Ronald McDonald House Charities of Chicagoland and Northwest Indiana

Financial Statements for the Year Ended December 31, 2008

Blackman Kallick

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Ronald McDonald House Charities
of Chicagoland and Northwest Indiana

Year Ended December 31, 2008

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Independent Auditor's Report

Board of Directors
Ronald McDonald House Charities
of Chicagoland and Northwest Indiana
Chicago, Illinois

We have audited the accompanying statement of financial position of **Ronald McDonald House Charities of Chicagoland and Northwest Indiana** as of December 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Blackman Kallick, LLP

July 7, 2009

Ronald McDonald House Charities
of Chicagoland and Northwest Indiana

Statement of Financial Position

December 31, 2008

Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash	$ 140,605	$ -	$ 26,257	$ 166,862
Investments	2,369	-	821,591	823,960
Due from Unrestricted Fund	-	-	394,869	394,869
Contributions Receivable	852,330	-	187,684	1,040,014
Prepaid Expenses	247,242	-	-	247,242
Property and Equipment (Net of accumulated depreciation)	25,172,468	-	-	25,172,468
	$26,415,014	**$ -**	**$ 1,430,401**	**$27,845,415**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Liabilities				
Accounts and grants payable	$ 635,674	$ -	$ -	$ 635,674
Due to permanently restricted fund	394,869	-	-	394,869
Line of credit	1,610,100	-	-	1,610,100
Accrued expenses	99,370	-	-	99,370
Total Liabilities	2,740,013	-	-	2,740,013
Net Assets	23,675,001	-	1,430,401	25,105,402
	$26,415,014	**$ -**	**$ 1,430,401**	**$27,845,415**

The accompanying notes are an integral part of the financial statements.

Ronald McDonald House Charities
of Chicagoland and Northwest Indiana

Statement of Activities

Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Public support				
Fundraising events	$ 3,372,676	$ -	$ -	$ 3,372,676
Less direct fundraising costs	(815,582)	-	-	(815,582)
	2,557,094	-	-	2,557,094
Contributions	1,499,765	-	213,941	1,713,706
In-kind contributions	486,520	-	-	486,520
Other revenue				
Room rental and house operations	83,403	-	-	83,403
Net realized and change in unrealized net loss on investments	(1,005,722)	-	-	(1,005,722)
Interest	47,617	-	-	47,617
Dividends	107,263	-	-	107,263
Other	40,372	-	-	40,372
Net assets released from restriction	2,977,014	(2,977,014)	-	-
Total Support and Revenue	6,793,326	(2,977,014)	213,941	4,030,253
Expenses				
Program services				
Operate house	2,366,174	-	-	2,366,174
Grants and scholarships	324,720	-	-	324,720
Fundraising events	460,964	-	-	460,964
Management and general	768,620	-	-	768,620
Total Expenses	3,920,478	-	-	3,920,478
Change in Net Assets	2,872,848	(2,977,014)	213,941	109,775
Net Assets, Beginning of Year	20,802,153	2,977,014	1,216,460	24,995,627
Net Assets, End of Year	**$23,675,001**	**$ -**	**$ 1,430,401**	**$25,105,402**

The accompanying notes are an integral part of the financial statements.

