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RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

FINANCIAL STATEMENTS

December 31, 2010

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

FINANCIAL STATEMENTS

December 31, 2010

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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, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. The financial statements are the responsibility of the House's management. Our responsibility is to express and 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, 2010, 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.

Fox, Kolb & Associates, PLLC

Fox, Kolb & Associates, PLLC

Brentwood, Tennessee
August 18, 2011

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2010

ASSETS		
Current assets		
Cash and cash equivalents (Note 6)		
Unrestricted	$	456,667
Restricted for capital improvements		351,810
Donor restricted support and other restrictions		325,311
		1,133,788
Receivables		
Donations receivable - $100,000 temporarily restricted (Note 6)		175,530
Short-term marketable securities (Notes 2 and 6)		
Unrestricted		1,388,674
Restricted for capital improvements		1,311,165
		2,699,839
Total current assets		4,009,157
Long-term marketable securities		
Restricted for endowment (Note 2)		500,000
Land, building and equipment, net (Note 3)		7,138,440
	$	11,647,597
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$	113,628
Current portion of long-term debt (Note 5)		47,990
Accrued expenses		55,254
Total current liabilities		216,872
Long-term debt (Note 5)		2,345,981
Total liabilities		2,562,853
Net assets		
Unrestricted		6,516,349
Temporarily restricted (Note 6)		2,068,395
Permanently restricted (Note 7)		500,000
Total net assets		9,084,744
	$	11,647,597

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenues				
Public support				
Donations and fundraising events of McDonald's Cooperatives and Operators	$ -	$ 184,478	$ -	$ 184,478
Contributions, including in-kind contributions of $134,746	822,978	113,762	-	936,740
Fundraising events	325,154	-	-	325,154
Program revenues	14,620	-	-	14,620
Total public support	1,162,752	298,240	-	1,460,992
Investment revenues				
Interest and dividend income	47,422	-	-	47,422
Realized and unrealized gains on marketable securities, net	346,173	-	-	346,173
Total investment revenue	393,595	-	-	393,595
Total public support and revenues	1,556,347	298,240	-	1,854,587
Net assets released from restrictions (Note 6)	106,095	(106,095)	-	-
Expenses				
Program services	1,080,528	-	-	1,080,528
Support services				
Management and general	310,766	-	-	310,766
Fund raising	89,782	-	-	89,782
Total support services	400,548	-	-	400,548
Total expenses	1,481,076	-	-	1,481,076
Change in net assets	181,366	192,145	-	373,511
Net assets, January 1, 2010	6,334,983	1,876,250	500,000	8,711,233
Net assets, December 31, 2010	$ 6,516,349	$ 2,068,395	$ 500,000	$ 9,084,744

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2010

	Program Services	Support Services: Management and General	Support Services: Fund Raising	Support Services: Total	Total Expenses
Salaries and benefits	$ 465,113	$ 146,705	$ -	$ 146,705	$ 611,818
Utilities and telephone	94,245	-	-	-	94,245
Professional fees	2,678	25,323	-	25,323	28,001
Maintenance	70,183	-	-	-	70,183
House supplies	2,577	-	-	-	2,577
Insurance	20,083	2,056	-	2,056	22,139
Depreciation	98,574	-	-	-	98,574
Bank charges	-	9,053	-	9,053	9,053
Interest expense and fees	-	115,015	-	115,015	115,015
Postage and printing	41,837	8,206	8,916	17,122	58,959
Supplies	9,899	2,037	93	2,130	12,029
Office equipment	808	159	-	159	967
Education	107	10	-	10	117
Recognition	7,317	-	904	904	8,221
Solicitation permits	-	40	-	40	40
Special events	-	-	79,869	79,869	79,869
In-kind expenses	134,746	-	-	-	134,746
Meetings and newsletter expenses	48,204	2,162	-	2,162	50,366
Miscellaneous	84,157	-	-	-	84,157
Total functional expenses	$ 1,080,528	$ 310,766	$ 89,782	$ 400,548	$ 1,481,076

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF CASH FLOWS
December 31, 2010

Cash flows from operating activities		
Change in net assets	$	373,511
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation		98,574
Net realized and unrealized gains on marketable securities		(346,173)
Changes in operating assets and liabilities:		
Donations receivable		(47,091)
Accounts payable		5,518
Accrued expenses		(1,887)
Net cash from operating activities		82,452
Cash flows from investing activities		
Purchases of land, building and equipment		(1,830)
Proceeds from sale of investments		1,054,668
Purchase of investments		(1,319,889)
Net cash from investing activities		(267,051)
Net change in cash and cash equivalents		(184,599)
Cash and cash equivalents, January 1, 2010		1,318,387
Cash and cash equivalents, December 31, 2010	$	1,133,788

Supplemental disclosure of cash flow information

Cash paid during the year for:		
Interest	$	115,015

Supplemental disclosure of non-cash information

During the year ended December 31, 2010, the House agreed to a long term payable for $143,971 in connection with the acquisition of certain equipment.

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.

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.

