

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2009 AND 2008

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2
STATEMENTS OF FINANCIAL POSITION December 31, 2009 and 2008	3
STATEMENTS OF UNRESTRICTED ACTIVITY Years ended December 31, 2009 and 2008	4
STATEMENTS OF CHANGES IN NET ASSETS Years ended December 31, 2009 and 2008	5
STATEMENTS OF FUNCTIONAL EXPENSES Years ended December 31, 2009 and 2008	6
STATEMENTS OF CASH FLOWS Years ended December 31, 2009 and 2008	7 - 8
NOTES TO FINANCIAL STATEMENTS	9 - 17

INDEPENDENT AUDITOR'S REPORT

June 30, 2010

Board of Directors
Ronald McDonald House Charities of Western Washington & Alaska
Seattle, Washington

We have audited the accompanying statements of financial position of Ronald McDonald House Charities of Western Washington & Alaska (a nonprofit corporation) as of December 31, 2009 and 2008 and the related statements of unrestricted activity, changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Ronald McDonald House Charities of Western Washington & Alaska. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 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 Ronald McDonald House Charities of Western Washington & Alaska, as of December 31, 2009 and 2008, 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.



Jacobson Jarvis & Co, PLLC

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,400,902	\$ 742,398
Investments	3,304,084	2,063,672
Promises to give	106,179	94,945
Other receivables	77,630	76,338
Prepays	<u>87,712</u>	<u>25,513</u>
Total Current Assets	4,976,507	3,002,866
Investments - long-term	3,720,487	4,164,071
Property and Equipment, net	<u>13,668,575</u>	<u>13,695,888</u>
	<u>\$ 22,365,569</u>	<u>\$ 20,862,825</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	<u>\$ 116,652</u>	<u>\$ 100,167</u>
Net Assets		
Unrestricted		
Invested in property and equipment	10,712,663	10,648,181
Board designated	7,931,537	6,499,355
Undesignated	<u>99,542</u>	<u>150,000</u>
Total Unrestricted Net Assets	18,743,742	17,297,536
Temporarily restricted	3,028,925	2,988,872
Permanently restricted	<u>476,250</u>	<u>476,250</u>
Total Net Assets	<u>22,248,917</u>	<u>20,762,658</u>
	<u>\$ 22,365,569</u>	<u>\$ 20,862,825</u>

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF UNRESTRICTED ACTIVITY

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Unrestricted Public Support and Revenue		
Unrestricted Public Support		
Annual giving	\$ 193,516	\$ 326,038
Special events, net of direct cost of benefits provided to participants of \$98,616 and \$91,161	525,056	475,898
McDonald's fundraisers	793,456	705,676
In-kind contributions	<u>171,988</u>	<u>135,768</u>
Total Unrestricted Public Support	<u>1,684,016</u>	<u>1,643,380</u>
Revenue		
Room receipts	621,358	568,497
Interest and dividends, net	106,189	166,400
Realized and unrealized (losses) gains on investments	893,722	(2,360,252)
Other revenue	<u>302,806</u>	<u>219,385</u>
Total Revenue	<u>1,924,075</u>	<u>(1,405,970)</u>
Total Unrestricted Public Support and Revenue	3,608,091	237,410
Net Assets Released from Restrictions		
Satisfaction of purpose restrictions	<u>761,650</u>	<u>766,732</u>
Total Unrestricted Public Support, Revenue, and Other Support	<u>4,369,741</u>	<u>1,004,142</u>
Expenses		
Program services	2,104,715	2,135,393
Management and general	237,598	227,052
Fundraising	501,183	466,735
Remittance to National	<u>70,663</u>	<u>70,368</u>
Total Expenses	<u>2,914,159</u>	<u>2,899,548</u>
Change in Accounting Principle (Note E)	<u>(9,376)</u>	<u>-</u>
Change in Unrestricted Net Assets	<u>\$ 1,446,206</u>	<u>\$ (1,895,406)</u>

