

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

Financial Statements

August 31, 2014

(With Independent Auditors' Report Thereon)

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

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Make-A-Wish Foundation® of Massachusetts and Rhode Island, Inc.
Boston, Massachusetts

We have audited the accompanying financial statements of Make-A-Wish Foundation® of Massachusetts and Rhode Island, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2014, and the related statements of activities, cash flows, and functional expenses for the year 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 these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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 financial statements.

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

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

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, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
January 9, 2015

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

Statement of Financial Position

August 31, 2014

Assets	2014
Cash and cash equivalents	\$ 2,359,809
Investments	8,313,586
Due from related entities	52,799
Prepaid expenses and other assets	54,670
Contributions receivable, net	820,118
Property and equipment, net	31,731
Total assets	\$ <u>11,632,713</u>
Liabilities and Net Assets	
Accounts payable and accrued expenses	\$ 301,105
Accrued pending wish costs	1,453,812
Due to related entities	73,252
Total liabilities	<u>1,828,169</u>
Net assets	
Unrestricted	
Operating	1,735,734
Board designated	6,865,692
Total unrestricted	8,601,426
Temporarily restricted	1,148,674
Permanently restricted	54,444
Total net assets	<u>9,804,544</u>
Total liabilities and net assets	\$ <u>11,632,713</u>

See accompanying notes to financial statements.

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

Statement of Activities

Year ended August 31, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues, gains, and other support:				
Public support:				
Contributions	\$ 4,248,573	361,778	—	4,610,351
In-kind contributions	1,338,328	120,131	—	1,458,459
Grants	58,026	17,500	—	75,526
Total public support	<u>5,644,927</u>	<u>499,409</u>	<u>—</u>	<u>6,144,336</u>
Special events	370,591	—	—	370,591
Less costs of direct benefits to donors	<u>(370,591)</u>	<u>—</u>	<u>—</u>	<u>(370,591)</u>
Total special events	—	—	—	—
Appropriation of nonoperating assets for operations	286,000	545,000	—	831,000
Wish assist fee	6,225	—	—	6,225
Net assets released from restrictions	<u>940,095</u>	<u>(940,095)</u>	<u>—</u>	<u>—</u>
Total operating revenues, gains, and other support	<u>6,877,247</u>	<u>104,314</u>	<u>—</u>	<u>6,981,561</u>
Operating expenses:				
Program services:				
Wish granting	3,971,573	—	—	3,971,573
Program-related support	<u>1,219,249</u>	<u>—</u>	<u>—</u>	<u>1,219,249</u>
Total program services	<u>5,190,822</u>	<u>—</u>	<u>—</u>	<u>5,190,822</u>
Support services:				
Fundraising	604,534	—	—	604,534
Management and general	<u>680,618</u>	<u>—</u>	<u>—</u>	<u>680,618</u>
Total support services	<u>1,285,152</u>	<u>—</u>	<u>—</u>	<u>1,285,152</u>
Total operating expenses	<u>6,475,974</u>	<u>—</u>	<u>—</u>	<u>6,475,974</u>
Change in net assets from operations	<u>401,273</u>	<u>104,314</u>	<u>—</u>	<u>505,587</u>
Nonoperating activities:				
Interest income and investment gains, net	1,071,268	10,351	—	1,081,619
Appropriation of endowment assets for operations	(283,118)	(2,882)	—	(286,000)
Leadership gifts, net of appropriation for operations	—	(518,412)	—	(518,412)
Change in value of split-interest agreements	—	233	—	233
Change in net assets from nonoperating activities	<u>788,150</u>	<u>(510,710)</u>	<u>—</u>	<u>277,440</u>
Change in net assets	1,189,423	(406,396)	—	783,027
Net assets , beginning of the year	<u>7,412,003</u>	<u>1,555,070</u>	<u>54,444</u>	<u>9,021,517</u>
Net assets, end of the year	<u>\$ 8,601,426</u>	<u>1,148,674</u>	<u>54,444</u>	<u>9,804,544</u>

See accompanying notes to financial statements.

