

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2008 AND 2007

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

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INDEPENDENT AUDITOR'S REPORT

June 18, 2009

Board of Directors
Ronald McDonald House Charities of Western Washington & Alaska
Seattle, Washington

We have audited the accompanying statements of financial position of Ronald McDonald House Charities of Western Washington & Alaska (a nonprofit corporation) as of December 31, 2008 and 2007 and the related statements of unrestricted activity, changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of Ronald McDonald House Charities of Western Washington & Alaska. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Western Washington & Alaska, as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Jacobson Jarvis & Co, PLLC

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 870,638 | \$ 667,349 |
| Investments | 1,944,808 | 3,737,210 |
| Promises to give | 94,945 | 66,950 |
| Other receivables | 76,338 | 6,692 |
| Prepays | <u>25,513</u> | <u>70,665</u> |
| Total Current Assets | 3,012,242 | 4,548,866 |
| Investments - long-term | 4,154,695 | 4,176,250 |
| Property and Equipment, net | <u>13,695,888</u> | <u>14,051,999</u> |
| | <u>\$ 20,862,825</u> | <u>\$ 22,777,115</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | <u>\$ 100,167</u> | <u>\$ 127,618</u> |
| Net Assets | | |
| Unrestricted | | |
| Invested in property and equipment | 10,648,181 | 11,096,055 |
| Board designated | 6,499,355 | 7,946,887 |
| Undesignated | <u>150,000</u> | <u>150,000</u> |
| Total Unrestricted Net Assets | 17,297,536 | 19,192,942 |
| Temporarily restricted | 2,988,872 | 2,980,305 |
| Permanently restricted | <u>476,250</u> | <u>476,250</u> |
| Total Net Assets | <u>20,762,658</u> | <u>22,649,497</u> |
| | <u>\$ 20,862,825</u> | <u>\$ 22,777,115</u> |

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF UNRESTRICTED ACTIVITY

YEARS ENDED DECEMBER 31, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------|-------------------|
| Unrestricted Public Support and Revenue | | |
| Unrestricted Public Support | | |
| Annual giving | \$ 326,038 | \$ 129,038 |
| Special events, net of direct cost of benefits provided to participants of \$91,161 and \$94,950 | 475,898 | 720,975 |
| McDonald's fundraisers | 705,676 | 575,072 |
| In-kind contributions | <u>135,768</u> | <u>158,580</u> |
| Total Unrestricted Public Support | <u>1,643,380</u> | <u>1,583,665</u> |
| Revenue | | |
| Room receipts | 568,497 | 439,418 |
| Interest and dividends, net | 166,400 | 119,546 |
| Realized and unrealized (losses) gains on investments | (2,360,252) | 321,695 |
| Other revenue | <u>219,385</u> | <u>98,556</u> |
| Total Revenue | <u>(1,405,970)</u> | <u>979,215</u> |
| Total Unrestricted Public Support and Revenue | 237,410 | 2,562,880 |
| Net Assets Released from Restrictions | | |
| Satisfaction of purpose restrictions | <u>766,732</u> | <u>876,849</u> |
| Total Unrestricted Public Support, Revenue, and Other Support | <u>1,004,142</u> | <u>3,439,729</u> |
| Expenses | | |
| Program services | 2,135,393 | 2,190,789 |
| Management and general | 227,052 | 244,208 |
| Fundraising | 466,735 | 450,300 |
| Remittance to National | <u>70,368</u> | <u>69,428</u> |
| Total Expenses | <u>2,899,548</u> | <u>2,954,725</u> |
| Change in Unrestricted Net Assets | <u>\$ (1,895,406)</u> | <u>\$ 485,004</u> |