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009				2008			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support, Revenue and Other Support								
Unrestricted public support and revenue	\$ 3,608,091			\$ 3,608,091	\$ 237,410			\$ 237,410
Restricted public support								
Annual giving		\$ 529,029	\$ -	529,029	\$ 573,114	\$ -		573,114
Other contributions		-		-	70,000			70,000
Special events		195,350		195,350	132,185			132,185
Interest and dividends, net		13,565		13,565				
Realized and unrealized gains on investments		54,383		54,383				
Net Assets Released from Restrictions	<u>761,650</u>	<u>(761,650)</u>		<u>-</u>	<u>766,732</u>	<u>(766,732)</u>		<u>-</u>
Total Public Support, Revenue and Other Support	4,369,741	30,677	-	4,400,418	1,004,142	8,567	-	1,012,709
Expenses	(2,914,159)			(2,914,159)	(2,899,548)			(2,899,548)
Change in Accounting Principle (Note E)	<u>(9,376)</u>	<u>9,376</u>		<u>-</u>	<u>-</u>			<u>-</u>
Change in Net Assets	1,446,206	40,053	-	1,486,259	(1,895,406)	8,567	-	(1,886,839)
Net Assets - beginning of year	<u>17,297,536</u>	<u>2,988,872</u>	<u>476,250</u>	<u>20,762,658</u>	<u>19,192,942</u>	<u>2,980,305</u>	<u>476,250</u>	<u>22,649,497</u>
Net Assets - end of year	<u>\$ 18,743,742</u>	<u>\$ 3,028,925</u>	<u>\$ 476,250</u>	<u>\$ 22,248,917</u>	<u>\$ 17,297,536</u>	<u>\$ 2,988,872</u>	<u>\$ 476,250</u>	<u>\$ 20,762,658</u>

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009				2008			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 714,101	\$ 142,553	\$ 238,814	\$ 1,095,468	\$ 670,640	\$ 138,240	\$ 215,124	\$ 1,024,004
Payroll taxes	67,602	13,534	22,867	104,003	62,290	12,741	19,348	94,379
Employee benefits	94,710	18,961	32,038	145,709	86,872	17,769	26,983	131,624
Total Salaries and Related Expenses	876,413	175,048	293,719	1,345,180	819,802	168,750	261,455	1,250,007
Depreciation	530,357	8,603	7,800	546,760	500,670	7,742	7,742	516,154
Occupancy	512,175	3,423	-	515,598	456,393	2,367	-	458,760
In-kind expense	109,672	800	31,750	142,222	87,389	1,079	42,600	131,068
Administrative and operating	31,743	21,757	54,636	108,136	35,612	22,169	47,637	105,418
Special events expenses	-	-	88,339	88,339	-	-	103,755	103,755
Insurance	37,461	6,837	-	44,298	36,797	6,659	-	43,456
Miscellaneous	3,399	1,309	24,939	29,647	3,568	596	2,546	6,710
Professional services	3,495	19,821	-	23,316	21,339	17,690	1,000	40,029
Grants and scholarships awarded	-	-	-	-	173,823	-	-	173,823
Total Expenses	<u>\$ 2,104,715</u>	<u>\$ 237,598</u>	<u>\$ 501,183</u>	2,843,496	<u>\$ 2,135,393</u>	<u>\$ 227,052</u>	<u>\$ 466,735</u>	2,829,180
Remittance to National				70,663				70,368
Total Expenses and Remittance to National				<u>\$ 2,914,159</u>				<u>\$ 2,899,548</u>

