

**Ronald McDonald House Charities  
of Kansas City, Inc.**

Accountants' Report and Financial Statements  
December 31, 2008 and 2007



**Ronald McDonald House Charities  
of Kansas City, Inc.  
December 31, 2008 and 2007**

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## Independent Accountants' Report

Board of Directors  
Ronald McDonald House Charities  
of Kansas City, Inc.  
Kansas City, Missouri

We have audited the accompanying statements of financial position of Ronald McDonald House Charities of Kansas City, Inc. (the "Organization") as of December 31, 2008 and 2007, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 the Organization 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.

As discussed in Note 10, in 2008 the Organization changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

/s/ **BKD, LLP**

Kansas City, Missouri  
April 13, 2009

# Ronald McDonald House Charities of Kansas City, Inc.

## Statements of Financial Position December 31, 2008 and 2007

### Assets

|  | 2008          | 2007          |
|--|---------------|---------------|
| <b>Current Assets</b>  |               |               |
| Cash and cash equivalents  | \$ 168,161    | \$ 118,941    |
| Interest and dividends receivable  | 12,129        | 16,613        |
| Pledges receivable – unrestricted, net of allowance;<br>2008 – \$44,000, 2007 – \$20,000 | 330,991       | 525,495       |
| Current portion of assets limited as to use –<br>Pledges receivable                      | 52,175        | 171,759       |
| Other assets   | 616           | 1,700         |
| Total current assets   | 564,072       | 834,508       |
| <b>Assets Limited as to Use</b>  |               |               |
| Donor restricted assets  |               |               |
| Cash   | 18,223        | 35,654        |
| Investments  | 1,000,000     | 1,000,000     |
| Pledges receivable   | 14,041        | 185,714       |
|  | 1,032,264     | 1,221,368     |
| <b>Other Investments</b>   | 1,424,825     | 2,279,220     |
| <b>Property and Equipment, At Cost</b>   |               |               |
| Land and parking lot   | 63,546        | 63,546        |
| Buildings and improvements   | 2,218,156     | 2,132,870     |
| Vans and autos   | 13,436        | 13,436        |
| Furniture and equipment  | 762,711       | 755,668       |
| Family room  | 230,465       | 230,465       |
| Capital lease  | 11,700,289    | 11,669,803    |
|  | 14,988,603    | 14,865,788    |
| Less accumulated depreciation  | 3,020,351     | 2,566,624     |
|  | 11,968,252    | 12,299,164    |
| Total assets   | \$ 14,989,413 | \$ 16,634,260 |



# Ronald McDonald House Charities of Kansas City, Inc.

## Statements of Activities

Years Ended December 31, 2008 and 2007

|  | 2008          |                           |                           |               |
|--|---------------|---------------------------|---------------------------|---------------|
|  | Unrestricted  | Temporarily<br>Restricted | Permanently<br>Restricted | Total         |
| <b>Revenues, Gains and Other Support</b>                     |               |                           |                           |               |
| Contributions – General                                      | \$ 615,920    | \$ 35,502                 |                           | \$ 651,422    |
| Contributions – Capital Campaign                             | -             | -                         |                           | -             |
| Contributions – McDonald’s                                   | 283,261       | -                         |                           | 283,261       |
| RMHC sponsored fundraising events                            | 475,656       | 1,000                     |                           | 476,656       |
| External fundraising events                                  | 164,674       | 250                       |                           | 164,924       |
| Other  | 51,501        | -                         |                           | 51,501        |
| Interest and dividends                                       | 96,091        | -                         |                           | 96,091        |
| Net realized and unrealized gains<br>(losses) on investments | (566,530)     | -                         |                           | (566,530)     |
| Net assets released from restriction                         | 315,095       | (315,095)                 |                           | -             |
|  | 1,435,668     | (278,343)                 |                           | 1,157,325     |
| Total revenues, gains<br>and other support                   |               |                           |                           |               |
| <b>Expenses</b>  |               |                           |                           |               |
| Program services   |               |                           |                           |               |
| Ronald McDonald Houses                                       | 1,298,808     |                           |                           | 1,298,808     |
| Family room  | 156,149       |                           |                           | 156,149       |
| Grants   | 4,000         |                           |                           | 4,000         |
|  | 1,458,957     |                           |                           | 1,458,957     |
| Total program services                                       |               |                           |                           |               |
| Support services   |               |                           |                           |               |
| Fundraising  | 520,228       | 30,945                    |                           | 551,173       |
| Management and general                                       | 202,566       | -                         |                           | 202,566       |
|  | 722,794       | 30,945                    |                           | 753,739       |
| Total support services                                       |               |                           |                           |               |
| Total expenses   | 2,181,751     | 30,945                    |                           | 2,212,696     |
| <b>Change in Net Assets</b>                                  | (746,083)     | (309,288)                 |                           | (1,055,371)   |
| <b>Net Assets, Beginning of Year</b>                         | 12,848,761    | 393,127                   | \$ 1,000,000              | 14,241,888    |
| <b>Net Assets, End of Year</b>                               | \$ 12,102,678 | \$ 83,839                 | \$ 1,000,000              | \$ 13,186,517 |

