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

Financial Statements

August 31, 2014

(With Independent Auditors' Report Thereon)

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

Table of Contents

INDEPENDENT AUDITORS' REPORT

Board of Directors
Make-A-Wish Foundation® Orange County & The Inland Empire, Inc.
Irvine, California

We have audited the accompanying financial statements of Make-A-Wish Foundation® Orange County & The Inland Empire, Inc., which comprise the statement of financial position as of August 31, 2014, and the related statements of activities, cash flows, and functional expenses for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 control. 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Make-A-Wish Foundation® Orange County & The Inland Empire, Inc. as of August 31, 2014, and change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As noted in Note 15, certain errors were identified which resulted in a restatement of beginning unrestricted and temporarily restricted net assets. Accordingly, adjustments have been made to properly reflect beginning net assets.

CliftonLarsonAllen LLP

Phoenix, Arizona
January 12, 2015

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

Statement of Financial Position

August 31, 2014

Assets		
Cash and cash equivalents	$	416,675
Investments		2,325,348
Due from related entities		160,516
Prepaid expenses		54,492
Contributions receivable, net		45,214
Other assets		49,362
Investments held for long-term purposes		121,921
Property and equipment, net		287,512
Total assets	$	3,461,040
Liabilities and Net Assets		
Accounts payable and accrued expenses	$	164,547
Accrued pending wish costs		1,217,436
Due to related entities		46,807
Other liabilities		77,751
Total liabilities		1,506,541
Net assets		
Unrestricted		1,677,377
Temporarily restricted		194,622
Permanently restricted		82,500
Total net assets		1,954,499
Total liabilities and net assets	$	3,461,040

See accompanying notes to financial statements.

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

Statement of Activities

August 31, 2014

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Public support:				
Contributions	$ 3,767,614	60,256	—	3,827,870
Grants	116,803	50,000	—	166,803
Total public support	3,884,417	110,256	—	3,994,673
Internal Special events	605,510	—	—	605,510
Less costs of direct benefits to donors	(264,454)	—	—	(264,454)
Total special events	341,056	—	—	341,056
Investment income, net	211,255	13,685	—	224,940
Other income	488,350	—	—	488,350
Net assets released from restrictions	192,393	(192,393)	—	—
Total revenues, gains, and other support	5,117,471	(68,452)	—	5,049,019
Expenses:				
Program services:				
Wish granting	3,018,702	—	—	3,018,702
Training and development	187,637	—	—	187,637
Public information	225,898	—	—	225,898
Total program services	3,432,237	—	—	3,432,237
Support services:				
Fundraising	476,384	—	—	476,384
Management and general	320,867	—	—	320,867
Total support services	797,251	—	—	797,251
Total program and support services expenses	4,229,488	—	—	4,229,488
Total expenses and losses	4,229,488	—	—	4,229,488
Change in net assets	887,983	(68,452)	—	819,531
Net assets, beginning of the year, as previously stated	801,960	303,871	82,500	1,188,331
Restatement of net assets	(12,566)	(40,797)	—	(53,363)
Net assets, beginning of the year - as restated	789,394	263,074	82,500	1,134,968
Net assets, end of the year	$ 1,677,377	194,622	82,500	1,954,499

See accompanying notes to financial statements.

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

Statement of Cash Flows

August 31, 2014

Cash flows from operating activities:		
Change in net assets	$	819,531
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		37,747
Bad debt expense		3,786
Net realized and unrealized gains on investments		(203,002)
Gain on sale of property and equipment		(320,594)
Contributed property and equipment and stock		(15,457)
Changes in assets and liabilities:		
Contributions receivable		3,539
Due from related entities		(51,396)
Prepaid expenses		(25,902)
Other assets		(21,429)
Accounts payable and accrued expenses		76,291
Accrued pending wish costs		163,878
Due to related entities		30,861
Other liabilities		24,388
Net cash provided by operating activities		522,241
Cash flows from investing activities:		
Purchases of investments		(1,292,976)
Proceeds from sales of investments		225,980
Purchases of property and equipment		(252,134)
Proceeds from sale of property and equipment		1,157,446
Net cash used in investing activities		(161,684)
Cash flows from financing activities:		
Principal payments on line of credit		(250,000)
Net cash used in financing activities		(250,000)
Net increase in cash and cash equivalents		110,557
Cash and cash equivalents, beginning of year		306,118
Cash and cash equivalents, end of year	$	416,675
Supplemental cash flow information:		
Donated property and equipment and stock		15,457

See accompanying notes to financial statements.

