

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2010 AND 2009

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

June 29, 2011

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, 2010 and 2009 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, 2010 and 2009, 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

Jacobson Jarvis & Co, PLLC

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 704,103	\$ 1,400,902
Investments	4,501,175	3,304,084
Promises to give	149,396	106,179
Other receivables	77,568	77,630
Prepays	29,531	87,712
Total Current Assets	5,461,773	4,976,507
Investments - long-term	5,082,036	3,720,487
Property and Equipment, net	13,519,249	13,668,575
	\$ 24,063,058	\$ 22,365,569
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 199,459	\$ 116,652
Due to Global - drive-thru donation boxes, current	63,000	-
Total Current Liabilities	262,459	116,652
Due to Global - drive-thru donation boxes, due in 2012	127,130	-
Total Liabilities	389,589	116,652
Net Assets		
Unrestricted		
Invested in property and equipment	10,563,335	10,712,663
Board designated	9,466,329	7,931,537
Undesignated	105,661	99,542
Total Unrestricted Net Assets	20,135,325	18,743,742
Temporarily restricted	3,061,894	3,028,925
Permanently restricted	476,250	476,250
Total Net Assets	23,673,469	22,248,917
	\$ 24,063,058	\$ 22,365,569

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF UNRESTRICTED ACTIVITY

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Unrestricted Public Support and Revenue		
Unrestricted public support		
Annual giving	\$ 254,022	\$ 193,516
Planned giving	35,390	-
Special events, net of direct cost of benefits provided to participants of \$91,612 and \$98,616	513,456	525,056
McDonald's fundraisers	977,936	793,456
In-kind contributions	176,029	171,988
Total Unrestricted Public Support	<u>1,956,833</u>	<u>1,684,016</u>
Revenue		
Room receipts	600,357	621,358
Interest and dividends, net	175,171	106,189
Realized and unrealized gains on investments	600,951	893,722
Other revenue	314,595	302,806
Total Revenue	<u>1,691,074</u>	<u>1,924,075</u>
Total Unrestricted Public Support and Revenue	3,647,907	3,608,091
Net Assets Released from Restrictions		
Satisfaction of purpose restrictions	<u>821,194</u>	<u>761,650</u>
Total Unrestricted Public Support, Revenue, and Other Support	<u>4,469,101</u>	<u>4,369,741</u>
Expenses		
Program services	2,224,463	2,104,715
Management and general	213,539	237,598
Fundraising	537,841	501,183
Remittance to Global	101,675	70,663
Total Expenses	<u>3,077,518</u>	<u>2,914,159</u>
Change in Accounting Principle (Note E)	<u>-</u>	<u>(9,376)</u>
Change in Unrestricted Net Assets	<u>\$ 1,391,583</u>	<u>\$ 1,446,206</u>

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010				2009			
	<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	\$ 3,647,907			\$ 3,647,907	\$ 3,608,091			\$ 3,608,091
Restricted public support								
Annual giving		\$ 516,116	\$ -	516,116	\$ 529,029	\$ -		529,029
Special events		282,808		282,808	195,350			195,350
Interest and dividends, net		13,212		13,212	13,565			13,565
Realized and unrealized gains on investments		42,027		42,027	54,383			54,383
Net Assets Released from Restrictions	<u>821,194</u>	<u>(821,194)</u>		<u>-</u>	<u>761,650</u>	<u>(761,650)</u>		<u>-</u>
Total Public Support, Revenue and Other Support	4,469,101	32,969	-	4,502,070	4,369,741	30,677	-	4,400,418
Expenses	(3,077,518)			(3,077,518)	(2,914,159)			(2,914,159)
Change in Accounting Principle (Note E)	<u>-</u>	<u>-</u>		<u>-</u>	<u>(9,376)</u>	<u>9,376</u>		<u>-</u>
Change in Net Assets	1,391,583	32,969	-	1,424,552	1,446,206	40,053	-	1,486,259
Net Assets - beginning 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>
Net Assets - end of year	<u>\$ 20,135,325</u>	<u>\$ 3,061,894</u>	<u>\$ 476,250</u>	<u>\$ 23,673,469</u>	<u>\$ 18,743,742</u>	<u>\$ 3,028,925</u>	<u>\$ 476,250</u>	<u>\$ 22,248,917</u>

