Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

Financial Report
December 31, 2012

Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

Contents

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Independent Auditor's Report

To the Board of Directors
Ronald McDonald House Charities® of
Chicagoland and Northwest Indiana

We have audited the accompanying financial statements of Ronald McDonald House Charities® of Chicagoland and Northwest Indiana (RMHC-CNI or the "Organization"), which comprise the statement of financial position as of December 31, 2012 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Chicagoland and Northwest Indiana as of December 31, 2012 and results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

June 21, 2013

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

Statement of Financial Position
December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Cash	$ 2,018,135	$ 33,941	$ -	$ 2,052,076
Investments	117,331	29,607	1,196,310	1,343,248
Contributions receivable - Net	3,988,529	-	-	3,988,529
Prepaid expenses and other	241,838	-	-	241,838
Assets held for resale	1,130,000	-	-	1,130,000
Property and equipment - Net	55,694,549	-	-	55,694,549
Total assets	**$ 63,190,382**	**$ 63,548**	**$ 1,196,310**	**$ 64,450,240**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Liabilities and Net Assets				
Liabilities				
Accounts payable	$ 230,168	$ -	$ -	$ 230,168
Deposits	50,000	-	-	50,000
Long-term debt	10,259,077	-	-	10,259,077
Deferred revenue	60,485	-	-	60,485
Accrued expenses	697,906	-	-	697,906
Total liabilities	11,297,636	-	-	11,297,636
Net Assets	51,892,746	63,548	1,196,310	53,152,604
Total liabilities and net assets	**$ 63,190,382**	**$ 63,548**	**$ 1,196,310**	**$ 64,450,240**

Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

Statement of Activities and Changes in Net Assets
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Public support:				
Fundraising events	$ 6,912,634	$ -	$ -	$ 6,912,634
Less direct fundraising costs	(2,031,396)	-	-	(2,031,396)
Net fundraising events	4,881,238	-	-	4,881,238
Contributions	4,087,922	-	-	4,087,922
In-kind contributions	2,926,825	-	-	2,926,825
Other revenue:				
Room rental and house operations	225,159	-	-	225,159
Net unrealized gain on investments	178,212	-	-	178,212
Dividends and interest	14,191	1,410	-	15,601
Gain on sale of fixed assets	4,982,606	-	-	4,982,606
Rental income	169,056	-	-	169,056
Total revenue and support	17,465,209	1,410	-	17,466,619
Net Assets Released from Restrictions	900,000	(900,000)	-	-
Total revenue, support, and net assets released from restrictions	18,365,209	(898,590)	-	17,466,619
Expenses				
Program services:				
House operations	4,712,698	-	-	4,712,698
Grants and scholarships	385,849	-	-	385,849
Total program services	5,098,547	-	-	5,098,547
Support services:				
Management and general	1,037,785	-	-	1,037,785
Fundraising	845,824	-	-	845,824
Remittances to RMHC, Inc.	215,203	-	-	215,203
Total support services	2,098,812	-	-	2,098,812
Total expenses	7,197,359	-	-	7,197,359
Increase (Decrease) in Net Assets	11,167,850	(898,590)	-	10,269,260
Net Assets - Beginning of year	40,724,896	962,138	1,196,310	42,883,344
Net Assets - End of year	**$ 51,892,746**	**$ 63,548**	**$ 1,196,310**	**$ 53,152,604**

Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

Statement of Functional Expenses
Year Ended December 31, 2012

	Program Services			Support Services			Total Expenses
	House Operations	Grants and Scholarships	Total Program Services	Fundraising	Management and General	Total Support Services	Total
Salaries	$ 1,728,162	$ 65,726	$ 1,793,888	$ 677,504	$ 222,803	$ 900,307	$ 2,694,195
Payroll taxes and other related expenses	429,345	16,329	445,674	168,320	55,354	223,674	669,348
Total salaries and related expenses	2,157,507	82,055	2,239,562	845,824	278,157	1,123,981	3,363,543
Employee activities	23,136	-	23,136	-	7,705	7,705	30,841
Printing and copying	5,066	-	5,066	-	35,489	35,489	40,555
Publications	953	-	953	-	16,660	16,660	17,613
Computer expense	696	-	696	-	28,236	28,236	28,932
Bank charges	-	-	-	-	77,092	77,092	77,092
Scholarships	-	142,223	142,223	-	-	-	142,223
Grants	-	100,000	100,000	-	-	-	100,000
Professional fees	68,314	-	68,314	-	93,366	93,366	161,680
Supplies	136,723	-	136,723	-	25,832	25,832	162,555
Communication and advertising	102,699	-	102,699	-	70,400	70,400	173,099
Insurance	90,000	-	90,000	-	11,627	11,627	101,627
Real estate taxes	(63,650)	-	(63,650)	-	-	-	(63,650)
Repairs and maintenance	237,528	-	237,528	-	7,811	7,811	245,339
Rentals	28,863	-	28,863	-	130,517	130,517	159,380
Telephone	41,662	-	41,662	-	4,316	4,316	45,978
Utilities	225,632	-	225,632	-	2,913	2,913	228,545
Special events	17,410	-	17,410	-	8,906	8,906	26,316
Postage and delivery	3,238	-	3,238	-	9,815	9,815	13,053
Meetings and conventions	7,171	-	7,171	-	29,633	29,633	36,804
Miscellaneous	8,314	61,571	69,885	-	14,869	14,869	84,754
Interest	122,838	-	122,838	-	-	-	122,838
Depreciation	1,498,598	-	1,498,598	-	104,939	104,939	1,603,537
Provision for doubtful accounts	-	-	-	-	79,502	79,502	79,502
Total functional expenses	4,712,698	385,849	5,098,547	845,824	1,037,785	1,883,609	6,982,156
Direct fundraising costs	-	-	-	2,031,396	-	2,031,396	2,031,396
Remittances to RMHC, Inc.	-	-	-	-	-	-	215,203
Total expenses	**$ 4,712,698**	**$ 385,849**	**$ 5,098,547**	**$ 2,877,220**	**$ 1,037,785**	**$ 3,915,005**	**$ 9,228,755**

See Notes to Financial Statements.

Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

Statement of Cash Flows
Year Ended December 31, 2012

Cash Flows from Operating Activities	
Increase in net assets	$ 10,269,260
Adjustments to reconcile increase in net assets to net cash from operating activities:	
Depreciation	1,603,537
Bad debt expense	79,502
In-kind contributions	(2,926,825)
Net unrealized gain on investments	(178,212)
Realized gain on sale of fixed assets	(4,982,606)
Amortization of discount on pledges	(76,240)
Changes in operating assets and liabilities which provided (used) cash:	
Contributions receivable	2,542,912
Prepaid expenses and other	37,834
Accounts payable and related party payable	(1,652,032)
Accrued expenses	(1,355,196)
Deferred revenue	60,485
Net cash provided by operating activities	3,422,419
Cash Flows from Investing Activities	
Purchase of property and equipment	(12,383,365)
Proceeds from disposition of property and equipment	5,382,379
Purchases from investments	(16,509)
Net cash used in investing activities	(7,017,495)
Cash Flows from Financing Activities	
Net proceeds from construction line of credit	4,903,459
Payments on long-term debt	(690,000)
Payment on advance on contractual proceeds	(400,000)
Net cash provided by financing activities	3,813,459
Net Increase in Cash	218,383
Cash - Beginning of year	1,833,693
Cash - End of year	**$ 2,052,076**
Supplemental Disclosure of Cash Flow Information	
Cash paid for interest	$ 121,393
Significant noncash activities included conversion of the construction line of credit into long-term debt	10,949,077

See Notes to Financial Statements.

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization - Ronald McDonald House Charities® of Chicagoland and Northwest Indiana (RMHC-CNI or the "Organization") is a not-for-profit corporation. The mission of RMHC-CNI is to create, find, and support programs that directly improve the health, education, and well being of children. RMHC-CNI fulfills its mission by creating and supporting programs that address targeted needs.