Ronald McDonald House Charities of Chicagoland and Northwest Indiana

Statement of Functional Expenses

Year Ended December 31, 2008

	Program Services			Supporting Services			
	Operate House	Grants and Scholarships	Total Program Services	Fundraising Events	Management and General	Total Supporting Services	Total
Salaries	$ 843,496	$ 51,110	$ 894,606	$ 289,376	$ 223,866	$ 513,242	$ 1,407,848
Payroll taxes and other related expenses	166,432	9,595	176,027	56,493	42,542	99,035	275,062
Total Salaries and Related Expenses	1,009,928	60,705	1,070,633	345,869	266,408	612,277	1,682,910
Employee activities	4,648	-	4,648	-	3,301	3,301	7,949
Printing and copying	5,173	-	5,173	-	8,687	8,687	13,860
Publications	1,471	-	1,471	-	1,532	1,532	3,003
Computer expense	380	-	380	-	57,786	57,786	58,166
Bank charges	-	-	-	-	23,014	23,014	23,014
Scholarships	-	214,015	214,015	-	-	-	214,015
Allocations to affiliates	-	-	-	115,095	-	115,095	115,095
Grants	-	50,000	50,000	-	-	-	50,000
Professional fees	969	-	969	-	152,202	152,202	153,171
Supplies	75,061	-	75,061	-	6,474	6,474	81,535
Communication and advertising	2,807	-	2,807	-	79,211	79,211	82,018
Insurance	67,736	-	67,736	-	23,109	23,109	90,845
Repairs and maintenance	270,172	-	270,172	-	-	-	270,172
Rentals	13,759	-	13,759	-	71,070	71,070	84,829
Telephone	27,687	-	27,687	-	2,706	2,706	30,393
Utilities	160,214	-	160,214	-	-	-	160,214
Special events	15,621	-	15,621	-	23,217	23,217	38,838
Postage and delivery	5,878	-	5,878	-	11,201	11,201	17,079
Meetings and conventions	5,911	-	5,911	-	18,691	18,691	24,602
Miscellaneous	4,286	-	4,286	-	11,670	11,670	15,956
Interest	-	-	-	-	8,341	8,341	8,341
Depreciation	694,473	-	694,473	-	-	-	694,473
Total Expenses	**$ 2,366,174**	**$ 324,720**	**$ 2,690,894**	**$ 460,964**	**$ 768,620**	**$ 1,229,584**	**$ 3,920,478**

The accompanying notes are an integral part of the financial statements.

Ronald McDonald House Charities
of Chicagoland and Northwest Indiana

Statement of Cash Flows

Year Ended December 31, 2008

Cash Flows from Operating Activities	
Change in net assets	$ 109,775
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	694,473
Donated investments	(206,085)
Donated fixed assets	(397,446)
Net realized and change in net unrealized loss on investments	1,005,109
Reinvested dividends on investments	(107,629)
Permanently restricted contributions	(213,941)
Decrease in	
Contributions receivable	1,145,086
Other assets	34,204
Increase (decrease)	
Accounts and grants payable	(1,657,087)
Accrued expenses	39,486
Total Adjustments	336,170
Net Cash Provided by Operating Activities	445,945
Cash Flows from Investing Activities	
Capital expenditures	(11,445,723)
Proceeds from sale of investments	8,598,419
Purchase of investments	(3,813,390)
Permanently restricted contributions	213,941
Net Cash Used in Investing Activities	(6,446,753)
Cash Flows Provided by Financing Activities -	
Net borrowings under line of credit	1,610,100
Net Decrease in Cash and Cash Equivalents	(4,390,708)
Cash, Beginning of Year	4,557,570
Cash, End of Year	**$ 166,862**

The accompanying notes are an integral part of the financial statements.

Note 1 - Nature of Organization

Ronald McDonald House Charities of Chicagoland and Northwest Indiana (RMHCCNI or the Organization) is organized as a not-for-profit corporation. Its purpose is to improve the health, well-being and education of children in the area. RMHCCNI consists of four houses including Ronald McDonald House near Children's Memorial Hospital, 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 Hope Children's Hospital. In addition to the operation of these four houses, the Organization offers programs that include a Ronald McDonald Care Mobile and an active grants and scholarship program.

In 2008, the Organization purchased land to begin the construction of Ronald McDonald House at 211 E. Grand Avenue in Chicago (near the new Ann & Robert H. Lurie Children's Hospital of Chicago). Groundbreaking is scheduled to begin in April 2010, and the total cost of this project is anticipated to be approximately $35 million. Of this total, the Organization plans to finance $15 million through a bond issuance. The remainder of the project's cost will be financed through fundraising efforts in 2009 and future years.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The separate classes of net assets are defined as follows:

Unrestricted - Amounts that are currently available for use in the Organization's operations and for the acquisition of equipment

Temporarily Restricted - Amounts whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by the actions of the Organization pursuant to those stipulations or that expire by the passage of time. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Permanently Restricted - Amounts that are stipulated by donors to be permanently maintained. Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support the Organization's operations.

Public Support and Revenue

Public support is generally recorded as revenue at the time of receipt. Promises to give are recognized as revenue in the period during which the promises are made (if they are unconditional promises). Conditional promises are recorded when the conditions are met. Unconditional promises to give securities and donated services are recorded at their fair values.

