the excess of the payment over that fair value in 2012 and 2011, respectively.

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Notes to Financial Statements

August 31, 2012 and 2011

(j) Income Taxes

The Foundation is a not-for-profit organization exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and state income taxes of the Massachusetts Department of Revenue Taxation Code and State of Rhode Island Division of Taxation. However, the Foundation remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

The Foundation adopted ASC Topic 740, *Income Taxes*, that prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. Management believes that no such uncertain tax position exists for the Foundation at August 31, 2012 and 2011.

(k) Functional Expenses

The Foundation performs four functions: wish granting, program-related support, fundraising, and management and general. Definitions of these functions are as follows:

Wish Granting

Activities performed by the Foundation that grant wishes to children with life-threatening medical conditions.

Program-Related Support

Activities performed by the Foundation related to the wish program including the identification of wish candidates and the determination and delivery of each wish. Specific activities include, but are not limited to, the development of wish resources, handling of wish referrals, and administration of the wish program.

Fundraising

Activities performed by the Foundation to generate funds and/or resources to support its programs and operations. During the fiscal years ended August 31, 2012 and 2011, the Foundation incurred joint costs for activities that include fundraising appeals (primarily direct mail campaigns and newsletters), which have been allocated as follows:

	2012	2011
Fund raising	\$ 5,636	2,436
Public information	5,636	2,436
Total	\$ 11,272	4,872

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Notes to Financial Statements

August 31, 2012 and 2011

Management and General

All costs not identifiable with a single program or fundraising activity, but indispensable to the conduct of such programs and activities and to the Foundation's existence are included as management and general expenses. This includes expenses for the overall direction of the Foundation, business management, general record-keeping, budgeting, financial reporting, and activities relating to these functions such as salaries, rent, supplies, equipment, and other expenses.

Expenses that benefit more than one function of the Foundation are allocated among the functions based generally on the amount of time spent by employees on each function.

(l) Management Estimates

The preparation of financial statements in conformity with GAAP 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 financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property and equipment, investments, valuation of contributions receivable, accrued pending wish costs and whether an allowance for uncollectible contributions receivable is required. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(m) Reclassifications

Certain reclassifications have been made to the 2011 financial statement information to conform to the 2012 financial statement presentation. There was no impact on the previously reported change in net assets of the Foundation.

(3) Fair Value Measurements

All securities are designated as Level 1 securities within the fair value hierarchy and are measured at fair value on a recurring basis at August 31, 2012 and 2011:

<u>Description</u>	<u>August 31</u>	
	<u>2012</u>	<u>2011</u>
Mutual funds:		
Domestic equity	\$ 2,582,638	2,480,568
International equity	186,263	227,863
Money market	142,962	122,587
Real estate	2,816	—
Commodities	44,866	59,796
Bonds	2,193,479	2,057,059
Equity securities:		
U.S. corporate equity securities	1,122,430	920,734
Certificates of deposit	304,533	301,440
Total	<u>\$ 6,579,987</u>	<u>6,170,047</u>

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
AND RHODE ISLAND, INC.**

Notes to Financial Statements

August 31, 2012 and 2011

Total investment income, gains and losses for the years ended August 31, 2012 and 2011 consist of the following:

	2012	2011
Interest and dividend income	\$ 156,047	165,424
Realized and unrealized gains, net	270,332	461,168
Investment expenses	(16,439)	(19,414)
Investment return, net	\$ 409,940	607,178

The interest income and investment return, net, of \$410,621 and \$607,844 on the statements of activities includes \$681 and \$666 of operating cash interest in 2012 and 2011, respectively.

(4) Contributions Receivable

Contributions receivable as of August 31, 2012 include pledges that have been discounted at 3.25%. There was no discount recorded during the year ended August 31, 2011 since the Foundation anticipated collecting outstanding pledges as of August 31, 2011.

The following is a summary of the Foundation's contributions receivable at August 31, 2012 and 2011:

	2012	2011
Total amounts due in:		
One year	\$ 397,814	247,504
Two to five years	435,000	—
Gross contributions receivable	832,814	247,504
Less discount to present value	(14,138)	—
Contributions receivable, net	\$ 818,676	247,504

(5) Split-Interest Agreements

The Foundation is the named income beneficiary on a charitable remainder trust, the corpus of which is controlled by the Make-A-Wish Foundation® of America. Under these arrangements, the Foundation has the irrevocable right to receive the residual underlying assets at the term of the charitable remainder trust. Accordingly, temporarily restricted contribution revenue and the related assets are recognized at fair value in the period in which the Foundation receives notice that the trust agreement conveys an unconditional right to receive benefits. Subsequent changes in the value of the underlying assets are recorded in the accompanying statements of activities as the change in value of split-interest agreements.

