

**RONALD McDONALD HOUSE CHARITIES
OF GREATER CHATTANOOGA, INC.**

Chattanooga, Tennessee

FINANCIAL STATEMENTS

December 31, 2010 and 2009

JOHNSON, HICKEY & MURCHISON, P.C.
Certified Public Accountants
Chattanooga, Tennessee

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

Ronald McDonald House Charities Of Greater Chattanooga, Inc.:

We have audited the accompanying statements of financial position of Ronald McDonald House Charities of Greater Chattanooga, Inc. (a nonprofit organization) as of December 31, 2010 and 2009, 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 Ronald McDonald House Charities of Greater Chattanooga, Inc. as of December 31, 2010 and 2009, 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.

Johnson, Hickey & Murchison, P.C.

March 25, 2011

**RONALD McDONALD HOUSE CHARITIES
OF GREATER CHATTANOOGA, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009**

ASSETS

	2010	2009
Cash and cash equivalents	\$ 246,353	\$ 319,356
Inventory	1,173	2,004
Prepaid expenses	30,035	4,737
Investments	-	240,565
Property and equipment, at cost	3,497,160	3,567,636
Land lease, net of accumulated amorti- zation of \$200,970 and \$188,790	204,030	216,210
Cash value of life insurance	32,968	23,039
Other	6,815	10,000
Restricted for long-term purposes -		
Cash	184,184	36,702
Investments	1,885,506	1,641,628
	\$ 6,088,224	\$ 6,061,877

(The accompanying notes are an integral part of these statements.)

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
LIABILITIES:		
Notes payable	\$ 295,104	\$ 415,104
Accounts payable	112,692	100,132
Accrued expenses	6,597	6,695
Deferred compensation	<u>28,172</u>	<u>21,464</u>
	<u>442,565</u>	<u>543,395</u>
 NET ASSETS:		
Unrestricted -		
Undesignated	3,301,961	3,365,193
Board designated	59,518	175,188
Temporarily restricted	1,439,331	1,272,263
Permanently restricted	<u>844,849</u>	<u>705,838</u>
	<u>5,645,659</u>	<u>5,518,482</u>
	<u>\$ 6,088,224</u>	<u>\$ 6,061,877</u>

(The accompanying notes are an integral part of these statements.)

RONALD McDONALD HOUSE CHARITIES OF GREATER CHATTANOOGA, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT:				
Special events and merchandise sales	\$ 336,411	\$ -	\$ -	\$ 336,411
Less cost of special events and merchandise	161,986	-	-	161,986
Net special events and sales revenue	174,425	-	-	174,425
Contributions	737,847	109,312	139,011	986,170
In-kind contributions	163,927	-	-	163,927
Net public support	1,076,199	109,312	139,011	1,324,522
Program service revenue	29,118	-	-	29,118
Investment earnings	20,506	185,783	-	206,289
Net assets released from restrictions	128,027	(128,027)	-	-
Total revenues and other support	1,253,850	167,068	139,011	1,559,929
EXPENSES:				
Program services	1,040,044	-	-	1,040,044
Supporting services -				
Management and general	139,740	-	-	139,740
Fundraising	252,968	-	-	252,968
Total expenses	1,432,752	-	-	1,432,752
INCREASE (DECREASE) IN NET ASSETS	(178,902)	167,068	139,011	127,177
NET ASSETS:				
Beginning	3,540,381	1,272,263	705,838	5,518,482
Ending	\$ 3,361,479	\$ 1,439,331	\$ 844,849	\$ 5,645,659

(The accompanying notes are an integral part of these statements.)