See Notes to Financial Statements

**2007**

| <b>Unrestricted</b>  | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b>         |
|----------------------|-----------------------------------|-----------------------------------|----------------------|
| \$ 508,056           | \$ 44,650                         |                                   | \$ 552,706           |
| 150,130              | 59,606                            |                                   | 209,736              |
| 288,858              | -                                 |                                   | 288,858              |
| 490,221              | 1,665                             |                                   | 491,886              |
| 91,545               | 4,900                             |                                   | 96,445               |
| 7,222                | -                                 |                                   | 7,222                |
| 150,602              | -                                 |                                   | 150,602              |
| 177,306              | -                                 |                                   | 177,306              |
| <u>531,810</u>       | <u>(531,810)</u>                  |                                   | <u>-</u>             |
| <br>                 |                                   |                                   |                      |
| <u>2,395,750</u>     | <u>(420,989)</u>                  |                                   | <u>1,974,761</u>     |
| <br>                 |                                   |                                   |                      |
| 1,402,266            |                                   |                                   | 1,402,266            |
| 146,704              |                                   |                                   | 146,704              |
| <u>5,000</u>         |                                   |                                   | <u>5,000</u>         |
| <br>                 |                                   |                                   |                      |
| <u>1,553,970</u>     |                                   |                                   | <u>1,553,970</u>     |
| <br>                 |                                   |                                   |                      |
| 517,059              | 21,738                            |                                   | 538,797              |
| <u>189,937</u>       | <u>-</u>                          |                                   | <u>189,937</u>       |
| <br>                 |                                   |                                   |                      |
| <u>706,996</u>       | <u>21,738</u>                     |                                   | <u>728,734</u>       |
| <br>                 |                                   |                                   |                      |
| <u>2,260,966</u>     | <u>21,738</u>                     |                                   | <u>2,282,704</u>     |
| <br>                 |                                   |                                   |                      |
| 134,784              | (442,727)                         |                                   | (307,943)            |
| <u>12,713,977</u>    | <u>835,854</u>                    | <u>\$ 1,000,000</u>               | <u>14,549,831</u>    |
| <br>                 |                                   |                                   |                      |
| <u>\$ 12,848,761</u> | <u>\$ 393,127</u>                 | <u>\$ 1,000,000</u>               | <u>\$ 14,241,888</u> |