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash

The Organization maintains its cash in bank deposit accounts at Fifth Third Bank (Fifth Third). The Organization's financial institution is participating in the FDIC's Temporary Liquidity Guarantee Program whereby the FDIC provides unlimited deposit insurance coverage for certain noninterest-bearing transaction accounts until the end of 2009.

Contributions Receivable

Contributions receivable are carried at the original pledged amount less estimates made for doubtful receivables. Management determines any allowance for doubtful accounts by reviewing and identifying troubled amounts on a monthly basis. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Fair Value

Effective January 1, 2008, the Organization partially 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 does not require any new fair value measurements but may require some entities to change their measurement practices.

In February 2008, the Financial Accounting Standards Board (FASB) deferred the effective date of FAS 157 for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Organization will complete its adoption of FAS 157 for these assets and liabilities in 2009.

The Organization's partial adoption of FAS 157 in 2008 did not have a significant effect on the Organization's financial position or results of operations.

Investments

Investments are carried at their fair market value based on quoted market prices. The portfolio consists of mutual funds as of December 31, 2008.

The Organization's investments are exposed to various risks such as interest rate, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and materially affect the amounts reported on the statements of activities.

Note 2 - Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment is valued at cost or fair market value for donated items. The Organization's policy is to capitalize items with a value of $2,500 or more and a useful life of two or more years.

The Organization's policy is to depreciate the cost of property and equipment over the estimated useful lives of the assets using the straight-line and modified accelerated methods as follows:

	Years
Building and improvements	10-39
Furniture, fixtures and equipment	5-25
Vehicles	5
Software	5

Endowment

In August 2008, the FASB issued Staff Position No. 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 (UPMIFA), and Enhanced Disclosures for All Endowment Funds" (FSP 117-1), which provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to an enacted version of UPMIFA and further improves disclosures about an organization's endowment funds whether or not the organization is subject to UPMIFA. The provisions of FSP 117-1 are effective for financial statements issued for fiscal years ending after December 15, 2008. See Note 9 for FSP 117-1 disclosures.

Grants and Scholarships

RMHCCNI awards grants to organizations to assist in funding their programs. RMHCCNI established a grants committee that determines grant recipients and amounts. RMHCCNI also 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 various programs, fundraising and other activities are summarized on a functional basis on the statements of functional expenses. Accordingly, certain costs are directly allocated to the programs and fundraising activities that incur the costs.

Note 2 - Summary of Significant Accounting Policies (Continued)

Management 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 as of 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 3 - Contributions Receivable

Pledges in excess of one year are adjusted to fair value using an interest rate of 1.19%–2.49% for the discount rate. Unconditional promises to give are expected to be received in the following periods:

Within one year	$ 464,182
One to five years	593,274
Less discount to present value	(17,442)
	$ 1,040,014

Note 4 - Fair Value

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 as of the measurement date. FAS 157 describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. The standard does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Financial assets and liabilities carried at fair value are classified in one of the following three categories based on the inputs to the valuation technique used:

- Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 - Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Note 4 - Fair Value (Continued)

The Organization currently uses no level 2 or 3 inputs.

The following table sets forth by level, within the fair value hierarchy, the Organization's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008. As required by FAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels.

		Fair Value Measurements as of Reporting Date		
Description	Fair Values as of December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Mutual Funds	$ 823,960	$ 823,960	$ -	$ -

Note 5 - Investments

The fair value of investments are summarized as follows as of December 31, 2008:

Mutual funds	
Dodge & Cox Stock Fund	$ 286,984
Harbor Capital Appreciation Fund	293,917
Janus Baer	122,665
Other funds	120,394
Total Investments	**$ 823,960**

Note 6 - Property and Equipment

Land	$ 5,690,838
Building and improvements	23,635,341
Furniture, fixtures and equipment	2,086,628
Software	57,980
Vehicles	13,191
Construction in progress	159,368
	31,643,346
Accumulated depreciation	(6,470,878)
	$ 25,172,468

Note 7 - Line of Credit

As of December 31, 2008, the Organization had a $2,000,000 revolving line of credit with Fifth Third. The agreement expires on October 1, 2009. Outstanding amounts bear interest at a LIBOR-based rate plus 1.75%. The borrowings on this line of credit were $1,610,100 as of December 31, 2008. The agreement has certain covenants that stipulate minimum thresholds for unrestricted liquid assets and debt service ratio coverage. As of December 31, 2008, the Organization was not in compliance with the unrestricted liquid asset covenant in this agreement. However, management was able to obtain a waiver from Fifth Third.

