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| <u>_(v11)</u> | |

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Financial Statements

August 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

**MAKE-A-WISH FOUNDATION[®] OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

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Independent Auditors' Report

The Board of Directors

Make-A-Wish Foundation[®] of Orange County and the Inland Empire, Inc.:

We have audited the accompanying statements of financial position of Make-A-Wish Foundation[®] of Orange County and the Inland Empire, Inc. (the Foundation) as of August 31, 2011 and 2010, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Make-A-Wish Foundation[®] of Orange County and the Inland Empire, Inc. as of August 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

January 25, 2012

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Statements of Financial Position

August 31, 2011 and 2010

| Assets | 2011 | 2010 |
|---------------------------------------|--------------|-----------|
| Cash and cash equivalents | \$ 383,457 | 305,556 |
| Investments | 1,254,052 | 1,967,863 |
| Due from related entities | 141,949 | 109,842 |
| Prepaid expenses | 36,226 | 18,634 |
| Contributions receivable, net | 55,133 | 134,445 |
| Other assets | 10,705 | 43,650 |
| Property and equipment, net | 943,514 | 937,360 |
| Total assets | \$ 2,825,036 | 3,517,350 |
| Liabilities and Net Assets | | |
| Accounts payable and accrued expenses | \$ 206,626 | 112,329 |
| Accrued pending wish costs | 1,249,534 | 929,399 |
| Due to related entities | 8,111 | 6,020 |
| Total liabilities | 1,464,271 | 1,047,748 |
| Commitments and contingencies | | |
| Net assets: | | |
| Unrestricted | 1,205,517 | 2,231,158 |
| Temporarily restricted | 72,748 | 155,944 |
| Permanently restricted | 82,500 | 82,500 |
| Total net assets | 1,360,765 | 2,469,602 |
| Total liabilities and net assets | \$ 2,825,036 | 3,517,350 |

See accompanying notes to financial statements.

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Statement of Activities

Year ended August 31, 2011

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|------------------------------------------|---------------------|-----------------------------------|-----------------------------------|------------------|
| Revenues, gains, and other support: | | | | |
| Public support: | | | | |
| Contributions | \$ 2,463,887 | 55,133 | — | 2,519,020 |
| Grants | 104,100 | — | — | 104,100 |
| Total public support | <u>2,567,987</u> | <u>55,133</u> | <u>—</u> | <u>2,623,120</u> |
| Special events | 136,747 | 29,540 | — | 166,287 |
| Less direct benefit costs to donor | (38,860) | — | — | (38,860) |
| Total special events | <u>97,887</u> | <u>29,540</u> | <u>—</u> | <u>127,427</u> |
| Investment income, net | 186,718 | — | — | 186,718 |
| Other income | 174,939 | — | — | 174,939 |
| Net assets released from restrictions | <u>167,869</u> | <u>(167,869)</u> | <u>—</u> | <u>—</u> |
| Total revenues, gains, and other support | <u>3,195,400</u> | <u>(83,196)</u> | <u>—</u> | <u>3,112,204</u> |
| Expenses: | | | | |
| Program services: | | | | |
| Wish granting | 2,788,745 | — | — | 2,788,745 |
| Total program services | <u>2,788,745</u> | <u>—</u> | <u>—</u> | <u>2,788,745</u> |
| Support services: | | | | |
| Fundraising | 510,669 | — | — | 510,669 |
| Management and general | 921,627 | — | — | 921,627 |
| Total support services | <u>1,432,296</u> | <u>—</u> | <u>—</u> | <u>1,432,296</u> |
| Total expense | <u>4,221,041</u> | <u>—</u> | <u>—</u> | <u>4,221,041</u> |
| Change in net assets | (1,025,641) | (83,196) | — | (1,108,837) |
| Net assets, beginning of year | <u>2,231,158</u> | <u>155,944</u> | <u>82,500</u> | <u>2,469,602</u> |
| Net assets, end of year | <u>\$ 1,205,517</u> | <u>72,748</u> | <u>82,500</u> | <u>1,360,765</u> |

See accompanying notes to financial statements.