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010				2009			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 752,917	\$ 120,310	\$ 244,554	\$ 1,117,781	\$ 714,101	\$ 142,553	\$ 238,814	\$ 1,095,468
Payroll taxes	69,497	11,106	22,573	103,176	67,602	13,534	22,867	104,003
Employee benefits	112,919	18,044	36,677	167,640	94,710	18,961	32,038	145,709
Total Salaries and Related Expenses	935,333	149,460	303,804	1,388,597	876,413	175,048	293,719	1,345,180
Depreciation	582,020	9,000	9,000	600,020	530,357	8,603	7,800	546,760
Occupancy	564,423	2,168	185	566,776	512,175	3,423	-	515,598
In-kind expense	71,153	-	41,500	112,653	109,672	800	31,750	142,222
Administrative and operating	33,750	19,896	51,304	104,950	31,743	21,757	54,636	108,136
Special events expenses	-	-	92,991	92,991	-	-	88,339	88,339
Insurance	33,044	12,747	-	45,791	37,461	6,837	-	44,298
Armored car expenses	-	-	38,311	38,311	-	-	24,721	24,721
Professional services	700	18,940	-	19,640	3,495	19,821	-	23,316
Miscellaneous	4,040	1,328	746	6,114	3,399	1,309	218	4,926
Total Expenses	<u>\$ 2,224,463</u>	<u>\$ 213,539</u>	<u>\$ 537,841</u>	2,975,843	<u>\$ 2,104,715</u>	<u>\$ 237,598</u>	<u>\$ 501,183</u>	2,843,496
Remittance to Global				101,675				70,663
Total Expenses and Remittance to Global				<u>\$ 3,077,518</u>				<u>\$ 2,914,159</u>

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Cash received from:		
Donors	\$ 2,432,925	\$ 2,220,509
Room receipts	600,357	621,358
Investment and other income	503,040	421,268
Cash paid for:		
Personnel	(1,388,311)	(1,336,540)
Services and supplies	<u>(890,701)</u>	<u>(934,351)</u>
Net Cash Provided by Operating Activities	<u>1,257,310</u>	<u>992,244</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(142,033)	(489,681)
Purchases of investments	(10,679,513)	(1,541,581)
Proceeds from sale of investments	<u>8,792,967</u>	<u>1,695,862</u>
Net Cash Used by Investing Activities	<u>(2,028,579)</u>	<u>(335,400)</u>
Cash Flows Provided by Financing Activities		
Proceeds from contributions restricted to investment in property	<u>74,470</u>	<u>1,660</u>
Change in Cash and Cash Equivalents	(696,799)	658,504
Cash and Cash Equivalents - beginning of year	<u>1,400,902</u>	<u>742,398</u>
Cash and Cash Equivalents - end of year	<u>\$ 704,103</u>	<u>\$ 1,400,902</u>

RONALD McDONALD HOUSE CHARITIES
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STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of Change in Net Assets to Cash		
Flows from Operating Activities		
Change in net assets	\$ 1,424,552	\$ 1,486,259
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	600,020	546,760
Contributions restricted to investment in property	(74,470)	-
Realized and unrealized gains on investments	(642,978)	(948,105)
Donated investments	(29,116)	(3,004)
Donated property and equipment	(63,376)	(29,766)
(Increase) decrease in		
Promises to give	(43,217)	(12,894)
Other receivables	62	(1,292)
Prepays	58,181	(62,199)
Increase in		
Accounts payable and accrued expenses	<u>27,652</u>	<u>16,485</u>
Net Cash Provided by Operating Activities	<u>\$ 1,257,310</u>	<u>\$ 992,244</u>

RONALD MCDONALD HOUSE CHARITIES OF
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

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 2010, 692 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.

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>2010</u>	<u>2009</u>
House operations	\$ 4,966,329	\$ 4,751,059
Building C expansion/renovation	2,500,000	2,000,000
Capital improvements	<u>2,000,000</u>	<u>1,180,478</u>
	<u>\$ 9,466,329</u>	<u>\$ 7,931,537</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>2010</u>	<u>2009</u>
Promised land use	\$ 2,955,944	\$ 2,955,944
Accumulated endowment earnings	105,786	63,759
Capital improvements	164	1,520
RMHC operations	<u>-</u>	<u>7,702</u>
	<u>\$ 3,061,894</u>	<u>\$ 3,028,925</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.

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.