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

Statement of Cash Flows
Years ended August 31, 2014

	2014
Cash flows from operating activities:	
Change in net assets	\$ 783,027
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	9,045
Contributed property and equipment	(5,375)
Net realized and unrealized gains on investments	(823,671)
Change in value of split-interest agreements	(233)
Change in discount to present value of contributions receivable	(6,588)
Changes in assets and liabilities:	
Contributions receivable	283,182
Due from related entities	16,437
Prepaid expenses and other assets	19,107
Accounts payable and accrued expenses	68,454
Accrued pending wish costs	200,142
Due to related entities	42,731
Net cash provided by operating activities	586,258
Cash flows from investing activities:	
Purchases of investments	(2,204,227)
Proceeds from sales of investments	1,735,800
Purchases of property and equipment	(4,216)
Net cash used in investing activities	(472,643)
Net increase in cash and cash equivalents	113,615
Cash and cash equivalents, beginning of year	2,246,194
Cash and cash equivalents, end of year	\$ 2,359,809

See accompanying notes to financial statements.

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

Statement of Functional Expenses

Year ended August 31, 2014

	Program services			Support services			Total
	Wish granting	Program-related support	Total program services	Fundraising	Management and general	Total support services	
Direct costs of wishes	\$ 3,971,573	—	3,971,573	—	—	—	3,971,573
Salaries, taxes, and benefits	—	791,341	791,341	414,491	518,591	933,082	1,724,423
Printing, subscriptions, and publications	—	9,210	9,210	19,445	1,657	21,102	30,312
Professional fees	—	36,173	36,173	54,734	24,543	79,277	115,450
Rent and utilities	—	95,683	95,683	50,123	64,221	114,344	210,027
Postage and delivery	—	6,856	6,856	8,311	3,702	12,013	18,869
Travel	—	4,230	4,230	4,009	11,884	15,893	20,123
Meetings and conferences	—	1,797	1,797	1,204	4,046	5,250	7,047
Office supplies	—	7,068	7,068	4,947	3,802	8,749	15,817
Communications	—	10,098	10,098	5,648	6,998	12,646	22,744
Repairs and maintenance	—	12,575	12,575	6,476	8,070	14,546	27,121
Membership dues	—	—	—	496	—	496	496
Volunteer training	—	946	946	—	—	—	946
National partnership dues	—	155,228	155,228	23,579	17,684	41,263	196,491
Miscellaneous	—	83,799	83,799	8,951	12,740	21,691	105,490
Depreciation and amortization	—	4,245	4,245	2,120	2,680	4,800	9,045
	<u>\$ 3,971,573</u>	<u>1,219,249</u>	<u>5,190,822</u>	<u>604,534</u>	<u>680,618</u>	<u>1,285,152</u>	<u>6,475,974</u>

See accompanying notes to financial statements.

MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS

AND RHODE ISLAND, INC.

Notes to Financial Statements

August 31, 2014

(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. The Foundation is an independently operating chapter of Make-A-Wish Foundation® of America (National Organization). The Foundation raises funds locally to support the mission and operations in Massachusetts and Rhode Island. The National organization operates to support the local entities with National level public relations programs, fundraising promotions and in-kind support for wish granting. In addition, the local chapter is obligated to comply with a chapter agreement with Make-A-Wish Foundation® of America and such guidelines, resolutions, and policies as may be adopted by Make-A-Wish Foundation® of America's board of directors.

(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 U.S. 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, 2014 is \$245,736 of money market mutual funds.

(c) *Investments*

Investments are recorded at fair value. Investment income, including gains and losses on investments, is recorded as increases or decreases in unrestricted net assets unless its 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. Contributions receivable are discounted using fair value rates. Contributions are written off when deemed uncollectible.

(e) *Property and Equipment, Net*

Property and equipment having a useful life of more than one year and a cost of \$1,000 or more are capitalized 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 years.

MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS

AND RHODE ISLAND, INC.

