

**RONALD MCDONALD HOUSE CHARITIES OF  
NASHVILLE, TENNESSEE, INC.**

**FINANCIAL STATEMENTS**

December 31, 2009

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.  
Nashville, Tennessee

FINANCIAL STATEMENTS  
December 31, 2009

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## REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
Ronald McDonald House Charities of Nashville, Tennessee, Inc.  
Nashville, Tennessee

We have audited the accompanying statement of financial position of Ronald McDonald House Charities of Nashville, Tennessee, Inc., as of December 31, 2009 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the House's management. 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 that 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 Ronald McDonald House Charities of Nashville, Tennessee, Inc. as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Crowe Horwath LLP*

Crowe Horwath LLP

Brentwood, Tennessee  
September 21, 2010

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.  
STATEMENT OF FINANCIAL POSITION  
December 31, 2009

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**ASSETS**

Current assets

Cash and cash equivalents (Note 6)

|   |                |
|---|----------------|
| Unrestricted                                    | \$ 603,835     |
| Restricted for capital improvements             | 398,346        |
| Donor restricted support and other restrictions | <u>316,206</u> |
|   | 1,318,387      |

Receivables

|  |                |
|--|----------------|
| Donation receivable - temporarily restricted | <u>128,439</u> |
|  | 128,439        |

Short-term marketable securities (Notes 2 and 6)

|                                     |                  |
|-------------------------------------|------------------|
| Unrestricted                        | 1,055,186        |
| Restricted for capital improvements | <u>1,033,259</u> |
|                                     | <u>2,088,445</u> |

Total current assets 3,535,271

Long term marketable securities

|                                   |         |
|-----------------------------------|---------|
| Restricted for endowment (Note 2) | 500,000 |
|-----------------------------------|---------|

Land, building and equipment, net (Note 3) 7,091,213

**Total assets** \$ 11,126,484

**LIABILITIES AND NET ASSETS**

Current liabilities

|                           |               |
|---------------------------|---------------|
| Accounts payable          | \$ 108,110    |
| Accrued expenses          | <u>57,141</u> |
| Total current liabilities | 165,251       |

Long-term debt

|                   |                  |
|-------------------|------------------|
| Total liabilities | <u>2,250,000</u> |
|                   | 2,415,251        |

Net Assets

|                                 |                  |
|---------------------------------|------------------|
| Unrestricted                    | 6,334,983        |
| Temporarily restricted (Note 6) | 1,876,250        |
| Permanently restricted          | <u>500,000</u>   |
|                                 | <u>8,711,233</u> |

**Total liabilities and net assets** \$ 11,126,484

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See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.  
STATEMENT OF ACTIVITIES  
Year ended December 31, 2009

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| <b>Public support and revenues</b>  |                     |                                   |                                   |                     |
| Public support  |                     |                                   |                                   |                     |
| Donations and fundraising events of McDonald's Cooperatives and Operators | \$ -                | \$ 166,825                        | \$ -                              | \$ 166,825          |
| Contributions, including in-kind contributions of \$188,475               | 782,949             | 124,814                           | -                                 | 907,763             |
| Fundraising events  | 324,628             | -                                 | -                                 | 324,628             |
| Program revenues  | <u>21,270</u>       | <u>-</u>                          | <u>-</u>                          | <u>21,270</u>       |
| Total public support  | 1,128,847           | 291,639                           | -                                 | 1,420,486           |
| Investment revenues   |                     |                                   |                                   |                     |
| Interest and dividend income  | 74,581              | -                                 | -                                 | 74,581              |
| Realized and unrealized gains (losses) on marketable securities, net      | <u>329,977</u>      | <u>-</u>                          | <u>-</u>                          | <u>329,977</u>      |
| Total investment revenue  | <u>404,558</u>      | <u>-</u>                          | <u>-</u>                          | <u>404,558</u>      |
| Total public support and revenues   | 1,533,405           | 291,639                           | -                                 | 1,825,044           |
| <b>Expenses</b>   |                     |                                   |                                   |                     |
| Program Services  | 955,977             | -                                 | -                                 | 955,977             |
| Support services  |                     |                                   |                                   |                     |
| Management and General  | 325,993             | -                                 | -                                 | 325,993             |
| Fund Raising  | <u>89,395</u>       | <u>-</u>                          | <u>-</u>                          | <u>89,395</u>       |
| Total support services  | <u>415,388</u>      | <u>-</u>                          | <u>-</u>                          | <u>415,388</u>      |
| Total expenses  | 1,371,365           | -                                 | -                                 | 1,371,365           |
| <b>Change in net assets</b>   | 162,040             | 291,639                           | -                                 | 453,679             |
| <b>Net assets, January 1, 2009</b>  | <u>6,172,943</u>    | <u>1,584,611</u>                  | <u>500,000</u>                    | <u>8,257,554</u>    |
| <b>Net assets, December 31, 2009</b>                                      | <u>\$ 6,334,983</u> | <u>\$ 1,876,250</u>               | <u>\$ 500,000</u>                 | <u>\$ 8,711,233</u> |

