

**MAKE-A-WISH FOUNDATION
INTERNATIONAL**

Financial Statements

For the years ended
December 31, 2005 and 2004

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INDEPENDENT AUDITORS' REPORT

March 23, 2006

To the Board of Directors
Make-A-Wish Foundation International
Phoenix, Arizona

We have audited the accompanying statement of financial position of Make-A-Wish Foundation International as of December 31, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of Make-A-Wish Foundation International. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides 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 International as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with principles generally accepted in the United States of America.

The 2004 financial statements of Make-A-Wish Foundation International were audited by other accountants, whose report dated January 30, 2005, issued an unqualified opinion on those financial statements.

Certified Public Accountants

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

MAKE-A-WISH FOUNDATION INTERNATIONAL

December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and cash equivalents	\$ 1,255,145	\$ 837,526
Accounts receivable	11,840	184,509
Pledges receivable	81,741	
Due from affiliates	181,080	157,146
Prepaid expenses	7,420	11,461
Equipment, net of accumulated depreciation of \$25,932 and \$16,100	27,622	29,467
Total Assets	<u>\$ 1,564,848</u>	<u>\$ 1,220,109</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 38,951	\$ 19,996
Deferred revenue		18,909
Due to affiliates	390,452	61,425
Total Liabilities	<u>429,403</u>	<u>100,330</u>
Net Assets		
Unrestricted	941,579	745,610
Board designated funds - future operations and programs	181,115	356,115
Temporarily restricted	12,751	18,054
Total Net Assets	<u>1,135,445</u>	<u>1,119,779</u>
Total Liabilities and Net Assets	<u>\$ 1,564,848</u>	<u>\$ 1,220,109</u>

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES

MAKE-A-WISH FOUNDATION INTERNATIONAL

For the year ended December 31, 2005

With comparative totals for the year ended December 31, 2004

	2005			2004
	Unrestricted	Temporarily Restricted	Total	Total
Support and Revenue				
Contributions and grants	\$ 2,370,082		\$ 2,370,082	\$ 1,901,452
Member dues	399,037		399,037	247,987
Conference income	31,985		31,985	30,515
Event income	116,350		116,350	
Interest income	1,644		1,644	342
Net assets released from restrictions	5,303	\$ (5,303)		
Total Support and Revenue	2,924,401	(5,303)	2,919,098	2,180,296
Expenses				
Program services	2,570,298		2,570,298	1,881,012
Supporting services:				
Management and general	222,188		222,188	130,265
Fundraising	110,946		110,946	91,263
Total Expenses	2,903,432		2,903,432	2,102,540
Change in Net Assets	20,969	(5,303)	15,666	77,756
Net Assets, beginning of year	1,101,725	18,054	1,119,779	1,042,023
Net Assets, end of year	\$ 1,122,694	\$ 12,751	\$ 1,135,445	\$ 1,119,779

See accompanying notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES

MAKE-A-WISH FOUNDATION INTERNATIONAL

For the year ended December 31, 2005

With comparative totals for the year ended December 31, 2004

	2005				2004
	Program Services	Management and General	Fundraising	Total	Total
Salaries	\$ 381,563	\$ 52,952	\$ 43,390	\$ 477,905	\$ 366,818
Employee benefits and payroll expenses	63,206	7,527	6,317	77,050	62,227
	444,769	60,479	49,707	554,955	429,045
Advertising	616,100			616,100	450,742
Bad debts					332
Dues and subscriptions	4,028	5,006		9,034	2,680
Insurance - general		625		625	2,612
Miscellaneous	10,172	958	838	11,968	7,548
Postage and delivery	7,335	643	216	8,194	5,215
Printing and duplication	4,740	1,431	542	6,713	3,815
Professional fees	36,483	108,581	49,992	195,056	111,187
Programs	1,180,640			1,180,640	813,934
Supplies	7,589	7,416		15,005	14,779
Rent	28,721	2,478	2,168	33,367	27,748
Telephone	15,019	12,914	306	28,239	28,342
Travel	74,867	20,870	6,489	102,226	101,941
Training	131,478			131,478	94,449
	2,561,941	221,401	110,258	2,893,600	2,094,369
Depreciation	8,357	787	688	9,832	8,171
	\$ 2,570,298	\$ 222,188	\$ 110,946	\$ 2,903,432	\$ 2,102,540

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

MAKE-A-WISH FOUNDATION INTERNATIONAL

For the years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 15,666	\$ 77,756
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	9,832	8,171
Changes in assets and liabilities:		
Accounts receivable	172,669	(181,756)
Pledges receivable	(81,741)	
Due from affiliates	(23,934)	18,982
Prepaid expenses	4,041	(1,524)
Accounts payable and accrued expenses	18,955	(5,289)
Deferred revenue	(18,909)	18,909
Due to affiliates	329,027	(488,821)
Net Cash Provided by (Used For) Operating Activities	<u>425,606</u>	<u>(553,572)</u>
Cash Flows from Investing Activities		
Purchase of equipment	<u>(7,987)</u>	<u>(17,025)</u>
Net Increase (Decrease) in Cash	417,619	(570,597)
Cash and Cash Equivalents, beginning of year	<u>837,526</u>	1,408,123
Cash and Cash Equivalents, end of year	<u>\$ 1,255,145</u>	<u>\$ 837,526</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MAKE-A-WISH FOUNDATION INTERNATIONAL

For the years ended December 31, 2005 and 2004

Note A – Nature of Organization and Significant Accounting Policies

Nature of Organization

Make-A-Wish Foundation International (the Foundation) is a not-for-profit organization with twenty-seven chartered international affiliates. The Foundation is organized and will be operated exclusively for the charitable purpose of increasing the opportunity of children of the world with a terminal or life-threatening illness to realize their wishes.