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | | | | 2007 | | | |
|--|----------------------|------------------------|------------------------|----------------------|----------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Public Support, Revenue and Other Support | | | | | | | | |
| Unrestricted public support and revenue | \$ 237,410 | | | \$ 237,410 | \$ 2,562,880 | | | \$ 2,562,880 |
| Restricted public support | | | | | | | | |
| Annual giving | | \$ 573,114 | \$ - | 573,114 | \$ 621,099 | \$ - | | 621,099 |
| Other contributions | | 70,000 | | 70,000 | 67,500 | | | 67,500 |
| Special events | | 132,185 | | 132,185 | 201,991 | | | 201,991 |
| Net Assets Released from Restrictions | <u>766,732</u> | <u>(766,732)</u> | | <u>-</u> | <u>876,849</u> | <u>(876,849)</u> | | <u>-</u> |
| Total Public Support, Revenue and Other Support | <u>1,004,142</u> | <u>8,567</u> | <u>-</u> | <u>1,012,709</u> | <u>3,439,729</u> | <u>13,741</u> | <u>-</u> | <u>3,453,470</u> |
| Expenses | <u>2,899,548</u> | | | <u>2,899,548</u> | <u>2,954,725</u> | | | <u>2,954,725</u> |
| Change in Net Assets | (1,895,406) | 8,567 | - | (1,886,839) | 485,004 | 13,741 | - | 498,745 |
| Net Assets - beginning of year | <u>19,192,942</u> | <u>2,980,305</u> | <u>476,250</u> | <u>22,649,497</u> | <u>18,707,938</u> | <u>2,966,564</u> | <u>476,250</u> | <u>22,150,752</u> |
| Net Assets - end of year | <u>\$ 17,297,536</u> | <u>\$ 2,988,872</u> | <u>\$ 476,250</u> | <u>\$ 20,762,658</u> | <u>\$ 19,192,942</u> | <u>\$ 2,980,305</u> | <u>\$ 476,250</u> | <u>\$ 22,649,497</u> |

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2008 AND 2007

| | 2008 | | | | 2007 | | | |
|---|---------------------|------------------------------|-------------------|---------------------|---------------------|------------------------------|-------------------|---------------------|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Salaries and wages | \$ 670,640 | \$ 138,240 | \$ 215,124 | \$ 1,024,004 | \$ 628,117 | \$ 130,967 | \$ 206,020 | \$ 965,104 |
| Payroll taxes | 62,290 | 12,741 | 19,348 | 94,379 | 65,320 | 13,620 | 21,425 | 100,365 |
| Employee benefits | 86,872 | 17,769 | 26,983 | 131,624 | 73,320 | 15,288 | 24,049 | 112,657 |
| Total Salaries and Related Expenses | 819,802 | 168,750 | 261,455 | 1,250,007 | 766,757 | 159,875 | 251,494 | 1,178,126 |
| Depreciation | 500,670 | 7,742 | 7,742 | 516,154 | 500,816 | 7,745 | 7,745 | 516,306 |
| Occupancy | 465,660 | 10,385 | 2,864 | 478,909 | 564,090 | 11,288 | 3,334 | 578,712 |
| In-kind expense | 87,389 | 1,079 | 42,600 | 131,068 | 100,846 | 16,193 | 41,541 | 158,580 |
| Grants awarded | 103,823 | - | - | 103,823 | 105,000 | - | - | 105,000 |
| Special events expenses | - | - | 103,755 | 103,755 | - | - | 90,171 | 90,171 |
| Scholarships awarded | 70,000 | - | - | 70,000 | 67,500 | - | - | 67,500 |
| Miscellaneous | 25,548 | 7,293 | 12,967 | 45,808 | 27,898 | 7,770 | 24,961 | 60,629 |
| Professional services | 24,516 | 18,316 | 2,514 | 45,346 | 22,114 | 22,552 | 3,643 | 48,309 |
| Insurance | 36,797 | 6,659 | - | 43,456 | 35,137 | 6,461 | - | 41,598 |
| Printing and publications | 1,001 | - | 19,782 | 20,783 | 623 | 7,396 | 16,888 | 24,907 |
| Postage and shipping | 187 | 6,828 | 13,056 | 20,071 | 8 | 4,928 | 10,523 | 15,459 |
| Total Expenses | <u>\$ 2,135,393</u> | <u>\$ 227,052</u> | <u>\$ 466,735</u> | 2,829,180 | <u>\$ 2,190,789</u> | <u>\$ 244,208</u> | <u>\$ 450,300</u> | 2,885,297 |
| Remittance to National | | | | 70,368 | | | | 69,428 |
| Total Expenses and Remittance to National | | | | <u>\$ 2,899,548</u> | | | | <u>\$ 2,954,725</u> |

