



**MAKE-A-WISH FOUNDATION[®] OF AMERICA
AND RELATED ENTITIES**

Combined Financial Statements

August 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

**MAKE-A-WISH FOUNDATION[®] OF AMERICA
AND RELATED ENTITIES**

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KPMG LLP
Suite 700
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Independent Auditors' Report

The Board of Directors
Make-A-Wish Foundation® of America:

We have audited the accompanying combined financial statements of Make-A-Wish Foundation® of America and Related Entities (collectively, the Foundation), which comprise the combined statements of financial position as of August 31, 2013 and 2012, and the related statements of activities, cash flows, and functional expenses for the years then ended and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with U.S. generally accepted accounting principles; 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 combined 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 combined financial statements are free from 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 auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Make-A-Wish Foundation® of America and Related Entities as of August 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Irvine, California
February 4, 2014

**MAKE-A-WISH FOUNDATION® OF AMERICA
AND RELATED ENTITIES**

Combined Statements of Financial Position

August 31, 2013 and 2012

Assets	2013	2012
Cash and cash equivalents	\$ 44,918,438	36,843,827
Investments	130,940,300	123,745,627
Prepaid expenses	2,501,078	2,335,419
Contributions receivable, net	32,470,454	23,089,299
Other assets	1,530,628	1,917,732
Split-interest agreements	1,762,675	1,708,584
Restricted cash	101,122	14,600
Investments held for long-term purposes	37,860,358	35,725,731
Property and equipment, net	25,793,711	25,706,893
Beneficial interest in assets held by others	793,731	870,982
Total assets	<u>\$ 278,672,495</u>	<u>251,958,694</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 11,509,059	10,513,099
Accrued pending wish costs	59,787,282	52,047,904
Other liabilities	3,065,408	3,331,443
Capital lease obligations	318,934	168,718
Notes payable	5,347,831	5,844,634
Total liabilities	<u>80,028,514</u>	<u>71,905,798</u>
Commitments and contingencies		
Net assets:		
Unrestricted	135,496,982	129,637,984
Temporarily restricted	34,622,027	23,673,019
Permanently restricted	28,524,972	26,741,893
Total net assets	<u>198,643,981</u>	<u>180,052,896</u>
Total liabilities and net assets	<u>\$ 278,672,495</u>	<u>251,958,694</u>

See accompanying notes to combined financial statements.

**MAKE-A-WISH FOUNDATION® OF AMERICA
AND RELATED ENTITIES**

Combined Statement of Activities

Year ended August 31, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Public support:				
Contributions	\$ 178,125,772	24,681,343	1,689,965	204,497,080
Grants	10,969,528	666,596	—	11,636,124
Total public support	189,095,300	25,347,939	1,689,965	216,133,204
Special events	48,169,665	1,946,800	—	50,116,465
Less direct benefit costs to donors	(12,938,514)	(52,044)	—	(12,990,558)
Total special events	35,231,151	1,894,756	—	37,125,907
Investment income, net	8,727,676	1,635,135	56,731	10,419,542
Other income	1,056,555	18,424	—	1,074,979
Change in value of split-interest agreements	10,285	82,147	36,383	128,815
Net assets released from restrictions	18,029,393	(18,029,393)	—	—
Total revenues, gains, and other support	252,150,360	10,949,008	1,783,079	264,882,447
Expenses:				
Program services:				
Wish granting	161,163,921	—	—	161,163,921
Chapter support	6,985,790	—	—	6,985,790
Program-related support	5,237,246	—	—	5,237,246
Training and development	1,530,177	—	—	1,530,177
Public information	10,966,792	—	—	10,966,792
Total program services	185,883,926	—	—	185,883,926
Support services:				
Fundraising	36,708,813	—	—	36,708,813
Management and general	23,764,502	—	—	23,764,502
Total support services	60,473,315	—	—	60,473,315
Total program and support services expenses	246,357,241	—	—	246,357,241
Other losses (gains)	(65,879)	—	—	(65,879)
Total expenses and other losses	246,291,362	—	—	246,291,362
Change in net assets	5,858,998	10,949,008	1,783,079	18,591,085
Net assets, beginning of year	129,637,984	23,673,019	26,741,893	180,052,896
Net assets, end of year	\$ 135,496,982	34,622,027	28,524,972	198,643,981

See accompanying notes to combined financial statements.

**MAKE-A-WISH FOUNDATION® OF AMERICA
AND RELATED ENTITIES**

Combined Statement of Activities

Year ended August 31, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Public support:				
Contributions	\$ 162,234,485	15,425,516	3,033,330	180,693,331
Grants	11,943,005	191,661	—	12,134,666
Total public support	<u>174,177,490</u>	<u>15,617,177</u>	<u>3,033,330</u>	<u>192,827,997</u>
Special events	45,500,841	1,426,488	—	46,927,329
Less direct benefit costs to donors	<u>(12,446,273)</u>	<u>(37,634)</u>	<u>—</u>	<u>(12,483,907)</u>
Total special events	<u>33,054,568</u>	<u>1,388,854</u>	<u>—</u>	<u>34,443,422</u>
Investment income, net	8,797,600	1,215,977	46,404	10,059,981
Other income	1,304,122	5,160	—	1,309,282
Change in value of split-interest agreements	7,006	(84,650)	11,875	(65,769)
Net assets released from restrictions	<u>22,648,457</u>	<u>(22,648,457)</u>	<u>—</u>	<u>—</u>
Total revenues, gains, and other support	<u>239,989,243</u>	<u>(4,505,939)</u>	<u>3,091,609</u>	<u>238,574,913</u>
Expenses:				
Program services:				
Wish granting	148,631,757	—	—	148,631,757
Chapter support	6,859,048	—	—	6,859,048
Program-related support	3,455,684	—	—	3,455,684
Training and development	1,794,001	—	—	1,794,001
Public information	<u>14,019,435</u>	<u>—</u>	<u>—</u>	<u>14,019,435</u>
Total program services	<u>174,759,925</u>	<u>—</u>	<u>—</u>	<u>174,759,925</u>
Support services:				
Fundraising	35,226,085	—	—	35,226,085
Management and general	<u>21,935,529</u>	<u>—</u>	<u>—</u>	<u>21,935,529</u>
Total support services	<u>57,161,614</u>	<u>—</u>	<u>—</u>	<u>57,161,614</u>
Total program and support services expenses	<u>231,921,539</u>	<u>—</u>	<u>—</u>	<u>231,921,539</u>
Other losses (gains)	<u>135,421</u>	<u>(10,000)</u>	<u>66,500</u>	<u>191,921</u>
Total expenses and other losses (gains)	<u>232,056,960</u>	<u>(10,000)</u>	<u>66,500</u>	<u>232,113,460</u>
Change in net assets	7,932,283	(4,495,939)	3,025,109	6,461,453
Net assets, beginning of year	<u>121,705,701</u>	<u>28,168,958</u>	<u>23,716,784</u>	<u>173,591,443</u>
Net assets, end of year	<u>\$ 129,637,984</u>	<u>23,673,019</u>	<u>26,741,893</u>	<u>180,052,896</u>

