

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

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Report of Independent Certified Public Accountants

Board of Directors
Make-A-Wish Foundation of the
Mid-Atlantic, Inc.

We have audited the accompanying statements of financial position of Make-A-Wish Foundation of the Mid-Atlantic, Inc. (the Foundation), as of August 31, 2006 and 2005, and the related statements of activities and changes in net assets, 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 the 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 the Mid-Atlantic, Inc., as of August 31, 2006 and 2005, and the changes in its net assets, its functional expenses, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



McLean, Virginia
November 3, 2006

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

STATEMENTS OF FINANCIAL POSITION

August 31,	2006	2005
ASSETS		
Cash and cash equivalents	\$ 1,536,745	\$ 1,270,490
Investments	5,382,676	5,122,909
Contributions receivable	529,633	486,670
Pledges receivable, net of allowance of \$-0- and \$13,143 for 2006 and 2005, respectively.	35,588	29,714
Note receivable—National Organization	150,000	150,000
Due from National Organization	45,145	119,400
Inventories	895	—
Equipment, net	45,312	82,680
Other assets	40,031	47,031
	\$ 7,766,025	\$ 7,308,894
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 80,817	\$ 90,909
Accrued wish costs	1,285,102	1,142,596
Unearned revenues	36,234	215,439
	1,402,153	1,448,944
Net assets:		
Unrestricted	6,252,435	5,763,837
Temporarily restricted	111,437	96,113
	6,363,872	5,859,950
	\$ 7,766,025	\$ 7,308,894

The accompanying notes are an integral part of these statements.

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended August 31, 2006

	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support:			
Contributions	\$ 2,486,040	\$ 111,437	\$ 2,597,477
Internal special events	1,263,093	—	1,263,093
Less cost of direct benefit to donor	(222,992)	—	(222,992)
Internal special events, net	1,040,101	—	1,040,101
External special events	559,682	—	559,682
Investment return	256,151	—	256,151
Net realized and unrealized gains on investments	7,581	—	7,581
Other income	29,643	—	29,643
Net assets released from restrictions	96,113	(96,113)	—
Total revenues, gains, and other support	4,475,311	15,324	4,490,635
Expenses and losses:			
Program services:			
Wish granting	3,268,420	—	3,268,420
Support services:			
Fundraising	479,828	—	479,828
Management and general	238,465	—	238,465
Total support services	718,293	—	718,293
Total expenses and losses	3,986,713	—	3,986,713
Change in net assets	488,598	15,324	503,922
Net assets, beginning of year	5,763,837	96,113	5,859,950
Net assets, end of year	\$ 6,252,435	\$ 111,437	\$ 6,363,872

The accompanying notes are an integral part of this statement.

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended August 31, 2005

	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support:			
Contributions	\$ 2,194,662	\$ 96,113	\$ 2,290,775
Internal special events	1,133,087	—	1,133,087
Less cost of direct benefit to donor	(301,153)	—	(301,153)
Internal special events, net	831,934	—	831,934
External special events	596,544	—	596,544
Investment return	225,081	—	225,081
Net realized and unrealized gains			
on investments	57,277	—	57,277
Other income	12,525	—	12,525
Net assets released from restrictions	131,214	(131,214)	—
Total revenues, gains, and other support	4,049,237	(35,101)	4,014,136
Expenses and losses:			
Program services:			
Wish granting	3,550,348	—	3,550,348
Support services:			
Fundraising	337,053	—	337,053
Management and general	304,299	—	304,299
Total support services	641,352	—	641,352
Total expenses and losses	4,191,700	—	4,191,700
Change in net assets	(142,463)	(35,101)	(177,564)
Net assets, beginning of year	5,906,300	131,214	6,037,514
Net assets, end of year	\$ 5,763,837	\$ 96,113	\$ 5,859,950

The accompanying notes are an integral part of this statement.

