

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

FINANCIAL STATEMENTS

December 31, 2005

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

FINANCIAL STATEMENTS
December 31, 2005

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Crowe Chizek and Company LLC
Member Horwath International

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, 2005 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the 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, 2005, 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 Chizek and Company LLC

Crowe Chizek and Company LLC

Brentwood, Tennessee
May 3, 2006

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2005

ASSETS

Current assets

Cash and cash equivalents (Notes 5 and 6)

Unrestricted \$ 298,266

Restricted for capital improvements 725,134

Designated by donor 266,604

1,290,004

Contributions receivable

4,690

Marketable securities (Notes 2, 5 and 6)

Unrestricted 752,615

Restricted for capital improvements 1,873,976

Restricted for endowment 500,000

3,126,591

Total current assets

4,421,285

Land, building and equipment, net (Note 3)

3,195,264

\$ 7,616,549

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable \$ 89,187

Accrued expenses 21,639

Total current liabilities 110,826

Net Assets

Unrestricted 4,140,009

Temporarily restricted (Note 5) 2,865,714

Permanently restricted (Note 6) 500,000

7,505,723

\$ 7,616,549

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues				
Public support				
Donations and fundraising events of McDonald's Cooperatives and Operators	\$ -	\$ 65,203	\$ -	\$ 65,203
Contributions, including in-kind contributions of \$216,975	653,344	185,429	-	838,773
Fundraising events	332,565	-	-	332,565
Program revenues	<u>36,318</u>	<u>-</u>	<u>-</u>	<u>36,318</u>
Total Public support	1,022,227	250,632	-	1,272,859
Interest and dividend income	58,164	49,582	-	107,746
Unrealized gains on marketable securities	43,599	135,009	-	178,608
Net assets released from restrictions and satisfaction of program restrictions (Note 5)	<u>2,081</u>	<u>(2,081)</u>	<u>-</u>	<u>-</u>
Total Public support and revenue	<u>1,126,071</u>	<u>433,142</u>	<u>-</u>	<u>1,559,213</u>
Expenses				
Program Services	<u>826,349</u>	<u>-</u>	<u>-</u>	<u>826,349</u>
Support services				
Management and General	134,388	-	-	134,388
Fund Raising	<u>144,773</u>	<u>-</u>	<u>-</u>	<u>144,773</u>
Total support services	<u>279,161</u>	<u>-</u>	<u>-</u>	<u>279,161</u>
Total expenses	<u>1,105,510</u>	<u>-</u>	<u>-</u>	<u>1,105,510</u>
Change in net assets	<u>20,561</u>	<u>433,142</u>	<u>-</u>	<u>453,703</u>
Net assets, January 1, 2005	<u>4,119,448</u>	<u>2,432,572</u>	<u>500,000</u>	<u>7,052,020</u>
Net assets, December 31, 2005	<u>\$ 4,140,009</u>	<u>\$ 2,865,714</u>	<u>\$ 500,000</u>	<u>\$ 7,505,723</u>

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2005

	Program Services	Support Services			Total Expenses
		Management and General	Fund Raising	Total	
Salaries and benefits	\$ 338,171	\$ 59,318	\$ 67,871	\$ 127,189	\$ 465,360
Utilities and telephone	85,073	-	-	-	85,073
Professional fees	-	19,677	-	19,677	19,677
Maintenance	45,076	1,714	-	1,714	46,790
House supplies	13,181	-	-	-	13,181
Insurance	15,959	1,778	-	1,778	17,737
Depreciation	89,697	3,325	-	3,325	93,022
Bank charges	-	3,803	-	3,803	3,803
Postage and printing	7,927	11,608	12,020	23,628	31,555
Supplies	-	11,233	204	11,437	11,437
Office equipment	-	742	-	742	742
Travel and entertainment	-	1,607	-	1,607	1,607
Education	-	5,699	-	5,699	5,699
Recognition	-	2,641	1,907	4,548	4,548
Solicitation permits	-	370	-	370	370
Special events	-	-	49,730	49,730	49,730
In-kind expenses	216,975	-	-	-	216,975
Payments to affiliates	-	-	13,041	13,041	13,041
Miscellaneous	14,290	4,140	-	4,140	18,430
Meetings and newsletter expenses	-	6,733	-	6,733	6,733
Total functional expenses	<u>\$ 826,349</u>	<u>\$ 134,388</u>	<u>\$ 144,773</u>	<u>\$ 279,161</u>	<u>\$ 1,105,510</u>

