

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

COMBINED FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2018



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**MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
TABLE OF CONTENTS
YEAR ENDED AUGUST 31, 2018**

INDEPENDENT AUDITORS' REPORT	1
COMBINED FINANCIAL STATEMENTS	
COMBINED STATEMENT OF FINANCIAL POSITION	3
COMBINED STATEMENT OF ACTIVITIES	4
COMBINED STATEMENT OF FUNCTIONAL EXPENSES	5
COMBINED STATEMENT OF CASH FLOWS	6
NOTES TO COMBINED FINANCIAL STATEMENTS	8



INDEPENDENT AUDITORS' REPORT

Board of Directors
Make-A-Wish Foundation® of America and Related Entities
Phoenix, Arizona

We have audited the accompanying financial statements of Make-A-Wish Foundation® of America and Related Entities (collectively, the Foundation) which comprise the combined statement of financial position as of August 31, 2018, and the related combined statements of activities, functional expenses, and cash flows, for the year 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of combined 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditor considers internal controls 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 controls. 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.

Board of Directors
Make-A-Wish Foundation® of America and Related Entities

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Make-A-Wish Foundation® of America and Related Entities as of August 31, 2018 and change in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
May 28, 2019

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
COMBINED STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2018

ASSETS

Cash and Cash Equivalents	\$ 55,722,623
Investments	158,188,046
Prepaid Expenses	3,691,413
Contributions Receivable, Net	51,086,379
In-Kind Rent Receivable, Net	521,624
Other Assets	4,042,420
Split-Interest Agreements	2,636,727
Restricted Cash	5,274,932
Property and Equipment, Net	64,866,428
Beneficial Interest in Assets Held by Others	1,394,419
Investments Held for Long-Term Purposes	<u>64,645,016</u>
Total Assets	<u><u>\$ 412,070,027</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Lines of Credit	\$ 200,000
Accounts Payable and Accrued Expenses	22,029,064
Accrued Pending Wish Costs, Cash	64,845,127
Accrued Pending Wish Costs, In-Kind	53,243,015
Other Liabilities	5,149,539
Capital Lease Obligations	444,490
Notes Payable	<u>30,668,291</u>
Total Liabilities	<u>176,579,526</u>

NET ASSETS

Unrestricted	127,618,845
Temporarily Restricted	64,270,628
Permanently Restricted	<u>43,601,028</u>
Total Net Assets	<u><u>235,490,501</u></u>

Total Liabilities and Net Assets	<u><u>\$ 412,070,027</u></u>
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See accompanying Notes to Combined Financial Statements.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
COMBINED STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Public Support:				
Contributions, Net of Write-Offs	\$ 263,026,835	\$ 25,196,287	\$ 2,295,167	\$ 290,518,289
Grants	13,497,636	1,573,835	918,700	15,990,171
Total Public Support	<u>276,524,471</u>	<u>26,770,122</u>	<u>3,213,867</u>	<u>306,508,460</u>
Internal Special Events	72,966,564	2,326,608	-	75,293,172
Less Costs of Direct Benefits to Donors	<u>(20,138,068)</u>	<u>-</u>	<u>-</u>	<u>(20,138,068)</u>
Total Internal Special Events	52,828,496	2,326,608	-	55,155,104
Investment Income, Net	12,164,547	2,817,292	48,190	15,030,029
Other Income (Loss)	6,604,151	(1,448)	-	6,602,703
Change in Value of Split-Interest Agreements	24,968	(15,928)	252,686	261,726
Net Assets Released from Restrictions	<u>27,719,123</u>	<u>(27,719,123)</u>	<u>-</u>	<u>-</u>
Total Revenues, Gains, and Other Support	375,865,756	4,177,523	3,514,743	383,558,022
EXPENSES				
Program Services:				
Wish Granting	228,415,727	-	-	228,415,727
Chapter Support	14,235,399	-	-	14,235,399
Program-Related Support	7,195,889	-	-	7,195,889
Training and Development	2,654,484	-	-	2,654,484
Public Information	<u>20,050,982</u>	<u>-</u>	<u>-</u>	<u>20,050,982</u>
Total Program Services	272,552,481	-	-	272,552,481
Support Services:				
Fundraising	65,448,476	-	-	65,448,476
Management and General	<u>37,832,628</u>	<u>-</u>	<u>-</u>	<u>37,832,628</u>
Total Support Services	103,281,104	-	-	103,281,104
Total Program and Support Services Expense	375,833,585	-	-	375,833,585
OTHER LOSSES	<u>270,274</u>	<u>-</u>	<u>-</u>	<u>270,274</u>
Total Expenses and Losses	<u>376,103,859</u>	<u>-</u>	<u>-</u>	<u>376,103,859</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(238,103)	4,177,523	3,514,743	7,454,163
NONOPERATING ACTIVITIES				
Building Campaign Contributions, Net	-	4,676,852	-	4,676,852
Building Campaign Expenditures	<u>(310,580)</u>	<u>(32,785)</u>	<u>-</u>	<u>(343,365)</u>
Change in Net Assets from Nonoperating Activities	<u>(310,580)</u>	<u>4,644,067</u>	<u>-</u>	<u>4,333,487</u>
CHANGE IN NET ASSETS	(548,683)	8,821,590	3,514,743	11,787,650
Net Assets - Beginning of Year	<u>128,167,528</u>	<u>55,449,038</u>	<u>40,086,285</u>	<u>223,702,851</u>
NET ASSETS - END OF YEAR	<u>\$ 127,618,845</u>	<u>\$ 64,270,628</u>	<u>\$ 43,601,028</u>	<u>\$ 235,490,501</u>