> 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 assumptions 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 are descriptions of the valuation methods and assumptions used by the House 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).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

	December 31, 2010	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate stock	$ 191,900	$ 191,900	$ -	$ -
Mutual funds	3,007,939	3,007,939	-	-

Investment income, dividend, interest, and gains or losses, are 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.

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 less accumulated depreciation. Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation, and any resulting gain or loss is recognized.

The assets' estimated lives used in computing depreciation are as follows:

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

Depreciation expense for the year ending December 31, 2010 was $98,574. The House capitalizes all assets purchased in excess $1,000 unless it relates to normal repairs, maintenance and replacement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions: The House accounts for contributions under accounting principles generally accepted in the United States of America policy, *"Not-for-Profit Entities: Revenue Recognition"*, 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.

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 $134,746 were derived from donated goods and services for the ended December 31, 2010. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Income taxes are reported in accordance with accounting principles generally accepted in the United States of America policy, *"Accounting for Uncertainty in Income Taxes"*. This policy clarifies the accounting and disclosure requirements for uncertainty in tax positions. The Company has analyzed its filing positions in all significant tax jurisdictions where it is required to file income tax returns for the open tax years in such jurisdictions. The Company has identified as major tax jurisdictions, as defined, its federal income tax returns. The Company's federal tax returns remain subject to retroactive examination for various periods. The Company currently believes that all significant filing positions are highly certain and that, more likely than not, all of its significant income tax filing positions and deductions would be sustained. Therefore, the Company has no significant reserves for uncertain tax positions. If interest and penalties are assessed, interest costs will be recognized in interest expense and penalties will be recognized in general and administrative expenses.

Cash and Cash Equivalents: The House considers all highly liquid deposit instruments that are readily convertible to known amounts of cash to be cash equivalents. For the purpose of the statement of cash flows, cash includes cash and cash equivalents with original maturities of 90 days or less.

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. These estimates and assumptions may change in the near future resulting in different actual results.

Concentration of Credit Risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities and donations receivable. The House's cash is deposited 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. As of December 31, 2010, the House had approximately $94,000 in excess of the federally insured limit. Marketable securities consist primarily of investments in bonds and diversified equity accounts also managed by Charles Schwab Institutional. Donations receivable are limited to a few donors. The Company has not experienced any losses in such accounts. Management does not believe significant credit risk exists at December 31, 2010.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Subsequent events have been updated through August 18, 2011, the date the financial statements were available to be issued. See Note 5.

NOTE 2 – MARKETABLE SECURITIES

Marketable securities at fair value consist of the following at December 31, 2010:

McDonald's Corporate Stock	$ 191,900
Bond mutual funds	651,022
Equity mutual funds	2,356,917
	$ 3,199,839

Interest and dividend income earned on marketable securities and cash and cash equivalents for the year ended December 31, 2010 totaled $47,422. Net unrealized gains on marketable securities for the year ended December 31, 2010 totaled $282,772. Included in marketable securities are permanently restricted assets totaling $500,000.

NOTE 3 – LAND, BUILDING AND EQUIPMENT

Land, building and equipment consist of the following at December 31, 2010:

Land	$ 4,848,285
Building and improvements	3,458,784
Furniture and equipment	419,468
Vehicles	18,931
	8,745,468
Less: accumulated depreciation	(1,607,028)
	$ 7,138,440

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, 2010 were $18,257.

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.

Subsequent to year end, the House renewed the long term debt agreement with the financial institution. As part of the agreement, the House paid $100,000 in principal payments. The remaining $2,150,000 is due in full on or before June 24, 2013. Interest is variable, tied to the London InterBank Offered Rate, and payable monthly. In connection with the new debt agreement, the House entered into an interest rate swap agreement fixing the interest rate on a portion of the variable rate borrowing in order to manage changes in market conditions related to its debt obligations.

In 2010, the House had approximately 100 new canister boxes installed at various McDonald's restaurants throughout Kentucky and Tennessee at a total cost of $143,971. The agreement with the installer allowed for payment of the boxes to occur over a three year period beginning in 2012. No interest is being charged by the installer. Annual payments of approximately $48,000 begin in 2012 and end in 2014.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Capital expenditures	$ 1,762,975
Operations	258,333
Family Room support	62,426
Other	4,552
	$ 2,088,286

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restriction specified by the donors or as follows:

Capital expenditures	$ 83,747
Family room	20,094
Other	2,254
	$ 106,095

NOTE 7 - RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION

The House follows accounting principles generally accepted in the United States of America policy, "*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 accounting principles generally accepted in the United States of America, 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, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ -	$ 500,000	$ 500,000
Total funds	$ -	$ -	$ 500,000	$ 500,000

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

Changes in endowment net assets for the year ended December 31, 2010:

Total funds	$ -	$ -	$ 500,000	$ 500,000

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 500,000	$ 500,000
Investment income, net	-	-	-	-
Endowment transfers, net	-	-	-	-
Endowment net assets,				

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.

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 of 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.

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

In accordance with UPMIFA, the House considers the following factors in making a determination to appropriate or accumulated 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 House's objective to maintain the purchasing power of the endowment assets held in perpetuity.

<u>Funds with Deficiencies</u>: 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, 2010.