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Cash received from:		
Donors	\$ 2,220,509	\$ 2,154,034
Room receipts	621,358	497,992
Investment and other income	421,268	386,644
Cash paid for:		
Personnel	(1,336,540)	(1,247,036)
Services and supplies	(934,351)	(857,266)
Grants and scholarships to others	<u>-</u>	<u>(173,823)</u>
Net Cash Provided by Operating Activities	<u>992,244</u>	<u>760,545</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(489,681)	(111,843)
Purchases of investments	(1,541,581)	(6,275,614)
Proceeds from sale of investments	<u>1,695,862</u>	<u>5,604,447</u>
Net Cash Used by Investing Activities	<u>(335,400)</u>	<u>(783,010)</u>
Cash Flows Provided by Financing Activities		
Proceeds from contributions restricted to investment in property	<u>1,660</u>	<u>97,514</u>
Change in Cash and Cash Equivalents	658,504	75,049
Cash and Cash Equivalents - beginning of year	<u>742,398</u>	<u>667,349</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,400,902</u>	<u>\$ 742,398</u>

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of Change in Net Assets to Cash		
Flows from Operating Activities		
Change in net assets	\$ 1,486,259	\$ (1,886,839)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	546,760	516,154
Contributions restricted to investment in property	-	(97,514)
Realized and unrealized (gains) losses on investments	(948,105)	2,360,252
Donated investments	(3,004)	(3,368)
Donated property and equipment	(29,766)	(4,700)
(Increase) decrease in		
Promises to give	(12,894)	(27,995)
Other receivables	(1,292)	(69,646)
Prepays	(62,199)	1,652
Increase (decrease) in		
Accounts payable and accrued expenses	<u>16,485</u>	<u>(27,451)</u>
Net Cash Provided by Operating Activities	<u>\$ 992,244</u>	<u>\$ 760,545</u>

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Ronald McDonald House Charities of Western Washington & Alaska (RMHC) owns and operates the Seattle Ronald McDonald House, which is one of the largest in the world. With 80 rooms, the Seattle House provides supportive, temporary lodging to families of seriously ill children who must leave their own community to have their children treated at Children's Hospital. In 2009, 698 families stayed at the Seattle House. By providing a "home-away-from-home," RMHC helps keep families together during a very difficult time in their lives.

In 2007, van service was added in Anchorage to transport families who are in Anchorage while their children receive medical care. In 2008 RMHC operated a grants program benefiting children's health related nonprofits in Western Washington and Alaska and provided scholarships to students pursuing college degrees.

Basis of presentation

RMHC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets of RMHC are classified as follows:

Unrestricted net assets are available without restriction for support of RMHC's operations. The Board of Directors has designated otherwise unrestricted net assets as follows as of December 31:

	<u>2009</u>	<u>2008</u>
House operations	\$ 4,751,059	\$ 2,820,910
Building C expansion/renovation	2,000,000	2,000,000
Capital improvements	<u>1,180,478</u>	<u>1,678,445</u>
	<u>\$ 7,931,537</u>	<u>\$ 6,499,355</u>

Temporarily restricted net assets are restricted by the donors to be used for certain purposes or future periods. Temporarily restricted net assets are available as follows as of December 31:

	<u>2009</u>	<u>2008</u>
Promised land use	\$ 2,955,944	\$ 2,955,944
Accumulated endowment earnings	63,759	-
Capital improvements	1,520	31,566
RMHC operations	<u>7,702</u>	<u>1,362</u>
	<u>\$ 3,028,925</u>	<u>\$ 2,988,872</u>

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations.

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

The Internal Revenue Service has recognized RMHC as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation.

Cash and cash equivalents

Cash and cash equivalents consist of general checking and savings accounts and money market accounts. RMHC maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. RMHC has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk. Investments with maturity dates of less than three months are considered cash equivalents.