RONALD McDONALD HOUSE CHARITIES OF GREATER CHATTANOOGA, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT:				
Special events and merchandise sales	\$ 393,292	\$ -	\$ -	\$ 393,292
Less cost of special events and merchandise	<u>221,068</u>	<u>-</u>	<u>-</u>	<u>221,068</u>
Net special events and sales revenue	172,224	-	-	172,224
Contributions	777,004	50,119	130,394	957,517
In-kind contributions	<u>179,900</u>	<u>-</u>	<u>-</u>	<u>179,900</u>
Net public support	1,129,128	50,119	130,394	1,309,641
Program service revenue	43,535	-	-	43,535
Investment earnings (loss)	51,912	367,873	-	419,785
Net assets released from restrictions	<u>89,540</u>	<u>(89,540)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,314,115</u>	<u>328,452</u>	<u>130,394</u>	<u>1,772,961</u>
EXPENSES:				
Program services	936,874	-	-	936,874
Supporting services -				
Management and general	131,644	-	-	131,644
Fundraising	<u>224,209</u>	<u>-</u>	<u>-</u>	<u>224,209</u>
Total expenses	<u>1,292,727</u>	<u>-</u>	<u>-</u>	<u>1,292,727</u>
INCREASE IN NET ASSETS	21,388	328,452	130,394	480,234
NET ASSETS:				
Beginning	<u>3,518,993</u>	<u>943,811</u>	<u>575,444</u>	<u>5,038,248</u>
Ending	<u>\$ 3,540,381</u>	<u>\$ 1,272,263</u>	<u>\$ 705,838</u>	<u>\$ 5,518,482</u>

(The accompanying notes are an integral part of these statements.)

RONALD McDONALD HOUSE CHARITIES OF GREATER CHATTANOOGA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Program Services				Supporting Services			Total
	House	Family Room	Scholarships and Grants	Care Mobile	Total Program Services	Management and General	Fund-raising	
Salaries	\$ 197,138	\$ 64,820	\$ 26,534	\$ -	\$ 288,492	\$ 21,808	\$ 120,281	\$ 430,581
Benefits	36,480	17,264	6,935	-	60,679	4,563	16,878	82,120
Payroll taxes	15,081	4,959	2,030	-	22,070	1,668	9,201	32,939
Operating supplies	46,013	53	-	121,166	167,232	-	29,611	196,843
Office supplies	864	-	-	-	864	8,996	-	9,860
Food	45,503	3,947	-	-	49,450	-	-	49,450
Telephone	26,405	128	-	-	26,533	3,101	-	29,634
Utilities	94,261	-	-	-	94,261	-	-	94,261
Postage	-	-	-	-	-	15,561	-	15,561
Repairs and maintenance	42,428	7,345	-	-	49,773	4,806	-	54,579
Fundraising	-	-	-	-	-	-	67,522	67,522
Printing and advertising	-	-	-	-	-	11,938	7,865	19,803
Conferences and travel	1,861	-	-	-	1,861	23,090	-	24,951
Depreciation	163,592	4,793	-	-	168,385	-	-	168,385
Insurance	19,737	-	-	-	19,737	2,059	-	21,796
Miscellaneous	6,244	-	-	-	6,244	9,264	1,610	17,118
Amortization	12,180	-	-	-	12,180	-	-	12,180
Professional fees	-	-	-	-	-	32,886	-	32,886
Scholarships and grants	-	-	64,369	-	64,369	-	-	64,369
Interest	7,914	-	-	-	7,914	-	-	7,914
	<u>\$ 715,701</u>	<u>\$ 103,309</u>	<u>\$ 99,868</u>	<u>\$ 121,166</u>	<u>\$ 1,040,044</u>	<u>\$ 139,740</u>	<u>\$ 252,968</u>	<u>\$ 1,432,752</u>

(The accompanying notes are an integral part of these statements.)