Notes to Financial Statements

August 31, 2014

(2) Summary of Significant Accounting Policies (Continued)

(f) Fair Value Measurements

Fair value measurements of financial assets and financial liabilities and measurements of nonfinancial items are recognized or disclosed at fair value in the financial statements on a recurring basis. 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 at the measurement date.

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 Inputs: Unadjusted quoted prices in active markets for identical assets (or liabilities) that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs: Prices for a similar asset (or liability), other than quoted prices included in Level 1 inputs, that are observable for the asset (or liability), either directly or indirectly. If the asset (or liability) has a specified term, a Level 2 input must be observable for substantially the full term of the asset (or liability).
- Level 3 Inputs: Unobservable inputs for the asset (or liability) used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset (or liability) at measurement date.

See additional information in note 3.

(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 restrictions imposed by donor or law 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 or law.

MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS

AND RHODE ISLAND, INC.

Notes to Financial Statements

August 31, 2014

(2) Summary of Significant Accounting Policies (Continued)

(h) Operations

The statement of activities report the change in nets 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, gifts intended to support future years and other items not related to the Foundation's operations are reported as nonoperating activities. In addition, the Foundation allocates to operations the portion of prior leadership gifts collected in the current year as an increase in appropriation of nonoperating assets for operations to reflect the usage of those funds to cover operating costs. A corresponding offset is shown as a reduction in nonoperating leadership gifts. Total appropriation of nonoperating assets related to leadership gifts collections reflected in temporarily restricted operating revenue amounted to \$545,000 for the year ended August 31, 2014.

(i) Revenue Recognition

Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. Amortization of the discounts is recorded as additional contribution revenue. 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 statement 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 as follows:

Contributions:	
Wish related	\$ 1,410,102
Professional services	42,982
Other	5,375
Total	<u>\$ 1,458,459</u>

MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS

AND RHODE ISLAND, INC.

Notes to Financial Statements

August 31, 2014

(2) Summary of Significant Accounting Policies (Continued)

(i) Revenue Recognition (Continued)

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, \$370,591 of special events revenues and direct benefit costs to donors reflect the fair value of goods and services for which the participants paid and received and contributions include \$1,481,393 representing the excess of the payment over that fair value in 2014.

(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.

Management believes that no uncertain tax positions exist for the Foundation at August 31, 2014

(k) Functional Expenses

The Foundation performs four functions: wish granting, program-related support, fund raising, 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.

MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS

AND RHODE ISLAND, INC.

Notes to Financial Statements

August 31, 2014

(2) Summary of Significant Accounting Policies (Continued)

Fund Raising

Activities performed by the Foundation to generate funds and/or resources to support its programs and operations. During the fiscal year ended August 31, 2014, the Foundation incurred joint costs for activities that include fund raising appeals (primarily direct mail campaigns and newsletters), which have been allocated as follows:

Fund raising	\$	12,798
Public information		<u>12,798</u>
Total	\$	<u><u>25,596</u></u>

Management and General

All costs not identifiable with a single program or fund raising 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 recordkeeping, 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.

(1) Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make a number of 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 reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property and equipment, valuation of investments and contributions receivable, accrued pending wish costs, net of attrition on 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.

MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS

AND RHODE ISLAND, INC.

Notes to Financial Statements

August 31, 2014

(3) Fair Value Measurements

(a) Fair Value of Financial Instruments

Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values of the financial instruments shown in the following table(s) as of August 31, 2014 represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Foundation's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Foundation based on the best information available in the circumstances, including expected cash flows and appropriately risk-adjusted discount rates, and available observable and unobservable inputs.

(b) Fair Value Hierarchy

The following table presents the placement in the fair value hierarchy of assets that are measured at fair value on a recurring basis at August 31, 2014:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds:				
Domestic equity	\$ 4,173,307	4,173,307	—	—
International equity	1,217,363	1,217,363	—	—
Real estate	69,213	69,213	—	—
Commodities	263,514	263,514	—	—
Bonds	2,435,116	2,435,116	—	—
Equity securities:				
U.S. corporate equity securities	155,073	155,073	—	—
Total	\$ <u>8,313,586</u>	<u>8,313,586</u>	<u>—</u>	<u>—</u>

Total investment income, gains, and losses for the year ended August 31, 2014 consist of the following:

Interest and dividend income	\$ 280,028
Realized and unrealized gains, net	823,671
Less investment expenses	<u>(22,329)</u>
Investment income, net	\$ <u>1,081,370</u>

The interest income and investment return, net of \$1,081,619 on the statement of activities includes \$249 of operating cash interest in 2014.

MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS

AND RHODE ISLAND, INC.

Notes to Financial Statements

August 31, 2014

(4) Contributions Receivable

Contributions receivable include pledges that have been discounted at rates ranging from 3.38% to 4.06% at August 31, 2014. The following is a summary of the Foundation's contributions receivable at August 31, 2014:

Total amounts due in:		
One year	\$	273,165
Two to five years		560,000
		<hr/>
Gross contributions receivable		833,165
Less discount to present value		(13,047)
		<hr/>
Contributions receivable, net	\$	<u>820,118</u>

(5) Split-Interest Agreements

The Foundation is a named income beneficiary on various perpetual trusts, the corpus of which is not controlled by the management of the Foundation. Under these arrangements, the Foundation has the irrevocable right to receive all or a portion of the income earned on the underlying assets held in perpetuity. Accordingly, permanently 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 have been recorded in the accompanying statement of activities as a component of temporarily restricted nonoperating activities.

The Foundation's beneficial interest in the trust is \$1,968 as of August 31, 2014 and is included in due from related entities in the statement of financial position.

(6) Transactions with Related Entities

The National Organization conducts national fundraising efforts for which cash and in-kind donations are received and shared with the Foundation. These funds represent revenues associated with: distributions from national partners, individual donation amounts collected via online, amounts for internal grants, travel and training scholarships, and other miscellaneous revenues. During the year ended August 31, 2014, the Foundation received \$1,316,146 from these national revenue streams.

Conversely, the Foundation pays amounts to the National Organization for annual dues, insurance, and other miscellaneous ancillary expenses that the National Organization pays on behalf of the Foundation. Amounts totaling \$196,491 were paid from the Foundation to the National Organization during the year ended August 31, 2014.

**MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS
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Notes to Financial Statements

August 31, 2014

(6) Transactions with Related Entities (Continued)

Chapters who assist with the organization and granting of wishes from other chapters are paid a “fee for service” called the wish assist fee. Under this program, the Foundation received \$6,225 for the year ended August 31, 2014.

Amounts due from and to related entities as of August 31, 2014 are as follows:

Due from National Organization	\$	50,535
Due from other chapters		2,264
Total due from related entities	\$	52,799
Due to National Organization	\$	24,468
Due to other chapters		48,784
Total due to related entities	\$	73,252

Amounts due from the National Organization represent contributions remitted to the National Organization that are identified for the Foundation’s use but were not yet transferred to the Foundation as of year-end. Amounts due from other chapters represent amounts paid in assisting other chapters with their wish granting. Amounts due to other chapters represent amounts owed to other chapters who have assisted in the granting of wishes for the Foundation.

During 2014 the Foundation received contributions, both cash and in-kind, from board members totaling \$447,231. In 2014, amounts due from board members totaled \$377,912, and are included in contributions receivable in the accompanying statements of financial position. Additionally, the Foundation did not pay any amount for goods or services to companies owned by board members or related parties.

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 three other chapters with contributions during the year ended August 31, 2014 totaling \$300,000, which is recorded under wish granting expense.

(7) Property and Equipment, Net

Property and equipment as of August 31, 2014 consist of the following:

Computer equipment and software	\$	59,859
Other equipment		41,209
		101,068
Less accumulated depreciation and amortization		(69,337)
Property and equipment, net	\$	31,731

Depreciation and amortization expense totaled \$9,045 for the year ended August 31, 2014.

MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS

AND RHODE ISLAND, INC.

Notes to Financial Statements

August 31, 2014

(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 are:

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 National Organization's wish granting policy, and
5. The wish is expected to be granted within the next 12 months.