Investments

Investments are stated at fair value. Gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation. Interest and dividend revenues are reflected net of investment expenses. Advisory fees for the years ended December 31, 2009 and 2008 were \$38,299 and \$53,524, respectively. Investments at December 31, consisted of the following:

	<u>2009</u>	<u>2008</u>
Equity securities	\$ 4,376,194	\$ 3,206,915
Cash and cash equivalents	440,566	128,240
Debt securities	1,898,935	2,138,458
Certificates of deposit	<u>308,876</u>	<u>754,130</u>
	<u>\$ 7,024,571</u>	<u>\$ 6,227,743</u>

Certain investments are being held for the following long-term purposes as of December 31:

	<u>2009</u>	<u>2008</u>
Building C expansion/renovation	\$ 2,000,000	\$ 2,000,000
Capital improvements	1,180,478	1,678,445
Endowment	<u>540,009</u>	<u>485,626</u>
	<u>3,720,487</u>	<u>4,164,071</u>

Promises to give

In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received.

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Conditional promises to give are recognized when the conditions on which they depend are substantially met. As of December 31, 2009, RMHC had no conditional promises to give. Unconditional promises to give at December 31, 2009 and 2008 are \$106,179 and \$94,945, respectively, which are receivable in less than one year and are considered fully collectible by management.

Medicaid receivables

In accordance with financial accounting standards, room receipts from Medicaid are recognized as revenue in the period earned and recorded as receivables if not paid by year end. Amounts receivable from Medicaid at December 31, 2009 and 2008 are \$72,555 and \$70,505, respectively, and are included in Other Receivables.

Land, buildings, and equipment

Expenditures for the acquisition of equipment are capitalized at cost. The fair value of donated property, including long-term land leases, and equipment is capitalized on the date of donation. RMHC capitalizes all expenditures for property and equipment in excess of \$5,000 with an estimated useful life of 5 or more years. Depreciation is provided over the estimated useful lives of the assets on the straight-line method. RMHC uses the direct expensing method to account for planned maintenance activities. Property and equipment at December 31 were as follows:

	Estimated		
	Useful Lives	2009	2008
Land		\$ 2,955,944	\$ 2,955,944
Construction in progress		-	91,793
Building and improvements	15-40 years	13,127,872	13,119,193
Furniture and fixtures	5-7 years	1,653,970	1,055,070
Vehicles	5 years	<u>56,901</u>	<u>56,901</u>
		17,794,687	17,278,901
Accumulated depreciation		<u>(4,126,112)</u>	<u>(3,583,013)</u>
		<u>\$13,668,575</u>	<u>\$13,695,888</u>

Children's Health Care System (an affiliate of Children's) holds title to, and is the landlord for, all real estate (land) associated with grounds of the RMHC houses. The ground lease associated with the original house is for \$1 per year for a term of 99 years, from May 1983 through April 2082. The use of the land is restricted for the purposes of operating the House or a similar facility. The estimated fair value of the land in 1983, when its use was first donated, was \$829,544. The value of the land is included in temporarily restricted net assets.

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The ground lease associated with the second house is for \$1 per year for a term of 99 years, from September 2002 through August 2101. The lease requires the lessor's prior written permission for changes in the agreed upon use of the second house, assignment, subletting, and significant changes related to the initial construction. In addition, the lease prohibits use of the building as collateral except for a construction loan, and gives the lessor first right to purchase the buildings and equipment at the expiration of the lease term. The estimated fair value of the land in 2002, when its use was first donated, was \$2,126,400. The value of the land is included in temporarily restricted net assets.

Restricted and unrestricted support

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Donated goods and services

Non-cash donations are recorded as contributions at their estimated fair values at the date of donation. Donated assets, goods and services were used for program and supporting services and were as follows for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Donated goods	\$ 134,959	\$ 65,557
Donated services	<u>37,029</u>	<u>70,211</u>
Total in-kind contributions	171,988	135,768
Less amount capitalized	<u>(29,766)</u>	<u>(4,700)</u>
Total in-kind expense	<u>\$ 142,222</u>	<u>\$ 131,068</u>

In accordance with financial accounting standards, the financial statements reflect only those donated services requiring specific expertise which RMHC would otherwise need to purchase. However, many individual volunteers donate significant amounts of time and perform a variety of tasks that assist RMHC.