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Statement of Activities

Year ended August 31, 2010

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|---------------------------------------------|---------------------|-----------------------------------|-----------------------------------|------------------|
| Revenues, gains, and other support: | | | | |
| Public support: | | | | |
| Contributions | \$ 2,609,692 | 71,845 | — | 2,681,537 |
| Grants | 47,141 | — | — | 47,141 |
| Total public support | <u>2,656,833</u> | <u>71,845</u> | <u>—</u> | <u>2,728,678</u> |
| Special events | 12,632 | 33,410 | — | 46,042 |
| Less direct benefit costs to donor | <u>(58,451)</u> | <u>—</u> | <u>—</u> | <u>(58,451)</u> |
| Total special events | <u>(45,819)</u> | <u>33,410</u> | <u>—</u> | <u>(12,409)</u> |
| Investment income, net | 112,708 | 14 | — | 112,722 |
| Other income | 126,750 | — | — | 126,750 |
| Net assets released from restrictions | <u>84,510</u> | <u>(84,510)</u> | <u>—</u> | <u>—</u> |
| Total revenues, gains, and other support | <u>2,934,982</u> | <u>20,759</u> | <u>—</u> | <u>2,955,741</u> |
| Expenses: | | | | |
| Program services: | | | | |
| Wish granting | <u>2,508,006</u> | <u>—</u> | <u>—</u> | <u>2,508,006</u> |
| Total program services | <u>2,508,006</u> | <u>—</u> | <u>—</u> | <u>2,508,006</u> |
| Support services: | | | | |
| Fundraising | 469,206 | — | — | 469,206 |
| Management and general | <u>598,706</u> | <u>—</u> | <u>—</u> | <u>598,706</u> |
| Total support services | <u>1,067,912</u> | <u>—</u> | <u>—</u> | <u>1,067,912</u> |
| Total program and support services expenses | <u>3,575,918</u> | <u>—</u> | <u>—</u> | <u>3,575,918</u> |
| Change in net assets | <u>(640,936)</u> | <u>20,759</u> | <u>—</u> | <u>(620,177)</u> |
| Net assets, beginning of year | <u>2,872,094</u> | <u>135,185</u> | <u>82,500</u> | <u>3,089,779</u> |
| Net assets, end of year | <u>\$ 2,231,158</u> | <u>155,944</u> | <u>82,500</u> | <u>2,469,602</u> |

See accompanying notes to financial statements.

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Statements of Cash Flows

Years ended August 31, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------------------------------------------------------------|-------------------|------------------|
| Cash flows from operating activities: | | |
| Decrease in net assets | \$ (1,108,837) | (620,177) |
| Adjustments to reconcile decrease in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 35,391 | 31,589 |
| Bad debt expense | 47,794 | 53,245 |
| Net realized and unrealized gains on investments | (158,390) | (50,568) |
| Change in discount to present value of contributions receivable | — | (3,756) |
| Changes in assets and liabilities: | | |
| Contributions receivable | 31,518 | 4,085 |
| Due from related entities | (32,107) | (34,209) |
| Prepaid expenses | (17,592) | (4,816) |
| Other assets | 32,945 | 4,596 |
| Accounts payable and accrued expenses | 94,297 | (45,924) |
| Accrued pending wish costs | 320,135 | 122,563 |
| Due to related entities | 2,091 | 1,648 |
| Net cash used in operating activities | <u>(752,755)</u> | <u>(541,724)</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | (1,270,240) | (3,740,141) |
| Proceeds from sales of investments | 2,142,441 | 3,926,342 |
| Purchases of property and equipment | (41,545) | (35,577) |
| Net cash provided by investing activities | <u>830,656</u> | <u>150,624</u> |
| Net increase (decrease) in cash and cash equivalents | 77,901 | (391,100) |
| Cash and cash equivalents, beginning of year | <u>305,556</u> | <u>696,656</u> |
| Cash and cash equivalents, end of year | <u>\$ 383,457</u> | <u>305,556</u> |
| Supplemental cash flow information: | | |
| In-kind contributions | \$ 474,906 | 566,139 |

See accompanying notes to financial statements.