See accompanying notes to combined financial statements.

**MAKE-A-WISH FOUNDATION® OF AMERICA
AND RELATED ENTITIES**

Combined Statements of Cash Flows
Years ended August 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 18,591,085	6,461,453
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,210,653	2,033,450
Bad debt expense and other losses	80,289	347,700
Contributions restricted for purchasing property and equipment and investments	(923,933)	(2,114,891)
Net realized and unrealized gains on investments	(6,807,026)	(6,492,773)
Loss (gain) on disposal of equipment and property	275,555	(230,740)
Contribution of perpetual trust	—	(564,523)
Contributed property and equipment, inventory, and investments	(548,156)	(523,207)
Change in value of split-interest agreement	23,160	65,769
Change in discount to present value contributions receivable	(108,075)	155,381
Changes in assets and liabilities:		
Contributions receivable	(9,353,369)	(2,469,569)
Prepaid expenses	(165,659)	(267,841)
Other assets	387,104	(230,382)
Accounts payable and accrued expenses	995,960	515,081
Accrued pending wish costs	7,739,378	1,399,209
Other liabilities	(266,035)	(191,654)
Net cash provided by (used in) operating activities	<u>12,130,931</u>	<u>(2,107,537)</u>
Cash flows from investing activities:		
Purchases of investments	(64,339,472)	(58,155,534)
Proceeds from sales of investments	62,008,937	57,978,550
Purchases of property and equipment	(2,007,496)	(4,302,582)
Proceeds from sale of property and equipment	7,284	425,129
Net change in restricted cash	<u>(86,522)</u>	<u>5,588</u>
Net cash used in investing activities	<u>(4,417,269)</u>	<u>(4,048,849)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment and purchasing of property and equipment	923,933	2,138,011
Principal payments on capital lease obligations	(66,181)	(82,028)
Proceeds from notes payable	350,000	2,394,656
Principal payments on notes payable	<u>(846,803)</u>	<u>(211,263)</u>
Net cash provided by financing activities	<u>360,949</u>	<u>4,239,376</u>
Change in cash and cash equivalents	8,074,611	(1,917,010)
Cash and cash equivalents, beginning of year	<u>36,843,827</u>	<u>38,760,837</u>
Cash and cash equivalents, end of year	<u>\$ 44,918,438</u>	<u>36,843,827</u>
Supplemental statement of cash flows information:		
Cash paid for interest	\$ 266,152	233,853
Donated property and equipment, investments, and inventory	548,156	523,207
Acquisition of equipment with capital lease agreement	216,397	77,933
Contributed services	8,230,220	10,834,318
Other in-kind contributions	52,650,342	46,530,179
Contribution of perpetual trust	—	(564,523)

See accompanying notes to combined financial statements.

**MAKE-A-WISH FOUNDATION® OF AMERICA
AND RELATED ENTITIES**

Combined Statement of Functional Expenses

Year ended August 31, 2013

	Program services						Support services			
	Wish granting	Chapter support	Program- related support	Training and development	Public information	Total program services	Fundraising	Management and general	Total support services	Total
Direct costs of wishes	\$ 127,635,425	53,310	—	—	—	127,688,735	—	—	—	127,688,735
Salaries, taxes, and benefits	23,577,292	3,131,516	3,677,389	855,193	1,697,478	32,938,868	20,268,906	16,103,027	36,371,933	69,310,801
Printing, subscriptions, and publications	524,889	20,176	112,533	9,037	1,287,769	1,954,404	4,023,735	628,846	4,652,581	6,606,985
Professional fees	1,300,873	2,296,511	166,753	45,054	429,054	4,238,245	2,583,837	2,162,759	4,746,596	8,984,841
Rent and utilities	2,422,321	128,898	516,311	62,390	143,647	3,273,567	1,750,316	1,172,585	2,922,901	6,196,468
Postage and delivery	371,985	17,668	46,071	4,205	894,539	1,334,468	1,974,493	449,901	2,424,394	3,758,862
Travel	594,179	300,141	86,748	66,957	45,002	1,093,027	832,173	457,842	1,290,015	2,383,042
Meetings and conferences	719,051	43,918	98,337	402,708	30,353	1,294,367	1,044,308	471,226	1,515,534	2,809,901
Office supplies	636,363	59,646	122,046	14,306	29,887	862,248	584,307	376,821	961,128	1,823,376
Communications	569,739	28,881	65,540	15,145	32,377	711,682	398,024	242,341	640,365	1,352,047
Advertising and media (cash)	48,849	784	1,388	104	129,679	180,804	359,504	12,643	372,147	552,951
Advertising and media (in kind)	610,500	—	26,445	—	6,159,056	6,796,001	467,108	6,533	473,641	7,269,642
Repairs and maintenance	517,152	7,142	115,182	3,564	10,547	653,587	355,751	250,731	606,482	1,260,069
Insurance	43,800	505,025	17,655	3,728	5,384	575,592	68,030	101,190	169,220	744,812
Bad debt expense	21,962	—	—	—	—	21,962	41,812	16,515	58,327	80,289
Membership dues	46,551	238,923	5,481	2,692	4,556	298,203	120,080	36,801	156,881	455,084
Volunteer training	47,387	—	529	10,242	—	58,158	4,766	—	4,766	62,924
Miscellaneous	659,849	4,108	80,367	8,464	19,503	772,291	1,217,992	815,476	2,033,468	2,805,759
Depreciation and amortization	815,754	149,143	98,471	26,388	47,961	1,137,717	613,671	459,265	1,072,936	2,210,653
	\$ 161,163,921	6,985,790	5,237,246	1,530,177	10,966,792	185,883,926	36,708,813	23,764,502	60,473,315	246,357,241

See accompanying notes to combined financial statements.