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended August 31, 2006

	Program Services	Support Services		Total Support Services	Total
	Wish Granting	Fundraising	Management and General		
Direct costs of wishes	\$ 2,549,725	\$ —	\$ —	\$ —	\$ 2,549,725
Direct costs of fundraising	—	1,533	—	1,533	1,533
Salaries, taxes, and benefits	509,588	306,345	189,398	495,743	1,005,331
Rent	55,728	31,096	16,378	47,474	103,202
Telephone	14,843	6,820	4,156	10,976	25,819
Office supplies	21,679	30,946	7,375	38,321	60,000
Postage/delivery	6,672	16,589	1,321	17,910	24,582
Insurance	16,195	6,698	3,994	10,692	26,887
Depreciation	14,468	8,281	5,973	14,254	28,722
Public relations	3,641	—	395	395	4,036
Travel	9,234	8,476	1,086	9,562	18,796
National assessment	56,818	11,214	6,728	17,942	74,760
Repairs and maintenance	2,887	890	571	1,461	4,348
Meetings and conferences	5,353	2,861	821	3,682	9,035
Bad debt expense	1,589	2,537	—	2,537	4,126
Professional services	—	2,117	269	2,386	2,386
Printing	—	24,977	—	24,977	24,977
Loss on disposal of assets	—	18,448	—	18,448	18,448
	<u>\$ 3,268,420</u>	<u>\$ 479,828</u>	<u>\$ 238,465</u>	<u>\$ 718,293</u>	<u>\$ 3,986,713</u>

The accompanying notes are an integral part of this statement.

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended August 31, 2005

	Program	Support Services		Total	Total
	Services	Fundraising	Management and General	Support Services	
	Wish Granting				
Direct costs of wishes	\$ 2,822,586	\$ —	\$ —	\$ —	\$ 2,822,586
Direct costs of fundraising	—	2,795	—	2,795	2,795
Salaries, taxes, and benefits	541,111	218,839	239,034	457,873	998,984
Professional fees	22,512	9,139	7,571	16,710	39,222
Rent	52,530	23,352	20,114	43,466	95,996
Telephone	14,854	6,582	6,432	13,014	27,868
Office supplies	19,672	10,331	10,616	20,947	40,619
Postage/delivery	7,886	16,470	2,553	19,023	26,909
Insurance	9,974	3,564	3,038	6,602	16,576
Depreciation	13,744	9,012	7,744	16,756	30,500
Public relations	7,500	20,256	1,418	21,674	29,174
Travel	7,264	8,175	775	8,950	16,214
National assessment	22,648	5,432	2,116	7,548	30,196
Repairs and maintenance	2,208	592	506	1,098	3,306
Meetings and conferences	5,859	1,932	820	2,752	8,611
Bad debt expense	—	—	1,562	1,562	1,562
Miscellaneous	—	582	—	582	582
	<u>\$ 3,550,348</u>	<u>\$ 337,053</u>	<u>\$ 304,299</u>	<u>\$ 641,352</u>	<u>\$ 4,191,700</u>

The accompanying notes are an integral part of this statement.

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

STATEMENTS OF CASH FLOWS

Year ended August 31, 2006

	2006	2005
Cash Flows from Operating Activities:		
Change in net assets	\$ 503,922	\$ (177,564)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	28,722	30,500
Loss on disposal of equipment	18,450	—
Net realized and unrealized gains on investments	(7,581)	(57,277)
Donation of investments	(9,338)	1,850
Note receivable applied to wish granting	—	100,000
Allowance for pledges receivable	(13,143)	—
Increase (decrease) in cash resulting from changes in:		
Contributions receivable	(42,963)	216,799
Pledges receivable	7,269	16,077
Due from National Organization	74,255	(46,683)
Inventories	(895)	—
Other assets	7,000	(16,790)
Accounts payable and accrued expenses	(10,092)	(200,871)
Accrued wish costs	142,506	239,241
Unearned revenues	(179,205)	133,947
	518,907	239,229
Cash Flows from Investing Activities:		
Purchases of investments	(762,158)	(1,855,013)
Proceeds from sales of investments	519,310	861,781
Purchases of equipment	(9,804)	(7,824)
	(252,652)	(1,001,056)
Net cash used in investing activities	(252,652)	(1,001,056)
Net increase (decrease) in cash and cash equivalents	266,255	(761,827)
Cash and cash equivalents, beginning of year	1,270,490	2,032,317
Cash and cash equivalents, end of year	\$ 1,536,745	\$ 1,270,490

The accompanying notes are an integral part of these statements.