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Statement of Functional Expenses

Year ended August 31, 2011

| | Program services | Support services | | | Total |
|-------------------------------------------|-----------------------------|-------------------------|-----------------------------------|-----------------------------------|------------------|
| | Wish granting | Fundraising | Management and general | Total support services | |
| Direct costs of wishes | \$ 2,180,196 | — | — | — | 2,180,196 |
| Salaries, taxes, and benefits | 369,729 | 295,681 | 390,958 | 686,639 | 1,056,368 |
| Severance costs | — | — | 200,078 | 200,078 | 200,078 |
| Printing, subscriptions, and publications | 3,881 | 35,877 | 3,063 | 38,940 | 42,821 |
| Professional fees | 74,657 | 47,772 | 196,836 | 244,608 | 319,265 |
| Rent and utilities | 25,897 | 16,916 | 21,137 | 38,053 | 63,950 |
| Postage and delivery | 6,501 | 5,770 | 3,792 | 9,562 | 16,063 |
| Travel | 11,700 | 8,108 | 7,054 | 15,162 | 26,862 |
| Meetings and conferences | 4,862 | 30,330 | 3,383 | 33,713 | 38,575 |
| Office supplies | 6,819 | 4,040 | 3,600 | 7,640 | 14,459 |
| Communications | 12,299 | 6,640 | 6,188 | 12,828 | 25,127 |
| Repairs and maintenance | 1,075 | 679 | 558 | 1,237 | 2,312 |
| Insurance | 4,621 | 2,663 | 3,738 | 6,401 | 11,022 |
| Bad debt expense | — | — | 47,794 | 47,794 | 47,794 |
| Membership dues | 764 | 1,124 | 635 | 1,759 | 2,523 |
| National partnership dues | 58,246 | 9,834 | 7,565 | 17,399 | 75,645 |
| Miscellaneous | 15,123 | 35,936 | 11,531 | 47,467 | 62,590 |
| Depreciation and amortization | 12,375 | 9,299 | 13,717 | 23,016 | 35,391 |
| | <u>\$ 2,788,745</u> | <u>510,669</u> | <u>921,627</u> | <u>1,432,296</u> | <u>4,221,041</u> |

See accompanying notes to financial statements.

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Statement of Functional Expenses

Year ended August 31, 2010

| | Program services | Support services | | | Total |
|-------------------------------------------|-----------------------------|-------------------------|-----------------------------------|-----------------------------------|------------------|
| | Wish granting | Fundraising | Management and general | Total support services | |
| Direct costs of wishes | \$ 1,827,399 | — | — | — | 1,827,399 |
| Salaries, taxes, and benefits | 419,583 | 237,917 | 401,758 | 639,675 | 1,059,258 |
| Printing, subscriptions, and publications | 1,406 | 38,810 | 748 | 39,558 | 40,964 |
| Professional fees | 58,132 | 34,725 | 53,722 | 88,447 | 146,579 |
| Rent and utilities | 36,552 | 15,341 | 26,154 | 41,495 | 78,047 |
| Postage and delivery | 6,288 | 4,875 | 4,136 | 9,011 | 15,299 |
| Travel | 7,787 | 7,987 | 6,951 | 14,938 | 22,725 |
| Meetings and conferences | 7,216 | 10,768 | 4,915 | 15,683 | 22,899 |
| Office supplies | 7,663 | 11,875 | 4,262 | 16,137 | 23,800 |
| Communications | 12,750 | 4,749 | 8,193 | 12,942 | 25,692 |
| Advertising and media (in-kind) | — | 75,845 | — | 75,845 | 75,845 |
| Repairs and maintenance | 1,818 | 763 | 1,312 | 2,075 | 3,893 |
| Insurance | 5,830 | 2,447 | 4,209 | 6,656 | 12,486 |
| Bad debt expense | — | — | 53,245 | 53,245 | 53,245 |
| Membership dues | 903 | 740 | 880 | 1,620 | 2,523 |
| National partnership dues | 60,359 | 11,913 | 7,148 | 19,061 | 79,420 |
| Miscellaneous | 39,568 | 6,192 | 8,495 | 14,687 | 54,255 |
| Depreciation and amortization | 14,752 | 4,259 | 12,578 | 16,837 | 31,589 |
| | <u>\$ 2,508,006</u> | <u>469,206</u> | <u>598,706</u> | <u>1,067,912</u> | <u>3,575,918</u> |