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

Statement of Functional Expenses

August 31, 2014

	Program services				Support services			
	Wish granting	**Training and development**	**Public information**	**Total program services**	**Fundraising**	**Management and general**	**Total support services**	**Total**
Direct costs of wishes	$ 2,348,762	—	—	2,348,762	—	—	—	2,348,762
Salaries, taxes, and benefits	435,234	131,662	173,949	740,845	282,001	240,501	522,502	1,263,347
Printing, subscriptions, and publications	7,831	3,205	3,174	14,210	9,193	2,519	11,712	25,922
Professional fees	22,847	4,789	4,805	32,441	29,151	8,006	37,157	69,598
Rent and utilities	41,708	12,540	12,388	66,636	22,673	30,141	52,814	119,450
Postage and delivery	2,986	299	421	3,706	3,330	562	3,892	7,598
Travel	8,446	3,370	688	12,504	8,549	1,976	10,525	23,029
Meetings and conferences	9,659	10,184	1,930	21,773	24,573	3,540	28,113	49,886
Office supplies	5,539	2,030	2,467	10,036	3,294	1,838	5,132	15,168
Communications	11,336	2,598	2,397	16,331	3,732	2,980	6,712	23,043
Advertising and media (cash)	100	—	9,874	9,974	14,733	—	14,733	24,707
Repairs and maintenance	13,715	5,910	4,174	23,799	6,461	4,259	10,720	34,519
Insurance	5,400	1,551	1,597	8,548	2,265	1,719	3,984	12,532
Bad debt expense	—	—	—	—	—	3,786	3,786	3,786
Membership dues	2,677	1,065	1,606	5,348	1,785	977	2,762	8,110
Volunteer training	—	2,012	40	2,052	41	—	41	2,093
National partnership dues	78,869	—	—	78,869	12,329	9,313	21,642	100,511
Miscellaneous	(36)	3,412	3,314	6,690	47,659	5,331	52,990	59,680
Depreciation and amortization	23,629	3,010	3,074	29,713	4,615	3,419	8,034	37,747
	$ 3,018,702	187,637	225,898	3,432,237	476,384	320,867	797,251	4,229,488

See accompanying notes to financial statements.

(1) Organization

Make-A-Wish Foundation® of Orange County & the Inland Empire, Inc., (the Foundation) is a California not-for-profit corporation, organized for the purpose of granting wishes to children with life-threatening medical conditions. The Foundation is an independently operating chapter of Make-A-Wish Foundation of America (National Organization), which operates to develop and implement national programs in public relations and 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 (GAAP).

(b) Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Included in cash and cash equivalents at August 31, 2014 is $354,057 of money market 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.

(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. Contributions receivable are discounted using fair value rates. Contributions are written off when deemed uncollectible.

(e) Property and Equipment, Net

Property and equipment having 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. Property and equipment under capital leases are stated at the present value of future minimum lease payments at the time of acquisition. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of the assets, generally 3 to 40 years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the remaining terms of the lease(s). 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.

(f) 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.

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

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets (or liabilities) that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs: Prices for a similar asset (or liability), other than quoted prices included in Level 1 inputs, that are observable for the asset (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 Inputs: Unobservable inputs for the asset (or liability) used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset (or liability) at measurement date.

See additional information in note 3.

(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 that the principal be maintained in perpetuity. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for unrestricted purposes.
- **Temporarily restricted net assets** – Net assets subject to restrictions imposed by donor or law that may be met either by actions of the Foundation or the passage of time.
- **Unrestricted net assets** – Net assets that are not subject to donor-imposed restrictions or law.

(h) Revenue Recognition

Unconditional promises to give are recognized initially 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 contribution 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 and services that are included in the accompanying statements of activities as follows:

Contributions:		
Wish related	$	723,965
Professional services		600
Investments		10,188
Property and equipment		5,269
Other		5,735
Total	$	745,757
Special event revenue:		
Internal special events	$	116,506

An internal special event is a fund raising 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.

Program or supporting services expenses were recorded at fair value totaling $724,565 in 2014, with the difference recorded as other assets representing primarily auction items received and not yet used.

Advertising and media is used to help the Foundation communicate its 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 when received and fund raising 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.

(i) Income Taxes

The Foundation is a not-for-profit organization exempt from federal income and California income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and Section 23701d of the California Revenue and Taxation Code However, the Foundation remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

Management believes that no uncertain tax positions exist for the Foundation at August 31, 2014. The Foundation files income tax returns in the U.S. federal jurisdiction, and state jurisdictions. The Foundation is no longer subject to U.S. federal income tax examinations by tax authorities for tax years before 2010.

