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

## FINANCIAL STATEMENTS
December 31, 2008

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

FINANCIAL STATEMENTS
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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, 2008 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, 2008, 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
October 14, 2009

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2008

| | |
|---|---|
| **ASSETS** | |
| Current assets | |
| Cash and cash equivalents (Notes 5 and 6) | |
| Unrestricted | $ 434,432 |
| Restricted for capital improvements | 374,887 |
| Donor restricted support and other restrictions | 297,401 |
| | 1,106,720 |
| Receivables | |
| Donation receivable - temporarily restricted | 164,472 |
| Donation receivable - unrestricted | 2,065 |
| | 166,537 |
| Short-term marketable securities (Notes 2 and 6) | |
| Unrestricted | 939,125 |
| Restricted for capital improvements | 747,851 |
| | 1,686,976 |
| Total current assets | 2,960,233 |
| Long term marketable securities | |
| Restricted for endowment (Notes 2 and 7) | 500,000 |
| Land, building and equipment, net (Note 3) | 7,178,426 |
| | $ 10,638,659 |
| **LIABILITIES AND NET ASSETS** | |
| Current liabilities | |
| Accounts payable | $ 99,424 |
| Accrued expenses | 31,681 |
| Total current liabilities | 131,105 |
| Long-term debt | 2,250,000 |
| Total liabilities | 2,381,105 |
| Net Assets | |
| Unrestricted | 6,172,943 |
| Temporarily restricted (Note 6) | 1,584,611 |
| Permanently restricted (Note 7) | 500,000 |
| | 8,257,554 |
| | $ 10,638,659 |

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2008

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Public support and revenues** | | | | |
| Public support | | | | |
| Donations and fundraising events of McDonald's Cooperatives and Operators | $ - | $ 98,196 | $ - | $ 98,196 |
| Contributions, including in-kind contributions of $150,268 | 742,272 | 168,731 | - | 911,003 |
| Fundraising events | 382,691 | - | - | 382,691 |
| Program revenues | 28,594 | - | - | 28,594 |
| Total public support | 1,153,557 | 266,927 | - | 1,420,484 |
| Investment revenues | | | | |
| Interest and dividend income | 79,842 | 79,650 | - | 159,492 |
| Realized and unrealized gains (losses) on marketable securities, net | (335,355) | (298,670) | - | (634,025) |
| Total investment revenue | (255,513) | (219,020) | - | (474,533) |
| Total public support and revenues | 898,044 | 47,907 | - | 945,951 |
| **Expenses** | | | | |
| Program Services | 889,170 | - | - | 889,170 |
| Support services | | | | |
| Management and General | 262,231 | - | - | 262,231 |
| Fund Raising | 98,948 | - | - | 98,948 |
| Total support services | 361,179 | - | - | 361,179 |
| Total expenses | 1,250,349 | - | - | 1,250,349 |
| **Release of restrictions** | 2,113,726 | (2,113,726) | - | - |
| **Change in net assets** | 1,761,421 | (2,065,819) | - | (304,398) |
| **Net assets, January 1, 2008** | 4,411,522 | 3,650,430 | 500,000 | 8,561,952 |
| **Net assets, December 31, 2008** | $ 6,172,943 | $ 1,584,611 | $ 500,000 | $ 8,257,554 |

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2008

| | Program Services | Support Services: Management and General | Support Services: Fund Raising | Support Services: Total | Total Expenses |
|---|---|---|---|---|---|
| Salaries and benefits | $ 402,702 | $ 149,456 | $ - | $ 149,456 | $ 552,158 |
| Utilities and telephone | 101,008 | - | - | - | 101,008 |
| Professional fees | 50 | 12,106 | - | 12,106 | 12,156 |
| Maintenance | 75,206 | 182 | - | 182 | 75,388 |
| House supplies | 19,042 | - | - | - | 19,042 |
| Insurance | 16,248 | 2,056 | - | 2,056 | 18,304 |
| Depreciation | 101,234 | 4,835 | - | 4,835 | 106,069 |
| Bank charges | - | 8,905 | - | 8,905 | 8,905 |
| Interest expense | - | 52,132 | - | 52,132 | 52,132 |
| Postage and printing | 3,990 | 13,620 | 11,047 | 24,667 | 28,657 |
| Supplies | - | 3,823 | 117 | 3,940 | 3,940 |
| Office equipment | 1,177 | 259 | - | 259 | 1,436 |
| Travel and entertainment | 1,602 | 1,869 | - | 1,869 | 3,471 |
| Education | 180 | 489 | - | 489 | 669 |
| Recognition | 4,944 | - | 1,324 | 1,324 | 6,268 |
| Solicitation permits | - | 345 | - | 345 | 345 |
| Special events | - | - | 86,460 | 86,460 | 86,460 |
| In-kind expenses | 140,268 | 10,000 | - | 10,000 | 150,268 |
| Meetings and newsletter expenses | 15,669 | 2,154 | - | 2,154 | 17,823 |
| Miscellaneous | 5,850 | - | - | - | 5,850 |
| Total functional expenses | $ 889,170 | $ 262,231 | $ 98,948 | $ 361,179 | $ 1,250,349 |