See accompanying notes to financial statements.

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Notes to Financial Statements

August 31, 2011 and 2010

(1) Organization

Make-A-Wish Foundation® of Orange County and the Inland Empire, Inc. (the Foundation) is a California 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), which operates to develop and implement national programs in public relations and fundraising for the benefit of all local chapters. In addition, the local chapter is obligated to comply with a chapter agreement with the National Organization and such guidelines, resolutions, and policies as may be adopted by the National Organization'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.

(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. Cash and cash equivalents at August 31, 2011 and 2010 include \$98,672 and \$223,148, respectively, 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 their use is limited by donor-imposed restrictions or law.

(d) Contributions Receivable

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

(e) Property and Equipment, Net

Property and equipment having a useful life of more than one year are stated at cost when purchased. Donated assets are capitalized at the estimated fair value at the date of receipt and restrictions are released once the asset has been placed into service. 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 terms of the leases. 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.

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Notes to Financial Statements

August 31, 2011 and 2010

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

(f) Fair Value Measurements

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

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liability 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, either directly or indirectly. If the asset has a specified term, a Level 2 input must be observable for substantially the full term of the asset.
- 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 note 3 to the financial statements.

The Foundation has adopted the provisions of Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, 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.

On September 1, 2009, the Foundation adopted the provisions of ASC Topic 820 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Notes to Financial Statements

August 31, 2011 and 2010

(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 or law 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.

(h) Revenue Recognition

Unconditional promises to give are recorded as contributions revenue when the promise is received. Conditional promises are recorded as revenue once the conditions are substantially met. Contributions, grants, and bequests are recognized as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. When restrictions are met in the same period as the contribution is received, the Foundation records the contribution and the expense as unrestricted. Contributions of assets other than cash are recorded at their estimated fair value. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

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

| | <u>2011</u> | <u>2010</u> |
|-------------------------|-------------------|----------------|
| Wish related | \$ 451,904 | 490,294 |
| Advertising and media | — | 75,845 |
| Internal special events | <u>23,002</u> | <u>—</u> |
| Total | <u>\$ 474,906</u> | <u>566,139</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 that are used in facilitating the event. Examples of such donated items are generally food, beverage, facility costs, and auction items.

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Notes to Financial Statements

August 31, 2011 and 2010

Program or supporting services expenses were recorded at fair value totaling \$451,904 and \$566,139 in 2011 and 2010, respectively.

Wish related in-kind contributions consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------|-------------------|----------------|
| Computer equipment, games, and toys | \$ 16,617 | 5,129 |
| Cruises | 12,065 | 5,894 |
| Lodging | 218,160 | 290,419 |
| Theme parks | 40,537 | 56,293 |
| Transportation | 51,346 | 55,825 |
| Other wish-related donations | 113,179 | 76,734 |
| Total | <u>\$ 451,904</u> | <u>490,294</u> |

Advertising and media are used to help the Foundation communicate its message or mission and includes 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 when received 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.

(i) ***Income Taxes***

The Foundation is a not-for-profit organization exempt from federal income and California taxes under the provisions of Internal Revenue Code (IRC) Section 501(c)(3) and Section 23701d of the Revenue and Taxation Code. 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.

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, 2011.

