KPMG

MAKE-A-WISH FOUNDATION® OF MIDDLE TENNESSEE, INC.

Financial Statements

August 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

MAKE-A-WISH FOUNDATION® OF MIDDLE TENNESSEE, INC.

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KPMG LLP
Suite 1000
401 Commerce Street
Nashville, TN 37219-2422

Independent Auditors' Report

The Board of Directors
Make-A-Wish Foundation® of Middle Tennessee, Inc.:

We have audited the accompanying statements of financial position of Make-A-Wish Foundation® of Middle Tennessee, Inc. (the Foundation) as of August 31, 2012 and 2011, 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 Middle Tennessee, Inc. as of August 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

December 14, 2012

MAKE-A-WISH FOUNDATION® OF MIDDLE TENNESSEE

Statements of Financial Position

August 31, 2012 and 2011

Assets		2012	2011
Cash and cash equivalents	$	398,796	478,466
Due from related entities		34,236	33,783
Prepaid expenses		1,835	1,779
Contributions receivable, net		150,855	74,599
Property and equipment, net		15,933	12,746
Total assets	$	601,655	601,373
Liabilities and Net Assets (Deficit)			
Accounts payable and accrued expenses	$	64,608	34,020
Accrued pending wish costs		493,004	159,659
Deferred rent		5,740	4,215
Capital lease obligations		—	845
Total liabilities		563,352	198,739
Commitments and contingencies			
Net assets (deficit)			
Unrestricted		(75,852)	304,536
Temporarily restricted		114,155	98,098
Total net assets (deficit)		38,303	402,634
Total liabilities and net assets (deficit)	$	601,655	601,373

See accompanying notes to financial statements.

MAKE-A-WISH FOUNDATION® OF MIDDLE TENNESSEE

Statement of Activities

Year ended August 31, 2012

	Unrestricted	Temporarily restricted	Total
Revenues, gains, and other support:			
Public support:			
Contributions	$ 860,149	22,500	882,649
In-kind contributions	284,235	91,655	375,890
Grants	117,814	—	117,814
Total public support	1,262,198	114,155	1,376,353
Special events	100,462	—	100,462
Less direct benefit costs to donor	(9,126)	—	(9,126)
Total special events	91,336	—	91,336
Investment income, net	4,090	—	4,090
Other income	5,100	—	5,100
Net assets released from restrictions	98,098	(98,098)	—
Total revenues, gains, and other support	1,460,822	16,057	1,476,879
Expenses:			
Program services:			
Wish granting	1,489,488	—	1,489,488
Total program services	1,489,488	—	1,489,488
Support services:			
Fund-raising	189,914	—	189,914
Management and general	161,808	—	161,808
Total support services	351,722	—	351,722
Total expenses	1,841,210	—	1,841,210
Change in net assets (deficit)	(380,388)	16,057	(364,331)
Net assets, beginning of year	304,536	98,098	402,634
Net assets (deficit), end of year	$ (75,852)	114,155	38,303

See accompanying notes to financial statements.

MAKE-A-WISH FOUNDATION® OF MIDDLE TENNESSEE, INC.

Statement of Activities

Year ended August 31, 2011

	Unrestricted	Temporarily restricted	Total
Revenues, gains, and other support:			
Public support:			
Contributions	$ 780,221	42,350	822,571
In-kind contributions	282,375	55,748	338,123
Grants	80,275	—	80,275
Total public support	1,142,871	98,098	1,240,969
Special events	41,432	—	41,432
Less direct benefit costs to donors	(4,102)	—	(4,102)
Total special events	37,330	—	37,330
Investment income, net	4,771	—	4,771
Other income	5,876	—	5,876
Net assets released from restrictions	121,440	(121,440)	—
Total revenues, gains, and other support	1,312,288	(23,342)	1,288,946
Expenses:			
Program services:			
Wish granting	993,095	—	993,095
Support services:			
Fund-raising	186,992	—	186,992
Management and general	151,364	—	151,364
Total support services	338,356	—	338,356
Total expenses	1,331,451	—	1,331,451
Change in net assets	(19,163)	(23,342)	(42,505)
Net assets, beginning of year	323,699	121,440	445,139
Net assets, end of year	$ 304,536	98,098	402,634

See accompanying notes to financial statements.