**MAKE-A-WISH FOUNDATION® OF AMERICA
AND RELATED ENTITIES**

Combined Statement of Functional Expenses

Year ended August 31, 2012

	Program services						Support services			
	Wish granting	Chapter support	Program- related support	Training and development	Public information	Total program services	Fundraising	Management and general	Total support services	Total
Direct costs of wishes	\$ 114,984,901	—	—	—	—	114,984,901	—	—	—	114,984,901
Salaries, taxes, and benefits	23,584,142	3,266,426	2,267,764	898,636	1,828,035	31,845,003	19,162,462	15,021,913	34,184,375	66,029,378
Printing, subscriptions, and publications	435,499	17,563	49,307	11,812	1,331,491	1,845,672	3,735,920	637,540	4,373,460	6,219,132
Professional fees	1,251,550	2,147,115	218,830	71,619	402,512	4,091,626	2,968,372	1,813,234	4,781,606	8,873,232
Rent and utilities	2,486,276	125,492	363,518	63,629	160,780	3,199,695	1,634,802	1,122,004	2,756,806	5,956,501
Postage and delivery	416,215	10,769	27,187	6,742	806,657	1,267,570	1,718,391	403,079	2,121,470	3,389,040
Travel	460,959	289,956	58,938	96,014	39,635	945,502	914,269	436,029	1,350,298	2,295,800
Meetings and conferences	698,837	73,779	86,625	541,324	20,268	1,420,833	1,025,219	373,683	1,398,902	2,819,735
Office supplies	620,737	41,495	65,285	9,983	28,697	766,197	535,564	328,611	864,175	1,630,372
Communications	552,844	32,734	56,869	15,659	40,002	698,108	370,980	257,919	628,899	1,327,007
Advertising and media (cash)	48,400	—	1,828	146	56,983	107,357	326,095	6,294	332,389	439,746
Advertising and media (in kind)	1,031,367	—	12,722	—	9,215,103	10,259,192	468,526	9,934	478,460	10,737,652
Repairs and maintenance	432,348	5,329	54,203	4,627	10,605	507,112	306,747	205,430	512,177	1,019,289
Insurance	43,127	440,627	11,908	1,649	4,437	501,748	54,500	85,792	140,292	642,040
Bad debt expense	364	—	—	—	—	364	126,615	28,800	155,415	155,779
Membership dues	42,283	267,573	6,851	1,285	3,303	321,295	123,455	30,420	153,875	475,170
Volunteer training	74,006	—	465	8,994	350	83,815	5,768	2,791	8,559	92,374
Miscellaneous	737,128	4,530	111,490	42,801	20,806	916,755	1,179,921	704,265	1,884,186	2,800,941
Depreciation and amortization	730,774	135,660	61,894	19,081	49,771	997,180	568,479	467,791	1,036,270	2,033,450
	\$ 148,631,757	6,859,048	3,455,684	1,794,001	14,019,435	174,759,925	35,226,085	21,935,529	57,161,614	231,921,539

See accompanying notes to combined financial statements.

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

August 31, 2013 and 2012

(1) Organization

These combined financial statements include Make-A-Wish Foundation® of America (National Organization) and 62 chartered chapters (Chapters), operating in 50 states, the District of Columbia, Puerto Rico, and Guam (collectively, the Foundation). The mission of the Foundation is to grant the wishes of children with life-threatening medical conditions to enrich the human experience with hope, strength, and joy. The Foundation's purpose is to grant the wish of each child who has reached the age of 2½ and is under the age of 18 and who has a life-threatening medical condition (i.e., a progressive, degenerative, or malignant medical condition) that has placed the child's life in jeopardy. The National Organization accomplishes its purpose by chartering chapters to grant such wishes and providing financial support, guidance, and other assistance to the Chapters in performing the Foundation's purpose. Each Chapter is obligated to comply with the National Organization's chapter agreement and such guidelines, resolutions, and policies as may be adopted by the National Organization's board of directors.

Make-A-Wish Foundation® International (MAWFI) and other international affiliates of MAWFI are separate corporate entities and, as such, are responsible for and maintain control of their own financial resources and, as such, are not controlled by the Foundation. Accordingly, the accounts and records of MAWFI and other international affiliates of MAWFI are not included in these combined financial statements.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Basis of Combination

The accompanying combined financial statements include the combined accounts and transactions of the National Organization and Chapters. The Foundation has elected to present combined financial statements, including all Chapters and the National Organization. Each Chapter is a separate corporate entity with its own governing board and charter and, as such, is responsible for and maintains custody of, its own financial resources. All significant affiliate and interentity accounts and transactions have been eliminated.

(c) 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, 2013 and 2012 are \$552,817 and \$593,884, respectively, of certificates of deposit with an initial term of less than three months and \$11,259,838 and \$10,825,255, respectively, of money market mutual funds.

(d) Investments

Investments are recorded at fair value and consist of mutual funds, exchange traded funds, equity and debt securities, certificates of deposit with an original maturity of greater than three months,

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August 31, 2013 and 2012

residential and corporate mortgage-backed securities, hedge funds, real estate and real estate investment trusts, commodities, limited partnerships, secured notes, money market funds, alternative investments, and cash balances. Investment income, including gains and losses on investments, is recorded as an increase or decrease in unrestricted net assets unless its use is limited by donor-imposed restrictions or law. Certain investments are valued by using the net asset value (NAV) per share (or its equivalent), as a practical expedient permitted under Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

(e) Contributions Receivable

Contributions receivable are unconditional promises to give and are recorded at fair value in the period the promises are made by donors. Contributions receivable are discounted using fair value rates. Contributions are written off when deemed uncollectible.