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended December 31, 2009

|                                     |                     | Support Services          |                  |                   |                     |
|-------------------------------------|---------------------|---------------------------|------------------|-------------------|---------------------|
|                                     | Program<br>Services | Management<br>and General | Fund<br>Raising  | Total             | Total<br>Expenses   |
| Salaries and benefits               | \$ 416,393          | \$ 160,396                | \$ -             | \$ 160,396        | \$ 576,789          |
| Utilities and telephone             | 94,882              | -                         | -                | -                 | 94,882              |
| Professional fees                   | 6,492               | 18,106                    | -                | 18,106            | 24,598              |
| Maintenance                         | 61,047              | -                         | -                | -                 | 61,047              |
| House supplies                      | 16,126              | -                         | -                | -                 | 16,126              |
| Insurance                           | 18,833              | 2,056                     | -                | 2,056             | 20,889              |
| Depreciation                        | 91,735              | -                         | -                | -                 | 91,735              |
| Bank charges                        | -                   | 8,939                     | -                | 8,939             | 8,939               |
| Interest expense and<br>fees        | -                   | 112,765                   | -                | 112,765           | 112,765             |
| Postage and printing                | 1,227               | 4,928                     | 7,769            | 12,697            | 13,924              |
| Supplies                            | -                   | 4,099                     | 22               | 4,121             | 4,121               |
| Office equipment                    | 3,886               | 423                       | -                | 423               | 4,309               |
| Education                           | 3,271               | 1,621                     | -                | 1,621             | 4,892               |
| Recognition                         | 5,746               | -                         | 782              | 782               | 6,528               |
| Solicitation permits                | -                   | 395                       | -                | 395               | 395                 |
| Special events                      | -                   | -                         | 80,822           | 80,822            | 80,822              |
| In-kind expenses                    | 178,475             | 10,000                    | -                | 10,000            | 188,475             |
| Meetings and newsletter<br>expenses | 53,013              | 2,265                     | -                | 2,265             | 55,278              |
| Miscellaneous                       | <u>4,851</u>        | <u>-</u>                  | <u>-</u>         | <u>-</u>          | <u>4,851</u>        |
| Total functional expenses           | <u>\$ 955,977</u>   | <u>\$ 325,993</u>         | <u>\$ 89,395</u> | <u>\$ 415,388</u> | <u>\$ 1,371,365</u> |

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.  
STATEMENT OF CASH FLOWS  
Year ended December 31, 2009

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**Cash flows from operating activities**

|   |               |
|---|---------------|
| Change in net assets  | \$ 453,679    |
| Adjustments to reconcile change in net assets to net cash from operating activities |               |
| Depreciation  | 91,735        |
| Net realized and unrealized gains on marketable securities                          | (329,977)     |
| Changes in assets and liabilities   |               |
| Donation receivable   | 38,098        |
| Accounts payable  | 8,686         |
| Accrued expenses  | <u>25,460</u> |
| Net cash from operating activities  | 287,681       |