RONALD MCDONALD HOUSE CHARITIES OF
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2010 and 2009 were \$44,437 and \$38,299, respectively. Investments at December 31, consisted of the following:

	<u>2010</u>	<u>2009</u>
Cash and money funds	\$ 161,433	\$ 440,566
Mutual funds and equity securities	8,896,884	4,376,194
Certificates of deposit	-	308,876
Fixed income securities	<u>524,894</u>	<u>1,898,935</u>
	<u>\$ 9,583,211</u>	<u>\$ 7,024,571</u>

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

	<u>2010</u>	<u>2009</u>
Building C expansion/renovation	\$ 2,500,000	\$ 2,000,000
Capital improvements	2,000,000	1,180,478
Endowment	<u>582,036</u>	<u>540,009</u>
	<u>\$ 5,082,036</u>	<u>\$ 3,720,487</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.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. As of December 31, 2010, RMHC had no conditional promises to give. Unconditional promises to give at December 31, 2010 and 2009 are \$149,396 and \$106,179, respectively, which are receivable in less than one year and are considered fully collectible by management.

RONALD MCDONALD HOUSE CHARITIES OF
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2010 and 2009 are \$71,470 and \$72,555, 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. RMHC capitalizes projects in the aggregate not as an individual item. Property and equipment at December 31 were as follows:

	Estimated <u>Useful Lives</u>	<u>2010</u>	<u>2009</u>
Land		\$ 2,955,944	\$ 2,955,944
Building and improvements	15-40 years	13,235,246	13,127,872
Furniture and fixtures	5-7 years	1,922,640	1,653,970
Vehicles	5 years	<u>56,901</u>	<u>56,901</u>
		18,170,731	17,794,687
Accumulated depreciation		<u>(4,651,482)</u>	<u>(4,126,112)</u>
		<u>\$13,519,249</u>	<u>\$13,668,575</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.

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.

RONALD MCDONALD HOUSE CHARITIES OF
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>2010</u>	<u>2009</u>
Donated goods	\$ 130,957	\$ 134,959
Donated services	<u>45,072</u>	<u>37,029</u>
Total in-kind contributions	176,029	171,988
Less amount capitalized	<u>(63,376)</u>	<u>(29,766)</u>
Total in-kind expense	<u>\$ 112,653</u>	<u>\$ 142,222</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. For the years ended December 31, 2010 and 2009, management estimates that RMHC received approximately 36,500 and 32,500 hours with estimated values of \$779,640 and \$678,000, respectively.

RONALD MCDONALD HOUSE CHARITIES OF
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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, 2010 and 2009, RMHC incurred obligations of \$101,675 and \$70,663, respectively, to the national group, of which \$28,037 and \$19,090, respectively, was included in accounts payable at December 31, 2010 and 2009.

Ronald McDonald House Charities 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 the total installation cost. Chapters have up to two years to repay, without interest, RMHC Global for these costs. RMHC is responsible for the cost of the boxes installed at restaurants in both Washington and Alaska.

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, 2010 and 2009 totaled \$38,736 and \$35,997, respectively.

RONALD MCDONALD HOUSE CHARITIES OF
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

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, 2010, \$306,000 was paid and for the year ending December 31, 2011, \$321,300 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 (GAAP) 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 the 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.

RONALD MCDONALD HOUSE CHARITIES OF
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE E - ENDOWMENT (Continued)

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.

Spending Policy and How the Investment Objectives Relate to the 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.

Change in endowment net assets for the year ended December 31, 2010 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment, beginning of year	\$ -	\$ 63,759	\$ 476,250	\$ 540,009
Investment return:				
Investment income	-	13,212		13,212
Net gains	-	42,027		42,027
Total investment return	-	55,239		55,239
Appropriated for expenditure	-	(13,212)	-	(13,212)
Donor-restricted endowment, end of year	<u>\$ -</u>	<u>\$ 105,786</u>	<u>\$ 476,250</u>	<u>\$ 582,036</u>

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE E - ENDOWMENT (Continued)

Change in Endowment Net Asset for the year ended December 31, 2009 are as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment, beginning of year	\$ 9,376	\$ -	\$ 476,250	485,626
Investment return:				
Investment income	-	13,565		13,565
Net losses	-	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)
Donor-restricted endowment, end of year	<u>\$ -</u>	<u>\$ 63,759</u>	<u>\$ 476,250</u>	<u>\$ 540,009</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 define 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.

Assets carried at fair value on a recurring basis (at least annually) using level 1 inputs include mutual funds, equity and fixed income securities and certificates of deposit. RMHC had no items carried at fair value on a recurring basis using levels 2 and 3 inputs as of December 31, 2010.

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE F - FAIR VALUE MEASUREMENTS (Continued)

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, 2010 through June 29, 2011 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, 2010, including the estimates inherent in the processing of financial statements.