MAKE-A-WISH FOUNDATION® OF MIDDLE TENNESSEE

Statements of Cash Flows

Years ended August 31, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Change in net assets (deficit)	$	(364,331)	(42,505)
Adjustments to reconcile change in net assets (deficit) to net cash provided by (used in) operating activities:			
Depreciation and amortization		6,057	9,451
Bad debt expense		2,600	5,000
Contributed property and equipment, inventory, and stock		(3,718)	—
Changes in assets and liabilities:			
Contributions receivable		(78,856)	(169)
Due from related entities		(453)	(10,649)
Prepaid expenses		(56)	(1,779)
Accounts payable and accrued expenses		30,588	10,347
Accrued pending wish costs		333,345	29,659
Deferred rent		1,525	4,215
Net cash (used in) provided by operating activities		(73,299)	3,570
Cash flows from investing activities:			
Purchases of property and equipment		(5,526)	(5,163)
Net cash used in investing activities		(5,526)	(5,163)
Cash flows from financing activities:			
Principal payments on capital lease obligations		(845)	(3,039)
Net cash used in financing activities		(845)	(3,039)
Net decrease in cash and cash equivalents		(79,670)	(4,632)
Cash and cash equivalents, beginning of year		478,466	483,098
Cash and cash equivalents, end of year	$	398,796	478,466
Supplemental cash flow information:			
Cash paid for interest	$	151	430
Donated property and equipment, stock, and inventory		3,718	—
Contributed services		10,510	—
In-kind contributions		365,380	338,123

See accompanying notes to financial statements.

MAKE-A-WISH FOUNDATION® OF MIDDLE TENNESSEE

Statement of Functional Expenses

Year ended August 31, 2012

	Program services	Support services			
	Wish granting	Fund-raising	Management and general	Total support services	Total
Direct costs of wishes	$ 1,226,299	—	—	—	1,226,299
Salaries, taxes, and benefits	161,320	122,583	106,215	228,798	390,118
Printing, subscriptions, and publications	3,125	5,253	869	6,122	9,247
Professional fees	3,281	425	24,268	24,693	27,974
Rent and utilities	27,592	9,398	9,469	18,867	46,459
Postage and delivery	1,031	1,765	674	2,439	3,470
Travel	4,584	5,901	1,728	7,629	12,213
Meetings and conferences	4,461	14,876	4,446	19,322	23,783
Office supplies	1,032	393	442	835	1,867
Communications	4,366	2,097	1,411	3,508	7,874
Advertising and media (cash)	5,250	5,250	—	5,250	10,500
Advertising and media (in-kind)	8,467	8,467	—	8,467	16,934
Repairs and maintenance	1,713	954	1,037	1,991	3,704
Insurance	508	314	310	624	1,132
Bad debt expense	—	2,600	—	2,600	2,600
Membership dues	544	180	181	361	905
National partnership dues	30,690	6,057	3,634	9,691	40,381
Miscellaneous	2,499	1,644	5,550	7,194	9,693
Depreciation and amortization	2,726	1,757	1,574	3,331	6,057
	$ 1,489,488	189,914	161,808	351,722	1,841,210

See accompanying notes to financial statements.

MAKE-A-WISH FOUNDATION® OF MIDDLE TENNESSEE, INC.