**Cash flows from investing activities**

|   |                 |
|---|-----------------|
| Purchases of land, building and equipment | (4,522)         |
| Purchase of investments                   | <u>(71,492)</u> |
| Net cash from investing activities        | (76,014)        |

**Cash flows from financing activities**

|                                    |          |
|------------------------------------|----------|
| Net cash from financing activities | <u>-</u> |
|------------------------------------|----------|

Net change in cash and cash equivalents 211,667

Cash and cash equivalents, January 1, 2009 1,106,720

Cash and cash equivalents, December 31, 2009 \$ 1,318,387

**Supplemental disclosures of cash flow information**

|               |                         |
|---------------|-------------------------|
| Interest paid | <u><u>\$ 91,641</u></u> |
|---------------|-------------------------|

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See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization: Ronald McDonald House Charities of Nashville, Tennessee, Inc., (the "House") is a not-for-profit organization that provides a "home away from home" for families of seriously ill children who are undergoing inpatient or outpatient medical treatment at area hospitals in Nashville, Tennessee.

Basis of Accounting and Financial Statement Presentation: The financial statements have been prepared using the accrual basis of accounting.

Adoption of New Accounting Standards: The House adopted FASB ASC 105 (formerly Statement of Financial Accounting Standards ("SFAS") No. 168), *Generally Accepted Accounting Principles - FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("Codification" or "ASC") is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP"). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. References to GAAP in these notes to the financial statements are provided under the Codification structure where applicable.

Effective June 30, 2009, the House adopted the requirements of FASB ASC 855 (previously SFAS No. 165, *Subsequent Events*) for subsequent events, which established standards for the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are available to be issued (subsequent events). This standard is largely the same guidance on subsequent events which previously existed only in auditing literature. The requirements include disclosure of the date through which subsequent events have been evaluated.

The House adopted FASB ASC 958-205 *Not-for-Profit Entities: Presentation of Financial Statements* (formerly SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*). Under SFAS No. 117, the House is required to report 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) based upon the existence or absence of donor-imposed restrictions.

Valuation of Investments: Investments consist of McDonald's Corporation Stock and McDonald's Charities Investment Program (McCIP) fixed income and diversified equity accounts and are carried at their quoted fair values on the last business day of the reporting period. The changes in unrealized gains and losses are recognized in the statement of activities for the year.

Investments are carried at their estimated fair value. A fair value hierarchy is established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.



RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumption about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The following description of the valuation methods and assumptions used by the Organization to estimate the fair values of investments:

*Mutual funds*: The fair values of mutual funds investments in equity securities, fixed income securities and international holding securities that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs).

*Corporate stock*: The fair value of corporate stock is determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs).

The following table presents investments measured at fair value:

| <u>Fair Value Measurements at December 31,</u> |            |               |               |              |
|--|------------|---------------|---------------|--------------|
| <u>2009 Using</u>                              |            |               |               |              |
|  | December   | Quoted Prices | Other         | Significant  |
|  | 31, 2009   | in Active     | Observable    | Unobservable |
|  |            | Markets       | Inputs (Level | Inputs       |
|  |            | (Level 1)     | 2)            | (Level 3)    |
| Corporate stock                                | \$ 156,100 | \$ 156,100    | \$ -          | \$ -         |
| Mutual funds                                   | 2,432,345  | 2,432,345     | -             | -            |

Investment income, dividend, interest, and gains or losses, is reported in the period earned as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Donor-restricted investment income is reported as an increase in temporarily restricted net assets.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Land, Building and Equipment: Land, building and equipment are stated at cost, or if donated, at the approximate fair value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

|                           |          |
|---------------------------|----------|
| Building and improvements | 40 years |
| Furniture and equipment   | 5 years  |
| Vehicles                  | 5 years  |

Depreciation expense for the year ending December 31, 2009 was \$91,735. The Company capitalizes all assets purchased in excess of \$1,000 unless it relates to normal repairs, maintenance and replacement.