# Ronald McDonald House Charities of Kansas City, Inc.

## Statement of Functional Expenses Year Ended December 31, 2008

|                                    | Program Services             |                |          | Support Services             |             | Total<br>Expenses |
|------------------------------------|------------------------------|----------------|----------|------------------------------|-------------|-------------------|
|                                    | Ronald<br>McDonald<br>Houses | Family<br>Room | Grants   | Management<br>and<br>General | Fundraising |                   |
| Salaries and benefits              | \$ 374,310                   | \$ 119,227     | \$ -     | \$ 88,846                    | \$ 199,955  | \$ 782,338        |
| Supplies and other office expenses | 2,825                        | 763            | -        | 7,333                        | 8,548       | 19,469            |
| Utilities and telephone            | 94,899                       | -              | -        | 121                          | -           | 95,020            |
| Repairs and maintenance            | 131,891                      | 879            | -        | 2,602                        | 8,966       | 144,338           |
| Seminars and training              | 1,242                        | 50             | -        | 3,100                        | 1,837       | 6,229             |
| Family services                    | 48,275                       | 212            | -        | -                            | 2,989       | 51,476            |
| Insurance                          | 55,640                       | 11,209         | -        | 4,127                        | 3,689       | 74,665            |
| Volunteers/donor appreciation      | 4,579                        | 1,579          | -        | 752                          | 3,479       | 10,389            |
| Newsletters and printing           | 3,237                        | 772            | -        | 844                          | 17,361      | 22,214            |
| Grants and contributions           | -                            | -              | 4,000    | -                            | -           | 4,000             |
| Depreciation                       | 426,270                      | 21,054         | -        | 4,433                        | 2,290       | 454,047           |
| Interest                           | 151,461                      | -              | -        | 20,214                       | -           | 171,675           |
| Payments to affiliates             | -                            | -              | -        | 36,126                       | -           | 36,126            |
| Leases                             | 3,842                        | 404            | -        | 3,712                        | 3,337       | 11,295            |
| Professional services              | -                            | -              | -        | 29,886                       | 25,100      | 54,986            |
| Board expenses                     | -                            | -              | -        | 470                          | -           | 470               |
| Annual giving campaign             | -                            | -              | -        | -                            | 17,505      | 17,505            |
| Plaza Pzazz                        | -                            | -              | -        | -                            | 84,492      | 84,492            |
| Red Shoe Shindig Auction           | -                            | -              | -        | -                            | 52,361      | 52,361            |
| Golf Classic                       | -                            | -              | -        | -                            | 41,544      | 41,544            |
| Miscellaneous fundraising expenses | -                            | -              | -        | -                            | 47,085      | 47,085            |
| Uncollectible pledges              | 337                          | -              | -        | -                            | 30,635      | 30,972            |
|                                    | \$ 1,298,808                 | \$ 156,149     | \$ 4,000 | \$ 202,566                   | \$ 551,173  | \$ 2,212,696      |

# Ronald McDonald House Charities of Kansas City, Inc.

## Statement of Functional Expenses Year Ended December 31, 2007

|                                    | Program Services       |                   |                 | Support Services       |                   | Total Expenses      |
|------------------------------------|------------------------|-------------------|-----------------|------------------------|-------------------|---------------------|
|                                    | Ronald McDonald Houses | Family Room       | Grants          | Management and General | Fundraising       |                     |
| Salaries and benefits              | \$ 380,463             | \$ 117,116        | \$ -            | \$ 108,339             | \$ 197,254        | \$ 803,172          |
| Supplies and other office expenses | 3,851                  | 548               | -               | 7,662                  | 5,870             | 17,931              |
| Utilities and telephone            | 88,121                 | -                 | -               | -                      | -                 | 88,121              |
| Repairs and maintenance            | 159,315                | 852               | -               | 5,338                  | 9,410             | 174,915             |
| Seminars and training              | 1,267                  | 70                | -               | 3,598                  | 1,123             | 6,058               |
| Family services                    | 55,843                 | 81                | -               | -                      | 261               | 56,185              |
| Insurance                          | 56,988                 | 11,478            | -               | 2,735                  | 3,779             | 74,980              |
| Volunteers/donor appreciation      | 5,663                  | 1,344             | -               | 1,614                  | 5,527             | 14,148              |
| Newsletters and printing           | 2,309                  | 845               | -               | 654                    | 22,699            | 26,507              |
| Grants and contributions           | -                      | -                 | 5,000           | -                      | -                 | 5,000               |
| Depreciation                       | 419,296                | 13,946            | -               | 5,143                  | 2,098             | 440,483             |
| Interest                           | 224,294                | -                 | -               | 12,371                 | 394               | 237,059             |
| Payments to affiliates             | -                      | -                 | -               | -                      | 39,159            | 39,159              |
| Leases                             | 4,591                  | 424               | -               | 2,937                  | 4,544             | 12,496              |
| Professional services              | -                      | -                 | -               | 37,810                 | 30,629            | 68,439              |
| Board expenses                     | -                      | -                 | -               | 1,736                  | 16                | 1,752               |
| Annual giving campaign             | -                      | -                 | -               | -                      | 8,704             | 8,704               |
| Plaza Pzazz                        | -                      | -                 | -               | -                      | 88,129            | 88,129              |
| Red Shoe Shindig Auction           | -                      | -                 | -               | -                      | 39,378            | 39,378              |
| Golf Classic                       | -                      | -                 | -               | -                      | 44,504            | 44,504              |
| Miscellaneous fundraising expenses | -                      | -                 | -               | -                      | 6,906             | 6,906               |
| Uncollectible pledges              | 265                    | -                 | -               | -                      | 28,413            | 28,678              |
|                                    | <u>\$ 1,402,266</u>    | <u>\$ 146,704</u> | <u>\$ 5,000</u> | <u>\$ 189,937</u>      | <u>\$ 538,797</u> | <u>\$ 2,282,704</u> |