Statement of Functional Expenses

Year ended August 31, 2011

	Program services	Support services			
	Wish granting	**Fund-raising**	**Management and general**	**Total support services**	**Total**
Direct costs of wishes	$ 776,977	—	—	—	776,977
Salaries, taxes, and benefits	134,180	106,177	113,809	219,986	354,166
Printing, subscriptions, and publications	2,572	8,546	1,091	9,637	12,209
Professional fees	526	303	1,389	1,692	2,218
Rent and utilities	24,868	13,173	14,909	28,082	52,950
Postage and delivery	1,068	2,122	732	2,854	3,922
Travel	5,530	5,293	656	5,949	11,479
Meetings and conferences	3,275	5,755	2,724	8,479	11,754
Information technology	1,950	998	1,061	2,059	4,009
Office supplies	2,070	1,068	1,138	2,206	4,276
Communications	3,527	1,831	1,399	3,230	6,757
Advertising and media (cash)	—	10,500	—	10,500	10,500
Advertising and media (in-kind)	—	10,500	—	10,500	10,500
Repairs and maintenance	1,520	736	676	1,412	2,932
Insurance	2,286	5,723	1,377	7,100	9,386
Membership dues	351	150	448	598	949
National partnership dues	25,430	4,293	3,303	7,596	33,026
Bad debt expense	—	5,000	—	5,000	5,000
Miscellaneous	2,353	2,170	3,595	5,765	8,118
Depreciation	4,612	2,654	3,057	5,711	10,323
	$ 993,095	186,992	151,364	338,356	1,331,451

See accompanying notes to financial statements.

(1) Organization

Make-A-Wish Foundation® of Middle Tennessee, Inc. (the Foundation) is a Tennessee not-for-profit corporation, organized for the purpose of granting wishes to children with life-threatening medical conditions. The Foundation is an independently operating local chapter of Make-A-Wish Foundation® of America (the National Organization), which operates to develop and implement national programs in public relations and fund-raising 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 to be cash equivalents. Included in cash and cash equivalents at August 31, 2012 and 2011 are $372,661 and $352,661, 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 its use is limited by donor-imposed restrictions or law. The Foundation did not hold any investments at August 31, 2012 or 2011.

(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 unit cost greater than $500 and a useful life of more than one year are capitalized at cost when purchased. Donated assets are capitalized at the estimated fair value at the date of receipt 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 5 years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the remaining term of the underlying lease. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

Long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Foundation first compares undiscounted cash flows expected to be generated by that asset or asset group 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 applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

(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 stipulating 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. The Foundation currently has no permanently restricted net assets.
- **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 contribution 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 net assets. 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 contributions of assets other than cash that are included in the accompanying statements of activities as in-kind contributions and program supporting services expense at fair value of $375,890 and $338,123 in 2012 and 2011, respectively, which consisted of the following:

		2012	2011
Advertising and media	$	16,934	10,500
Cruises		11,415	9,316
Lodging		13,452	6,234
Theme parks		216,760	158,698
Transportation		31,669	24,534
Other wish-related donations		75,238	126,960
Other		10,422	1,881
Total	$	375,890	338,123

Advertising and media is used to communicate the Foundation's message or mission and includes fund-raising materials, informational material, or advertising, and may be in the form of an audio or video tape of a public service announcement, a layout for a newspaper, media time or space for public service announcements, or other purposes. Advertising and media are reported as contribution revenue and fund-raising 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 and state income taxes under the provisions of Internal Revenue Code Section 501(c)(3). 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 during 2012 or 2011 as the net income, if any, from any unrelated trade or business, 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 there are no such uncertain tax positions requiring accrual or disclosure at August 31, 2012 and 2011.

(Continued)

(j) Functional Expenses

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

Wish Granting

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

Fund-Raising

Activities performed by the Foundation to operate funds and/or resources to support its programs and operations. During the fiscal years ended August 31, 2012 and 2011, the Foundation incurred no significant joint costs for activities that include fund-raising appeals.

Management and General

All costs not identifiable with a single program or fund-raising activity, but indispensable to the conduct of such programs and activities and to the Foundation's existence, are included as management and general expenses. This includes expenses for the overall direction of the Foundation, business management, general 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, valuation of contributions receivable and property and equipment, and recognition and valuation of accrued pending wish costs, including the estimate for attrition of pending wishes. The current economic environment has increased the degree of uncertainty inherent in many of those estimates and assumptions.

