

Financial Statements and Report of
Independent Certified Public Accountants
Make-A-Wish Foundation of Middle Tennessee, Inc.
August 31, 2006 and 2005

Make-A-Wish Foundation of Middle Tennessee, Inc.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
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, 2006 and 2005, and the related statements of activities, functional expenses and cash flows 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 as established by American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits 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, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Charlotte, North Carolina
November 10, 2006

Make-A-Wish Foundation of Middle Tennessee, Inc.

Statements of Financial Position

August 31, 2006 and 2005

	<u>Assets</u>	<u>2006</u>	<u>2005</u>
Cash and cash equivalents		\$145,795	\$131,342
Contributions receivable, net		142,602	59,923
Due from National Organization		3,829	13,854
Furniture and equipment, net		11,745	5,826
Other assets		4,730	14,015
		<u>\$308,701</u>	<u>\$224,960</u>
	<u>Liabilities and Net Assets</u>		
Accounts payable and accrued expenses		\$ 31,372	\$ 21,811
Deferred grant revenue		45,000	0
Accrued pending wish costs		122,257	32,407
Due to National Organization		14,841	25,000
Capital lease obligation		8,513	0
Total liabilities		<u>221,983</u>	<u>79,218</u>
Commitments and contingencies			
Net assets:			
Unrestricted		35,272	130,327
Temporarily restricted		51,446	15,415
Total net assets		<u>86,718</u>	<u>145,742</u>
		<u>\$308,701</u>	<u>\$224,960</u>

The accompanying notes are an integral part of these financial statements.

Make-A-Wish Foundation of Middle Tennessee, Inc.

Statement of Activities

For the Year Ended August 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Public support:			
Direct public support	\$131,042	\$ 0	\$131,042
Corporate gifts	76,977	0	76,977
In-kind gifts	204,121	51,446	255,567
Grants	55,232	0	55,232
Total public support	<u>467,372</u>	<u>51,446</u>	<u>518,818</u>
External special events	<u>153,953</u>	<u>0</u>	<u>153,953</u>
Internal special events	<u>207,535</u>	<u>0</u>	<u>207,535</u>
Less costs of direct benefits to donors	<u>(39,905)</u>	<u>0</u>	<u>(39,905)</u>
Internal special events, net	<u>167,630</u>	<u>0</u>	<u>167,630</u>
Total special events	<u>321,583</u>	<u>0</u>	<u>321,583</u>
Other income	<u>4,272</u>	<u>0</u>	<u>4,272</u>
Net assets released from restrictions	<u>15,415</u>	<u>(15,415)</u>	<u>0</u>
Total revenues, gains and other support	<u>808,642</u>	<u>36,031</u>	<u>844,673</u>
Expenses:			
Program services – Wish granting	<u>701,873</u>	<u>0</u>	<u>701,873</u>
Support services:			
Fund raising	<u>127,557</u>	<u>0</u>	<u>127,557</u>
Management and general	<u>74,267</u>	<u>0</u>	<u>74,267</u>
Total support services	<u>201,824</u>	<u>0</u>	<u>201,824</u>
Total expenses	<u>903,697</u>	<u>0</u>	<u>903,697</u>
(Decrease) increase in net assets	<u>(95,055)</u>	<u>36,031</u>	<u>(59,024)</u>
Net assets, beginning of year	<u>130,327</u>	<u>15,415</u>	<u>145,742</u>
Net assets, end of year	<u>\$ 35,272</u>	<u>\$51,446</u>	<u>\$ 86,718</u>

The accompanying notes are an integral part of this financial statement.

Make-A-Wish Foundation of Middle Tennessee, Inc.

Statement of Activities

For the Year Ended August 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Public support:			
Direct public support	\$119,396	\$ 0	\$119,396
Corporate gifts	67,766	0	67,766
In-kind gifts	112,428	15,415	127,843
Grants	27,400	0	27,400
Total public support	<u>326,990</u>	<u>15,415</u>	<u>342,405</u>
External special events	<u>153,450</u>	<u>0</u>	<u>153,450</u>
Internal special events	<u>132,024</u>	<u>0</u>	<u>132,024</u>
Less costs of direct benefits to donors	<u>(8,896)</u>	<u>0</u>	<u>(8,896)</u>
Internal special events, net	<u>123,128</u>	<u>0</u>	<u>123,128</u>
Total special events	<u>276,578</u>	<u>0</u>	<u>276,578</u>
Other income	<u>3,289</u>	<u>0</u>	<u>3,289</u>
Net assets released from restrictions	<u>53,396</u>	<u>(53,396)</u>	<u>0</u>
Total revenues, gains and other support	<u>660,253</u>	<u>(37,981)</u>	<u>622,272</u>
Expenses:			
Program services – Wish granting	<u>206,467</u>	<u>0</u>	<u>206,467</u>
Support services:			
Fund raising	<u>123,198</u>	<u>0</u>	<u>123,198</u>
Management and general	<u>98,236</u>	<u>0</u>	<u>98,236</u>
Total support services	<u>221,434</u>	<u>0</u>	<u>221,434</u>
Total expenses	<u>427,901</u>	<u>0</u>	<u>427,901</u>
Increase (decrease) in net assets	<u>232,352</u>	<u>(37,981)</u>	<u>194,371</u>
Net (deficit) assets, beginning of year	<u>(102,025)</u>	<u>53,396</u>	<u>(48,629)</u>
Net assets, end of year	<u><u>\$130,327</u></u>	<u><u>\$15,415</u></u>	<u><u>\$145,742</u></u>