RONALD McDONALD HOUSE CHARITIES OF GREATER CHATTANOOGA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Program Services				Supporting Services			Total
	House	Family Room	Scholarships and Grants	Care Mobile	Total Program Services	Management and General	Fund-raising	
Salaries	\$ 194,218	\$ 62,247	\$ 24,534	\$ -	\$ 280,999	\$ 20,534	\$ 118,621	\$ 420,154
Benefits	28,475	14,529	6,337	-	49,341	2,065	13,838	65,244
Payroll taxes	14,858	4,762	1,877	-	21,497	1,571	9,075	32,143
Operating supplies	28,842	712	-	23,047	52,601	-	22,148	74,749
Office supplies	-	-	-	-	-	9,244	-	9,244
Food	39,847	4,459	-	-	44,306	-	1,887	46,193
Telephone	26,199	117	-	-	26,316	2,492	-	28,808
Utilities	93,665	-	-	-	93,665	-	-	93,665
Postage	-	-	-	-	-	7,547	-	7,547
Repairs and maintenance	80,095	6,232	-	-	86,327	4,238	-	90,565
Fundraising	-	-	-	-	-	-	48,087	48,087
Printing and advertising	2,073	-	-	-	2,073	10,798	3,354	16,225
Conferences and travel	2,269	-	-	-	2,269	36,293	-	38,562
Depreciation	154,640	5,337	-	-	159,977	-	-	159,977
Insurance	27,923	-	-	-	27,923	2,059	-	29,982
Miscellaneous	3,488	-	18	-	3,506	6,177	7,199	16,882
Amortization	12,180	-	-	-	12,180	-	-	12,180
Professional fees	-	-	-	-	-	28,626	-	28,626
Scholarships and grants	-	-	63,443	-	63,443	-	-	63,443
Interest	10,451	-	-	-	10,451	-	-	10,451
	<u>\$ 719,223</u>	<u>\$ 98,395</u>	<u>\$ 96,209</u>	<u>\$ 23,047</u>	<u>\$ 936,874</u>	<u>\$ 131,644</u>	<u>\$ 224,209</u>	<u>\$ 1,292,727</u>

(The accompanying notes are an integral part of these statements.)

**RONALD McDONALD HOUSE CHARITIES
OF GREATER CHATTANOOGA, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 127,177	\$ 480,234
Adjustments to reconcile increase in net assets to net cash provided by operating activities -		
Depreciation	168,385	159,977
Amortization	12,180	12,180
Life insurance (benefit)	(1,361)	2,432
Noncash contributions	(163,927)	(179,900)
Noncash expenses	156,542	179,900
Loss on sale of investments	57,478	16,260
Unrealized gain on investments	(229,410)	(402,336)
Net (increase) decrease in operating assets -		
Inventory	831	1,769
Prepaid expenses	(25,298)	(391)
Net increase (decrease) in operating liabilities -		
Accounts payable and accrued expenses	12,462	87,553
Deferred compensation	6,708	4,561
	<u>121,767</u>	<u>362,239</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(90,524)	(73,117)
Purchase of investments	(299,519)	(255,509)
Proceeds from sale of investments	468,138	150,010
Payment of life insurance premiums	(8,568)	(8,568)
Payment on loans to employees	3,185	-
Loan to employee	-	(10,000)
	<u>72,712</u>	<u>(197,184)</u>

(The accompanying notes are an integral part of these statements.)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on long-term notes	\$ (120,000)	\$ (60,000)
Net cash used by financing activities	<u>(120,000)</u>	<u>(60,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	74,479	105,055
CASH AND CASH EQUIVALENTS:		
Beginning	<u>356,058</u>	<u>251,003</u>
Ending	<u>\$ 430,537</u>	<u>\$ 356,058</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 246,353	\$ 319,356
Cash, restricted for endowment	<u>184,184</u>	<u>36,702</u>
	<u>\$ 430,537</u>	<u>\$ 356,058</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 7,914</u>	<u>\$ 10,451</u>

(The accompanying notes are an integral part of these statements.)

**RONALD McDONALD HOUSE CHARITIES
OF GREATER CHATTANOOGA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Operations and organization -

The Organization operates and maintains the Ronald McDonald House of Chattanooga, Tennessee and the Ronald McDonald House Family Room at T.C. Thompson Children's Hospital to serve families of critically ill children who are hospitalized at T.C. Thompson Children's Hospital or Erlanger Hospital. The Organization is responsible for raising the necessary funds to operate and maintain the House and the Family Room. The Organization also supports community efforts to better conditions for area children through a variety of means, including grants and awards to children's organizations.

The Organization, along with T.C. Thompson Children's Hospital, operates a Care Mobile which serves as a mobile dental office in Chattanooga and the surrounding area. The Care Mobile travels to area schools and provides free dental treatment to students.

The Organization also has a scholarship program, which awards scholarships to eligible college students.

The Organization is a not-for-profit corporation exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Organization has been determined to be other than a private foundation by the Internal Revenue Service.