(j) Functional Expenses

The Foundation performs five functions: wish granting, training and development, public information, 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.

Training and Development

Activities performed by the Foundation include, but are not limited to, implementation of programs supporting 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.

Fund Raising

Activities performed by the Foundation to generate funds and/or resources to support its programs and operations. During the fiscal year ended August 31, 2014, the Foundation incurred no significant joint costs for activities that included 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 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.

(k) Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Significant items subject to such estimates and assumptions include the useful lives of property and equipment, valuation of investments and contributions receivable, accrued pending wish costs, net of attrition on pending wish costs and whether an allowance for uncollectible contributions receivable is required. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(3) Fair Value Measurements

(a) Fair Value of Financial Instruments

Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values of the financial instruments shown in the following table(s) as of August 31, 2014 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 Board's Audit and Finance committee, which oversees the Foundation's investment program 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.

(b) *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 at August 31, 2014:

		Fair value measurements using		
Description	**August 31, 2014**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:				
Recurring:				
Investments:				
Mutual funds:				
Domestic equity	$ 566,729	566,729	—	—
International equity	53,498	53,498	—	—
Global	3,301	3,301	—	—
Real estate	25,698	25,698	—	—
Bonds	28,016	28,016	—	—
Exchange-traded funds:				
Domestic equity	1,278,647	1,278,647	—	—
International equity	207,112	207,112	—	—
Bonds	284,268	284,268	—	—
Total Recurring	$ 2,447,269	2,447,269	—	—

For the valuation of investments categorized as Level 1 at August 31, 2014, the Foundation used unadjusted market prices for identical assets.

Total investment income, gains, and losses for the year ended August 31, 2014 consist of the following:

Interest and dividend income	$ 37,532
Realized and unrealized gains, net	203,002
Less investment expenses	(15,594)
Investment income, net	$ 224,940

(4) Contributions Receivable

Contributions receivable include pledges at August 31, 2014. The following is a summary of the Foundation's contributions receivable at August 31, 2014:

Total amounts due in:		
One year	$	37,606
Two to five years		7,608
Gross contributions receivable		45,214
Less allowance for doubtful accounts		—
Contributions receivable, net	$	45,214

(5) Transactions with Related Entities

The Foundation received the following distributions from the National Organization for the year ended August 31, 2014:

Corporate, online, whitemail and general contributions	$	1,260,791
Gifts and travel reimbursements		236
Grants		105,735
Wish fulfillment fund		39,756
Adopt-A-Wish		40,000
Other		12,563
Total distributions received	$	1,459,081

These amounts are recorded in the Statement of Activities as public support revenue.

The Foundation paid to the National Organization the following amounts for the year ended August 31, 2014:

Partnership dues	$	100,511
Total amounts paid	$	100,511

Chapters who assist with the organization and granting of wishes from other chapters are paid a "fee for service" called the wish assist fee. Under this program, the Foundation received $167,325 for the year ended August 31, 2014, which is recorded in the accompanying statements of activities as other income.

Amounts due from and to related entities are as follows:

Due from National Organization	$	89,591
Due from other chapters		70,925
Total due from related entities	$	160,516
Due to National Organization	$	—
Due to other chapters		46,807
Total due to related entities	$	46,807

Amounts due from the National Organization represent contributions remitted to the National Organization that are identified for the Foundation's use but were not yet transferred to the Foundation as of year-end. Amounts due from other chapters represent amounts paid in assisting other chapters with their wish granting. Amounts due to other chapters represent amounts owed to other chapters who have assisted in the granting of wishes for the Foundation.

During 2014 the Foundation received contributions, both cash and in-kind, from board members totaling $72,785.

(6) Property and Equipment, Net

The Chapter liquidated the real estate that housed the organization during fiscal year 2014. Escrow on the sale was closed on February 28, 2014, with a final sale price of $1,250,000. The entire proceeds from the sale of the property were moved to an investment account, which is why the Chapter's liquidity increased significantly from the end of fiscal year 2013 compared to the end of fiscal year 2014. In addition, net gain on the sale of the real estate is included in other income in the Statement of Activities and comprises $320,594 of the increase in net assets for fiscal year 2014.

Property and equipment as of August 31, 2014 consist of the following:

Computer equipment and software	$	92,256
Office furniture		207,273
Other equipment		2,254
Leasehold improvements		81,652
		383,435
Less accumulated depreciation and amortization		(95,923)
Property and equipment, net	$	287,512

Depreciation and amortization expense totaled $37,747 for the year ended August 31, 2014. Computer equipment, software, and related items over three years, office furniture and other equipment over five years, and leasehold improvements over the shorter of seven years or the remaining lease term.