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Notes to Financial Statements

August 31, 2011 and 2010

(j) Functional Expenses

The Foundation performs three functions: wish granting, fundraising, and management and general. Definitions of these functions are as follows:

Wish Granting

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

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, 2011 and 2010, the Foundation incurred no significant joint costs for activities that include fundraising appeals.

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.

(k) Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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, investments, valuation of contributions receivable, and accrued pending wish costs, and whether an allowance for uncollectible contributions receivable is required. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(l) Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. There was no impact on the previously reported change in net assets of the Foundation.

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Notes to Financial Statements

August 31, 2011 and 2010

(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 tables as of August 31, 2011 and 2010 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.

The Foundation has adopted 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. See note 2 to the financial statements.

(b) Fair Value Hierarchy

The following tables present the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis at August 31, 2011 and 2010:

**MAKE-A-WISH FOUNDATION® OF ORANGE COUNTY
AND THE INLAND EMPIRE, INC.**

Notes to Financial Statements

August 31, 2011 and 2010

| Description | August 31, 2011 | Fair value measurements at August 31, 2011, using | |
|----------------------------------|----------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant Other Inputs (Level 2) |
| Cash and cash equivalents | \$ 383,457 | 383,457 | — |
| Investments: | | | |
| Equity securities: | | | |
| U.S. corporate equity securities | \$ 510,885 | 510,885 | — |
| Foreign equity securities | 245,286 | 245,286 | — |
| Exchange traded funds: | | | |
| Commodities | 34,629 | 34,629 | — |
| Debt securities: | | | |
| Corporate | 410,863 | — | 410,863 |
| Investment funds | 52,389 | 52,389 | — |
| Total investments | \$ 1,254,052 | 843,189 | 410,863 |

| Description | August 31, 2010 | Fair value measurements at August 31, 2010, using |
|----------------------------------|----------------------------|---------------------------------------------------------------------------------------|
| | | Quoted prices in active markets for identical assets (Level 1) |
| Cash and cash equivalents | \$ 305,556 | 305,556 |
| Investments: | | |
| Equity securities: | | |
| U.S. corporate equity securities | \$ 626,182 | 626,182 |
| Foreign equity securities | 374,353 | 374,353 |
| Exchange traded funds: | | |
| Commodities | 88,560 | 88,560 |
| Debt securities: | | |
| U.S. Treasury | 244,417 | 244,417 |
| Corporate | 634,351 | 634,351 |
| Total investments | \$ 1,967,863 | 1,967,863 |

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The Foundation's accounting policy is to recognize transfers between levels of fair value hierarchy on the date of the event or change in circumstances that caused the transfer. For the year ended August 31, 2011, the Foundation transferred \$410,863 in corporate debt securities from Level 1 to Level 2 investments as fair value of these investments were based on prices of similar assets with observable inputs.

Total investment income, gains, and losses for the years ended August 31, 2011 and 2010 consist of the following:

| | <u>2011</u> | <u>2010</u> |
|------------------------------------|-------------------|-----------------|
| Interest and dividend income | \$ 50,356 | 82,609 |
| Realized and unrealized gains, net | 158,390 | 50,568 |
| Less investment expenses | <u>(22,028)</u> | <u>(20,455)</u> |
| Investment income, net | <u>\$ 186,718</u> | <u>112,722</u> |

(4) Contributions Receivable

Contributions receivable include pledges August 31, 2011 and 2010. The following is a summary of the Foundation's contributions receivable at August 31, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------------|------------------|----------------|
| Total amounts due in: | | |
| One year | \$ <u>55,133</u> | <u>144,045</u> |
| Gross contributions receivable | 55,133 | 144,045 |
| Less allowance for doubtful accounts | <u>—</u> | <u>(9,600)</u> |
| Contributions receivable, net | <u>\$ 55,133</u> | <u>134,445</u> |

(5) Transactions with Related Entities

The Foundation pays the National Organization annual dues, which were \$75,645 and \$79,420 for the years ended August 31, 2011 and 2010, respectively. The National Organization supports the Foundation by providing funding and other support for the granting of wishes.