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

Notes to Financial Statements

August 31, 2006 and 2005

NOTE 1 - ORGANIZATION

The Make-A-Wish Foundation of the Mid-Atlantic, Inc. (the Foundation) is a non-profit corporation, organized to grant the wishes of children with life-threatening medical conditions to enrich the human experience with hope, strength, and joy. The Foundation serves children who reside in Maryland, Washington, D.C., Northern Virginia (Arlington, Fairfax, Fauquier, Loudoun and Prince William Counties, as well as the City of Alexandria), and Delaware. The Foundation granted its first wish in 1983, and has fulfilled a total of 5,343 wishes through August 31, 2006. During fiscal year 2006, 394 wishes were granted and the total average direct cost of a wish was approximately \$6,500. During fiscal year 2005, 446 wishes were granted and the total average direct cost of a wish was approximately \$6,300. As of August 31, 2006, the Foundation has 295 pending wishes, of which 167 are reportable accrued pending wishes included on the statements of financial position. As of August 31, 2005, the Foundation has 253 pending wishes, of which 128 are reportable accrued pending wishes included on the statements of financial position.

The Foundation is an independently operating chapter of Make-A-Wish Foundation of America (the National Organization) and is obligated to comply with the Chapter Agreement and Performance Standards as set forth in the Bylaws of the National Organization including rules, regulations, standards, resolutions, and policies.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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:

- **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.

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

Notes to Financial Statements

August 31, 2006 and 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of the 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, as well as the reported amounts of revenues, gains, and other support and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made for the year ended August 31, 2005, to conform with classifications adopted in 2006.

Cash Equivalents

Cash equivalents include checking, savings, money market funds, and investments with a maturity of 3 months or less when purchased.

Investments

Investments, consisting primarily of certificates of deposit, common stocks, government securities and corporate bonds, with readily determinable market values are measured at fair value as of year-end in the financial statements. Investment income and realized and unrealized gains on investments are recognized in the statements of activities.

Investments include a 9.8 percent limited interest in Montrose Associates, a Pennsylvania Limited Partnership, donated to the Foundation in 1994. The partnership operates an 80 unit rental housing project located in Montrose, Pennsylvania under Section 8 of the National Housing Act which provides for moderate and low income elderly or handicap families. The value of this interest is reported at its value at the time it was donated, and is not adjusted to fair market value as the appraisal costs would not support the value of the interest.

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 are recognized if the services received: (a) create or enhance non-financial 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 service and material donations included in the accompanying statements of activities at an estimated fair market value of \$723,487 and \$562,562 for the years ended August 31, 2006 and 2005, respectively.

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

Notes to Financial Statements

August 31, 2006 and 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 unrestricted revenues.
- **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

Contributions receivable represent contributions acknowledged in writing from third parties prior to August 31, but not transmitted to the Foundation until after that date. The Foundation's contributions receivable are generally collected within one year.

Pledges Receivable

Pledges receivable represent amounts that have been pledged to Make-A-Wish Foundation of America that are to be distributed to the chapter. The Foundation's pledges receivable are generally collected within one year.

Equipment

Equipment is recorded at cost when purchased or fair market value at the date of gift, if contributed, and is depreciated using the straight-line method over five to 10 years. The Foundation generally capitalizes fixed asset purchases with a cost of \$500 or more and an expected useful life greater than one year.

Accrued Pending Wish Costs

The Foundation accrues for the estimated cost of reportable pending wishes if certain measurable wish criteria are met. The reportable pending wish criteria include a medical eligibility form signed by the child's physician and formal approval by the Foundation.

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

Notes to Financial Statements

August 31, 2006 and 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues

- **Unearned revenues** represent amounts received by the Foundation on or before August 31, 2006, attributable to internal special events that are scheduled to take place in future periods.
- **Internal special events** are fund raising events hosted by the Foundation. During the fiscal year ending August 31, 2006, the Foundation hosted seven such events. **Direct donor benefits** are the actual costs of the items and services furnished to the attendees of these events as inducements to attend.
- **External special events** are fund raising events hosted by a business, group of individuals, or separate nonprofit organization to benefit the Foundation. The Foundation does not participate in the planning or execution of these events.

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 Virginia, Maryland, and the District of Columbia taxation.