RMHC-CNI consists of four Houses including Ronald McDonald House near Ann & Robert H. Lurie Children's Hospital of Chicago, Ronald McDonald House near Loyola University Medical Center, Ronald McDonald House near University of Chicago Comer Children's Hospital, and Ronald McDonald House near Advocate Children's Hospital. In addition to the operation of these four houses, RMHC-CNI offers other types of programs including a Ronald McDonald Care Mobile program and a scholarship program.

In 2008, RMHC-CNI purchased land in Chicago, Illinois near the new Ann & Robert H. Lurie Children's Hospital of Chicago for construction of a new Ronald McDonald House (the "new House"). This new House was funded primarily from contributions from the general public. Construction began in 2010 and was completed in late June 2012. Once the project was completed, the old Ronald McDonald House near Children's Memorial Hospital (the "old House") was sold. See Note 4 for additional information on the sale.

Subsequent to year end, RMHC-CNI entered into an agreement with Cadence Health to construct a new Ronald McDonald House near Central DuPage Hospital in Winfield, Illinois. As part of the agreement, Cadence Health will lease the site of the future house to RMHC-CNI for 25 years, at a rent of $1 per year, with an option to renew for an additional 25 years. Cadence Health has also pledged to contribute 90 percent of total construction costs, up to $5,000,000, payable with the receipt of a construction invoice. RMHC-CNI has recorded the $5,000,000 as contribution revenue in 2013, even though construction has not begun, because essentially all of the construction agreements have been signed with the architects and contractors, construction of this new Ronald McDonald House near Central DuPage Hospital is reasonably assured, and construction costs are expected to exceed the $5,555,555 needed to realize the entire gift. In addition to the gift of up to $5,000,000, Cadence Health has also pledged $1,000,000 for the sole purpose of operations of the new Ronald McDonald House near Central DuPage Hospital during the first three years following the completion of construction, payable in annual installments of $333,333.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Significant accounting policies of RMHC-CNI are as follows:

Contributions Receivable - RMHC-CNI's contributions receivable are comprised primarily of pledges committed from various organizations and individual donors for use in RMHC-CNI's activities and for the construction of the new House. Contributions receivable at December 31, 2012 are expected to be collected within one to nine years. Although RMHC-CNI has recorded a provision for doubtful accounts, it is the opinion of management that all receivables are collectible in full. The provision recorded by management is a general provision for potential future losses and is not allocated to any one contribution.

Investments - Investments consist primarily of mutual funds and are stated at fair value based on quoted market prices.

Investment income, gains and losses, and any investment-related expenses are recorded as changes in unrestricted net assets in the statement of activities and changes in net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or law.

RMHC-CNI's investments are exposed to various risks such as interest rate, market, and credit risks. Due to these risk factors, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amounts reported on the statement of financial position.

Property and Equipment - Property and equipment are recorded at cost when purchased or at fair value at the date of donation.

RMHC-CNI records depreciation using the straight-line and modified accelerated methods based on estimated useful lives ranging from 5 to 39 years. Costs of maintenance and repairs are charged to expense when incurred. Items purchased in connection with construction are capitalized at management's discretion based on the nature and estimated useful lives of those items.

RMHC-CNI reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of property and equipment 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 property and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property and equipment must be maintained, RMHC-CNI reports expirations of donor restrictions over time based on an estimate of the useful lives of the donated or acquired property and equipment.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Net Assets - Net assets of RMHC-CNI are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting RMHC-CNI's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets are released from restrictions.
- Permanently restricted net assets - Net assets subject to donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on temporarily or permanently restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Revenue and Support Recognition - Revenue from house operations is recognized as earned.

Contributions of cash and other assets, including unconditional promises to give, are reported as revenue in the year pledged. These amounts are recorded at their fair value. Donor promises to give are recorded at the present value of estimated future cash flows. Conditional promises to give are recorded when the conditions on which they depend are met. Contributions that include donor restrictions that limit the use of the gift are recorded as restricted support. When the donor restrictions are fulfilled, temporarily restricted gifts are reclassified as unrestricted activities. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support.