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF CASH FLOWS
Year ended December 31, 2008

| | |
|---|---|
| **Cash flows from operating activities** | |
| Change in net assets | $ (304,398) |
| Adjustments to reconcile change in net assets to net cash from operating activities | |
| Depreciation | 106,069 |
| Net realized and unrealized losses on marketable securities | 634,025 |
| Changes in assets and liabilities | |
| Other receivables | (139,905) |
| Accounts payable | 21,546 |
| Accrued expenses | 6,359 |
| Net cash from operating activities | 323,696 |
| **Cash flows from investing activities** | |
| Purchases of land, building and equipment | (4,284,750) |
| Sale of investments | 3,267,173 |
| Purchase of investments | (1,574,895) |
| Net cash from investing activities | (2,592,472) |
| **Cash flows from financing activities** | |
| Proceeds from long-term debt | 2,250,000 |
| Net cash from financing activities | 2,250,000 |
| Net change in cash and cash equivalents | (18,776) |
| Cash and cash equivalents, January 1, 2008 | 1,125,496 |
| Cash and cash equivalents, December 31, 2008 | $ 1,106,720 |
| **Supplemental disclosures of cash flow information** | |
| Interest paid | $ 44,998 |

See accompanying notes to financial statements.

**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.

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.

Land, Building and Equipment: 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, 2008 was $106,069.

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 imposed restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

**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.

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.

<u>Donated Goods and Services</u>: 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 $150,268 were derived from donated goods and services for the year ended December 31, 2008.

<u>Functional Allocation of Expenses</u>: 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.

<u>Income Taxes</u>: 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.

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

**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, 2008.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 8. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Adoption of New Accounting Standards: In 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities under current U.S. GAAP standards and expands the disclosure of the methods used and the effect of fair value measurements on earnings. This Standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, the House adopted applicable portions of this standard for the year ended December 31, 2008.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard was effective for the House on January 1, 2008. The House did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

## NOTE 2 - MARKETABLE SECURITIES

Marketable securities at December 31, 2008, are summarized as follows:

| | Market Value |
|---|---|
| McDonald's Corporate Stock | $ 155,475 |
| Bond mutual funds | 1,444,455 |
| Equity mutual funds | 587,046 |
| | $ 2,186,976 |

Interest and dividend income earned on marketable securities and cash and cash equivalents for the year ended December 31, 2008 totaled $159,492. Net realized and unrealized losses on marketable securities for the year ended December 31, 2008 totaled $634,025. Included in marketable securities are permanently restricted assets totaling $500,000.

## NOTE 3 - LAND, BUILDING AND EQUIPMENT

Land, building and equipment at December 31, 2008, consist of the following:

| | |
|---|---|
| Land | $ 4,848,285 |
| Building and improvements | 3,458,784 |
| Furniture and equipment | 269,145 |
| Vehicles | 18,931 |
| | 8,595,145 |
| Less: accumulated depreciation | (1,416,719) |
| | $ 7,178,426 |

## 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, 2008 were $14,904.

## NOTE 5 - LONG-TERM DEBT

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 | $ 1,287,210 |
| Donor restricted support | 263,634 |
| Family Room support | 33,767 |
| | $ 1,584,611 |

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

| | |
|---|---|
| Capital expenditures | $ 2,000,000 |
| Family Room and other expenditures | 113,726 |
| | $ 2,113,726 |

## NOTE 7 - 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.

**NOTE 8 - ENDOWMENT**

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.

The Board of Trustees of the House has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 SPMIFA. In accordance with SPMIFA, 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

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 SPMIFA requires the House to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2008.

**NOTE 8 - ENDOWMENT (Continued)**

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 9 - FAIR VALUE**

Statement 157 establishes a fair value hierarchy 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.

**NOTE 9 - FAIR VALUE (Continued)**

The fair values of marketable securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis using quoted prices in active markets for identical assets (level one) at December 31, 2008 are summarized below:

| | |
|---|---|
| Assets: | |
| Marketable securities | $ 2,186,976 |