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|--------------------|
| Cash Flows from Operating Activities | | |
| Cash received from: | | |
| Donors | \$ 2,154,034 | \$ 2,289,737 |
| Room receipts | 497,992 | 439,418 |
| Investment and other income | 386,644 | 218,102 |
| Cash paid for: | | |
| Personnel | (1,247,036) | (1,176,611) |
| Services and supplies | (857,266) | (934,912) |
| Grants to others | (103,823) | (105,000) |
| Scholarships | <u>(70,000)</u> | <u>(67,500)</u> |
| Net Cash Provided by Operating Activities | <u>760,545</u> | <u>663,234</u> |
| Cash Flows from Investing Activities | | |
| Purchases of property and equipment | (111,843) | (73,287) |
| Purchases of investments | (6,275,614) | (3,909,355) |
| Proceeds from sale of investments | <u>5,732,687</u> | <u>2,487,790</u> |
| Net Cash Used by Investing Activities | <u>(654,770)</u> | <u>(1,494,852)</u> |
| Cash Flows Provided by Financing Activities | | |
| Proceeds from contributions restricted to investment in property | <u>97,514</u> | <u>6,848</u> |
| Change in Cash and Cash Equivalents | 203,289 | (824,770) |
| Cash and Cash Equivalents - beginning of year | <u>667,349</u> | <u>1,492,119</u> |
| Cash and Cash Equivalents - end of year | <u>\$ 870,638</u> | <u>\$ 667,349</u> |

RONALD McDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|-------------------|
| Reconciliation of Change in Net Assets to Cash | | |
| Flows from Operating Activities | | |
| Change in net assets | \$ (1,886,839) | \$ 498,745 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 516,154 | 516,306 |
| Contributions restricted to investment in property | (97,514) | - |
| Reinvested capital gain dividends | - | (203,565) |
| Realized and unrealized losses (gains) on investments | 2,360,252 | (118,130) |
| Donated investments | (3,368) | (9,885) |
| Donated property and equipment | (4,700) | - |
| (Increase) decrease in | | |
| Promises to give | (27,995) | (16,053) |
| Other receivables | (69,646) | - |
| Prepays | 1,652 | (4,863) |
| (Decrease) increase in | | |
| Accounts payable and accrued expenses | <u>(27,451)</u> | <u>679</u> |
| Net Cash Provided by Operating Activities | <u>\$ 760,545</u> | <u>\$ 663,234</u> |

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Ronald McDonald House Charities of Western Washington & Alaska (RMHC) owns and operates the Seattle Ronald McDonald House, which is one of the largest in the world. With 80 rooms, the Seattle House provides supportive, temporary lodging to families of seriously ill children who must leave their own community to have their children treated at Children’s Hospital. In 2008, 809 families stayed at the Seattle House. By providing a “home-away-from-home,” RMHC helps keep families together during a very difficult time in their lives.

RMHC operates a grants program benefiting children’s health related nonprofits in Western Washington and Alaska and provides scholarships to students who are pursuing college degrees. In 2007, van service was added in Anchorage to transport families to/from the local hospital and clinics.

Basis of presentation

RMHC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets of RMHC are classified as follows:

Unrestricted net assets are available without restriction for support of RMHC's operations. The Board of Directors has designated otherwise unrestricted net assets as follows as of December 31:

| | <u>2008</u> | <u>2007</u> |
|---------------------------------|---------------------|---------------------|
| House operations | \$ 2,820,910 | \$ 4,246,887 |
| Building C expansion/renovation | 2,000,000 | 2,000,000 |
| Capital improvements | <u>1,678,445</u> | <u>1,700,000</u> |
| | <u>\$ 6,499,355</u> | <u>\$ 7,946,887</u> |

Temporarily restricted net assets are restricted by the donors to be used for certain purposes or future periods. Temporarily restricted net assets are available as follows as of December 31:

| | <u>2008</u> | <u>2007</u> |
|----------------------|---------------------|---------------------|
| Promised land use | \$ 2,955,944 | \$ 2,955,944 |
| Capital improvements | 31,566 | 500 |
| RMHC operations | <u>1,362</u> | <u>23,861</u> |
| | <u>\$ 2,988,872</u> | <u>\$ 2,980,305</u> |

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations.

Income taxes

The Internal Revenue Service has recognized RMHC as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation.