(7) Accrued Pending Wish Costs

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

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

The Foundation, as part of its estimate of accrued pending wish costs, also considers attrition on pending wish costs. An attrition rate is calculated by the Foundation by analyzing the trend of wishes that have been accrued for using the five criteria discussed above that have not been able to be completed within the past twelve months due to factors outside of the control of the chapter, such as the death of a child, the move of the family out of the chapter's territory, or loss of contact with the family. As of August 31, 2014, the Foundation had 147 reportable pending wishes.

(8) Notes Payable

The Foundation has a line of credit with a financial institution totaling $500,000, bearing interest at 3.25% and secured by investments. The line expired in August 2014. Subsequent to year-end, the line of credit was extended to August 21, 2015. As of August 31, 2014, there was $-0- outstanding on this line of credit.

(9) Leases

The Foundation is obligated under various capital and operating leases for offices and equipment, which expire at various dates through July 31, 2022. As of August 31, 2014, total rent expense for all leases for the year ended August 31, 2014 totaled $66,655.

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

		Operating leases
Year ending August 31:		
2015	$	200,527
2016		169,619
2017		169,619
2018		169,148
2019 and following		629,850
Total minimum lease payments	$	1,338,763

(10) 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 endowment consists of one individual fund established for a variety of purposes including both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment assets, both donor-restricted and board-designated, are reflected as investments held for long term purposes on the statements of financial position.

(a) Interpretation of Relevant Law

The board of directors of the Foundation has interpreted the California UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions

4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Endowment net asset composition by type of fund as of August 31, 2014 is as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	39,421	82,500	121,921
Total funds	$	—	39,421	82,500	121,921

Changes in endowment net assets for the year ended August 31, 2014 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	12,566	13,170	82,500	108,236
Investment return:					
Investment income		—	3,448	—	3,448
Net appreciation (realized and unrealized)		—	10,237	—	10,237
Total investment return		—	13,685	—	13,685
Other adjustments:					
Prior period adjustment		(12,566)	12,566	—	—
Endowment net assets, end of year	$	—	39,421	82,500	121,921

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

Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$	82,500
Temporarily restricted net assets:		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:		
Without purpose restrictions	$	39,421

(b) Fund Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There are no fund deficiencies as of August 31, 2014.

(c) Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding programs supported by its endowment 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 period(s) as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 9% annually. Actual returns in any given year may vary from this amount.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent constraints.

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

The Foundation has a policy of not appropriating any funds until the endowment reaches $105,000 at which time the endowment can be drawn down $5,000. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4% annually. This is consistent with the Foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes for the year ended August 31, 2014:

Time restrictions	$	91,289
Purpose restrictions		103,333
Total temporarily restricted net assets	$	194,622

For the year ended August 31, 2014, permanently restricted net assets are restricted to:

Investments in perpetuity, the income from which is expendable to support any activities of the Foundation	$	82,500
	$	82,500

(12) Retirement Plan

The Foundation has a defined contribution retirement plan (the Plan). Employees are eligible for participation in the Plan after reaching 21 years of age and upon completion of one year of service. Under the provisions of the Plan, eligible employees may elect to defer a percentage of their salary subject to certain IRC limitations. The Foundation matches employee contributions up to 4% of the employee's salary. Foundation contributions to the Plan for the year ended August 31, 2014 were $31,840.

(13) 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 $188,259 were received from a single donor for the year ended August 31, 2014, which represents 4.8% of total public support. Should these contribution levels decrease, the Foundation may be adversely affected.

(14) Subsequent Events

The Foundation has evaluated subsequent events from the statement of financial position date through December 17, 2014, the date at which the financial statements were available to be issued.

(15) Restatement

During the fiscal year, two misstatements were identified which required adjustments to net assets as of September 1, 2013. In prior years, $12,566 of unappropriated endowment earnings have previously been reported as unrestricted net assets. Accounting standards require that endowment earnings be reported as temporarily restricted until appropriated by the board for use. In addition, $53,363 of sponsorships for future events were reported as temporarily restricted net assets. Based on an expectation that event attendees will receive benefits for their payment and could reasonably expect a refund if the event were cancelled, payments for future events should be recorded as deferred revenue rather than as temporarily restricted contributions. These adjustments decreased beginning unrestricted net assets by $12,566 and beginning temporarily restricted net assets by $40,797. Total beginning net assets decreased by $53,363.