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, 2018

	Program Services					Support Services			Building Campaign Costs	Total	
	Wish Granting	Chapter Support	Program-Related Support	Training and Development	Public Information	Total Program Services	Fundraising	Management and General			Total Support Services
Direct Costs of Wishes	\$ 173,707,586	\$ -	\$ -	\$ -	\$ -	\$ 173,707,586	\$ -	\$ -	\$ -	\$ -	\$ 173,707,586
Change in Pending Wish Liability	3,271,033	-	-	-	-	3,271,033	-	-	-	-	3,271,033
Salaries, Taxes, and Benefits	36,122,261	7,180,374	4,958,897	1,260,669	1,892,092	51,414,293	31,307,067	25,549,807	56,856,874	-	108,271,167
Printing, Subscriptions, and Publications	808,863	114,261	38,783	19,083	1,466,038	2,447,028	3,995,515	681,595	4,677,110	7,258	7,131,396
Professional Fees	2,052,352	4,796,143	165,761	225,555	760,454	8,000,265	6,725,777	3,204,911	9,930,688	299,738	18,230,691
Rent and Utilities	3,741,514	259,841	777,422	102,415	96,266	4,977,458	2,726,172	2,580,498	5,306,670	-	10,284,128
Postage and Delivery	406,014	50,163	49,676	4,941	879,233	1,390,027	1,684,703	409,001	2,093,704	-	3,483,731
Travel	705,965	396,258	101,765	105,498	63,862	1,373,348	1,252,704	592,137	1,844,841	3,584	3,221,773
Meetings and Conferences	1,290,614	48,032	90,519	834,723	65,905	2,329,793	2,342,165	592,715	2,934,880	-	5,264,673
Office Supplies	1,008,533	85,326	84,225	11,058	20,662	1,209,804	576,844	594,262	1,171,106	-	2,380,910
Communications	798,667	15,016	88,064	11,246	21,462	934,455	507,856	332,030	839,886	-	1,774,341
Advertising and Media (Cash)	81,767	22,883	7,566	11,342	94,422	217,980	492,874	12,182	505,056	-	723,036
Advertising and Media (In-Kind)	1,271,824	-	133,540	-	14,616,731	16,022,095	9,159,947	20,937	9,180,884	-	25,202,979
Repairs and Maintenance	410,399	22,374	163,992	13,913	11,350	622,028	370,445	217,680	588,125	-	1,210,153
Insurance	30,385	684,762	27,690	3,949	2,563	749,349	51,132	84,638	135,770	-	885,119
Bad Debt Expense	1,071	-	297,733	-	-	298,804	329,076	51,257	380,333	32,785	711,922
Membership Dues	47,207	132,996	8,498	571	1,994	191,266	124,218	38,619	162,837	-	354,103
Volunteer Training	36,346	-	18,728	-	-	55,074	459	9,618	10,077	-	65,151
Miscellaneous	1,424,360	4,508	121,206	15,609	25,912	1,591,595	2,994,889	1,439,367	4,434,256	-	6,025,851
Depreciation and Amortization	1,198,966	422,462	61,824	33,912	32,036	1,749,200	806,633	1,421,374	2,228,007	-	3,977,207
Special Event Expenses	-	-	-	-	-	-	20,138,068	-	20,138,068	-	20,138,068
Administrative Charges	-	-	-	-	-	-	-	159,191	159,191	-	159,191
Total	228,415,727	14,235,399	7,195,889	2,654,484	20,050,982	272,552,481	85,586,544	37,991,819	123,578,363	343,365	396,474,209
Less Expenses Netted Against Revenues on the Statement of Activities:											
Special Event Expenses	-	-	-	-	-	-	(20,138,068)	-	(20,138,068)	-	(20,138,068)
Administrative Charges	-	-	-	-	-	-	-	(159,191)	(159,191)	-	(159,191)
Less Expenses Listed as Nonoperating on the Statement of Activities	-	-	-	-	-	-	-	-	-	(343,365)	(343,365)
Total Expenses Included in the Expense Section of the Statement of Activities	\$ 228,415,727	\$ 14,235,399	\$ 7,195,889	\$ 2,654,484	\$ 20,050,982	\$ 272,552,481	\$ 65,448,476	\$ 37,832,628	\$ 103,281,104	\$ -	\$ 375,833,585

See accompanying Notes to Combined Financial Statements.

**MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED AUGUST 31, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 11,787,650
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization	3,977,207
Bad Debt Expense and Other	725,225
Contributions Restricted for Long-Term Investment	(2,883,423)
Contributions Restricted for Investment in Property and Equipment	(3,385,350)
Net Realized and Unrealized Gains on Investments	(10,055,528)
Losses on Sale of Property and Equipment	256,971
Contributed Property and Equipment and Inventory	(1,528,585)
Contributed In-Kind Rent Receivable	(26,472)
Change in Value of Split-Interest Agreements	(261,726)
Change in Discount to Present Value of Contributions Receivable	387,879
Property Taxes Financed Through a Notes Payable	53,958
(Increase) Decrease in Assets:	
Contributions Receivable	(7,078,064)
Notes Receivable	-
Prepaid Expenses	196,687
Other Assets	146,058
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	3,386,354
Accrued Pending Wish Costs	2,669,988
Other Liabilities	804,680
Net Cash Used by Operating Activities	(826,491)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Investments	(52,151,905)
Proceeds from Sales of Investments	52,594,841
Purchases of Property and Equipment	(14,699,497)
Purchase of Beneficial Interest in Assets Held by Others	(142,756)
Distributions Received from Beneficial Interest in Assets Held by Others	28,876
Proceeds from Sale of Property and Equipment	70,637
Change in Restricted Cash	(188,470)
Collections on Notes Receivable	423,534
Disposition of Assets Held at Community Foundations	26,179
Net Cash Used by Investing Activities	(14,038,561)

See accompanying Notes to Combined Financial Statements.

**MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED AUGUST 31, 2018**

CASH FLOWS FROM FINANCING ACTIVITIES

Contributions Restricted for Long-Term Investment	\$ 2,883,423
Contributions Restricted for Property and Equipment	3,385,350
Distributions Received from Beneficial Interest in Assets Held by Others for Investments Held for Long-Term	5,771
Debt Issuance Costs Paid	(67,453)
Proceeds from Notes Payable	5,000,000
Change in Restricted Cash Due to Financing Requirements	(3,788,268)
Principal Payments on Capital Lease Obligations	(120,535)
Principal Payments on Notes Payable	(28,583)
Payments on Line of Credit	(541,999)
Net Cash Provided by Financing Activities	<u>6,727,706</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

(8,137,346)

Cash and Cash Equivalents - Beginning of Year

63,859,969

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 55,722,623

SUPPLEMENTAL CASH FLOW INFORMATION

Cash Paid for Interest	\$ 556,123
Donated Contributed Property and Equipment and Inventory	1,528,585
Acquisition of Equipment Through a Capital Lease	189,495
Acquisition of Property and Equipment Through an Improvement Allowance	716,500
Property and Equipment Included in Accounts Payable	20,997
Acquisition of Property and Equipment Through a Note Payable	10,149,000

See accompanying Notes to Combined Financial Statements.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 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 Foundation was organized for the purpose of creating life changing wishes for children with critical illnesses. 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. The Chapters are 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 the 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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 inter-entity accounts and transactions have been eliminated.

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, 2018 is \$232,776 of certificates of deposit with an initial term of less than three months and \$10,156,060 of money market mutual funds.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 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 increases or decreases 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. Investments held for long-term purposes have been segregated due to donor-imposed restrictions that limit their use to long-term purposes.

Contributions Receivable

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

Property and Equipment, Net

Property and equipment having a useful life of more than one year are capitalized at cost when purchased. The cost threshold for recording capital additions range from \$500 to \$5,000. 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 lives of the assets 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.

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 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.

Fair Value Measurements

Fair value measurements of financial assets and financial liabilities and fair value measurements of nonfinancial items are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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 – 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 – 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 – Unobservable inputs for the asset (or liability) used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset (or liability) at measurement date.

See Additional information in Note 3.

The Foundation utilizes the net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate fair values of hedge funds, which do not have readily determinable fair values. NAV, in many instances, may not equal fair value.

Net Assets

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

Permanently Restricted – Net assets subject to donor-imposed restrictions that the principal be maintained in perpetuity and the income be used in accordance with donor stipulations.