(f) Property and Equipment, Net

Property and equipment having a useful life of more than one year are capitalized at cost when purchased. Donated assets are capitalized at the estimated fair value at the date of receipt. Property and equipment under capital leases are stated at the present value of future minimum lease payments at the time of acquisition. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of the assets, generally 3 to 40 years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the remaining term of the lease. 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, plant, 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 indicate a long-lived asset may be impaired, the asset value will be reduced to fair value. Fair value is determined through various valuation techniques including quoted market values and third-party independent appraisals, as considered necessary.

(g) Fair Value Measurements

The Foundation follows the provisions of Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value as 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. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about 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

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Notes to Combined Financial Statements

August 31, 2013 and 2012

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.

In conjunction with ASC Topic 820, the Foundation follows ASU No. 2009-12 for certain investments in funds that do not have readily determinable fair values. This guidance amends ASC Topic 820 and allows for the estimation of the fair value of investments for which the investment does not have a readily determinable fair value using NAV per share or its equivalent. NAV, in many instances, may not equal fair values that would be calculated pursuant to ASC Topic 820.

(h) 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 or law that require 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 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.

(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 or the asset being constructed with temporarily restricted contributions is placed in service, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined 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

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value at the date of contribution. 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 combined statements of activities. Such in-kind contributions were reported as follows:

	<u>2013</u>	<u>2012</u>
Contributions:		
Wish related	\$ 47,394,027	41,381,203
Professional services	910,778	879,774
Advertising and media	7,269,642	10,737,652
Investments	120,199	106,301
Property and equipment	427,957	416,906
Other	1,522,489	956,523
Total	<u>\$ 57,645,092</u>	<u>54,478,359</u>
Special event revenue:		
Internal special events	<u>3,783,626</u>	<u>3,409,345</u>

An internal special event is a fundraising event coordinated and staffed by Chapter personnel rather than a separate support group or organization. It is designed to attract and involve large numbers of people for the purpose of raising awareness, additional funding, and cultivating future donors. Internal special event in-kind amounts are donated items recorded at fair market value and are used in facilitating the event. Examples of such donated items are generally food, beverage, facility costs, and auction items.

Program or supporting services expenses were recorded at fair value totaling \$57,096,936 and \$53,955,152 in 2013 and 2012, respectively, with the difference recorded as investments, property and equipment and other assets representing primarily auction items received and not yet used at year-end.

Advertising and media are used to help the Foundation communicate its message or mission and include fundraising materials, informational material, or advertising, and may be in the form of an audio or video tape of a public service announcement, a layout for a newspaper, media time or space for public service announcements, or other purposes. Advertising and media are reported as contribution revenue and fundraising or public information expense when received and the reporting of such contributions is unaffected by whether the Foundation could afford to purchase or would have purchased the assets at their fair value.

(j) Income Taxes

The National Organization and each Chapter are nonprofit corporations exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3). The National Organization

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and each Chapter are exempt from state taxes in their respective state of incorporation or territory. The National Organization and each Chapter file a separate Form 990 return. 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 combined financial statements taken as a whole.

ASC Topic 740, *Income Taxes*, 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 positions exist for the Foundation at August 31, 2013 and 2012.

(k) Functional Expenses

The Foundation performs seven functions: wish granting, chapter support, program-related support, training and development, public information, fundraising, and management and general.

Definitions of these functions are as follows:

Wish Granting

Activities performed by the Foundation that result in granting wishes of children with life-threatening medical conditions.

Chapter Support

Activities performed by the National Organization that promote Chapter development, monitor and assist Chapters in complying with policies and guidelines, develop wish resources, administer wish programs, handle wish referrals, and help provide wish assistance for Chapters and wish placement.

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.

Training and Development

Activities performed by the Foundation include, but are not limited to, implementation of programs supporting the identification of wish candidates and the determination and delivery of the wish.

Public Information

Activities performed by the Foundation communicating the purpose and services of the Foundation to all potential sources of wish referrals.

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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, 2013 and 2012, the Foundation incurred joint costs for activities that include fundraising appeals (primarily, direct mail campaigns and newsletters), which have been allocated as follows:

	2013	2012
Fundraising	\$ 3,616,141	3,189,106
Public information	2,345,319	2,267,790
Management and general	805,829	845,696
Wish granting	24,272	697,855
Training and development	—	48,631
Total	<u>\$ 6,791,561</u>	<u>7,049,078</u>

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 combined financial statements in conformity with U.S. 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 combined 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, values of split-interest agreements, the valuation of investments, the valuation of contributions receivable, estimated accrued pending wish costs and related attrition, and whether an allowance for uncollectible contributions is required.

(m) Reclassifications

Certain reclassifications have been made to the 2012 financial statement information to conform to the 2013 financial statement presentation. There was no impact on the previously reported change in net assets of the Foundation.

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(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 pages as of August 31, 2013 and 2012 represent the estimated 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. 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 risk-adjusted discount rates, and available observable and unobservable inputs.

The Foundation follows ASC Topic 820 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis.

Overall Investment Objective

The overall investment objective of the Foundation is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The Foundation diversifies its investments among various asset classes incorporating multiple strategies and investment managers. During the years ended August 31, 2013 and 2012, major investment decisions were authorized by the National Organization's and applicable Chapters' Audit and Finance committees, which oversee the individual investment programs in accordance with established guidelines.