Functional Expenses

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

- **Wish Granting** - Activities performed by the Foundation which fulfill wishes to children between the ages of 2-1/2 and 18 years old with life-threatening medical conditions.
- **Fundraising** - Activities performed by the Foundation to generate funds and/or resources to support its programs and operations. During the fiscal years ended August 31, 2006 and 2005, the Foundation incurred no significant joint costs for activities that included fundraising appeals.
- **General Management** - All costs not identifiable with a single program or fundraising activity, but indispensable to the conduct of such programs and activities, and to the Foundation's existence. These 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 generally allocated among the functions based on the amount of time spent by employees on each function or on the amount of square footage used for each function.

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

Notes to Financial Statements

August 31, 2006 and 2005

NOTE 3 - INVESTMENTS

A summary of investments as of August 31, is as follows:

	2006		2005
Certificates of deposit	\$ 1,144,143	\$	994,676
U.S. government securities	277,119		282,759
Corporate bonds	2,134,852		2,198,185
Mutual funds	502,772		450,740
Common stocks	1,302,040		1,174,799
Partnership interest	21,750		21,750
	<u>\$ 5,382,676</u>	<u>\$</u>	<u>5,122,909</u>

Investment return consisted of the following at August 31:

	2006		2005
Interest and dividend income	\$ 256,151	\$	225,081
Net realized and unrealized gains	7,581		57,277
	<u>\$ 263,732</u>	<u>\$</u>	<u>282,358</u>

NOTE 4 - EQUIPMENT

A summary of equipment as of August 31, follows:

	2006		2005
Equipment	\$ 117,562	\$	185,399
Less: accumulated depreciation	(72,250)		(102,719)
Equipment, net	<u>\$ 45,312</u>	<u>\$</u>	<u>82,680</u>

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

Notes to Financial Statements

August 31, 2006 and 2005

NOTE 5 - TRANSACTIONS WITH THE NATIONAL ORGANIZATION

The Foundation pays the National Organization an annual assessment fee, which was \$74,760 and \$30,196 for the years ended August 31, 2006 and 2005, respectively. Amounts due from the National Organization of \$45,145 and \$119,400 at August 31, 2006 and 2005, respectively, represent contributions received by the national office on behalf of the Foundation. During the fiscal year ended August 31, 2005, the Foundation entered into an agreement with the National Organization to extend \$250,000 in the form of a note receivable. At August 31, 2006, the balance of the note receivable was \$150,000. Interest accrues on the principal balance at the rate of 3 percent per annum payable semi-annually. The note receivable must be paid in full on or before March 1, 2007.

NOTE 6 - LEASE

The Foundation leases office facilities under noncancelable operating leases, as well as a month-to-month operating lease. Additionally, the Foundation is provided donated office space on a month-to-month basis. The fair market value of the space is recorded as both a contribution and an expense. Rent expense for the years ended August 31, 2006 and 2005, was \$84,296 and \$83,613, respectively. Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of August 31, 2006, are as follows:

2007	\$	72,993
2008		14,435
		<hr/>
Total	\$	87,428
		<hr/>

NOTE 7 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the purpose of wish granting. Net assets released from restrictions for the years ended August 31, 2006 and 2005, were for time- and purpose-restricted donations for which time or purpose restriction had been met of \$96,113 and \$131,214, respectively.

NOTE 8 - DEFINED CONTRIBUTION PLAN

The Foundation has a defined contribution retirement plan. All full-time employees are eligible to make employee contributions under the plan. Employee contributions are fully and immediately vested. For employees who meet minimum age and length of service requirements, the Foundation contributes a minimum of 5 percent of the employee's compensation to the plan. Employer contributions are vested pursuant to a service length schedule beginning after one year of service. All contributions are subject to Federal tax law limits. The employer contributions to the plan were approximately \$43,900 and \$36,200 during the years ended August 31, 2006 and August 31, 2005, respectively.

Make-A-Wish Foundation of the Mid-Atlantic, Inc.

Notes to Financial Statements

August 31, 2006 and 2005

NOTE 9 - CONCENTRATION OF CREDIT RISK

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

NOTE 10 - ACCRUED WISH COSTS

Accrued wish costs consist of amounts due on fulfilled wishes and estimated amounts for approved unfulfilled wishes at August 31:

	<u>2006</u>	<u>2005</u>
Unpaid costs on fulfilled wishes	\$ 171,171	\$ 238,691
Unpaid costs on reportable accrued pending wishes	1,113,931	903,905
	<u>\$ 1,285,102</u>	<u>\$ 1,142,596</u>