The Foundation's beneficial interest in the trust is \$1,694 and \$1,763 as of August 31, 2012 and 2011, respectively, and is included in due from related entities in the statements of financial position.

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(6) Transactions with Related Parties

The Foundation receives funds from the Make-A-Wish Foundation of America on a monthly basis. These funds represent revenues associated with: distributions from national partners, individual donation amounts collected via online and whitemail donations, amounts for internal grants, travel and training scholarships, other miscellaneous revenues.

During the years ended August 31, 2012 and 2011, the Foundation received \$1,113,808 and \$1,133,744, respectively, from these national revenue streams. Conversely, the chapter pays amounts to the Make-A-Wish Foundation of America for partnership dues, insurance, and other miscellaneous ancillary expenses that Make-A-Wish Foundation of America pays on behalf of the Foundation. Amounts totaling \$225,740 and \$264,069 were paid from the Foundation to Make-A-Wish Foundation of America during the years ended August 31, 2012 and 2011, respectively.

During 2012 and 2011, the Foundation received contributions, both cash and in-kind, from board members totaling \$936,250 and \$346,160, respectively. Amounts due from board members at August 31, 2012 totaled \$502,500 and are included in contributions receivable in the accompanying statements of financial position. There were no amounts due from board members as of August 31, 2011. Additionally, the Foundation did not pay any amount for goods or services to companies owned by board members or related parties.

Organizations who assist with the organization and granting of wishes from other organizations are paid a “fee for service” called the wish assist fee. Under this program, the Foundation received \$8,850 and \$8,100 for the years ended August 31, 2012 and 2011, respectively, which is recorded in the accompanying statements of activities as other income.

Amounts due from and to related entities 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Balance at August 31:		
Due from Make-A-Wish Foundation® of America	\$ 101,097	205,010
Due from other organizations	2,083	1,325
Total due from related entities	<u>\$ 103,180</u>	<u>206,335</u>
Due to Make-A-Wish Foundation® of America	\$ 1,419	937
Due to other organizations	13,162	2,782
Total due to related entities	<u>\$ 14,581</u>	<u>3,719</u>

Amounts due from the Make-A-Wish Foundation® of America represent contributions remitted to the Make-A-Wish Foundation® of America that are specified for the Foundation’s use, but were not transferred to the Foundation as of year-end. Amounts due from other organizations represent reimbursable costs to the Foundation for assisting in granting wishes for those organizations. Amounts due to other organizations represent reimbursable costs to those organizations for their assistance in granting wishes for the Foundation.

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As part of the Make-A-Wish Foundation® of America’s Wish Fulfillment Fund, chapters may apply for funds that have been donated by other chapters to underwrite the costs of wishes. Under this program, the Foundation supported two other chapters with contributions during the years ended August 31, 2012 and 2011 totaling \$150,000 and \$100,000, respectively, which is recorded under wish granting expenses.

(7) Property and Equipment, Net

Property and equipment as of August 31, 2012 and 2011 consist of the following:

	2012	2011
Computer equipment and software	\$ 130,337	122,837
Other equipment	41,583	41,583
	171,920	164,420
Less accumulated depreciation and amortization	158,276	149,746
Property and equipment, net	\$ 13,644	14,674

Depreciation and amortization expense totaled \$8,530 and \$7,375 for the years ended August 31, 2012 and 2011, respectively.

(8) Accrued Pending Wish Costs

The Foundation accrues for estimated costs of reportable pending wishes as unconditional promises to give when five certain, measurable wish criteria are met. Prior to meeting these five criteria, the wish is considered a conditional promise to give due to the inherent uncertainties surrounding these criteria and is therefore not accrued as a pending wish liability. Reportable pending wish criteria include:

1. Receiving a referral,
2. Obtaining the required medical eligibility form,
3. Contact with the wish family has occurred to determine the prospective wish,
4. Determination that the wish falls within the Make-A-Wish Foundation® of America’s wish granting policy, and
5. The wish is expected to be granted within the next 12 months.

As of August 31, 2012 and 2011, the Foundation had 162 and 158 reportable pending wishes, respectively, which were all reportable accrued pending wishes included in the statements of financial position.

(9) Leases

The Foundation is obligated under various operating leases for office space and equipment, which expire at various dates through August 2017. Total rent expense for all operating leases for the years ended August 31, 2012 and 2011 totaled \$190,070 and \$188,782, respectively.