Donated Services - RMHC-CNI receives donations of various services. In accordance with generally accepted accounting standards, these services are recorded in the statement of activities when they meet certain criteria.

A substantial number of volunteers have donated significant amounts of their time to RMHC-CNI's programs and services, which do not meet the requirements to be recorded.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Scholarships - RMHC-CNI awards scholarships to students based on objective measurements and selection criteria. Total scholarships awarded are based on annual budgeted amounts and are matched in part by Global Ronald McDonald House Charities.

Functional Allocation of Expenses - The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Income Taxes - RMHC-CNI is exempt from income tax under provisions of the Internal Revenue Code Section 501(c)(3). RMHC-CNI is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax period in progress. RMHC-CNI believes it is no longer subject to income tax examinations for years prior to 2009.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by RMHC-CNI and recognize a tax liability if RMHC-CNI has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service or other applicable taxing authorities. Management has analyzed the tax positions taken by RMHC-CNI and has concluded that as of December 31, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

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

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including June 21, 2013, which is the date the financial statements were available to be issued.

Note 2 - Contributions Receivable

Included in contributions receivable are unconditional promises to give generated from various donors through fundraising activities and other efforts. Pledge commitments extend through 2021. Contributions receivable as of December 31, 2012 are as follows:

Gross promises to give before unamortized discount and allowance for doubtful accounts	$ 4,059,015
Less unamortized discount, using discount rates of .32 percent to 1.65 percent	(31,465)
Less allowance for doubtful pledges	(39,021)
Net contributions receivable	$ 3,988,529
Amounts due:	
Within one year	$ 2,273,557
Within one to five years	1,725,458
More than five years	60,000
Total	$ 4,059,015

Note 3 - Property and Equipment

The cost of property and equipment is summarized as follows:

Land	$ 5,540,121
Land improvements	105,800
Buildings	51,509,303
Canisters	466,047
Transportation equipment	32,144
Furniture and fixtures	4,850,769
Leasehold improvements - Cost	71,874
Total cost	62,576,058
Less accumulated depreciation	(6,881,509)
Net carrying amount	$ 55,694,549

Depreciation expense for the year ended December 31, 2012 was $1,603,537.

RMHC-CNI completed construction on the new House in June 2012 at a cost of approximately $34,600,000, including furniture and fixtures.

Note 4 - Advance on Contractual Proceeds

In December 2008, RMHC-CNI entered into a contract to sell the land and building of the old House for $5,375,000. RMHC-CNI continued to occupy and remain in full control of the old House until it vacated the premises in June 2012. The closing on the old House was completed in July 2012 at the contracted amount. RMHC-CNI recognized a gain on the sale of the old House, and substantially all of the furniture and fixtures, of approximately $4,980,000.

As part of the contract, RMHC-CNI signed a promissory note with the buyer. The note allowed RMHC-CNI to access up to $4,300,000 of sale proceeds at an annual interest rate of 6 percent. The outstanding advance of contractual proceeds of $400,000 was credited to the buyer of the old House at the time of the closing in July 2012.

Note 5 - Debt

On December 2, 2010, RMHC-CNI entered into a construction line of credit with a financial institution. RMHC-CNI had the ability to draw up to $23,000,000 to fund construction of the new House. The drawing period expires on December 2, 2015. The interest rate on this line is LIBOR plus 2 percent prior to September 2, 2012 and LIBOR plus 3.5 percent after September 2, 2012. The line of credit was collateralized by substantially all the assets of RMHC-CNI.

On July 23, 2012, the construction line of credit was paid off when it was refinanced with another financial institution into a draw note. RMHC-CNI may draw up to a maximum of $14,000,000, which is reduced $1,000,000 every six months beginning January 23, 2013 and continuing until the draw note expires on July 23, 2019. The interest rate on the draw note is the 30-day LIBOR plus 1.95 percent (an effective rate of 2.16 percent measured at December 31, 2012) and is reset on the 10th day of each month beginning August 10, 2012. The draw note is collateralized by substantially all the assets of RMHC-CNI. As of December 31, 2012, the outstanding balance on the draw note was $10,259,077.