Contributions: The House adopted FASB ASC 958-605 *Not-for-Profit Entities: Revenue Recognition* (formerly SFAS No. 116, *Accounting for Contributions Received and Contributions Made*), whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor imposed restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction.

The House receives capital support from the Middle Tennessee and Southern Kentucky McDonald's Cooperatives, which consist of many operators of McDonald's restaurants in the region. The Cooperatives host various fund-raising campaigns, which benefit the House. These events are typically conducted at the discretion of, and controlled by, the Cooperatives. Proceeds from these events are restricted to capital expenditures. Accordingly, the House receives the net proceeds at the conclusion of such campaigns or events and records these contributions when received.

The House also receives support from donors to sponsor a Family Room at Vanderbilt Children's Hospital. The Family Room is managed by the House and its volunteers. Sponsorship proceeds are restricted for consumable products available in the Family Room. All other contributions are considered to be received for unrestricted use unless specifically restricted by the donor.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In-Kind Contributions and Expenses: Donated materials and equipment are reflected as contributions based upon their estimated fair value at the date of receipt. Additionally, contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No other amounts have been reflected for donated services because no objective basis is available to measure the value of such service. Nevertheless, a large number of volunteers have given significant amounts of their time to the House's programs, fund-raising campaigns and management. Contributions of approximately \$188,475 were derived from donated goods and services for the year ended December 31, 2009. The House also incurs expenses related to the use of such goods and services, which are reflected in operating expenses.

Functional Allocation of Expenses: The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes: The House is a not-for-profit corporation pursuant to Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income pursuant to Section 501(a). Accordingly, no provision for income taxes is required for the House in the financial statements.

The House adopted guidance issued by the FASB with respect to accounting for uncertainty in income taxes as of January 1, 2009. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no effect on the House's financial statements.

The House is no longer subject to examination by taxing authorities for years before 2006. The House does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The House recognizes interest and/or penalties related to income tax matters in income tax expense. The House did not have any amounts accrued for interest and penalties at December 31, 2009.

Cash Equivalents: The House considers all highly liquid deposit instruments with original maturities of three months or less to be cash equivalents.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of 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 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.

Concentrations of Credit Risk: Financial instruments that potentially subject the House to concentrations of credit risk consists principally of cash and cash equivalents and marketable securities. The House's cash deposits are primarily in financial institutions in Tennessee and may, at times, exceed federally insured amounts. The House's cash equivalents consist primarily of deposit accounts with FDIC insured financial institutions and investment in money market funds managed by Charles Schwab Institutional. Marketable securities consist primarily of investments in bonds and diversified equity accounts also managed by Charles Schwab Institutional. Management does not believe significant credit risk exists at December 31, 2009.

**NOTE 2 - MARKETABLE SECURITIES**

Marketable securities at December 31, 2009, are summarized as follows:

|                            | <u>Fair<br/>Value</u> |
|----------------------------|-----------------------|
| McDonald's Corporate Stock | \$ 156,100            |
| Bond mutual funds          | 1,637,409             |
| Equity mutual funds        | <u>794,936</u>        |
|                            | <u>\$ 2,588,445</u>   |

Interest and dividend income earned on marketable securities and cash and cash equivalents for the year ended December 31, 2009 totaled \$74,581. Net unrealized gains on marketable securities for the year ended December 31, 2009 totaled \$329,977. Included in marketable securities are permanently restricted assets totaling \$500,000.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

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**NOTE 3 - LAND, BUILDING AND EQUIPMENT**

Land, building and equipment at December 31, 2009, consist of the following:

|                                |                     |
|--------------------------------|---------------------|
| Land                           | \$ 4,848,285        |
| Building and improvements      | 3,458,784           |
| Furniture and equipment        | 273,667             |
| Vehicles                       | <u>18,931</u>       |
|                                | 8,599,667           |
| Less: accumulated depreciation | <u>(1,508,454)</u>  |
|                                | <u>\$ 7,091,213</u> |

**NOTE 4 - RETIREMENT PLAN**

The House maintains a 403(b) retirement plan covering all active employees. The plan provides for discretionary employer contributions. Contributions to the plan for the year ending December 31, 2009 were \$16,817.