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF CASH FLOWS
Year ended December 31, 2005

Cash flows from operating activities

Change in net assets	\$ 453,703
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	93,022
Net unrealized gains on marketable securities	(178,608)
Changes in assets and liabilities	
Other receivables	(4,690)
Accounts payable	16,463
Accrued expenses	<u>2,455</u>
Net cash from operating activities	<u>382,345</u>

Cash flows from investing activities

Purchases of land, building and equipment	(1,876)
Proceeds from sale of investments	137,638
Purchases of investments	<u>(226,569)</u>
Net cash from investing activities	<u>(90,807)</u>

Net change in cash and cash equivalents 291,538

Cash and cash equivalents, January 1, 2005 998,466

Cash and cash equivalents, December 31, 2005 \$ 1,290,004

Supplemental disclosures of cash flow information

Cash paid during the year for	
Interest	<u>\$ -</u>
Income taxes	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

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.

The House adopted Statement of Financial Accounting Standard (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.

Marketable Securities: Marketable securities consist primarily of McDonald's Corporation Stock and McDonald's Charities Investment Program (MCCIP) fixed income and diversified equity accounts managed by Schwab Institutional. Marketable securities are stated at fair value in accordance with Statement of Financial Accounting Standard No. 124 *Accounting for Certain Investments Held by Not-For-Profit Organizations*. Realized and unrealized gains and losses are reflected in the statement of activities.

Land, Building and Equipment: Acquisitions of property and equipment in excess of \$1,000 are capitalized. Land, building and equipment are stated at cost, or if donated, at the approximate fair market 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, 2005 was \$93,022.

Contributions: The House adopted 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 restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. All other contributions are considered to be received for unrestricted use unless specifically restricted by the donor.

Donated Goods and Services: 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. Contributions of approximately \$12,000 were derived from donated services for the year ended December 31, 2005. 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.

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 as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code.

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, 2005

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, other receivables 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 deposits in money market funds managed by Schwab Institutional. Other receivables consist of amounts pledged from individuals as a result of local fundraising activities. Marketable securities consist primarily of investments in bonds and diversified equity accounts also managed by Schwab Institutional. Management does not believe significant credit risk exists at December 31, 2005.

NOTE 2 - MARKETABLE SECURITIES

Marketable securities at December 31, 2005, are summarized as follows:

	<u>Market Value</u>	<u>Cost</u>	<u>Cumulative Unrealized Gain</u>
McDonald's Corporate Stock	\$ 84,300	\$ 30,781	\$ 53,519
Bond funds	889,325	901,330	(12,005)
Equity funds	<u>2,152,966</u>	<u>1,791,520</u>	<u>361,446</u>
	<u>\$ 3,126,591</u>	<u>\$ 2,723,631</u>	<u>\$ 402,960</u>

The costs basis of marketable securities is determined by specific identification. Interest and dividend income earned on marketable securities for the year ended December 31, 2005 totaled \$98,814. Realized and unrealized gains on marketable securities were \$178,608 for the year ended December 31, 2005. 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, 2005

NOTE 3 - LAND, BUILDING AND EQUIPMENT

Land, building and equipment at December 31, 2005, consist of the following:

Land	\$ 596,338
Building and improvements	3,484,230
Furniture and equipment	284,086
Vehicles	<u>16,754</u>
	4,381,408
Less: accumulated depreciation	<u>(1,186,144)</u>
	<u><u>\$ 3,195,264</u></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, 2005, were \$14,372.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Capital building campaign	\$ 2,599,110
Donor designated support	<u>266,604</u>
	<u><u>\$ 2,865,714</u></u>

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

Purpose restriction accomplished:	
Capital expenditures	\$ 1,875
Donor designated support	<u>206</u>
	<u><u>\$ 2,081</u></u>

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 6 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets include endowments totaling \$500,000, which are subject to restriction of gift instruments requiring that the principal be invested in perpetuity. As permitted by the donors, investment income from the endowments is to be restricted for the current operations of the organization.