**Ronald McDonald House Charities  
of Kansas City, Inc.  
Statements of Cash Flows  
Years Ended December 31, 2008 and 2007**

|   | <u>2008</u>       | <u>2007</u>        |
|---|-------------------|--------------------|
| <b>Operating Activities</b>   |                   |                    |
| Change in net assets  | \$ (1,055,371)    | \$ (307,943)       |
| Items not requiring (providing) operating activities cash flows       |                   |                    |
| Depreciation  | 454,047           | 440,483            |
| Net realized and unrealized (gains) losses on investments             | 566,530           | (177,306)          |
| Contributions of property and equipment                               | (1,394)           | (41,891)           |
| Changes in  |                   |                    |
| Interest and dividends receivable                                     | 4,484             | (5,558)            |
| Pledges receivable  | 485,761           | 604,161            |
| Other assets  | 1,084             | 2,760              |
| Accounts payable and accrued expenses                                 | (8,476)           | 9,622              |
|   | <u>446,665</u>    | <u>524,328</u>     |
| <b>Investing Activities</b>   |                   |                    |
| Purchase of property and equipment                                    | (121,741)         | (47,933)           |
| Purchase of investments   | (92,135)          | (680,825)          |
| Proceeds from disposition of investments                              | 380,000           | 1,527,927          |
|   | <u>166,124</u>    | <u>799,169</u>     |
| <b>Financing Activities</b>   |                   |                    |
| Principal payments on long-term debt                                  | (581,000)         | (1,575,000)        |
|   | <u>(581,000)</u>  | <u>(1,575,000)</u> |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>               | 31,789            | (251,503)          |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                   | <u>154,595</u>    | <u>406,098</u>     |
| <b>Cash and Cash Equivalents, End of Year</b>                         | <u>\$ 186,384</u> | <u>\$ 154,595</u>  |
| <b>Reconciliation of Cash to the Statements of Financial Position</b> |                   |                    |
| Cash and cash equivalents   | \$ 168,161        | \$ 118,941         |
| Donor restricted  | 18,223            | 35,654             |
|   | <u>\$ 186,384</u> | <u>\$ 154,595</u>  |
| <b>Supplemental Cash Flows Information</b>                            |                   |                    |
| Interest paid   | <u>\$ 154,846</u> | <u>\$ 235,061</u>  |

# **Ronald McDonald House Charities of Kansas City, Inc.**

## **Notes to Financial Statements December 31, 2008 and 2007**

### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

#### ***Nature of Operations***

Ronald McDonald House Charities of Kansas City, Inc. (the "RMHC" or "Organization") is a not-for-profit organization that owns and operates two Kansas City Ronald McDonald Houses and a Family Room, which provides temporary housing for the families of seriously ill children while the children are receiving treatment at local hospitals.

The Organization's revenues and other support are derived principally from contributions and RMHC-sponsored fundraising events.

#### ***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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### ***Cash Equivalents***

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2008 and 2007, cash equivalents consisted primarily of money market funds.