Temporarily Restricted – 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 that are not subject to donor-imposed restrictions or law.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Unconditional promises to give are recognized at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. Amortization of the discounts is recorded as additional contributions revenue. Conditional promises are recorded as revenue once the conditions are substantially met. Contributions, grants, and bequests are recognized as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the 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, services, and materials that are reported in the statement of activities as follows at:

	<u>Programs</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Program and Support Service Expenses:				
Wish Related	\$ 83,199,199	\$ -	\$ -	\$ 83,199,199
Professional Services	793,182	132,104	328,105	1,253,391
Rent	186,108	99,148	42,067	327,323
Advertising and Media	16,022,095	9,159,947	20,937	25,202,979
Other	<u>850,608</u>	<u>585,644</u>	<u>114,297</u>	<u>1,550,549</u>
Total Program and Support Service	<u>\$ 101,051,192</u>	<u>\$ 9,976,843</u>	<u>\$ 505,406</u>	111,533,441
Special Events				5,540,547
In-Kind Receivable Including				
Rent (Asset)				271,272
Investments (Asset)				1,336,325
Inventory (Asset)				563,814
Property and Equipment (Capitalized)				964,771
Total				<u>\$ 120,210,170</u>

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

An internal special event is a fundraising event coordinated and staffed by Foundation personnel rather than a third-party support group or organization. It is designed to attract people for the purpose of raising mission awareness, for increasing funding from existing donors, and the cultivation of future donors. Internal special event in-kind amounts are donated items recorded at fair value that are used in facilitating the event. Examples of such donated items are generally food, beverage, facility costs, and auction items.

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. Donated advertising and media are reported as contribution revenue and fundraising or public information, if allocated as a joint cost, 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.

Income Taxes

The National Organization and each chapter is a nonprofit organization exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3). The National Organization 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.

Management believes that no uncertain tax positions exist for the Foundation at August 31, 2018. The Foundation files income tax returns in U.S. federal, state, and territorial jurisdictions.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 in granting wishes to children with critical illnesses.

Chapter Support

Activities performed by the National Organization that promote Chapter development, monitor and assist Chapters in complying with policies and guidelines, provide support for day-to-day Chapter management decisions, develop wish resources, administer wish programs, handle wish referrals and 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 consisting of national conference workshops and e-learning 'best practices' classes prepared and conducted by the Foundation for training, development and implementation of the wish programs of the Foundations, including but not limited to, 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.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses (Continued)

Fundraising

Activities performed by the Foundation to generate funds and/or resources to support its programs and operations. During the fiscal year ended August 31, 2018, the Foundation incurred joint costs for activities that include fundraising appeals (primarily direct mail campaigns and newsletters), which have been allocated as follows:

Wish Granting	\$ 895,476
Public Information	2,451,559
Fundraising	3,261,692
Management and General	789,603
Total	<u>\$ 7,398,330</u>

Management and General

All costs not identifiable with a specific 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 recordkeeping, budgeting, financial reporting, and activities relating to these functions such as salaries, rent, supplies, equipment, and other expenses.

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

Deferred Rent

The Foundation accounts for rent expense evenly over the term of the various leases using the straight-line method. The unamortized deferred rent was \$1,904,108 at August 31, 2018.

Management Estimates

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

NOTE 3 FAIR VALUE MEASUREMENTS

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.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value of Financial Instruments

The fair values of the financial instruments shown in the following table as of August 31, 2018 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.

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 managers. Major investment decisions are authorized by the boards' audit and finance committees, which oversee the Foundation's investment programs in accordance with established guidelines.

Allocation of Investment Strategies

In addition to traditional stocks and fixed income securities, the Foundation 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, and are valued accordingly. Private equity funds employ buy-out and venture capital strategies and focus on investments in turn-around situations. Real asset funds generally hold interests in public real estate investment trusts (REITS) 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 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 Foundation's 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.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Hierarchy

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis, except those measured at NAV per share as a practical expedient, at August 31, 2018:

	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV	Total
Assets					
Investments:					
Mutual Funds:					
Domestic Equity	\$ 50,688,967	\$ -	\$ -	\$ -	\$ 50,688,967
International Equity	21,481,375	-	-	-	21,481,375
Global	345,795	-	-	-	345,795
Money Market Funds	816,990	-	-	-	816,990
Real Estate	1,799,847	-	-	-	1,799,847
Asset Allocation	3,780,856	-	-	-	3,780,856
Multiple Strategies	-	-	-	532,782	532,782
Commodities	1,189,919	-	-	-	1,189,919
Bonds	39,059,807	-	-	-	39,059,807
U.S. Government					
Securities	358,611	-	-	-	358,611
Fixed Income	678,279	-	-	-	678,279
Exchange-Traded Funds:					
Domestic Equity	18,675,164	-	-	-	18,675,164
International Equity	4,924,911	-	-	-	4,924,911
Global	48,579	-	-	-	48,579
Real Estate	159,649	-	-	-	159,649
Commodities	88,947	-	-	-	88,947
Bonds	7,000,362	78,463	-	-	7,078,825
Equity Securities:					
U.S. Corporate Equity					
Securities	23,823,930	-	-	-	23,823,930
Foreign Equity					
Securities	4,252,559	-	-	-	4,252,559
Certificates of Deposit	-	-	-	-	7,114,730
Debt Securities:					
U.S. Treasury	3,926,917	1,371,230	-	-	5,298,147
U.S. Agency	-	2,653,603	-	-	2,653,603
Asset Backed	-	526	-	-	526
Government	-	147,755	-	-	147,755
State Treasury	-	274,220	-	-	274,220
Foreign Governments	57,499	130,075	-	-	187,574
Corporate	2,163,209	12,985,884	-	-	15,149,093
Real Estate Investment					
Trust	72,427	-	59,725	-	132,152