**NOTE 5 - LONG-TERM DEBT**

In 2008, the House financed the acquisition of 1.25 acres of vacant land through liquidation of investments totaling approximately \$2,000,000 and entered into a long-term debt agreement with a financial institution in the amount of \$2,250,000. The long-term debt is payable in full at maturity, on or before June 24, 2011. The House is required to make monthly interest payments at a fixed interest rate of 4.39%. The debt is unsecured, however, the House agreed in the debt agreement that the property will not be subject to any future lien, encumbrance, charge or security interest during the life of the debt agreement.

**NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

|                           |                     |
|---------------------------|---------------------|
| Capital building campaign | \$ 1,560,044        |
| Donor restricted support  | 265,139             |
| Family Room support       | <u>51,067</u>       |
|                           | <u>\$ 1,876,250</u> |

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

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**NOTE 7 - RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION**

The House follows FASB ASC 958, Not-for-Profit Entities, which provides guidance on the net asset classification of donor restricted endowment funds for organizations subject to an enacted version of UPMIFA.

The House's endowment consists of individual funds established by Charles Schwab Institutional for a variety of purposes. The endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment designated net asset composition by type of fund as of December 31, 2009:

|                                     | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>      |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Donor restricted<br>endowment funds | \$ -                | \$ -                              | \$ 500,000                        | \$ 500,000        |
| Total funds                         | <u>\$ -</u>         | <u>\$ -</u>                       | <u>\$ 500,000</u>                 | <u>\$ 500,000</u> |

Changes in endowment net assets for year ended December 31, 2009:

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>      |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment net assets,<br>beginning of year | \$ -                | \$ -                              | \$ 500,000                        | \$ 500,000        |
| Investment income, net                     | -                   | -                                 | -                                 | -                 |
| Endowment transfers,<br>net                | -                   | -                                 | -                                 | -                 |
| Endowment net assets,<br>end of year       | <u>\$ -</u>         | <u>\$ -</u>                       | <u>\$ 500,000</u>                 | <u>\$ 500,000</u> |

Interpretation of UPMIFA: The Board of Trustees of the House have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the 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.

**NOTE 7 - RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION**  
**(Continued)**

As a result of this interpretation, the House classifies as permanently restricted net assets (a) the original value of permanently restricted gifts donated to the Endowment, (b) the original value of subsequently permanently restricted gifts donated to the Endowment, and (c) accumulation to the 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 House in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the House 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 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 House
- (7) The investment policies of the House

The House has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to 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 organization must hold in perpetuity. Under this policy, as approved by the Finance Committee of the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the inflation index. The House expects its endowment funds, over time, to provide an average rate of return of approximately 6 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the House 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 House targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The House has a policy of periodically appropriating all appreciation and earnings of the endowment fund through the calendar year-end to provide funds for the general operations of the House. The House expects the current spending policy to allow its endowment to remain constant and provide a secondary source of funds for the operating expenses of the House. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity.

**NOTE 7 - RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION**  
**(Continued)**

Funds with 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 House to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported as an offset to unrestricted net assets. There were no deficiencies in these funds as of December 31, 2009.

**NOTE 8 - SUBSEQUENT EVENTS**

Management has performed an analysis of the activities and transactions subsequent to December 31, 2009 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2009. Management has performed their analysis through September 21, 2010, the date to which the financial statements were available to be issued..