#### ***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividends, interest and realized and unrealized gains and losses on investments carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

#### ***Property and Equipment***

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

# Ronald McDonald House Charities of Kansas City, Inc.

## Notes to Financial Statements

December 31, 2008 and 2007

### ***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

### ***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed into service.

### ***Contributed Services***

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contribution revenue recognized from contributed services was \$2,000 and \$15,343 for the years ended December 31, 2008 and 2007, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time to the Organization. The value of these contributed services has not been reflected in these financial statements since it is not subject to objective measurement or valuation. Also, a significant amount of goods have been donated for operating and fundraising purposes.

### ***In-kind Contributions***

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended December 31, 2008 and 2007, \$176,470 and \$186,365, respectively, was received as in-kind contributions of which \$1,394 and \$41,891, respectively, was recorded as property and equipment.

# Ronald McDonald House Charities of Kansas City, Inc.

## Notes to Financial Statements December 31, 2008 and 2007

### **Income Taxes**

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law.

### **Functional Allocation of Expenses**

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on time expended, usage and other methods.

### **Reclassifications**

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on the change in net assets.

### **Note 2: Investments**

Investments at December 31 consisted of the following:

|                             | <b>2008</b>  | <b>2007</b>  |
|-----------------------------|--------------|--------------|
| Money market accounts       | \$ 512,743   | \$ 535,827   |
| Mutual funds                | 378,406      | 793,038      |
| U.S. government obligations | 728,251      | 1,022,921    |
| Non-government obligations  | 205,001      | 115,860      |
| Common stocks               | 600,424      | 811,574      |
|                             | \$ 2,424,825 | \$ 3,279,220 |

Investments are reflected in the statements of financial position as follows:

|   | <b>2008</b>  | <b>2007</b>  |
|---|--------------|--------------|
| Assets limited as to use – donor restricted | \$ 1,000,000 | \$ 1,000,000 |
| Other investments                           | 1,424,825    | 2,279,220    |
|   | \$ 2,424,825 | \$ 3,279,220 |

# Ronald McDonald House Charities of Kansas City, Inc.

## Notes to Financial Statements

December 31, 2008 and 2007

### Note 3: Pledges Receivable

Pledges receivable consisted of the following unconditional promises to give:

|                                     | <b>2008</b> | <b>2007</b> |
|-------------------------------------|-------------|-------------|
| Due within one year                 | \$ 427,166  | \$ 717,254  |
| Due in one to five years            | 16,425      | 206,770     |
| Due in more than five years         | -           | 825         |
|                                     | 443,591     | 924,849     |
| Less                                |             |             |
| Allowance for uncollectible pledges | (44,000)    | (20,000)    |
| Unamortized discount                | (2,384)     | (21,881)    |
|                                     | \$ 397,207  | \$ 882,968  |

Pledges receivable are reflected in the statements of financial position as follows:

|  | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|
| Pledges receivable — unrestricted                                | \$ 330,991  | \$ 525,495  |
| Current portion of assets limited as to use — pledges receivable | 52,175      | 171,759     |
| Long-term pledges receivable                                     | 14,041      | 185,714     |
|  | \$ 397,207  | \$ 882,968  |

A discount rate of 5% was used in 2008 and 2007.

### Note 4: Long-term Debt

On April 29, 2005, the Organization entered into a loan agreement that provides for borrowing up to \$8 million, payable in full on April 1, 2012. The loan is secured by a Deed of Trust encumbering certain real and personal property. Interest is payable monthly at a rate of 7.08%. The amount of long-term indebtedness at December 31, 2008 and 2007 was \$1,760,779 and \$2,341,779, respectively.

**Ronald McDonald House Charities  
of Kansas City, Inc.**

**Notes to Financial Statements  
December 31, 2008 and 2007**

**Note 5: Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at December 31 are available for the following purpose or periods:

|                               | <u>2008</u>      | <u>2007</u>       |
|-------------------------------|------------------|-------------------|
| Capital expenditures          | \$ 54,600        | \$ 266,021        |
| Other miscellaneous projects  | 17,623           | -                 |
| For periods after December 31 | <u>11,616</u>    | <u>127,106</u>    |
|                               | <u>\$ 83,839</u> | <u>\$ 393,127</u> |