The accompanying notes are an integral part of this financial statement.

Make-A-Wish Foundation of Middle Tennessee, Inc.

Statement of Functional Expenses For the Year Ended August 31, 2006

	Program Services	Support Services		
	Wish Granting	Fund Raising	Management and General	Total
Direct cost of wishes	\$573,026	\$ 0	\$ 0	\$573,026
Direct cost of fund raising	0	8,789	0	8,789
Salaries, taxes and benefits	84,816	77,704	50,061	212,581
Professional fees	6,383	5,288	3,609	15,280
Office supplies	2,768	1,938	958	5,664
Telephone	2,825	1,841	1,089	5,755
Postage and delivery	1,073	3,358	440	4,871
Rent	12,272	11,429	7,171	30,872
Equipment lease and maintenance	446	430	304	1,180
Printing and publications	2,125	5,507	987	8,619
Travel/conferences	3,704	3,854	3,358	10,916
Dues and subscriptions	136	607	77	820
National assessment	7,310	3,620	3,911	14,841
Insurance	186	347	224	757
Miscellaneous expense	3,564	1,854	1,477	6,895
Depreciation and amortization	1,239	991	601	2,831
	<u>\$701,873</u>	<u>\$127,557</u>	<u>\$74,267</u>	<u>\$903,697</u>

The accompanying notes are an integral part of this financial statement.

Make-A-Wish Foundation of Middle Tennessee, Inc.

Statement of Functional Expenses For the Year Ended August 31, 2005

	Program Services	Support Services		
	Wish Granting	Fund Raising	Management and General	Total
Direct cost of wishes	\$139,079	\$ 0	\$ 0	\$139,079
Direct cost of fund raising	0	8,381	0	8,381
Salaries, taxes and benefits	48,724	84,072	60,648	193,444
Professional fees	730	839	9,900	11,469
Office supplies	961	1,591	1,147	3,699
Telephone	2,233	2,892	1,826	6,951
Postage and delivery	957	1,587	1,145	3,689
Rent	6,886	11,545	8,299	26,730
Equipment lease and maintenance	710	1,286	1,637	3,633
Printing and publications	959	1,536	1,132	3,627
Travel/conferences	1,860	3,430	5,017	10,307
Dues and subscriptions	198	389	238	825
National assessment	1,001	1,971	1,208	4,180
Insurance	960	1,610	1,158	3,728
Miscellaneous expense	1,209	2,069	2,254	5,532
Depreciation and amortization	0	0	2,627	2,627
	<u>\$206,467</u>	<u>\$123,198</u>	<u>\$98,236</u>	<u>\$427,901</u>

The accompanying notes are an integral part of this financial statement.

Make-A-Wish Foundation of Middle Tennessee, Inc.

Statements of Cash Flows

For the Years Ended August 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Change in net assets	\$ (59,024)	\$194,371
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,831	2,627
Bad debt expense	8,200	7,208
Increase (decrease) in cash resulting from changes in:		
Contributions receivable	(90,879)	(6,571)
Due from National Organization	24,866	31,609
Other assets	9,285	6,161
Accounts payable and accrued expenses	9,561	(1,133)
Deferred grant revenue	45,000	0
Accrued pending wish costs	89,850	(152,445)
Net cash provided by operating activities	39,690	81,827
Cash flows from investing activities – Purchase of property and equipment	0	(2,222)
Cash flows from financing activities:		
Payments on capital lease	(237)	0
(Repayments to) borrowings from National Organization	(25,000)	25,000
Net cash (used in) provided by financing activities	(25,237)	25,000
Increase in cash and cash equivalents	14,453	104,605
Cash and cash equivalents, beginning of year	131,342	26,737
Cash and cash equivalents, end of year	<u>\$145,795</u>	<u>\$131,342</u>
Noncash – Capital lease obligation	<u>\$ 8,750</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these financial statements.