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

RMHC has elected to defer the provisions of FIN 48, Accounting for Income Taxes, under the provisions of FSP FIN 48-3. RMHC uses a FAS 5, Loss Contingencies, approach for evaluating uncertain tax positions and continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Cash and cash equivalents

Cash and cash equivalents consist of general checking and savings accounts and money market accounts. RMHC maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. RMHC has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk. Investments with maturity dates of less than three months are considered cash equivalents. The carrying amount of these assets approximate fair value because of the short maturity of the instruments.

Investments

Investments in equity securities with readily determinable fair values and all debt securities are recorded at fair value based on quoted market prices. Gains and losses on investments are reported on the statement of activity as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation. Interest and dividend revenues are reflected in the statement of activity net of investment expenses. Advisory fees for the years ended December 31, 2008 and 2007 were \$53,524 and \$68,918, respectively. Investments at December 31, were:

| | <u>2008</u> | <u>2007</u> |
|-------------------------|---------------------|---------------------|
| Equity securities | \$ 3,206,915 | \$ 6,119,372 |
| Debt securities | 2,138,458 | 1,153,871 |
| Certificates of deposit | 754,130 | 640,217 |
| | <u>\$ 6,099,503</u> | <u>\$ 7,913,460</u> |

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

| | <u>2008</u> | <u>2007</u> |
|---------------------------------|------------------|------------------|
| Building C expansion/renovation | \$ 2,000,000 | \$ 2,000,000 |
| Capital improvements | 1,678,445 | 1,700,000 |
| Endowment | 476,250 | 476,250 |
| | <u>4,154,695</u> | <u>4,176,250</u> |

Promises to give

In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received.

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Conditional promises to give are recognized when the conditions on which they depend are substantially met. As of December 31, 2008, RMHC had no conditional promises to give. Unconditional promises to give at December 31, 2008 and 2007 are \$94,945 and \$66,950, respectively, which are receivable in less than one year and are considered fully collectible by management. The carrying amount of promises to give approximates fair value because of the short term maturity of the instruments.

Medicaid receivables

In accordance with financial accounting standards, room receipts from Medicaid are recognized as revenue in the period earned and recorded as receivables if not paid by year end. Amounts receivable from Medicaid at December 31, 2008 are \$70,505 and are included in Other Receivables. There was no receivable recorded at December 31, 2007 as the amount was considered immaterial. The carrying amount of receivables approximates fair value because of the short term maturity of the instruments.

Land, buildings, and equipment

Expenditures for the acquisition of equipment are capitalized at cost. The fair value of donated property, including long-term land leases, and equipment is capitalized at fair market value on the date of donation. RMHC capitalizes all expenditures for property and equipment in excess of \$5,000 with an estimated useful life of 5 or more years. Depreciation is provided over the estimated useful lives of the assets on the straight-line method. RMHC uses the direct expensing method to account for planned maintenance activities. Property and equipment at December 31 were as follows:

| | Estimated Useful Lives | 2008 | 2007 |
|---------------------------|---------------------------|---------------------|---------------------|
| Land | | \$ 2,955,944 | \$ 2,955,944 |
| Construction in progress | | 91,793 | - |
| Building and improvements | 15-40 years | 13,119,193 | 13,119,193 |
| Furniture and fixtures | 5-7 years | 1,055,070 | 986,820 |
| Vehicles | 5 years | 56,901 | 56,901 |
| | | <u>17,278,901</u> | <u>17,118,858</u> |
| Accumulated depreciation | | <u>(3,583,013)</u> | <u>(3,066,859)</u> |
| | | <u>\$13,695,888</u> | <u>\$14,051,999</u> |

Children's Health Care System (an affiliate of Children's) holds title to, and is the landlord for, all real estate (land) associated with grounds of the RMHC houses. The ground lease associated with the original house is for \$1 per year for a term of 99 years, from May 1983 through April 2082.

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The use of the land is restricted for the purposes of operating the House or a similar facility. The estimated fair market value of the land in 1983, when its use was first donated, was \$829,544. The value of the land is included in temporarily restricted net assets.