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV	Total
Assets (Continued)					
Investments (Continued):					
Alternative Investments:					
Common Collective Trust Invested in Futures	\$ -	\$ 372,895	\$ -	\$ -	\$ 372,895
Common Collective Trust Invested in Commodities	-	136,686	-	-	136,686
Common Collective Trust Invested in Multiple Strategies	-	1,251,076	-	-	1,251,076
Common Collective Trust in Equity Mutual Funds	225,989	-	-	-	225,989
Common Collective Trust Invested in Equity Securities	264,755	-	-	2,391,008	2,655,763
Common Collective Trust Invested in Long/Short Equity Funds	-	793,471	-	-	793,471
Common Collective Trust Invested in Short Duration Fixed Income Funds	-	-	-	1,057,501	1,057,501
Limited Partnership	-	-	21,750	-	21,750
Commodities	592,278	-	-	-	592,278
Hedge Funds	1,256,980	359,293	-	1,568,347	3,184,620
Private Equity Fund	-	-	173,684	-	173,684
Other Investments	-	-	25,003	-	25,003
Money Market Funds	-	-	-	-	683,081
Cash and Cash Equivalents	-	-	-	-	915,673
Total Investments and Investments Held for Long-Term Purposes	187,734,601	20,555,177	280,162	5,549,638	222,833,062
Investments Held for Split-Interest Agreements:					
Mutual Funds:					
Domestic Equity	565,525	-	-	-	565,525
International Equity	100,938	-	-	-	100,938
Bonds	258,334	-	-	-	258,334
Common Collective Trust in Equity Mutual Funds	-	109,267	-	-	109,267
Cash and Cash Equivalents	-	-	-	-	182,901
Investments Held for Split-Interest Agreements	924,797	109,267	-	-	1,216,965
Beneficial Interest in Trusts Irrevocable Charitable Remainder Trusts	-	-	1,314,510	-	1,314,510
Total Investments Held for Split-Interest Agreements	924,797	109,267	1,419,762	-	2,636,727

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV	Total
Assets (Continued)					
Beneficial Interest in Assets Held by Others	\$ -	\$ -	\$ 1,394,419	\$ -	\$ 1,394,419
Total	<u>\$ 188,659,398</u>	<u>\$ 20,664,444</u>	<u>\$ 3,094,343</u>	<u>\$ 5,549,638</u>	<u>\$ 226,864,208</u>

For the valuation of investments categorized as Level 1 at August 31, 2018, the Foundation used unadjusted market prices for identical assets.

For the valuation of investments categorized as Level 2 at August 31, 2018, 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, 2018, the Foundation used significant unobservable inputs such as percentage of ownership applied to fair market value as stated in audited financial statements, percentage of annual investment return applied to outstanding account, or present value of expected future amount to be received.

The following table presents a rollforward of activity for investments, measured at fair value using significant unobservable inputs (Level 3) for the year ended August 31, 2018:

Beginning Balance, September 1, 2017	\$ 273,301
Total Gains or Losses (Realized/Unrealized) Included in Changes in Net Assets	27,861
Sales	(21,000)
Ending Balance, August 31, 2018	<u>\$ 280,162</u>
Change in Unrealized Gains or Losses for the Period Included in the Change in Net Assets Relating to Investments Still Held at End of Reporting Period	<u>\$ 27,861</u>

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents a roll-forward of activity for split-interest agreements, measured at fair value using significant unobservable inputs (Level 3) for the year ended August 31, 2018:

Beginning Balance, September 1, 2017	\$ 1,340,902
Total Gains or Losses (Realized/Unrealized) Included in Changes in Net Assets	84,631
Sales	(5,771)
Ending Balance, August 31, 2018	<u>\$ 1,419,762</u>
 Change in Unrealized Gains or Losses for the Period Included in the Change in Net Assets Relating to Investments Still Held at End of Reporting Period	 <u>\$ 84,631</u>

Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows at August 31, 2018:

Type of Investments	Fair Value at August 31, 2018	Redemption Frequency	Redemption Notice Period
Hedge Funds:			
Investments	\$ 1,568,347	Quarterly	45 Days
Mutual Funds:			
Multiple Strategies	532,782	Monthly	2 Days
Alternative Investments			
Common Collective Trust			
Invested in Equity Securities	2,391,008	Monthly	2 Days
Common Collective Trust			
Invested in Short Duration			
Fixed Income Funds	1,057,501	Monthly	2 Days
Total	<u>\$ 5,549,638</u>		

There are no unfunded commitments at August 31, 2018.