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the years ended December 31, 2009 and 2008, management estimates that RMHC received approximately 32,500 and 31,500 hours with estimated values of \$678,000 and \$638,000.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of unrestricted activities and of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. In the year ending December 31, 2009 RMHC contracted with an armored car security service to pickup McDonald's canister donations. This expense is new to RMHC and has significantly increased miscellaneous expenses related to fundraising.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Reclassifications

Certain accounts in the December 31, 2008 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended December 31, 2008.

NOTE B - RELATED PARTY TRANSACTIONS

Under the terms of its affiliation agreement with Ronald McDonald House Charities, Inc., RMHC is obligated to remit 25% of certain contributions, net of fundraising expenses, to that national group on a regular basis. For the years ended December 31, 2009 and 2008, RMHC incurred obligations of \$70,663 and \$70,368, respectively, to the national group, of which \$19,090 and \$16,811, respectively, was included in accounts payable at December 31, 2009 and 2008.

NOTE C - PENSION PLAN

On January 1, 2007, RMHC switched from a SIMPLE IRA to a 401(k) defined contribution plan (the Plan). The Plan covers all employees who have completed 12 months of service and have attained the age of 21 years. RMHC contributions to the Plan are at the discretion of the Board of Trustees. Currently, RMHC will make a 3% contribution for all eligible employees, based on salary, and match an additional 1% of employee contributions. RMHC's contributions for the years ended December 31, 2009 and 2008 totaled \$35,997 and \$36,119, respectively.

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE D - OPERATING AGREEMENT

In 2002, RMHC entered into an operating agreement with Children's Health Care System to provide rooms in the current operating houses, exclusively for families of patients at Children's. The initial term was for 5 years, from September 2002 through August 2007. The original five year agreement provided up to a maximum of \$80,300 per year if all 80 rooms were made available. Since the expiration of the written agreement, Seattle Children's Hospital has negotiated a verbal agreement with RMHC. For the year ended December 31, 2009, \$292,000 was paid and for the year ending December 31, 2010, \$306,000 will be paid.

NOTE E - ENDOWMENT

RMHC's endowment consists of one permanently restricted fund established in 1993 by Mrs. Kroc to help with ongoing "operating expenses." As required by generally accepted accounting principles net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There are no funds designated by the Board of Trustees to function as endowments.

The State of Washington adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective July 1, 2009. Prior law in the State of Washington was the Uniform Management of Institutional Funds Act (UMIFA).

Interpretation of Relevant Law

Under both UMIFA and UPMIFA, as in effect in the State of Washington and as interpreted by the Board, the original amount of donor-restricted contributions to the endowment plus any required accumulations are not expendable. Accordingly, RMHC classifies as permanently restricted net assets (a) the original value of donor-restricted contributions to the endowment, (b) the original value of subsequent donor-restricted contributions to the endowment, and (c) any accumulations to the endowment made in accordance with the terms of the contribution. Net assets without donor-restrictions are classified as unrestricted.

Under UPMIFA, 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 organization in a manner consistent with the standards of prudence prescribed by UPMIFA. Under previous law, the remaining portion of the donor-restricted endowment fund that was not classified in permanently restricted net assets was classified as either unrestricted or temporarily restricted net assets. In transitioning to UPMIFA, and in accordance with GAAP, the RMHC has reclassified \$9,376 of endowment fund net assets from unrestricted to temporarily restricted net assets in the 2009 financial statements.

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE E - ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

One hundred percent of the endowment's earnings are spent in the year earned on operating expenses. These earnings represent interest and dividends, exclusive of gains and losses. In establishing this policy, RMHC considered the long-term expected return on its endowment. Accordingly, over the long term, RMHC expects the current spending policy to allow its endowment to maintain purchasing power of the assets held in perpetuity as well as to provide additional real growth through new gifts and investment appreciation.

Return Objectives and Risk Parameters

The investment policy includes a target allocation table that allows for diversity and performance measurement against the appropriate index. The long-term objective of the Fund is to provide growth of capital and income and achieve a target rate of return of CPI + 4% annualized over a full market cycle, defined as 5 to 7 years with diversification employed to reduce risk.