Accounting -

The financial statements of Ronald McDonald House Charities of Greater Chattanooga, Inc. have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Estimates -

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

**RONALD McDONALD HOUSE CHARITIES
OF GREATER CHATTANOOGA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Basis of presentation -

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Promises to give -

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using treasury bond rates to approximate the risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Contributions -

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending upon the existence or nature of any donor restrictions. Temporarily restricted net assets consist primarily of funds to be used by the Organization for a specific purpose or within a specific time period. Permanently restricted net assets consist of assets donated with the intent of the donor that only income earned by the assets will be expended.

Donor-restricted support is reported as an increase in unrestricted net assets, if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a 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.

**RONALD McDONALD HOUSE CHARITIES
OF GREATER CHATTANOOGA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Donated services, supplies, and property and equipment -

Donated property and equipment, house supplies, and services, which meet the criteria for recognition, are reflected as contributions at their estimated fair values at the date of donation. Donated property and equipment is recorded as unrestricted support in the absence of donor restrictions as to how long the asset must be used. Donated house supplies are expensed when received, as they are normally consumed within a short period of time.

Donated volunteer services requiring specific expertise are recognized as contributions in the period in which the services are provided.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with its charitable intent. These services are not considered to meet the criteria for recognition and, therefore, are not recorded in the financial statements.

Inventory -

Inventory consists of various promotional and fundraising items which are recorded at cost, by the first-in first-out method, or estimated fair value at the time of donation, as applicable.

Property and depreciation -

The Organization capitalizes significant expenditures for property and equipment at historical cost or estimated fair value if donated. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Depreciation expense was \$168,385 and \$159,977 for the years ended December 31, 2010 and 2009, respectively.

Cash and cash equivalents -

For purposes of these financial statements, the Organization considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Functional allocation of expenses -

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

**RONALD McDONALD HOUSE CHARITIES
OF GREATER CHATTANOOGA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Grants and scholarships -

The Organization makes grants to various charities that benefit the health and well-being of children. A grant committee receives applications from local charities and makes recommendations to the Board for approval, and the Board votes for approval of the application. At the end of the year the grants awarded are reviewed by the committee, and, generally, if all or a portion of the funds awarded have not been utilized, the recipient is asked to return the unused grant money and reapply in the following year. A receivable is recorded on the Organization's books for unused grant funds to be returned, and a payable is recorded to the Ronald McDonald House Charities national office for funds provided by them to the recipient as part of the grant. A payable is also recorded for grants awarded by the Board but not paid to recipients.

The Organization also awards scholarships to students through its scholarship committee based on eligibility guidelines which include financial need, academic achievement, community involvement, county of residency, and application to a college in Tennessee or surrounding states. The Ronald McDonald Scholarship Program is administered and promoted to area high schools by the Community Foundation of Greater Chattanooga, Inc. Matching funds from the global Ronald McDonald House Charities and monies raised through local McDonald's restaurants are used to fund this program.

Care Mobile -

As of December 31, 2010, the Organization, in partnership with TC Thompson Children's Hospital, has temporarily ceased the operation of the Care Mobile program due to a lack of state funding for mobile children's dental care. The Care Mobile provided dental treatment to children in area schools and community locations. A six-month extension of the partnership is being used to assess the most unmet medical needs of children in the Tennessee Valley and to build a business plan for future operations. If a business plan is not identified and accepted by the Ronald McDonald House Charities' Board of Directors, the Care Mobile unit will be returned to Ronald McDonald House Charities Global to be re-assigned to another charity.

Advertising -

Advertising costs for special events and general marketing are expensed as incurred.

**RONALD McDONALD HOUSE CHARITIES
OF GREATER CHATTANOOGA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Uncertain tax positions -

On January 1, 2009, the Organization adopted the provisions of FASB ASC 740-10 which clarifies the accounting for uncertainty in income taxes. Under these provisions, an organization must recognize the tax benefit associated with tax positions taken when it is more than likely that the position will not be sustained. The adoption of these provisions had no impact on the Organization's financial statements. The Organization does not believe there are any material uncertain tax positions, and, accordingly, it will not recognize any liability for unrecognized tax benefits. No interest or penalties were accrued as of January 1, 2009, as a result of the adoption of these provisions, and for the years ended December 31, 2010 and 2009, there were no interest or penalties related to uncertain tax positions.