***Permanently Restricted Net Assets***

Permanently restricted net assets at December 31 are restricted to:

|   | <u>2008</u>         | <u>2007</u>         |
|---|---------------------|---------------------|
| Investment in perpetuity, the income of which is expendable to support operations | <u>\$ 1,000,000</u> | <u>\$ 1,000,000</u> |

***Net Assets Released from Restrictions***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The following purpose restrictions were accomplished during the years ended December 31, 2008 and 2007:

|                           | <u>2008</u>       | <u>2007</u>       |
|---------------------------|-------------------|-------------------|
| Expansion project         | \$ 161,350        | \$ 160,891        |
| Time restrictions expired | <u>153,745</u>    | <u>370,919</u>    |
|                           | <u>\$ 315,095</u> | <u>\$ 531,810</u> |

# Ronald McDonald House Charities of Kansas City, Inc.

## Notes to Financial Statements December 31, 2008 and 2007

### Note 6: Endowment

The Organization's endowment consists of one donor-restricted fund established in the amount of \$1,000,000, to be held in perpetuity in order to provide supplemental income for the operating expenses at the Ronald McDonald House. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's governing body has interpreted the State of Missouri Uniform Management of Institutional Funds Act (SUMIFA) as requiring 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 Organization 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. In accordance with SUMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Organization and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Organization
7. Investment policies of the Organization

At December 31, 2008 and 2007, the endowment fund was comprised of the following net assets:

|   | <b>2008</b>  | <b>2007</b>  |
|---|--------------|--------------|
| Donor-restricted endowment fund -<br>permanently restricted | \$ 1,000,000 | \$ 1,000,000 |

# Ronald McDonald House Charities of Kansas City, Inc.

## Notes to Financial Statements

December 31, 2008 and 2007

Changes in endowment net assets for the years ended December 31, 2008 and 2007, were:

|   | <b>2008</b>         |                                   |              |
|---|---------------------|-----------------------------------|--------------|
|   | <b>Unrestricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b> |
| Endowment net assets, beginning of year | \$ -                | \$ 1,000,000                      | \$ 1,000,000 |
| Investment return                       |                     |                                   |              |
| Investment income                       | 4,624               | -                                 | 4,624        |
| Net appreciation (depreciation)         | (213,591)           | -                                 | (213,591)    |
| Total investment return                 | (208,967)           | -                                 | (208,967)    |
| Re-allocation of investments            | 208,967             | -                                 | 208,967      |
| Endowment net assets, end of year       | \$ -                | \$ 1,000,000                      | \$ 1,000,000 |
|   |                     |                                   |              |
|   | <b>2007</b>         |                                   |              |
|   | <b>Unrestricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b> |
| Endowment net assets, beginning of year | \$ -                | \$ 1,000,000                      | \$ 1,000,000 |
| Investment return                       |                     |                                   |              |
| Investment income                       | 76,717              | -                                 | 76,717       |
| Net appreciation (depreciation)         | 40,211              | -                                 | 40,211       |
| Total investment return                 | 116,928             | -                                 | 116,928      |
| Expenditures                            | 116,928             | -                                 | 116,928      |
| Endowment net assets, end of year       | \$ -                | \$ 1,000,000                      | \$ 1,000,000 |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Organization is required to retain as a fund of perpetual duration pursuant to donor stipulation or SUMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$208,967 and \$0 at December 31, 2008 and 2007, respectively. These deficiencies resulted from unfavorable market fluctuations.

# Ronald McDonald House Charities of Kansas City, Inc.

## Notes to Financial Statements

December 31, 2008 and 2007

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include assets of donor-restricted endowment funds the Organization must hold in perpetuity. Under the Organization's policies, the primary investment goal is long-term asset growth with the generation of investment income a secondary goal. The Organization's investment policy details other guidelines for investment assets. The Organization expects its endowment funds to provide an aggregate rate of return that exceeds the rate of inflation as measured by the Consumer Price Index plus 5% net of investment fees over a 5-year period. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Organization 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 Organization follows the donor's stipulation in regard to this endowment. The donor stipulated that the original value of the gift be designated as restricted and should be placed in a perpetual endowment fund. The income earned on the endowment is to be used for operating expenses.