Allocation of Investment Strategies

In addition to traditional stocks and fixed-income securities, the National Organization and Chapters may also hold shares or units in traditional institutional funds as well as in alternative investment funds involving hedged strategies, private equity, and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges, and other instruments. Private equity funds employ buyout and venture capital strategies and focus on investments in turnaround situations. Real asset funds generally hold interests in public real estate investment trusts (REIT) or commercial real estate through sole-member entities. Private equity and real asset strategies, therefore, often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider

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variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

(b) Fair Value Hierarchy

The following tables present the placement of investments in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis at August 31, 2013 and 2012:

Description	August 31, 2013	Fair value measurements at August 31, 2013 using			Redemption or liquidation	Days' notice
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets:						
Recurring:						
Cash and cash equivalents	\$ 11,853,722	11,853,722	—	—		
Restricted cash	101,122	101,122	—	—		
Investments and investment held for long-term purposes:						
Mutual funds:						
Domestic equity	\$ 33,000,029	33,000,029	—	—		
International equity	12,036,784	12,036,784	—	—		
Global	167,197	167,197	—	—		
Money market	1,389,439	1,389,439	—	—		
Real estate	2,082,921	2,082,921	—	—		
Asset allocation	968,306	968,306	—	—		
Commodities	1,234,624	1,234,624	—	—		
U.S. government securities	440,758	440,758	—	—		
Bonds	25,179,262	25,179,262	—	—		
Exchange-traded funds:						
Domestic equity	17,664,062	17,664,062	—	—		
International equity	1,486,572	1,486,572	—	—		
Commodities	131,087	131,087	—	—		
Real estate	86,108	86,108	—	—		
Bonds	2,236,463	2,087,008	149,455	—		
Equity securities:						
U.S. corporate equity securities	16,497,225	16,497,225	—	—		
Foreign equity securities	4,076,853	3,602,570	474,283	—		
Certificates of deposit	11,233,543	—	11,233,543	—		
Debt securities:						
U.S. Treasury	7,104,050	4,137,341	2,966,709	—		
U.S. agency	3,982,050	—	3,982,050	—		
Asset backed	241,587	—	241,587	—		
Municipal	1,163,114	—	1,163,114	—		
Government	1,868,554	389,511	1,479,043	—		

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Description	August 31, 2013	Fair value measurements at August 31, 2013 using			Redemption or liquidation	Days' notice
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
State Treasury	\$ 894,348	593,801	300,547	—		
Foreign governments	245,494	—	245,494	—		
Corporate	14,298,188	2,658,372	11,639,816	—		
Hedge funds	578,799	578,799	—	—		
Residential mortgage- backed securities	295,647	—	295,647	—		
Alternative investments:						
Common collective trust invested in equity mutual funds	703,174	—	703,174	—	Daily	3 days
Common collective trust invested in equity securities	675,502	—	675,502	—	Month-end	None
Common collective trust invested in short-duration fixed income funds	100,338	—	100,338	—	Month-end	None
Common collective trust invested in commodities	288,218	—	288,218	—	Month-end	None
Common collective trust invested in futures	628,253	—	628,253	—	Month-end	None
Limited partnerships	215,927	—	—	215,927		
Commodities	352,714	352,714	—	—		
Hedge funds	2,676,545	—	—	2,676,545	Quarterly/ Semiannually	45 – 60 days
Secured note	199,757	—	199,757	—		
Real estate	447,739	365,573	—	82,166		
Unit Investment Trust	125,916	125,916	—	—		
Money market funds	1,121,384	1,121,384	—	—		
Cash and cash equivalents	682,127	682,127	—	—		
Total investments and investments held for long-term purposes	168,800,658	129,059,490	36,766,530	2,974,638		

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Description	August 31, 2013	Fair value measurements at August 31, 2013 using			Redemption or liquidation	Days' notice
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Investments held for split-interest agreements:						
Mutual funds:						
Domestic equity	\$ 275,727	275,727	—	—		
International equity	100,487	100,487	—	—		
Real estate	10,915	10,915	—	—		
Bonds	62,419	62,419	—	—		
Debt securities:						
U.S. Treasury	19,876	19,876	—	—		
Alternative investments:						
Common collective trust invested in equity mutual funds	15,069	—	15,069	—	Daily	None
Common collective trust invested in commodities	5,469	—	5,469	—	Daily	None
Cash and cash equivalents	36,871	36,871	—	—		
Total investments held for split-interest agreements	526,833	506,295	20,538	—		
Beneficial interest in trusts	1,178,484	—	—	1,178,484		
Irrevocable charitable remainder trusts	57,358	—	—	57,358		
Total split-interest agreements	1,762,675	506,295	20,538	1,235,842		
Beneficial interests in assets held by others	793,731	—	—	793,731		
Total recurring	\$ 183,311,908	141,520,629	36,787,068	5,004,211		
Nonrecurring:						
Contributions receivable	\$ 32,470,454	—	—	32,470,454		
Liabilities:						
Recurring:						
Obligations under split-interest agreements (other liabilities)	\$ 240,652	—	—	240,652		

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		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets:						
Recurring:						
Cash and cash equivalents	\$ 11,419,139	11,419,139	—	—		
Restricted cash	14,600	14,600	—	—		
Investments and investments held for long-term purposes:						
Mutual funds:						
Domestic equity	25,719,216	25,252,842	466,374	—		
International equity	11,010,952	11,010,952	—	—		
Equities	920,513	920,513	—	—		
Money market	830,350	830,350	—	—		
Real estate	1,711,027	1,711,027	—	—		
Asset allocation	785,509	785,509	—	—		
Commodities	771,235	771,235	—	—		
Bonds	22,592,805	22,223,000	369,805	—		
U.S. government	1,020,559	1,020,559	—	—		
Exchange-traded funds:						
International equities	746,390	746,390	—	—		
International bonds	119,680	119,680	—	—		
Domestic equities	4,574,406	4,574,406	—	—		
Domestic bonds	2,252,760	2,123,136	129,624	—		
U.S. Treasuries	310,963	310,963	—	—		
Real estate investment trusts	526,777	392,613	—	134,164		
Equity securities:						
U.S. corporate equity securities	27,205,978	27,205,978	—	—		
Foreign equity securities	15,795,900	3,365,104	12,430,796	—		
Certificates of deposit	761,240	—	761,240	—		
Debt securities:						
U.S. Treasury	6,834,010	4,984,596	1,849,414	—		
U.S. agency	5,184,179	60,231	5,123,948	—		
Asset backed	390,169	—	390,169	—		
Municipal	1,347,221	—	1,347,221	—		
Government	1,505,716	9,328	1,496,388	—		
State Treasury	497,243	—	497,243	—		
Foreign governments	245,986	—	245,986	—		
Corporate	16,834,363	3,100,803	13,733,560	—		
Residential mortgage- backed securities	199,070	—	199,070	—		