Make-A-Wish Foundation of Middle Tennessee, Inc.

Notes to Financial Statements August 31, 2006 and 2005

Note A – 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 illnesses. The Foundation is an independently operating chapter of Make-A-Wish Foundation of America (National Organization) which is obligated 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 the National Organization's bylaws, chapter agreement and such guidelines, resolutions and policies as may be adopted by the National Organization.

The Foundation granted its first wish in 2000 and has granted a total of approximately 502 wishes through August 31, 2006. The Foundation granted 82 and 49 wishes during the fiscal years ended August 31, 2006 and 2005, respectively. The average direct cost of a wish was approximately \$5,778 and \$5,949 for the years ended August 31, 2006 and 2005, respectively. As of August 31, 2006 and 2005, the Foundation had 29 and 8 total pending wishes, respectively, which are reported as accrued pending wishes in the statements of financial position.

In addition to the 82 and 49 wishes granted in fiscal years 2006 and 2005, respectively, an additional 9 and 23 wishes were granted to Middle Tennessee children through the Make-A-Wish Foundation of America brokered wish program. The Make-A-Wish Foundation of Middle Tennessee also assisted in 16 and 12 wishes on behalf of other chapters in fiscal 2006 and 2005, respectively.

Note B – Summary of Significant Accounting Policies

Basis of Presentation

The Foundation presents its accounts in accordance with the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Not-for-Profit Organizations (Audit Guide). Under the Audit Guide, not-for-profit organizations are required to provide a statement of financial position, a statement of activities and a statement of cash flows which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. In addition, voluntary health and welfare organizations are also required to provide a statement of functional expenses.

The Foundation maintains its accounts on the accrual basis of accounting. Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes. The Foundation has no permanently restricted assets.

Make-A-Wish Foundation of Middle Tennessee, Inc.

Notes to Financial Statements August 31, 2006 and 2005

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets, i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

The Foundation follows the provisions of AICPA Statement of Position 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include Fund Raising* (SOP 98-2). The statement requires that, if the criteria of purpose, audience and content as defined by the SOP are met, the costs of joint activities that are identifiable with a particular function should be charged to that function and joint costs should be allocated between fund raising and the appropriate program or management and general function.

Use of Estimates

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

Cash and Cash Equivalents

The Foundation considers all highly liquid instruments purchased with an original maturity of three months or less and restricted cash available for current use to be cash equivalents.

Contributions

Under the Audit Guide, contributions, grants and bequests including unconditional promises to give, are recognized as either temporarily or permanently restricted support 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. Contributions of assets other than cash are recorded at their estimated fair value. Contributions of services shall be recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Foundation received in-kind gifts of services and material donations, included in the accompanying statements of activities at an estimated fair market value of approximately \$256,000 and \$128,000 for the years ended August 31, 2006 and 2005, respectively.

Make-A-Wish Foundation of Middle Tennessee, Inc.

Notes to Financial Statements August 31, 2006 and 2005

Temporarily Restricted Net Assets

The Foundation has adopted the following optional accounting policies with respect to temporarily restricted net assets:

Contributions with Restrictions Met in the Same Year

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of unrestricted net assets.

Release of Restrictions on Net Assets for Acquisition of Land, Building and Equipment

Contributions of land, building and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of unrestricted net assets. Contributions of cash or other assets to be used to acquire land, building and equipment with donor stipulations are reported as revenues of temporarily restricted net assets; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Contributions Receivable, Net

Contributions receivable represent contributions acknowledged in writing from third parties prior to August 31, but not transmitted to the Foundation until after that date. A provision for doubtful account on contributions receivable is provided based on analysis of historical losses, anticipated collections and recoveries. Contributions receivable are written off when deemed uncollectible.

Contributions receivable at August 31, 2006 and 2005, are summarized as follows:

	<u>2006</u>	<u>2005</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 81,185	\$37,718
One to five years	77,146	31,405
Total	<u>158,331</u>	<u>69,123</u>
Less – Unamortized discount	(3,473)	(1,993)
Less – Allowance for uncollectibles	<u>(12,256)</u>	<u>(7,207)</u>
Contributions receivable, net	<u>\$142,602</u>	<u>\$59,923</u>

Furniture and Equipment, Net

Furniture and equipment are recorded at cost when purchased or at fair value at the date of gift, if contributed, and are depreciated or amortized using the straight-line method over three to five years.

Make-A-Wish Foundation of Middle Tennessee, Inc.

Notes to Financial Statements August 31, 2006 and 2005

Deferred Grant Revenue

The Foundation received cash from a grant to fulfill wishes, however the grant requires certain conditions to be met. As of August 31, 2006, the Foundation has recorded \$45,000 as deferred revenue until the conditions of the grant have been met.