Total investment income, gains, and losses for the year ended August 31, 2018 consist of the following:

Interest and Dividend Income	\$ 5,981,044
Realized and Unrealized Gains, Net	10,055,528
Less Investment Expenses	(1,006,543)
Investment Income, Net	<u>\$ 15,030,029</u>

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 4 CONTRIBUTIONS RECEIVABLE AND IN-KIND RENT RECEIVABLE

Contributions receivable include pledges that have been discounted at rates ranging from 0.25% to 5.0% at August 31, 2018. The following is a summary of the Foundation's contributions receivable at August 31, 2018:

Total Amounts Due in:	
One Year	\$ 34,015,575
Two to Five Years	15,839,246
More than Five Years	<u>5,191,694</u>
Gross Contributions Receivable	55,046,515
Less Allowance for Doubtful Accounts	(570,051)
Less Discount to Present Value	<u>(2,868,461)</u>
Contributions Receivable, Net	<u><u>\$ 51,608,003</u></u>

NOTE 5 SPLIT-INTEREST AGREEMENTS

Split-interest agreements on the combined statement of the financial position comprise the following for the year ended August 31, 2018:

Beneficial Interest in Trusts	\$ 2,074,704
Charitable Remainder Trust	105,252
Charitable Gift Annuities	<u>456,771</u>
Total	<u><u>\$ 2,636,727</u></u>

Beneficial Interest in Trusts

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

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 assets.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 5 SPLIT INTEREST AGREEMENTS (CONTINUED)

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 year ended August 31, 2018 ranged from 1.20% to 6.20%. The charitable gift annuities account includes assets from contributions and income totaling \$45,436 at August 31, 2018, for legally mandated reserves.

Liabilities to beneficiaries under charitable gift annuities totaled \$456,771 at August 31, 2018, and are included in other liabilities in the accompanying combined statement of financial position.

NOTE 6 BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Foundation has various beneficial interests in assets held by community foundations valued at \$1,394,419 at August 31, 2018 which consisted 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 roll-forward of activity for investments measured at fair value using significant unobservable inputs (Level 3) for the year ended August 31, 2018:

Beginning Balance, September 1, 2017	\$ 1,206,823
Contributions	136,985
Total Gains or Losses (Realized/Unrealized) Included in Changes in Net Assets	79,487
Distributions	<u>(28,876)</u>
Ending Balance, August 31, 2018	<u><u>\$ 1,394,419</u></u>
 Change in Unrealized Gains or Losses for the Period Included in the Change in Net Assets Relating to Investments Still Held at End of Reporting Period	 <u><u>\$ 79,487</u></u>

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 7 TRANSACTIONS WITH RELATED ENTITIES

During 2018, the Foundation received contributions, both cash and in-kind and pledges from board members totaling \$13,749,658. In 2018, amounts due from board members totaled \$12,083,844, and are included in contributions receivable in the accompanying combined statement of financial position. Amounts paid to related parties for goods and services used in the Foundation's operations totaled \$739,530 in 2018. Amounts due to related parties as of August 31, 2018 totaled \$30,371 and are included in accounts payable in the accompanying combined statement of financial position.

NOTE 8 PROPERTY AND EQUIPMENT, NET

Property and equipment as of August 31, 2018 consist of the following:

Land	\$ 9,853,591
Buildings and Building Improvements	44,916,321
Computer Equipment and Software	10,027,404
Website and Website Templates	2,525,313
Office Furniture	4,775,236
Other Equipment	2,012,820
Leasehold Improvements	<u>9,924,773</u>
Total	84,035,458
Less Accumulated Depreciation and Amortization	<u>(19,169,030)</u>
Property and Equipment, Net	<u><u>\$ 64,866,428</u></u>

Depreciation and amortization expense totaled \$3,977,207 for the year ended August 31, 2018.

NOTE 9 ACCRUED PENDING WISH COSTS

The Foundation accrues the estimated costs of reportable pending wishes when five certain, measurable wish criteria are met. Prior to meeting these five criteria, the wish is not considered an obligation due to the inherent uncertainties surrounding these criteria and is therefore not accrued as a pending wish. This accrual does not represent a legally binding liability, but is considered a moral obligation to the child by the Foundation arising when the five criteria are met. 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,
5. The wish is expected to be granted within the next 12 months.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 9 ACCRUED PENDING WISH COSTS (CONTINUED)

Estimated cash and in-kind costs are accrued as pending wish liability at year-end for all reportable approved pending wishes. The in-kind portion of the pending wish liability includes the estimated in-kind outlay that is expected to be incurred in fulfilling each wish even though the matching in-kind revenues are not recognized until the in-kind goods or services or an unconditional promise for those in-kind goods or services are received.