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		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Alternative investments:						
Common collective trust invested in equity mutual funds	\$ 714,437	—	714,437	—	Daily	3 days
Common collective trust invested in equity securities	593,775	—	593,775	—	Month-end	None
Common collective trust invested in short-duration fixed income funds	99,864	—	99,864	—	Month-end	None
Common collective trust invested in multiple strategies	74,007	—	74,007	—	Month-end	None
Common collective trust invested in commodities	367,396	—	367,396	—	Month-end	None
Common collective trust invested in futures	559,258	—	559,258	—	Month-end	None
Limited partnerships	186,527	—	—	186,527		
Commodities	217,403	104,670	112,733	—		
Hedge funds	2,431,886	—	—	2,431,886	Quarterly/ Semiannually	45 – 60 days
Secured note	320,882	—	320,882	—		
Real estate	94,245	11,867	82,378	—		
Money market funds	1,374,510	1,374,510	—	—		
Cash and cash equivalents	1,742,951	1,742,951	—	—		
Total investments and investments held for long-term purposes	159,471,358	114,753,213	41,965,568	2,752,577		
Split-interest agreements:						
Investments held for charitable gift annuities:						
Mutual funds:						
Domestic equity	261,241	261,241	—	—		
International equity	98,762	98,762	—	—		
Real estate	11,173	11,173	—	—		
Bonds	66,323	66,323	—	—		

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		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Debt securities:						
U.S. Treasury	\$ 20,138	20,138	—	—		
Alternative investments:						
Common/collective trust invested in mutual funds	13,619	—	13,619	—		
Alternative investments:						
Common/collective trust invested in commodities	5,630	—	5,630	—		
Cash and cash equivalents	27,604	27,604	—	—		
Total investments held for charitable gift annuities	504,490	485,241	19,249	—		
Beneficial interest in trusts	1,157,865	—	—	1,157,865		
Irrevocable charitable remainder trusts	46,229	—	—	46,229		
Total split- interest agreements	1,708,584	485,241	19,249	1,204,094		
Beneficial interest in assets held by others	870,982	—	—	870,982		
Total recurring	\$ 173,484,663	126,672,193	41,984,817	4,827,653		
Nonrecurring:						
Contributions receivable	\$ 23,089,299	—	—	23,089,299		
Liabilities:						
Recurring:						
Obligations under split-interest agreements (other liabilities)	\$ 242,816	—	—	242,816		

For the valuation of investments categorized as Level 1 at August 31, 2013 and 2012, the Foundation used unadjusted market prices for identical assets.

For the valuation of investments categorized as Level 2 at August 31, 2013 and 2012, the Foundation used significant other observable inputs, particularly dealer-market prices for comparable investments as of the valuation date.

For the valuation of investments categorized as Level 3 at August 31, 2013 and 2012, the Foundation used significant unobservable inputs including NAV, as a practical expedient.

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The following table presents a rollforward of activity for investments, not including split-interest agreements, measured at fair value using significant unobservable inputs (Level 3) for the years ended August 31, 2013 and 2012:

	Fair value measurements using significant unobservable inputs (Level 3)	
	2013	2012
Beginning balance	\$ 2,752,577	2,422,430
Transfers out of Level 3	(48,473)	—
Total gains or losses (realized/unrealized) included in changes in net assets	245,373	(28,725)
Purchases	29,762	358,872
Sales	(4,601)	—
Ending balance	<u>\$ 2,974,638</u>	<u>2,752,577</u>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to investments still held at the reporting date	<u>\$ 280,289</u>	<u>(21,983)</u>

Total investment income, net realized and unrealized losses, and investment expenses for the years ended August 31, 2013 and 2012 consist of the following:

	2013	2012
Interest and dividend income	\$ 4,281,095	4,131,200
Realized and unrealized gains, net	6,807,026	6,492,773
Less investment expenses	<u>(668,579)</u>	<u>(563,992)</u>
Investment income, net	<u>\$ 10,419,542</u>	<u>10,059,981</u>

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The following table presents a rollforward of activity for split-interest agreements measured at fair value using significant unobservable inputs (Level 3) for the years ended August 31, 2013 and 2012:

		Fair value measurements using significant unobservable inputs (Level 3)	
		2013	2012
Beginning balance	\$	1,204,094	1,236,067
Total gains or losses (realized/unrealized) included in changes in net assets		17,263	102,972
Purchases		116,937	—
Sales/settlements		(102,452)	(134,945)
Ending balance	\$	<u>1,235,842</u>	<u>1,204,094</u>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to investments still held at the reporting date			
	\$	<u>17,263</u>	<u>102,972</u>

(4) Contributions Receivable

Contributions receivable include pledges that have been discounted at rates ranging from .25% to 5.0%. The following is a summary of the Foundation's contributions receivable at August 31, 2013 and 2012:

		2013	2012
Total amounts due in:			
One year	\$	22,356,124	19,066,173
Two to five years		10,805,106	4,663,362
More than five years		570,000	620,000
Gross contributions receivable		33,731,230	24,349,535
Less allowance for doubtful accounts		(558,302)	(575,805)
Less discount to present value		(702,474)	(684,431)
Contributions receivable, net	\$	<u>32,470,454</u>	<u>23,089,299</u>

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(5) Split-Interest Agreements

Split-interest agreements on the combined statements of financial position comprise the following:

	<u>2013</u>	<u>2012</u>
Beneficial interest in trusts	\$ 1,178,484	1,157,865
Irrevocable charitable remainder trusts	57,358	46,229
Charitable gift annuities	<u>526,833</u>	<u>504,490</u>
	<u>\$ 1,762,675</u>	<u>1,708,584</u>

(a) Beneficial Interest in Trusts

The Foundation is the 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 combined statements of activities as a component of the change in value of split-interest agreements or investment income.

(b) Irrevocable Charitable Remainder Trusts

The Foundation is the named income beneficiary in irrevocable charitable remainder trusts held by third-party trustees. At the date the remainder trusts were established, a beneficial interest in trust and temporarily restricted contribution revenue were recognized for the present value of the estimated future benefits to be received when the trust assets are distributed. The beneficial interest is adjusted during the term of the trust for changes in the value of the assets.