(3) Fair Value Measurements

The Foundation applies ASC Topic 820 (Statement 157) to its fair value measurements. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

- Level 2 – inputs are inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly.
- Level 3 – inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Foundation records its cash and cash equivalents at fair value and considers these financial instruments to be valued using Level 1 inputs as of August 31, 2012 and 2011.

Total investment income from cash and cash equivalents for the years ended August 31, 2012 and 2011 consist of the following:

		2012	2011
Interest and dividend income	$	4,090	4,771

(4) Contributions Receivable

The Foundation's contributions receivable totaling $150,855 and $74,599 at August 31, 2012 and 2011, respectively, were all due within one year of the financial reporting date. The Foundation incurred $2,600 of bad debt expense related to contributions receivable during 2012. The Foundation had $0 allowance for bad debt on contributions receivable at August 31, 2012 and 2011.

(5) Transactions with Related Entities

The Foundation pays the National Organization annual partnership dues, which were $40,381 and $33,026 for the years ended August 31, 2012 and 2011, 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, local chapters may apply for funds that have been donated by other local chapters to underwrite the costs of wishes. The Foundation did not participate in this program during 2012 and 2011.

Chapters assisting with the organization and granting of wishes from other local chapters are paid a "fee for service" commonly referred to as the wish assist fee. Under this program, the Foundation received $5,100 and $5,876 for the years ended August 31, 2012 and 2011, respectively, which is recorded in the accompanying statements of activities as other income.

(Continued)

Amounts due from related entities as of August 31, 2012 and 2011 are as follows:

		2012	2011
Balance at August 31:			
Due from National Organization	$	33,132	31,959
Due from other chapters		1,104	1,824
Total due from related entities	$	34,236	33,783

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.

During 2012 and 2011, the Foundation received contributions, both cash and in-kind, from board members totaling approximately $34,068 and $25,000, respectively.

(6) Property and Equipment, Net

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

		2012	2011
Computer equipment and software	$	32,939	29,554
Office furniture		7,960	5,579
Other equipment		5,579	16,036
		46,478	51,169
Less accumulated depreciation and amortization		(30,545)	(38,423)
Property and equipment, net	$	15,933	12,746

Depreciation expense totaled $6,057 and $9,451 for the years ended August 31, 2012 and 2011, respectively.

(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 the ultimate granting of the wish 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, 2012 and 2011, the Foundation had approximately 61 and 34 reportable pending wishes, respectively.

(8) Leases

The Foundation is obligated under various capital and operating leases for office space and equipment, which expire at various dates through 2016. As of August 31, 2012 and 2011, the cost of leased property and equipment under capital lease was $0 and $11,795 and accumulated depreciation was $0 and $11,205, respectively. Total rent expense for all operating leases for the years ended August 31, 2012 and 2011 totaled $43,198 and $39,051, respectively.

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

	Operating leases
Year ending August 31:	
2013	$ 44,464
2014	45,796
2015	47,180
2016	32,070
2017	—
Total minimum lease payments	$ 169,510

(9) Temporarily Restricted Net Asset

Temporarily restricted net assets totaling $114,155 and $98,098, respectively, are time restricted for the years ended August 31, 2012 and 2011.

(10) Retirement Plan

The Foundation has a defined contribution retirement plan (the Plan) that became effective January 1, 2010. Employees are eligible for participation in the Plan after reaching 21 years of age and earning $5,000 of compensation. 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 3% of the employee's salary. Foundation contributions to the Plan for the years ended August 31, 2012 and 2011 totaled $7,011 and $7,349, respectively.

(Continued)

(11) Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentration of credit risk consist principally of cash and cash equivalents. The Foundation places its cash and cash equivalents 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 $215,072 and $155,081 were received from a single donor for the years ended August 31, 2012 and 2011, respectively, which represents 16% and 12%, respectively, of total public support. Should these contribution levels decrease, the Foundation may be adversely affected.

(12) Litigation and Claims

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

(13) Subsequent Events

The Foundation has evaluated subsequent events from the financial reporting date through December 14, 2012, the date on which the financial statements were available to be issued.