In 2018, the Foundation made a change in calculation of accrued pending wish costs. The change simplified the methodology to more closely align the calculation with criteria five, "The wish is expected to be granted in the next 12 months." The Foundation limited the number of wishes anticipated to be completed to the lesser of approved wishes or the historical average of wishes granted in the past three years. As a result, the Foundation may have experienced a change in the liability beyond the change in the approved wishes.

NOTE 10 NOTES PAYABLE AND LINES OF CREDIT

The Foundation has unsecured lines of credit with several financial institutions totaling \$3,150,000, bearing interest of 2% to 5%, adjusted for the banks' Prime rate, and expiring on various dates through the next fiscal year. There were \$200,000 of outstanding draws on these lines of credit as of August 31, 2018.

The Foundation has five notes payable with financial institutions as of August 31, 2018. The notes bear interest rates ranging from 0.78% to 5.50%, and mature on various dates through July 2023. The balances of these notes totaled \$30,735,744 at August 31, 2018.

The remaining principal payments on the notes payable subsequent to August 31, 2018 are as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2019	\$ 105,413
2020	266,056
2021	360,512
2022	878,018
2023	<u>29,125,745</u>
Total	30,735,744
Less: Unamortized Debt Issuance Costs	<u>(67,453)</u>
Total	<u><u>\$ 30,668,291</u></u>

Under various notes payable, the Foundation is required to main cash in a separate account. The balance of restricted cash related to the notes payable totaled \$1,982,434 at August 31, 2018.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 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. The total credit limit under this credit agreement is \$16,500,000, while \$6,464,784, was outstanding on this credit agreement, as of August 31, 2018. These amounts are included in accounts payable and accrued expenses on the combined statement of financial position.

NOTE 12 LEASES

The Foundation is obligated under various capital and operating leases for offices and equipment, which expire at various dates through June 30, 2030. As of August 31, 2018, the cost of leased property and equipment under capital leases was \$685,476, and accumulated depreciation was \$196,330. Total rent expense for all operating leases, net of sublease payments of \$53,797, for the year ended August 31, 2018 totaled \$7,849,795.

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

<u>Year Ending August 31,</u>	<u>Operating Leases, Net</u>	<u>Capital Leases</u>
2019	\$ 7,356,030	\$ 187,919
2020	6,375,396	170,131
2021	5,467,080	125,491
2022	4,516,558	89,948
2023	3,511,620	29,373
Thereafter	8,700,765	-
Total Minimum Lease Payments	<u>35,927,449</u>	<u>602,862</u>
Less Amounts Representing Interest	-	(158,372)
Present Value of Net Minimum Lease Payments	<u>\$ 35,927,449</u>	<u>\$ 444,490</u>

The Foundation leases office space in its headquarters building and one other location to unrelated parties under agreements that expire at various dates through November 2024. Revenue from the leased space for the year ended August 31, 2018 totaled \$1,027,074.

Future minimum payments to the Foundation under the leases of space in its headquarters building are as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2019	\$ 1,310,613
2020	1,209,344
2021	1,035,414
2022	192,290
2023	104,968
Thereafter	134,202
Total	<u>\$ 3,986,831</u>

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 13 ENDOWMENTS

The Foundation is subject to the enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and is required to make disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The Foundation's endowments consist of approximately 240 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the board of directors to function as endowments as of August 31, 2018. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment assets, both donor-restricted and board-designated, are reflected as investments held for long-term purposes on the combined statement of financial position.

Interpretation of Relevant Law

The boards of directors of the National Organization and each Chapter have reviewed the applicable versions of UPMIFA titled the "Management of Charitable Funds Act" 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

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 13 ENDOWMENTS (CONTINUED)

Endowment net asset composition by type of fund as of August 31, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ (6,851)	\$ 9,257,448	\$ 38,837,734	\$ 48,088,331
Board-Designated Endowment Funds	28,288,219	-	-	28,288,219
Total Funds	<u>\$ 28,281,368</u>	<u>\$ 9,257,448</u>	<u>\$ 38,837,734</u>	<u>\$ 76,376,550</u>