Note 8 - Restriction on Net Assets

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support the Organization's programs unless otherwise specified by the donor:

Joan Kroc Fund	$ 996,250
House Operations Endowment	213,941
Illinois Health Improvement Association Fund	200,060
Other	20,150
	$ 1,430,401

Note 9 - Endowments

The Organization's endowment consists of a fund established for the ongoing operations of the Organization. Its endowment balance includes donor-restricted endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies the following as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UMIFA. In accordance with UMIFA, the Organization 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 the Organization 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 the Organization
7.) The investment policies of the Organization

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce reasonable income while preserving capital. Results of the investments will be compared against generally accepted standards for each type of investment. The objective for the return on the Organization's assets is to achieve a net return that is at least as good as a portfolio comprised of 100% S&P 500 Index funds. Actual returns in any given year may vary from this amount.

Note 9 - Endowments (Continued)

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.

Strategies Employed for Achieving Objectives

The Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor required the Organization to maintain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were $194,104 as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations.

Endowment net assets composition by type of fund:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Endowment net assets, beginning of year	$ -	$ -	$ 1,216,460	$ 1,216,460
Investment income	-	-	-	-
Contributions	-	-	213,941	213,941
Endowment net assets, end of year	**$ -**	**$ -**	**$ 1,430,401**	**$ 1,430,401**

Note 10 - Lease Commitments

The Organization leases office space for meeting and related uses. During 2008, office space rental costs totaled $58,179. Future minimum office space rental costs are as follows as of December 31, 2008:

Year Ending December 31:		
2009	$	60,072
2010		61,440
2011		62,818
2012		26,612
Total Minimum Payments Required	**$**	**210,942**

The University of Chicago owns the property on which the new Ronald McDonald House near University of Chicago Comer Children's Hospital is constructed, and the property where this house was temporarily located. 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.

The Organization 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 the 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, the Organization entered into a 25-year lease on land owned by the Oak Lawn Community High School District 229. The land is to be 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 the Organization in November 2006 and covers the first six years of the lease. The remaining future rental costs equal $125,000 over the remaining 19 years of the lease. At the conclusion of this 25-year period, the lease contains a renewal clause for an additional 25-year term. The Organization will recognize rent expense on a straight-line basis over the term of the lease.

Note 11 - Donated Services

In 2008, the Organization received $397,446 in donated fixed assets and $89,074 in donated labor and other materials for the construction and operation of the four houses. The Organization has recorded these amounts as in-kind contributions at the fair value of the assets and materials donated.

The Organization's leases with the University of Chicago and the United States Veterans Administration have actual rental values that 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 revenues and expenses would be affected by this amount, if recorded, there would be no net effect on the financial statements.

Note 11 - Donated Services (Continued)

The Organization also received a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts were recognized on the statements of activities as the criteria for recognition has not been satisfied.

Note 12 - Related Party Transactions

The Organization remits 25% of the proceeds from certain fundraising events to Global Ronald McDonald House Charities. In 2008, these payments totaled $115,095.

Note 13 - Other Cash Flow Information

The Organization had $423,630 of capital expenditures related to the construction of the Ronald McDonald House near Advocate Hope Children's Hospital that remained unpaid in accounts payable as of December 31, 2008.

Note 14 - Subsequent Events

In February 2009, the Organization agreed to sell the land and building of Ronald McDonald House near Children's Memorial Hospital for $5,375,000. The Organization will continue to occupy and remain in full control of the facility until they vacate the premises per the terms of the sales agreement, but in no case later than December 31, 2012. Prior to vacating the premises, the Organization can access up to 80% of the contractual proceeds from the buyer at an annual interest rate of 6%, increasing to 7% in March 2012 if the sale has not been consummated. The Organization will incur penalties if it has not vacated the premises by the end of November 2012.