The ground lease associated with the second house is for \$1 per year for a term of 99 years, from September 2002 through August 2101. The lease requires the lessor's prior written permission for changes in the agreed upon use of the second house, assignment, subletting, and significant changes related to the initial construction. In addition, the lease prohibits use of the building as collateral except for a construction loan, and gives the lessor first right to purchase the buildings and equipment at the expiration of the lease term. The estimated fair market value of the land in 2002, when its use was first donated, was \$2,126,400. The value of the land is included in temporarily restricted net assets.

Restricted and unrestricted support

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Donated goods and services

Non-cash donations are recorded as contributions at their estimated fair values at the date of donation. Donated assets, goods and services were used for program and supporting services and were as follows for the years ended December 31:

| | <u>2008</u> | <u>2007</u> |
|-----------------------------|-------------------|-------------------|
| Donated goods | \$ 65,557 | \$ 101,940 |
| Donated services | <u>70,211</u> | <u>56,640</u> |
| Total in-kind contributions | 135,768 | 158,580 |
| Less amount capitalized | <u>(4,700)</u> | - |
| Total in-kind expense | <u>\$ 131,068</u> | <u>\$ 158,580</u> |

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with financial accounting standards, the financial statements reflect only those donated services requiring specific expertise which RMHC would otherwise need to purchase. However, many individual volunteers donate significant amounts of time and perform a variety of tasks that assist RMHC. For the years ended December 31, 2008 and 2007, management estimates that RMHC received approximately 31,500 and 29,000 hours with estimated values of \$638,000 and \$566,000.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of unrestricted activities and of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - RELATED PARTY TRANSACTIONS

Under the terms of its affiliation agreement with Ronald McDonald House Charities, Inc., RMHC is obligated to remit 25% of certain contributions, net of fundraising expenses, to that national group on a regular basis. For the years ended December 31, 2008 and 2007, RMHC incurred obligations of \$70,368 and \$69,428, respectively, to the national group, of which \$16,811 and \$14,080, respectively, was included in accounts payable at December 31, 2008 and 2007.

NOTE C - PENSION PLAN

On January 1, 2007, RMHC switched from a SIMPLE IRA to a 401(k) defined contribution plan (the Plan). The Plan covers all employees who have completed 12 months of service and have attained the age of 21 years. RMHC contributions to the Plan are at the discretion of the Board of Trustees. Currently, RMHC will make a 3% contribution for all eligible employees, based on salary, and match an additional 1% of employee contributions. RMHC's contributions for the years ended December 31, 2008 and 2007 totaled \$36,119 and \$32,284, respectively.

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE D - OPERATING AGREEMENT

In 2002, RMHC entered into an operating agreement with Children's Health Care System to provide rooms in the current operating houses, exclusively for families of patients at Children's. The initial term was for 5 years, from September 2002 through August 2007. The original five year agreement provided up to a maximum of \$80,300 per year if all 80 rooms were made available. Since the expiration of the written agreement, Seattle Children's Hospital has negotiated a verbal agreement with RMHC. For the year ended December 31, 2008, \$200,000 was paid and for the year ending December 31, 2009, \$292,000 will be paid.

NOTE E - COMMITMENT

During the last quarter of 2008 RMHC signed contracts related to the purchase and installation of a new large generator for the House. These contracts amount to \$428,000. Of this amount, a deposit of \$40,000 had been paid by December 31, 2008 and is included in Construction in Progress.

NOTE F - ENDOWMENT

RMHC's endowment consists of one permanently restricted fund established in 1993 by Mrs. Kroc to help with ongoing "operating expenses." As required by generally accepted accounting principles net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There are no funds designated by the Board of Trustees to function as endowments.

Interpretation of Relevant Law

Under the Uniform Management of Institutional Funds Act (UMIFA), as in effect in the State of Washington and as interpreted by the Board, the original amount of donor-restricted contributions to the endowment plus any required accumulations are not expendable. Accordingly, RMHC classifies as permanently restricted net assets (a) the original value of donor-restricted contributions to the endowment, (b) the original value of subsequent donor-restricted contributions to the endowment, and (c) any accumulations to the endowment made in accordance with the terms of the contribution. Net assets without donor-restrictions are classified as unrestricted.

Spending Policy and How the Investment Objectives Relate to Spending Policy

One hundred percent of the endowment's earnings are spent in the year earned on operating expenses. These earnings represent interest and dividends, exclusive of gains and losses. In establishing this policy, RMHC considered the long-term expected return on its endowment.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE F - ENDOWMENT (Continued)

Accordingly, over the long term, RMHC expects the current spending policy to allow its endowment to maintain purchasing power of the assets held in perpetuity as well as to provide additional real growth through new gifts and investment appreciation.