As part of the National Organization'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 received support from the Wish Fulfillment Fund with receipts during the years ended August 31, 2011 and 2010, totaling \$0 and \$10,091, respectively, which is recorded as grants.

Chapters that 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 \$137,858 and \$124,050 for the years ended August 31, 2011 and 2010, respectively, which is recorded in the accompanying statements of activities as other income.

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

| | <u>2011</u> | <u>2010</u> |
|---------------------------------|-------------------|----------------|
| Balance at August 31: | | |
| Due from National Organization | \$ 66,884 | 38,234 |
| Due from other chapters | <u>75,065</u> | <u>71,608</u> |
| Total due from related entities | <u>\$ 141,949</u> | <u>109,842</u> |
| Due to other chapters | \$ 8,111 | 6,020 |

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 2011 and 2010, the Foundation received contributions, both cash and in-kind, from board members totaling \$30,402 and \$21,195, respectively. In 2011 and 2010, amounts due from board members totaled \$0 and \$50, respectively, and are included in contributions receivable in the accompanying statements of financial position. Amounts paid to related parties for goods and services used in the Foundation's operations totaled \$34,042 and \$31,293 for the years ended August 31, 2011 and 2010, respectively. Amounts due to related parties at August 31, 2011 and 2010 totaled \$48 and \$426, respectively, and are included in accounts payable in the accompanying statements of financial position.

(6) Property and Equipment, Net

Property and equipment as of August 31, 2011 and 2010 consist of the following:

| | <u>2011</u> | <u>2010</u> |
|------------------------------------------------|-------------------|------------------|
| Land | \$ 353,147 | 353,147 |
| Buildings and building improvements | 688,385 | 685,735 |
| Computer equipment and software | 72,990 | 62,439 |
| Office furniture | 169,817 | 168,084 |
| Leasehold improvements | <u>23,486</u> | <u>1,826</u> |
| | 1,307,825 | 1,271,231 |
| Less accumulated depreciation and amortization | <u>(364,311)</u> | <u>(333,871)</u> |
| Property and equipment, net | <u>\$ 943,514</u> | <u>937,360</u> |

Depreciation and amortization expense totaled \$35,391 and \$31,589 for the years ended August 31, 2011 and 2010, respectively.

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(7) Accrued Pending Wish Costs

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

1. Receiving a referral,
2. Obtaining the required medical eligibility form,
3. Contact with the wish family has occurred to determine the prospective wish,
4. Determination that the wish falls within the National Organization's wish granting policy, and
5. The wish is expected to be granted within the next 12 months.

As of August 31, 2011 and 2010, the Foundation had 192 and 177 reportable pending wishes, respectively.

(8) Leases

The Foundation is obligated under an operating lease for its office in the Inland Empire, which expires August 1, 2015 with an option to renew for another five years. Total rent expense for all operating leases for the years ended August 31, 2011 and 2010 totaled \$33,456 and \$39,028, respectively.

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

| | Operating leases |
|---------------------------------|-----------------------------|
| Year ending August 31: | |
| 2012 | \$ 30,950 |
| 2013 | 31,610 |
| 2014 | 32,864 |
| 2015 | 30,951 |
| Total minimum lease payments | \$ 126,375 |

(9) 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 require disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

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

(a) Interpretation of Relevant Law

The board of directors of the Foundation has interpreted the California 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

Endowment net asset composition by type of fund as of August 31, 2011 and 2010 is as follows:

| | 2011 | | | Total |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------|
| | Unrestricted | Temporarily restricted | Permanently restricted | |
| Donor-restricted endowment funds | \$ (166) | — | 82,500 | 82,334 |
| Board-designated endowment funds | 10,984 | — | — | 10,984 |
| Total funds | \$ 10,818 | — | 82,500 | 93,318 |