On July 23, 2012, RMHC-CNI entered into a revolving note with a financial institution. RMHC-CNI may draw up to a maximum of $1,000,000 and the note expires on July 23, 2013. Interest rate on the revolving note is the 90-day LIBOR plus 1.95 percent (an effective rate of 2.26 percent measured at December 31, 2012) and is reset on the 10th day of each month beginning August 10, 2012. The revolving note is collateralized by substantially all the assets of RMHC-CNI. There were no amounts drawn on the revolving note as of December 31, 2012.

Note 5 - Debt (Continued)

The balance of the above draw note matures as follows:

2014		$ 259,077
2015		2,000,000
2016		2,000,000
2017		2,000,000
Thereafter		4,000,000
	Total	$ 10,259,077

Note 6 - Temporarily Restricted Net Assets

RMHC-CNI receives contributions whereon the donor places certain temporary restrictions on the use of the funds. Temporarily restricted net assets at December 31, 2012 are available for the following purposes:

Contributions restricted for use in house operations	$ 33,941
Time restricted contributions to be used for general support	29,607
Total temporarily restricted net assets	$ 63,548

Note 7 - Permanently Restricted Net Assets

RMHC-CNI's permanently restricted net assets are composed solely of donor-restricted endowment funds. The income on such funds is to be used for support of the RMHC-CNI's programs unless otherwise specified by the donor:

Ronald McDonald House operating expense endowment	$ 996,250
General support endowment	200,060
Total permanently restricted net assets	$ 1,196,310

Note 8 - Donor-restricted Endowments

RMHC-CNI's permanently restricted net assets are composed solely of donor-restricted endowment funds. These endowments were established to support the ongoing operations of RMHC-CNI. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 8 - Donor-restricted Endowments (Continued)

Interpretation of Relevant Law

The board of directors of RMHC-CNI has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, RMHC-CNI 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 RMHC-CNI in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, RMHC-CNI 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 purpose of RMHC-CNI and 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 RMHC-CNI
(7) The investment policies of RMHC-CNI

Permanently Restricted Endowment Net Asset Composition by Type of Fund as of December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 1,196,310	$ 1,196,310

Note 8 - Donor-restricted Endowments (Continued)

Changes in Permanently Restricted Endowment Net Assets for the Fiscal Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ -	$ -	$ 1,196,310	$ 1,196,310
Net realized and unrealized gains on permanently restricted funds	-	116,042	-	116,042
Appropriation of endowment assets for expenditure	-	(116,042)	-	(116,042)
Endowment net assets - End of year	$ -	$ -	$ 1,196,310	$ 1,196,310

Return Objectives and Risk Parameters

RMHC-CNI has adopted an investment and spending policy for endowment assets that attempts to provide sufficient liquidity to meet all reasonably anticipated operating requirements while seeking to achieve asset growth of the endowment assets. Endowment assets include those assets of donor-restricted funds that RMHC-CNI must hold in perpetuity. Under this policy, which was approved by the board of directors, the investment portfolio shall be managed with the objective of attaining a competitive rate of return given the constraints of aforementioned safety and liquidity objectives. The investment portfolio is subject to periodic review to ensure this objective is met.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, RMHC-CNI 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). RMHC-CNI 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy that allows the Organization to appropriate any future interest or investment income generated from the fund.

Note 9 - Related Party Transactions

RMHC-CNI remits 25 percent of the proceeds from certain fundraising events to Global Ronald McDonald House Charities. These payments totaled approximately $215,000 for the year ended December 31, 2012, of which approximately $56,200 is included in accounts payable.

Note 10 - Operating Leases

RMHC-CNI was obligated under a certain lease for office facilities. Total rent expense under this lease was $33,496 for the year ended December 31, 2012. This lease expired on May 31, 2012.

RMHC-CNI entered into a lease for office facilities commencing on February 1, 2012. Total rent expense under this lease was $83,900 for the year ended December 31, 2012. This lease expires on January 31, 2023.