The Foundation, as part of its estimate of accrued pending wish costs, also considers attrition on pending wish costs. An attrition rate is calculated by the Foundation by analyzing the trend of wishes that have been accrued for using the five criteria discussed above that have not been able to be completed within the past twelve months due to factors outside of the control of the chapter, such as the death of a child, the move of the family out of the chapter's territory, or loss of contact with the family. As of August 31, 2014, the Foundation had approximately 145 reportable pending wishes.

(9) Leases

The Foundation is obligated under various operating leases for offices and equipment, which expire at various dates through May 31, 2018. Total rent expense for all operating leases for the year ended August 31, 2014 totaled \$196,762.

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

	<u>Operating leases</u>
Year ending August 31:	
2015	\$ 212,803
2016	199,885
2017	185,838
2018	2,711
	<hr/>
Total minimum lease payments	\$ <u><u>601,237</u></u>

MAKE-A-WISH FOUNDATION® OF MASSACHUSETTS

AND RHODE ISLAND, INC.

Notes to Financial Statements

August 31, 2014

(10) Endowments

The Foundation is subject to the enacted version of the Uniform Prudent Management of Institutional Funds Act of 2009 (UPMIFA) and is required to make disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

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. Endowment assets, both donor-restricted and board-designated, are reflected as investments on the statements of financial position.

(a) Interpretation of Relevant Law

The board of directors of the Foundation has interpreted the Massachusetts 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
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

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August 31, 2014

(10) Endowments (Continued)

Endowment net asset composition by type of fund as of August 31, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	11,185	54,444	65,629
Board-designated endowment funds	<u>6,865,692</u>	<u>—</u>	<u>—</u>	<u>6,865,692</u>
Total funds	<u>\$ 6,865,692</u>	<u>11,185</u>	<u>54,444</u>	<u>6,931,321</u>

Changes in endowment net assets for the year ended August 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,577,819	3,716	54,444	5,635,979
Investment return:				
Investment income	255,074	2,597	—	257,671
Net appreciation (realized and unrealized)	<u>815,917</u>	<u>7,754</u>	<u>—</u>	<u>823,671</u>
Total investment return	1,070,991	10,351	—	1,081,342
Board approved addition	500,000	—	—	500,000
Appropriation of endowment assets for expenditure	<u>(283,118)</u>	<u>(2,882)</u>	<u>—</u>	<u>(286,000)</u>
Endowment net assets, end of year	<u>\$ 6,865,692</u>	<u>11,185</u>	<u>54,444</u>	<u>6,931,321</u>

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August 31, 2014

(10) Endowments (Continued)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only):

Permanently restricted net assets:

(1) The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ 54,444
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Temporarily restricted net assets:

(1) Term endowment funds	\$ —
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(2) The portion of perpetual endowment funds subject to a time restriction under UPMIFA:	
Without purpose restrictions	11,185
With purpose restrictions	<u>—</u>

Total endowment funds classified as temporarily restricted net assets	<u>\$ 11,185</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. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new 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, 2014.

(c) Return Objectives 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 exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to exceed an average rate of return of 4%. Actual returns in any given year may vary from this amount.

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(10) Endowments (Continued)

(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 Objectives 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 proceeding 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.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes for the year ended August 31, 2014:

Time restrictions	\$ 696,232
Purpose restrictions	<u>452,442</u>
Total temporarily restricted net assets	<u><u>\$ 1,148,674</u></u>

For the year ended August 31, 2014, permanently restricted net assets are restricted to:

Investments in perpetuity, the income from which is expendable to support any activities of the Foundation	\$ <u>54,444</u>
	<u><u>\$ 54,444</u></u>

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(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 year ended August 31, 2014 were \$27,834.

(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 \$756,549 were received from a single donor for the year ended August 31, 2014, which represents 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 litigation and claims 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, change in net assets, or liquidity.

(15) Subsequent Events

The Foundation has evaluated subsequent events from the statement of financial position date through January 9, 2015, the date at which the financial statements were available to be issued.