The relative objectives of the policy are to generate a return in excess of the passive portfolio benchmark for each asset class, exceed the rate of inflation, assumed to be approximately 3% annually over a 5 to 10 year period, and exceed the 50th percentile return of a universe comprised of funds or managers with similar objectives and or styles.

Endowment net assets by fund type as of December 31, 2009 are as follows:

	<u>Unrestricted</u>	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Total</u>
Donor-restricted endowment	\$ -	\$ 63,759	\$ 476,250	\$ 540,009

Change in endowment net assets for the year ended December 31, 2009 are as follows:

	<u>Unrestricted</u>	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Total</u>
Endowment, beginning of year	\$ 9,376	\$ -	\$ 476,250	\$ 485,626
Investment return:				
Investment income	-	13,565		13,565
Net gains	-	54,383		54,383
Total investment return	-	67,948		67,948
Change in accounting principle	(9,376)	9,376		-
Appropriated for expenditure	-	(13,565)	-	(13,565)
Endowment, end of year	<u>\$ -</u>	<u>\$ 63,759</u>	<u>\$ 476,250</u>	<u>\$ 540,009</u>

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE E - ENDOWMENT (Continued)

Endowment net assets by fund type as of December 31, 2008 are as follows:

	<u>Unrestricted</u>	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Total</u>
Donor-restricted endowment	\$ 9,376	\$ -	\$ 476,250	\$ 485,626

Change in Endowment Net Asset for the year ended December 31, 2008 are as follows:

	<u>Unrestricted</u>	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Total</u>
Endowment, beginning of year	\$ 171,017	\$ -	\$ 476,250	647,267
Investment return:				
Investment income	16,438	-		16,438
Net losses	(161,641)	-		(161,641)
Total investment return	(145,203)	-		(145,203)
Appropriated for expenditure	(16,438)	-	-	(16,438)
Endowment, end of year	<u>\$ 9,376</u>	<u>\$ -</u>	<u>\$ 476,250</u>	<u>\$ 485,626</u>

NOTE F - FAIR VALUE MEASUREMENTS

In accordance with Financial Accounting Standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial Accounting Standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

NOTE F - FAIR VALUE MEASUREMENTS (Continued)

Assets carried at fair value on a recurring basis (at least annually) using level 1 inputs include equity and fixed income securities. Assets carried at fair value on a recurring basis using level 2 inputs include certificates of deposit. RMHC had no items carried at fair value on a recurring basis using level 3 inputs as of December 31, 2009.

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input. RMHC also uses fair value concepts to test various long-lived assets for impairment.

NOTE G - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2009 through June 30, 2010 which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2009, including the estimates inherent in the processing of financial statements. The following events arose after December 31, 2009 relating to conditions that did not exist as of December 31, 2009.

Ronald McDonald House Charities has invested in a new Drive-thru Donation Box Program. RMHC Global has agreed to pay upfront 100% of installation costs for one drive-thru donation box, placed in service at each participating McDonald's restaurant. Local Chapters are required to reimburse Global for 75% of total installation cost. Chapters have up to two years to repay, without interest, RMHC Global for these costs. RMHC will be responsible for the cost of the boxes installed at restaurants in both Washington and Alaska.

For the year ending December 31, 2009 there was an insignificant liability related to these costs. The installations for the remainder of these boxes in Washington restaurants were completed during 2010. RMHC estimates the cost for these boxes to be \$210,000. The boxes have not yet been installed in the Alaska restaurants, and RMHC is not able to reasonably estimate a cost for these installations as it has not yet been determined how many drive-thru boxes will be installed or what the construction cost will be per restaurant.

Subsequent to December 31, 2009, the Board of Directors approved the transfer of Board Designated Net Assets from House Operations to Capital Improvements to increase the Capital Improvements fund to \$2,000,000.