### Note 7: Long-term Leases

The Cherry Street facility has been constructed on land subject to a lease through the year 2085 for an annual payment of \$10.

The Longfellow facility was constructed on land that was donated by a local company and by Kansas City, Missouri. Upon completion of the project, the Organization transferred the property to Kansas City, Missouri in accordance with the restrictions set forth by Kansas City, Missouri. The Organization then contracted to lease the property from the City at \$1 per year for a term of twenty years with three ten-year renewal options. The lease qualifies for capital lease accounting treatment. Leasehold improvements are being amortized over the fifty year lease term.

Property and equipment includes the following property under the capital lease at December 31, 2008:

|                               |                      |
|-------------------------------|----------------------|
| Land                          | \$ 1,613,691         |
| Building and improvements     | 10,086,598           |
|                               | <hr/>                |
|                               | 11,700,289           |
| Less accumulated depreciation | 678,701              |
|                               | <hr/>                |
|                               | <u>\$ 11,021,588</u> |

# Ronald McDonald House Charities of Kansas City, Inc.

## Notes to Financial Statements December 31, 2008 and 2007

### Note 8: Retirement Plan

The Organization has a defined contribution pension plan covering substantially all employees. Regularly scheduled employees are eligible to participate in the plan after reaching age 21 and completing six months of eligible service. For both 2008 and 2007, the Organization contributed the 5% required of eligible compensation and also matched 50% of the employees' contributions up to 4% of eligible compensation. In 2007, the Organization also contributed an additional discretionary 3% of eligible compensation to the plan. The Organization's retirement expense amounted to \$30,820 and \$51,641 for the years ended 2008 and 2007, respectively.

### Note 9: Fundraising Events

Included in the statements of activities is a total for all major fundraising events held during 2008 and 2007. The revenue generated from each event is as follows:

|                             | 2008       | 2007       |
|-----------------------------|------------|------------|
| Plaza Pzazz                 | \$ 193,716 | \$ 222,674 |
| Golf Tournament             | 140,657    | 133,981    |
| Red Shoe Shindig Auction    | 142,283    | 135,231    |
|                             | 476,656    | 491,886    |
| External fundraising events | 164,924    | 96,445     |
|                             | \$ 641,580 | \$ 588,331 |

### Note 10: Disclosures About Fair Value of Assets and Liabilities

Effective January 1, 2008, the Organization adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also 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 in active markets for identical assets or liabilities

# Ronald McDonald House Charities of Kansas City, Inc.

## Notes to Financial Statements

**December 31, 2008 and 2007**

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

### **Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid U.S. treasuries and exchange traded equities and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government agency obligations, collateralized mortgage obligations and corporate debt obligations. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at December 31, 2008:

|             | <b>Fair Value Measurements Using</b> |                    |                     |                  |
|-------------|--------------------------------------|--------------------|---------------------|------------------|
|             | <b>Quoted Prices</b>                 |                    |                     |                  |
|             | <b>in Active</b>                     | <b>Significant</b> | <b>Significant</b>  |                  |
|             | <b>Markets for</b>                   | <b>Other</b>       | <b>Unobservable</b> |                  |
|             | <b>identical</b>                     | <b>Observable</b>  | <b>Inputs</b>       |                  |
|             | <b>Assets</b>                        | <b>Inputs</b>      | <b>Inputs</b>       |                  |
|             | <b>Fair Value</b>                    | <b>(Level 1)</b>   | <b>(Level 2)</b>    | <b>(Level 3)</b> |
|             | <b>(Level 1)</b>                     | <b>(Level 2)</b>   | <b>(Level 3)</b>    |                  |
| Investments | \$ 2,424,825                         | \$ 1,641,819       | \$ 783,006          | \$ -             |

# Ronald McDonald House Charities of Kansas City, Inc.

## Notes to Financial Statements December 31, 2008 and 2007

### **Note 11: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

#### ***Current Economic Conditions***

The current economic environment presents not-for-profit organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization.

Current economic conditions have made it difficult for many donors to continue to contribute to not-for-profit organizations. A significant decline in contribution revenue could have an adverse impact on the Organization's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for contributions receivable that could negatively impact the Organization's ability to meet debt covenants or maintain sufficient liquidity.