(c) Charitable Gift Annuities

Donors have contributed assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount for a specified period of time to the donor or to individuals designated by the donor. Under the terms of such agreements, no trust exists, as the assets received are held by and the liability is an obligation of the Foundation. The Foundation records contribution revenue using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries. The present value of payments to beneficiaries under these arrangements is calculated using present value techniques. The discount rates used for the years ended August 31, 2013 and 2012 ranged from 1.2% to 6.2%.

Liabilities to beneficiaries under charitable gift annuity agreements totaled \$240,652 and \$242,816 at August 31, 2013 and 2012, respectively, and are included in other liabilities in the accompanying combined statements of financial position.

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(6) Beneficial Interest in Assets Held by Others

The Foundation has various beneficial interests in assets held by community foundations valued at \$793,731 and \$870,982 as of August 31, 2013 and 2012, respectively, which consist of funds contributed by the Foundation or donors and includes earnings thereon, net of distributions received. Distributions of income earned from beneficial interests are received at various times throughout the year based on the spending policy adopted by the board of directors of each respective community foundation.

The following table presents a rollforward of activity for assets held by various community foundations at fair value using significant unobservable inputs (Level 3) for the years ended August 31, 2013 and 2012:

	Fair value measurements using significant unobservable inputs (Level 3)	
	2013	2012
Beginning balance	\$ 870,982	258,355
Contributions	—	592,098
Total gains (losses) (realized/unrealized) included in changes in net assets	(34,798)	41,808
Distributions	(42,453)	(21,279)
Ending balance	<u>\$ 793,731</u>	<u>870,982</u>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to investments still held at the reporting date	<u>\$ (34,798)</u>	<u>41,808</u>

(7) Transactions with Related Parties

During 2013 and 2012, the Foundation received contributions, both cash and in-kind donations, and pledges from employees and board members totaling \$20,640,338 and \$8,659,468, respectively. Amounts due from employees and board members as of August 31, 2013 and 2012 totaled \$12,164,521 and \$3,737,619, respectively, and are included in contributions receivable in the accompanying combined statements of financial position. During 2013 and 2012, amounts paid to related parties totaled \$1,261,329 and \$1,266,308, respectively, for goods and services used in the Foundation's operations. Amounts due to related parties as of August 31, 2013 and 2012 totaled \$79,411 and \$119,141, respectively, and are included in accounts payable in the accompanying combined statements of financial position.

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(8) Property and Equipment, Net

Property and equipment, net as of August 31, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 5,056,634	5,029,212
Buildings and building improvements	18,682,174	18,620,420
Computer equipment and software	6,842,592	6,457,022
Website and Website templates	900,763	1,228,802
Office furniture	3,670,166	3,507,509
Other equipment	2,102,831	1,886,774
Leasehold improvements	<u>1,731,489</u>	<u>1,659,124</u>
	38,986,649	38,388,863
Less accumulated depreciation and amortization	<u>(13,192,938)</u>	<u>(12,681,970)</u>
Property and equipment, net	<u><u>\$ 25,793,711</u></u>	<u><u>25,706,893</u></u>

Depreciation and amortization expense totaled \$2,210,653 and \$2,033,450 for the years ended August 31, 2013 and 2012, respectively.

(9) Accrued Pending Wish Costs

The Foundation accrues the 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. Meeting 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
5. The wish is expected to be granted within the next 12 months.

As of August 31, 2013 and 2012, the Foundation had approximately 7,478 and 7,066, respectively, of accrued pending wishes.

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 using the five criteria discussed above that have not been completed within the past 12 months due

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to factors outside of the control of the Chapter. Those factors include the death of a child, the move of the family out of the Chapter's territory, or loss of contact with the family.

(10) Notes Payable

The Foundation has a \$3,939,317 mortgage loan with interest payable for five years at the fixed rate of 4.5% per annum and for the remaining years at the floating rate of 2.75% in excess of the average yield of U.S. Treasury securities adjusted to a constant maturity of five years, subject to a minimum rate of 4.5%.

In addition, the Foundation has entered into four notes payable with financial institutions. The notes bear interest rates, at rates ranging from 4.25% to 7.5%, and mature on various dates through June 2022. The remaining principal payments on notes payable subsequent to August 31, 2013 are as follows:

Fiscal year:	
2014	\$ 442,271
2015	178,927
2016	186,560
2017	195,606
2018	206,304
2019 and thereafter	4,138,163
Total	<u>\$ 5,347,831</u>

(11) Credit Agreement

The National Organization has sponsored a corporate travel card account program (the Card Program) with a financial institution. In the event of default by the sponsored account holder, the National Organization has the primary and continuing obligation of payment. Under the terms of the Card Program, the National Organization is required to hold unencumbered liquid assets having an aggregate market value of 110% of the average monthly spend under the Card Program, which are not subject to any lien, pledge, security interest, or other arrangement with any creditor, to have its claim satisfied out of those assets prior to the general creditors of the National Organization. As of August 31, 2013 and 2012, there were sponsored accounts with a total credit limit of \$9,520,000 and \$9,840,000 issued under this credit agreement and \$2,470,000 and \$1,961,000 outstanding on this credit agreement that is included as accounts payable and accrued expenses on the combined statements of financial position.

(12) Leases

The Foundation is obligated under various capital and operating leases for offices and equipment, which expire at various dates through July 31, 2021. As of August 31, 2013 and 2012, the cost of leased property and equipment under capital lease was \$590,403 and \$367,564, respectively, and accumulated depreciation was \$183,142 and \$220,993, respectively. Total rent expense for all operating leases for the years ended August 31, 2013 and 2012 totaled \$5,630,732 and \$5,491,126, respectively.