Basis of Accounting

The accompanying financial statements include only the accounts and transactions of the Foundation. The international affiliates are separate entities and as such are responsible for, and maintain custody of, their own financial resources. Accordingly, the accounts and transactions of the international affiliates are not included in these financial statements.

Contributions and Promises to Give

Contributions received and promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions and promises are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions or promises that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which they are recognized. All other donor-restricted contributions and promises are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Foundation considers all highly liquid assets with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents may include cash on hand or held by financial institutions. The Foundation maintains cash and cash equivalents at financial institutions which, at times, exceed federally insured amounts.

NOTES TO FINANCIAL STATEMENTS

MAKE-A-WISH FOUNDATION INTERNATIONAL

For the years ended December 31, 2005 and 2004

Note A – Nature of Organization and Significant Accounting Policies (Continued)

Donated Assets and Services

Donated marketable securities, property and equipment, and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation, if an objective basis is available to measure the value of such items. The Foundation pays for most services requiring specific expertise. However, if such services or assets are donated and the value is ascertainable, the fair market value is reflected in the financial statements as revenue and expense.

The Foundation recorded \$1,169,635 and \$1,119,696 of in-kind contributions for advertising, airline flights, hotel accommodations and other professional services during the years ended December 31, 2005 and 2004, respectively.

Volunteers donate significant amounts of their time to the Foundation's mission; however, these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Agent on Behalf of Affiliated Organizations

In certain cases, the Foundation may act as an agent for an affiliated organization. These agency transactions are treated as pass through funds and are carried as funds held as agent for affiliates until they are distributed.

Equipment

The Foundation capitalizes all expenditures in excess of \$500. Equipment is recorded at cost or in the case of donated equipment at estimated market value on the date of the gift and depreciation is provided on a straight-line basis over the estimated useful lives of the assets, generally three to seven years.

The Foundation reviews its equipment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. No impairment loss was recorded at December 31, 2005 and 2004.

Deferred Revenue

Event revenues are recognized in the fiscal year in which they are earned.

Functional Allocation of Expenses

Expenses are directly allocated to the various programs and support services when possible and indirectly allocated based on staff time spent in that area and the best estimates of management.

NOTES TO FINANCIAL STATEMENTS

MAKE-A-WISH FOUNDATION INTERNATIONAL

For the years ended December 31, 2005 and 2004

Note A – Nature of Organization and Significant Accounting Policies (Continued)

Income Taxes

The Foundation is a not-for-profit charitable organization which qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision has been made for income taxes.

Advertising

Advertising costs are expensed as the advertising occurs. The Foundation received in-kind donations of advertising valued at approximately \$616,100 and \$448,700 for the years ended December 31, 2005 and 2004, respectively. Advertising expenses of approximately \$616,100 and \$450,740 were recorded for the year ended December 31, 2005 and 2004, respectively.

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 and disclosures. Significant estimates include the functional allocation of expenses, valuation of accounts receivable, valuation of in-kind contributions and estimated lives of equipment for purposes of computing depreciation. Accordingly, actual results could differ from those estimates.

Prior Year Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2004, from which the summarized information was derived.

Note B – Fixed Assets

Fixed assets consisted of the following at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Office furniture and equipment	\$ 53,554	\$ 45,567
Accumulated depreciation	<u>(25,932)</u>	<u>(16,100)</u>
	<u>\$ 27,622</u>	<u>\$ 29,467</u>

NOTES TO FINANCIAL STATEMENTS

MAKE-A-WISH FOUNDATION INTERNATIONAL

For the years ended December 31, 2005 and 2004

Note C – Related Party Transactions

The Foundation receives membership dues from the international affiliates and sponsors conferences and events for which it incurs costs that are reimbursed by the participating affiliates. Amounts due from affiliates at December 31, 2005 and 2004 are \$181,080 and \$157,146, respectively.

The Foundation accepts donations on behalf of the international affiliates and disburses these funds to affiliates on a quarterly basis. These affiliate transactions are reported as funds held for affiliates until they are distributed. Additionally, the Foundation may hold certain funds for affiliate organizations at their request. Amounts due to affiliates at December 31, 2005 and 2004 are \$390,452 and \$61,425, respectively.

Note D – Temporarily Restricted Net Assets

Temporarily restricted net assets of \$12,751 and \$18,054 are available for wish support at December 31, 2005 and 2004, respectively.

Net assets of \$5,303 and \$13,619, were released from restrictions by incurring expenses satisfying the restricted purposes during the years ended December 31, 2005 and 2004, respectively.

Note E – Board of Directors Designated Net Assets

The Foundation's Board of Directors has designated \$181,115 and \$365,115 at December 31, 2005 and 2004, respectively, of unrestricted net assets to be used for operations and programs in subsequent years. The remaining designated balance at December 31, 2005 is intended to be used in 2006.

Note F – Employee Benefit Plan

In 2003, the Foundation adopted a SEP-IRA plan which covers all employees from their hire date. The Company matches each employee's elective deferral on a dollar-for-dollar basis up to 3% of the employee's compensation or other defined limits. A matching contribution of approximately \$10,600 and \$6,400 was made to the SEP-IRA plan for the years ended December 31, 2005 and 2004, respectively.

Note G – Operating Leases

The Foundation leases office space under a non-cancelable three year operating lease beginning on January 1, 2004. Lease expense was \$25,983 and \$25,363 for the years ended December 31, 2005 and 2004, respectively. Future minimum payments under this lease are \$26,730 for 2006. The Foundation may cancel the lease after three years or maintain the lease for an additional two years as follows: 2007 - \$27,980; and 2008 - \$26,640.