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| | | 2010 | | | |
|-------------------------------------|----|---------------------|-----------------------------------|-----------------------------------|----------------|
| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Donor-restricted endowment funds | \$ | — | 5,730 | 82,500 | 88,230 |
| Board-designated endowment funds | | 11,770 | — | — | 11,770 |
| Total funds | \$ | <u>11,770</u> | <u>5,730</u> | <u>82,500</u> | <u>100,000</u> |

Changes in endowment net assets for the years ended August 31, 2011 and 2010 are as follows:

| | | 2011 | | | |
|--------------------------------------------|----|---------------------|-----------------------------------|-----------------------------------|----------------|
| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Endowment net assets, beginning of year | \$ | 11,770 | 5,730 | 82,500 | 100,000 |
| Investment return: | | | | | |
| Investment income | | 97 | 723 | — | 820 |
| Net appreciation (depreciation) | | (1,049) | (6,453) | — | (7,502) |
| | | <u>(952)</u> | <u>(5,730)</u> | <u>—</u> | <u>(6,682)</u> |
| Endowment net assets, end of year | \$ | <u>10,818</u> | <u>—</u> | <u>82,500</u> | <u>93,318</u> |

| | | 2010 | | | |
|------------------------------------------------------|----|---------------------|-----------------------------------|-----------------------------------|----------------|
| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Endowment net assets, beginning of year | \$ | 11,770 | 12,156 | 82,500 | 106,426 |
| Investment return: | | | | | |
| Investment income | | — | 14 | — | 14 |
| Appropriation of endowment assets for expenditure | | — | (6,440) | — | (6,440) |
| Endowment net assets, end of year | \$ | <u>11,770</u> | <u>5,730</u> | <u>82,500</u> | <u>100,000</u> |

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The following is a description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only):

| | 2011 | 2010 |
|----------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| 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 | \$ 82,500 | 82,500 |
| Temporarily restricted net assets: | | |
| The portion of perpetual endowment funds subject to a time restriction under UPMIFA: | | |
| Without purpose restrictions | \$ — | 5,730 |
| Total endowment funds classified as temporarily restricted net assets | \$ — | 5,730 |

(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. There are fund deficiencies of \$166 and \$0 as of August 31, 2011 and 2010, respectively.

(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. 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 principal while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 9% 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.

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(e) Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Foundation has a policy of not appropriating any funds until the endowment reaches \$105,000 at which time the endowment can be drawn down \$5,000. 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 of 4% 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.

(10) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes for the years ended August 31, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|-----------------------------------------|------------------|----------------|
| Wish granting | \$ 17,615 | 31,649 |
| Time restrictions | <u>55,133</u> | <u>124,295</u> |
| Total temporarily restricted net assets | <u>\$ 72,748</u> | <u>155,944</u> |

For the years ended August 31, 2011 and 2010, permanently restricted net assets are restricted to the following:

| | <u>2011</u> | <u>2010</u> |
|------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Investments in perpetuity, the income from which is expendable to support any activities of the Foundation | \$ 82,500 | 82,500 |

(11) Retirement Plan

The Foundation has a defined contribution retirement plan (the Plan). Employees are eligible for participation in the Plan after reaching 21 years of age and upon completion of one year of service. Under the provisions of the Plan, eligible employees may elect to defer a percentage of their salary subject to certain IRC limitations. The Foundation matches employee contributions up to 4% of the employee's salary. Foundation contributions to the Plan for the years ended August 31, 2011 and 2010 were \$24,145 and \$11,693, respectively.

(12) Concentrations of Credit Risk

In-kind contributions totaling \$155,225 and \$94,431 were received from a single donor for the years ended August 31, 2011 and 2010, respectively, which represent 5.9% and 3.4%, respectively, of total public support. Should these contribution levels decrease, the Foundation may be adversely affected.

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(13) 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.

(14) Severance Costs

During the year ended August 31, 2011, the Foundation paid \$200,078 in severance packages to two executive management employees upon termination as required per their employment contracts.

(15) Subsequent Events

The Foundation has evaluated subsequent events from the statements of financial position date through January 25, 2012, the date at which the financial statements were available to be issued.