Return Objectives and Risk Parameters

The investment policy includes a target allocation table that allows for diversity and performance measurement against the appropriate index. The long-term objective of the Fund is to provide growth of capital and income and achieve a target rate of return of CPI + 4% annualized over a full market cycle, defined as 5 to 7 years with diversification employed to reduce risk. The relative objectives of the policy are to generate a return in excess of the passive portfolio benchmark for each asset class, exceed the rate of inflation, assumed to be approximately 3% annually over a 5 to 10 year period, and exceed the 50th percentile return of a universe comprised of funds or managers with similar objectives and or styles.

Endowment net assets by fund type as of December 31, 2008 are as follows:

| | <u>Unrestricted</u> | Temporarily <u>restricted</u> | Permanently <u>restricted</u> | <u>Total</u> |
|----------------------------|---------------------|----------------------------------|----------------------------------|--------------|
| Donor-restricted endowment | \$ 9,376 | \$ - | \$ 476,250 | \$ 485,626 |

Change in endowment net assets for the year ended December 31, 2008 are as follows:

| | <u>Unrestricted</u> | Temporarily <u>restricted</u> | Permanently <u>restricted</u> | <u>Total</u> |
|------------------------------|---------------------|----------------------------------|----------------------------------|-------------------|
| Endowment, beginning of year | \$ 171,017 | \$ - | \$ 476,250 | \$ 647,267 |
| Investment return: | | | | |
| Investment income | 16,438 | - | | 16,438 |
| Net losses | <u>(161,641)</u> | <u>-</u> | | <u>(161,641)</u> |
| Total investment return | (145,203) | - | | (145,203) |
| Appropriated for expenditure | <u>(16,438)</u> | <u>-</u> | <u>-</u> | <u>(16,438)</u> |
| Endowment, end of year | <u>\$ 9,376</u> | <u>\$ -</u> | <u>\$ 476,250</u> | <u>\$ 485,626</u> |

Endowment net assets by fund type as of December 31, 2007 are as follows:

| | <u>Unrestricted</u> | Temporarily <u>restricted</u> | Permanently <u>restricted</u> | <u>Total</u> |
|----------------------------|---------------------|----------------------------------|----------------------------------|-------------------|
| Donor-restricted endowment | <u>\$ 171,017</u> | <u>\$ -</u> | <u>\$ 476,250</u> | <u>\$ 647,267</u> |

RONALD MCDONALD HOUSE CHARITIES OF WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE F - ENDOWMENT (Continued)

Change in Endowment Net Asset for the year ended December 31, 2007 are as follows:

| | <u>Unrestricted</u> | Temporarily <u>restricted</u> | Permanently <u>restricted</u> | <u>Total</u> |
|------------------------------|---------------------|----------------------------------|----------------------------------|-------------------|
| Endowment, beginning of year | \$ 177,432 | \$ - | \$ 476,250 | \$ 653,682 |
| Investment return: | | | | |
| Investment income | 50,840 | - | | 50,840 |
| Net losses | <u>(6,415)</u> | - | | <u>(6,415)</u> |
| Total investment return | 44,425 | - | | 44,425 |
| Appropriated for expenditure | <u>(50,840)</u> | - | - | <u>(50,840)</u> |
| Endowment, end of year | <u>\$ 171,017</u> | <u>\$ -</u> | <u>\$ 476,250</u> | <u>\$ 647,267</u> |

NOTE G - RECENT CHANGES IN ACCOUNTING PRONOUNCEMENTS

FASB Staff Position (FSP) 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

Under FSP FAS 117-1, organizations subject to UPMIFA shall classify the portion of each donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure by the organization. In initially applying this guidance to donor-restricted endowment funds in existence when UPMIFA is first effective, an organization shall report any resulting net asset reclassifications in a separate line item within the organization's statement of activities for that period.

In May 2009, Washington State enacted UPMIFA effective as of July 1, 2009. Thus, during 2009, RMHC will be required to reclassify certain net asset amounts related to the endowment fund from unrestricted to temporarily restricted. The amount of such reclassification has not yet been determined.