Accrued Pending Wish Costs

The Foundation accrues for the estimated costs of reportable pending wishes if certain measurable wish criteria are met. The reportable pending wish criteria include obtaining the medical eligibility form, formal approval by the Foundation, contact from the wish family, the wish has been determined and the wish is expected to be granted within the next year.

Income Taxes

The Foundation received a tax determination letter indicating that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation is also exempt from State of Tennessee taxation.

Impairment of Long-lived Assets

The Foundation reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying value or fair value less costs to sell. There are no impaired assets as determined by the Foundation for fiscal year August 31, 2006 and 2005.

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 fulfill wishes to children with life-threatening medical conditions.

Fund Raising

Activities performed by the Foundation to generate funds and/or resources to support its programs and operations. During the fiscal years ended August 31, 2006 and 2005, the Foundation incurred no joint costs for activities that included fund raising appeals.

Make-A-Wish Foundation of Middle Tennessee, Inc.

Notes to Financial Statements August 31, 2006 and 2005

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. These costs include 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 general overhead.

Expenses which 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.

Note C – Furniture and Equipment, Net

A summary of furniture and equipment, net as of August 31, 2006 and 2005, follows:

	<u>2006</u>	<u>2005</u>
Computer equipment and software	\$ 7,818	\$ 7,818
Office furniture	3,890	2,779
Office equipment	11,529	3,890
Total	<u>23,237</u>	<u>14,487</u>
Less – Accumulated depreciation and amortization	<u>(11,492)</u>	<u>(8,661)</u>
Furniture and equipment, net	<u>\$11,745</u>	<u>\$ 5,826</u>

Note D – Transactions with National Organization

The Foundation pays the National Organization an annual assessment fee which was \$14,841 and \$4,180 for the years ended August 31, 2006 and 2005, respectively.

Note E – Due from National Organization and Due to National Organization

The due from National Organization's balance of \$3,829 and \$13,854 as of August 31, 2006 and 2005, represents contributions received by the National office on behalf of the Foundation. During fiscal 2006 the National Organization changed its policy regarding how the Foundation receives payments under the direct mail program. The National Organization chose to estimate the total each chapter will receive for an entire calendar year and make payments to the chapter in advance.

On April 30, 2005, the Foundation borrowed \$25,000 from the National Organization. During fiscal 2006 the \$25,000 was repaid. The due to National Organization balance of \$14,841 as of August 31, 2006, represents annual assessment fee owed.

Make-A-Wish Foundation of Middle Tennessee, Inc.

Notes to Financial Statements August 31, 2006 and 2005

Note F – Commitments and Contingencies

Operating Leases

The Foundation leases office facilities under a cancelable lease that expires June 2011. In addition, the Foundation leases a mailing machine, which said lease expires August 2008. Total rent expense for the years ended August 31, 2006 and 2005, was \$30,872 and \$26,730, respectively.

Future minimum lease payments, under the operating lease arrangements, are scheduled as follows:

Years ended August 31:	
2007	\$ 26,847
2008	27,947
2009	28,600
2010	28,600
2011	23,833
Total	<u>\$135,827</u>

Capital Leases

The Foundation leases a printer copier under a capital lease that expires in 2011. The total value of the asset under the capital lease is \$8,750 included in office equipment on the current year statement of financial position, and the associated accumulated depreciation is \$292. The related obligation under the capital lease is \$8,513. The future minimum lease payments under the capital lease arrangements are scheduled as follows:

Years ended August 31:	
2007	\$ 1,790
2008	2,148
2009	2,148
2010	2,148
2011 and after	2,148
	<u>10,382</u>
Less – Amounts representing interest	<u>(1,869)</u>
Total capital lease obligation	<u>\$ 8,513</u>

Note G – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose:

	<u>2006</u>	<u>2005</u>
Specific types of wishes	<u>\$51,446</u>	<u>\$15,415</u>

Make-A-Wish Foundation of Middle Tennessee, Inc.

Notes to Financial Statements

August 31, 2006 and 2005

Note H – Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2006</u>	<u>2005</u>
Purpose restrictions accomplished for specific types of wishes	<u>\$15,415</u>	<u>\$53,396</u>

Note I – Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash, cash equivalents and investments. The Foundation places its cash, cash equivalents and investments with high credit quality financial institutions and generally limits the amount of credit exposure to the amount in excess of the FDIC insurance coverage limit of \$100,000. From time to time throughout the year, the Foundation's cash and investment balances may exceed the amount of the FDIC insurance coverage. However, the Foundation does not anticipate nonperformance by the financial institutions.