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

	<u>Operating leases</u>	<u>Capital leases</u>
Year(s) ending August 31:		
2014	\$ 5,287,137	158,489
2015	4,632,266	84,923
2016	3,856,486	50,260
2017	3,322,635	42,695
2018	2,872,122	18,244
2019–2022	3,539,543	—
Total minimum lease payments	<u>\$ 23,510,189</u>	354,611
Less amounts representing interest		<u>(35,677)</u>
Present value of minimum lease payments		<u>\$ 318,934</u>

(13) Endowments

The Foundation follows the provisions of ASC 958 Section 205-45, *Reporting Endowment Funds*. These provisions provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also required disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The Foundation's endowment fund consists of approximately 158 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the boards of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the boards 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 board of directors of the National Organization and each Chapter have reviewed the applicable state versions of UPMIFA and concluded that under the applicable versions based on the respective state of incorporation or territory determined it would be prudent to preserve 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

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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

Endowment net asset composition by type of fund as of August 31, 2013 and 2012 is as follows:

2013				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (35,109)	3,282,725	26,764,329	30,011,945
Board-designated endowment funds	22,516,895	1,925,992	—	24,442,887
Total funds	<u>\$ 22,481,786</u>	<u>5,208,717</u>	<u>26,764,329</u>	<u>54,454,832</u>
2012				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (26,628)	3,281,588	24,859,327	28,114,287
Board-designated endowment funds	23,176,016	1,533,678	—	24,709,694
Total funds	<u>\$ 23,149,388</u>	<u>4,815,266</u>	<u>24,859,327</u>	<u>52,823,981</u>

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Changes in endowment net assets for the years ended August 31, 2013 and 2012 are as follows:

	2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 23,149,388	4,815,266	24,859,327	52,823,981
Investment return:				
Investment income	735,965	675,565	403	1,411,933
Net appreciation (realized and unrealized)	<u>1,058,054</u>	<u>1,058,761</u>	<u>38,789</u>	<u>2,155,604</u>
Total investment return	1,794,019	1,734,326	39,192	3,567,537
Contributions	1,112,427	560,378	1,689,965	3,362,770
Appropriation of endowment assets for expenditure	(532,358)	(1,699,626)	—	(2,231,984)
Other changes:				
Transfer to create (remove) board-designated endowment funds	(3,041,690)	—	—	(3,041,690)
Other	<u>—</u>	<u>(201,627)</u>	<u>175,845</u>	<u>(25,782)</u>
Endowment net assets, end of year	<u>\$ 22,481,786</u>	<u>5,208,717</u>	<u>26,764,329</u>	<u>54,454,832</u>

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	2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 20,801,813	4,043,354	22,377,094	47,222,261
Investment return:				
Investment income	654,148	549,318	486	1,203,952
Net appreciation (realized and unrealized)	955,170	809,717	45,918	1,810,805
Total investment return	1,609,318	1,359,035	46,404	3,014,757
Contributions	1,404,170	642,596	2,398,085	4,444,851
Appropriation of endowment assets for expenditure	(1,094,406)	(872,246)	—	(1,966,652)
Other changes:				
Transfer to create (remove) board-designated endowment funds	233,516	(11,291)	(4,000)	218,225
Other	194,977	(346,182)	41,744	(109,461)
Endowment net assets, end of year	<u>\$ 23,149,388</u>	<u>4,815,266</u>	<u>24,859,327</u>	<u>52,823,981</u>

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

	2013	2012
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ <u>26,764,329</u>	<u>24,859,327</u>
Temporarily restricted net assets:		
(1) Term endowment funds	\$ 84,561	84,561
(2) The portion of perpetual endowment funds subject to a time restriction under UPMIFA:		
Without purpose restrictions	4,684,376	3,428,357
With purpose restrictions	<u>439,780</u>	<u>1,302,348</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 5,208,717</u>	<u>4,815,266</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. Deficiencies of this nature are reported as unrestricted net assets and were \$35,109 and \$26,628 as of August 31, 2013 and 2012, respectively. 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 boards of directors.

(c) *Return Objective and Risk Parameters*

The National Organization and the Chapters have individually adopted policies to comply with their respective laws governing endowment assets. 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 boards 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 provide an average rate of return ranging from 1.5% to 9.0% 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 Relates to Spending Policy*

The National Office and the Chapters have varying policies based on their interpretation of relevant laws for appropriating for distribution amounts averaging between 3.0% and 6.0% of its endowment fund's average fair value over the prior three years through the calendar year-end preceding the fiscal year in which the distribution is planned. However, if the market value of the Foundation's endowment fund as of the prior year-end is less than the fund's threshold level or corpus, the distribution will be less than the targeted distribution. 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 averages ranging from 2.0% to 5.0% annually. 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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(14) Temporarily and Permanently Restricted Net Asset

Temporarily restricted net assets are available for the following purposes for the years ended August 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Wish granting	\$ 5,183,350	2,851,324
Capital campaigns	1,461,541	747,223
Endowment assets	5,208,717	4,815,266
Other time restrictions	<u>22,768,419</u>	<u>15,259,206</u>
Total temporarily restricted net assets	<u>\$ 34,622,027</u>	<u>23,673,019</u>

For the years ended August 31, 2013 and 2012, permanently restricted net assets are restricted to the following:

	<u>2013</u>	<u>2012</u>
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ 26,764,329	24,859,327
Other investments in perpetuity, the income from which is expendable to support the activities of the Foundation and for granting wishes	<u>1,760,643</u>	<u>1,882,566</u>
Total permanently restricted net assets	<u>\$ 28,524,972</u>	<u>26,741,893</u>

(15) Retirement Plan

The Foundation has adopted defined-contribution retirement plans (the Plans). Employees are generally eligible for participation in the Plan after meeting criteria that include completion of one year of service and reaching 21 years of age. Under the provisions of the Plans, eligible employees may elect to defer a percentage of their salary subject to certain IRS limitations. Certain plans allow the Foundation to contribute up to 15.0% of the employee's salary while other plans allow only the employee to make contributions. Foundation contributions to the Plans for the years ended August 31, 2013 and 2012 were \$1,575,284 and \$1,457,923, respectively.

(16) Concentrations of 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 to 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.

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In-kind contributions totaling \$22,816,768 and \$21,104,314 were received from a single donor for the years ended August 31, 2013 and 2012, respectively, which represents 10.5% and 11.0%, respectively, of total public support. Should these contribution levels decrease, the Foundation may be adversely affected.

(17) Litigation and Claims

The Foundation is involved in litigation and claims arising in the ordinary course of business. In the opinion of management, based on consultation with legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the Foundation's combined financial position, change in net assets, or liquidity.

(18) Subsequent Events

The Foundation evaluated events subsequent from the combined statements of financial position date through February 4, 2014, the date on which the combined financial statements were available to be issued.