Future minimum rental payments are as follows:

Years Ending December 31		Amount
2013		$ 82,892
2014		92,543
2015		94,814
2016		97,085
2017		99,356
Thereafter		540,120
	Total	$ 1,006,810

The University of Chicago owns the property on which the Ronald McDonald House near University of Chicago Comer Children's Hospital is constructed. The House committed to a 25-year lease agreement in January 2005 with the University of Chicago to lease the property for $1 per year.

RMHC-CNI was also granted a 50-year lease on land owned by the United States Veterans Administration and occupied by the Ronald McDonald House near Loyola University Medical Center. The use of land was granted without cost to the Organization. The lease was granted under U.S. Senate Bill No. 677, which was signed into law on October 1, 1993.

In 2006, RMHC-CNI entered into a 25-year lease on land owned by the Oak Lawn Community High School District 229. The land is occupied by the Ronald McDonald House near Advocate Hope Children's Hospital. The lease terms called for a lump-sum payment of $200,000 upon commencement of the lease. This payment was made by RMHC-CNI in November 2006 and covers the first six years of the lease. The remaining future rental costs equal $125,000 over the remaining 18 years of the lease, with $100,000 due in 2013. At the conclusion of this 25-year period, the lease contains a renewal clause for an additional 25-year term. RMHC-CNI will recognize rent expense on a straight-line basis over the term of the lease.

Note 11 - Minimum Future Rentals

RMHC-CNI has entered into two lease agreements as a lessor for space in the new House near Ann & Robert Lurie Children's Hospital. The lease term for each lease is from September 15, 2012 through September 14, 2019. Total rental income recognized under these leases was $169,056 for the year ended December 31, 2012.

Minimum future rentals to be received on these noncancelable leases as of December 31, 2012 for each of the next five years are as follows:

Years Ending December 31		Amount
2013		$ 348,023
2014		361,490
2015		375,523
2016		390,147
2017		405,387
Thereafter		727,879
	Total	$ 2,608,449

Note 12 - In-kind Donations

Donated items received by RMHC-CNI have been reflected in the financial statements at their estimated fair values.

RMHC-CNI's leases with the University of Chicago and the United States Veterans Administration have actual rental values which are not estimable (see Note 10). As a result, related in-kind contributions and expenses associated with these leases have not been reflected in the financial statements. While gross revenue and expenses would be affected by this amount, if recorded, there would be no net effect on increase in net assets.

Note 13 - Fair Value Measurements

Accounting standards require certain assets be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following table presents information about RMHC-CNI's assets measured at fair value on a recurring basis at December 31, 2012 and the valuation techniques used by RMHC-CNI to determine those fair values.

Note 13 - Fair Value Measurements (Continued)

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. RMHC-CNI's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

RMHC-CNI's policy is to recognize transfers in and transfers out of Levels 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no transfers in 2012.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2012

	Level 1
Mutual funds:	
DFA Emerging Markets	$ 74,971
Dodge & Cox Stock Fund	329,224
Harbor Capital Appreciation Fund	315,446
Harbor International Fund	181,251
Manning & Napier World	188,091
Perkins MidCap Value Fund	134,265
Turner MidCap Growth Fund	116,913
Common stock - McDonald's Corporation	3,087
Total	$ 1,343,248

Note 13 - Fair Value Measurements (Continued)

RMHC-CNI also has an asset that under certain conditions is subject to measurement at fair value on a nonrecurring basis. This asset is land held for sale, received as an in-kind contribution. RMHC-CNI has estimated the fair value of this asset based primarily on Level 3 inputs as described above. The fair value is generally valued using the fair value of the land provided by third-party appraisals. These valuations include assumptions related to cash flow projections, discount rates, and recent comparable sales. The numerical range of unobservable inputs for these valuation assumptions is not meaningful.

Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2012

	Level 3
Land held for investment	$ 1,130,000

Note 14 - Concentration of Credit Risk and Market Concentration

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization places its cash deposits with a high-quality financial institution; however, deposits regularly exceed FDIC limits.