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Future minimum lease payments under operating leases having remaining terms in excess of one year are as follows:

	Operating leases
Years ending August 31:	
2013	\$ 191,633
2014	176,453
2015	40,629
2016	29,296
2017	29,296
Total minimum lease payments	\$ 467,307

(10) Endowments

The Foundation's endowment consists of several individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Foundation has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation the Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation

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5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Endowment net asset composition by type of fund as of August 31, 2012 and 2011 is as follows:

		2012			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	—	451	54,444	54,895
Board-designated endowment funds		5,257,039	—	—	5,257,039
Total funds	\$	<u>5,257,039</u>	<u>451</u>	<u>54,444</u>	<u>5,311,934</u>
		2011			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	(1,278)	—	54,444	53,166
Board-designated endowment funds		5,127,821	—	—	5,127,821
Total funds	\$	<u>5,126,543</u>	<u>—</u>	<u>54,444</u>	<u>5,180,987</u>

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Changes in endowment net assets for the year ended August 31, 2012 and 2011:

	2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 5,126,543	—	54,444	5,180,987
Investment return:				
Interest and dividend income, net	135,140	1,375	—	136,515
Net appreciation (realized and unrealized)	267,403	2,929	—	270,332
Total investment return, net	402,543	4,304	—	406,847
Appropriation of endowment assets for expenditure	(272,047)	(3,853)	—	(275,900)
Endowment net assets, end of year	<u>\$ 5,257,039</u>	<u>451</u>	<u>54,444</u>	<u>5,311,934</u>
	2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 4,783,205	—	54,444	4,837,649
Investment return:				
Interest and dividend income, net	144,570	—	—	144,570
Net appreciation (realized and unrealized)	461,168	—	—	461,168
Total investment return, net	605,738	—	—	605,738
Appropriation of endowment assets for expenditure	(262,400)	—	—	(262,400)
Endowment net assets, end of year	<u>\$ 5,126,543</u>	<u>—</u>	<u>54,444</u>	<u>5,180,987</u>

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(b) *Fund Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled \$1,278 as of August 31, 2011. This deficiency resulted from unfavorable market fluctuations that occurred shortly after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of directors. There were no such deficiencies as of August 31, 2012.

(c) *Return Objective and Risk Parameters*

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of the several market indices including the S&P 500 Index, Dow Jones U.S. Total Stock Market Index, and Barclays Capital U.S. Aggregate Bond Index, while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return greater than 4% annually. Actual returns in any given year may vary from this amount.

(d) *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent constraints.

(e) *Spending Policy and How the Investment Objective Relate to Spending Policy*

The Foundation has a policy of appropriating for distribution each year within a range of 4% to 6% of its endowment fund's average fair value over the prior 3 years through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average rate greater than 4% annually, prior to the 4% to 6% appropriation for distribution previously noted. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes for the years ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Wish granting	\$ 228,517	190,138
Unappropriated endowment gains	451	—
Time restrictions	<u>716,004</u>	<u>140,687</u>
Total temporarily restricted net assets	<u>\$ 944,972</u>	<u>330,825</u>

For the year ended August 31, 2012, net assets of \$138,038 and \$119,748 were released from time and purpose restrictions, respectively. For the year ended August 31, 2011, net assets of \$143,375 and \$137,717 were released from time and purpose restrictions, respectively.

At August 31, 2012 and 2011, permanently restricted net assets of \$54,444 are restricted to investments in perpetuity, the income from which is expendable to support any activities of the Foundation.

(12) Retirement Plan

The Foundation has a defined contribution retirement plan (the Plan). Employees are eligible for participation in the Plan as of their date of hire. Under the provisions of the Plan, eligible employees may elect to defer a percentage of their salary subject to certain IRC limitations. Full-time employees who have been employed with the Foundation for one year or more are eligible to receive an employer contribution to their 403(b) account. The Foundation matches employee contributions up to 3% of the employee's salary, per board discretion. Foundation contributions to the Plan for the years ended August 31, 2012 and 2011 were \$30,038 and \$24,174, respectively.

(13) Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentration of credit risk consist principally of cash, cash equivalents, and investments. The Foundation places its cash and investments with high credit quality financial institutions and generally limits the amount of credit exposure not to exceed the FDIC insurance coverage limit of \$250,000. From time to time throughout the year, the Foundation's cash balances may exceed the amount of the FDIC insurance coverage.

In-kind contributions totaling \$598,269 and \$679,290 were received from a single donor for the years ended August 31, 2012 and 2011, respectively, which represents 11% and 12% of total public support. Should these contribution levels decrease, the Foundation may be adversely affected.

(14) Litigation and Claims

The Foundation is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Foundation's financial position, changes in net assets, or liquidity.

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(15) Subsequent Events

The Foundation has evaluated subsequent events from the date of the statement of financial position through December 19, 2012, the date at which the financial statements were available to be issued.