Changes in endowment net assets for the year ended August 31, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds - Beginning of Year	\$ 26,518,566	\$ 7,249,339	\$ 35,889,449	\$ 69,657,354
Investment Return:				
Investment Income	964,129	929,787	908	1,894,824
Net Appreciation (Realized and Unrealized)	1,236,080	1,887,505	47,282	3,170,867
Total Investment Return	<u>2,200,209</u>	<u>2,817,292</u>	<u>48,190</u>	<u>5,065,691</u>
Contributions	914,543	775	2,898,055	3,813,373
Reclassification from/to Endowment Asset	26,569	8,046	-	34,615
Appropriation of Endowment Assets for Expenditure	(1,255,607)	(703,870)	-	(1,959,477)
Other Changes	<u>(122,912)</u>	<u>(114,134)</u>	<u>2,040</u>	<u>(235,006)</u>
Endowment Funds - End of Year	<u>\$ 28,281,368</u>	<u>\$ 9,257,448</u>	<u>\$ 38,837,734</u>	<u>\$ 76,376,550</u>

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) as of August 31, 2018:

The Portion of Perpetual Endowment Funds that is Required to be Retained Permanently Either by Explicit Donor Stipulation or by UPMIFA	\$ 38,837,734
Endowment Pledges	1,211,882
Total	<u>\$ 40,049,616</u>

Temporarily Restricted Net Assets:	
(1) Term Endowment Funds	\$ 586,159
(2) The Portion of Perpetual Endowment Funds Subject to a Time Restriction Under UPMIFA:	
Without Purpose Restrictions	2,211,425
With Purpose Restrictions	6,459,864
Total Endowment Funds Classified as Temporarily Restricted Net Assets	<u>\$ 9,257,448</u>

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 13 ENDOWMENTS (CONTINUED)

Fund Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets were \$6,851 as of August 31, 2018. Generally, these deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of directors.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor specified purpose. Under the investment policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to generate a level of current income (interest and dividends) consistent with the overriding investment goal of the Fund while avoiding excessive risk. The Foundation expects its endowment funds, over time, to achieve a total return in excess of the rate of inflation plus cash flow needs over the investment horizon in order to preserve purchasing power of Fund assets. The overriding investment goal of the Fund is to conserve and enhance the capital value of the Fund in real terms, through asset appreciation and income generation. Actual returns in any given year may vary from this goal.

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.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 13 ENDOWMENTS (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year a portion of its endowment funds' average fair value over the prior three years through the calendar year-end proceeding the fiscal year in which the distribution is planned. However, if the market value of the funds, as defined in the various endowment policies, are less than the fund's threshold levels, the distribution may also be less than the targeted distribution, as defined in the various endowment policies. With respect to funds managed by the National Office under the Wishes Forever program, the Endowment Policy of the National Office also entitles the Foundation to receive, from each fund, a reasonable percentage, not to exceed 3% of the fund's market value, for administering the fund. In establishing this policy, the Foundation considered the long term expected return on its endowment and targeted distributions. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowments to grow at an average of 2% 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.

NOTE 14 BOARD DESIGNATED NET ASSETS

Board designated net assets are available for the following purposes at August 31, 2018:

Board-Designated Endowment Funds	\$ 28,288,219
Building Reserves	285,305
Total Board Designated Net Assets	<u>\$ 28,573,524</u>

NOTE 15 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes for the year ended August 31, 2018:

Wish Granting and Purpose Restrictions	\$ 17,759,537
Capital Campaigns	13,387,876
Endowment Assets	9,257,448
Time Restrictions	23,865,767
Total Temporarily Restricted Net Assets	<u>\$ 64,270,628</u>

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 15 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

For the year ended August 31, 2018, permanently restricted net assets are restricted to:

The Portion of Perpetual Endowment Funds That is Required to be Retained Permanently Either by Explicit Donor Stipulation or by UPMIFA	\$ 38,837,734
Other Investments in Perpetuity, the Income from which is Expendable to Support Any Activities of the Foundation	2,528,759
Other Investments in Perpetuity, the Income from which is Expendable for Costs Associated with Building/Land	1,022,653
Endowment Pledges	<u>1,211,882</u>
Total	<u>\$ 43,601,028</u>

NOTE 16 RETIREMENT PLAN

The Foundation sponsors defined contribution retirement plans (the Plans). Employees are eligible for participation in the Plans after meeting specific criteria that generally include reaching 21 years of age and upon completion of one year of service. Under the provisions of the various Plans, eligible employees may elect to defer a percentage of their salary subject to certain IRC limitations. Certain plans allow the Foundation to match employee contributions up to 15% of the employee's salary while other plans allow only the employee to make contributions. Foundation contributions to the Plans for the year ended August 31, 2018 was \$2,556,036.

NOTE 17 CONCENTRATIONS OF CREDIT RISK

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

In-kind contributions totaling \$40,710,662 were received from a single donor for the year ended August 31, 2018, which represents 13% of total public support for the year. Should these contribution levels decrease, the Foundation may be adversely affected.

MAKE-A-WISH FOUNDATION® OF AMERICA AND RELATED ENTITIES
NOTES TO COMBINED FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 18 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.

NOTE 19 SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events from August 31, 2018 date through May 28, 2019, the date at which the combined financial statements were available to be issued.