(2) FAIR VALUE MEASUREMENTS:

The Organization has adopted ASC 820-10, *Fair Value Measurements*, which establishes a framework for measuring fair value. ASC 820-10 defines fair value as the price the Organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. ASC 820-10 established a three tier hierarchy of inputs to establish a classification of fair value measurements for disclosure purposes. The three levels of the fair value hierarchy under ASC 820-10 are described as follows -

Level 1:

Inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2:

Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3:

Inputs are unobservable and supported by little or no market activity.

**RONALD McDONALD HOUSE CHARITIES
OF GREATER CHATTANOOGA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

(2) FAIR VALUE MEASUREMENTS (Continued):

The Organization uses the following methods and assumptions in estimating the fair values of the Plan's financial instruments -

Equity funds - fair values equal the net asset value (NAV) per unit of shares held by the plan at year end. The NAV per unit is based on the market value of the underlying investments held by the mutual fund at year end. The net asset value per unit is a publicly-quoted price in an active market.

Corporate bonds - Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

At December 31, 2010, the Organization's investments were classified as follows, based on fair values -

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Total</u>
Mutual funds - equity	\$ 1,329,169	\$ -	\$ -	\$ 1,329,169
Mutual funds - bond	<u>556,337</u>	<u>-</u>	<u>-</u>	<u>556,337</u>
Total	<u>\$ 1,885,506</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,885,506</u>

At December 31, 2009, the Organization's investments were classified as follows, based on fair values -

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Total</u>
Mutual funds - equity	\$ 1,519,396	\$ -	\$ -	\$ 1,519,396
Mutual funds - bond	<u>362,797</u>	<u>-</u>	<u>-</u>	<u>362,797</u>
Total	<u>\$ 1,882,193</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,882,193</u>

**RONALD McDONALD HOUSE CHARITIES
OF GREATER CHATTANOOGA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

(3) INVESTMENTS:

Investments are reported in the statements of financial position as follows -

	<u>2010</u>	<u>2009</u>
Unrestricted	\$ -	\$ 240,565
Temporarily restricted	1,165,322	972,491
Permanently restricted	<u>720,184</u>	<u>669,137</u>
	<u>\$1,885,506</u>	<u>\$1,882,193</u>

Investments consist of the following at December 31, 2010, and 2009 -

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mutual funds - equity	\$1,297,662	\$1,329,169	\$1,705,168	\$1,519,396
Mutual funds - bond	<u>539,597</u>	<u>556,337</u>	<u>351,536</u>	<u>362,797</u>
	<u>\$1,837,259</u>	<u>\$1,885,506</u>	<u>\$2,056,704</u>	<u>\$1,882,193</u>

Realized gains and losses are determined by the average cost method.

Summary of investment earnings (losses), for the year ended December 31, 2010, is as follows -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 3,420	\$ 30,937	\$ -	\$ 34,357
Realized losses	(16,019)	(41,459)	-	(57,478)
Unrealized gains	<u>33,105</u>	<u>196,305</u>	<u>-</u>	<u>229,410</u>
	<u>\$ 20,506</u>	<u>\$ 185,783</u>	<u>\$ -</u>	<u>\$ 206,289</u>

Summary of investment earnings (losses), for the year ended December 31, 2009, is as follows -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 5,730	\$ 27,979	\$ -	\$ 33,709
Realized losses	-	(16,260)	-	(16,260)
Unrealized gains	<u>46,182</u>	<u>356,154</u>	<u>-</u>	<u>402,336</u>
	<u>\$ 51,912</u>	<u>\$ 367,873</u>	<u>\$ -</u>	<u>\$ 419,785</u>

**RONALD McDONALD HOUSE CHARITIES
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(4) PROPERTY AND EQUIPMENT:

Property and equipment consists of the following -

	<u>2010</u>	<u>2009</u>
Buildings and family room	\$ 4,948,930	\$ 4,923,246
Land improvements	44,551	44,551
Furniture and equipment	1,047,835	994,466
Library	<u>5,050</u>	<u>5,050</u>
	6,046,366	5,967,313
Accumulated depreciation	<u>(2,549,206)</u>	<u>(2,399,677)</u>
	<u>\$ 3,497,160</u>	<u>\$ 3,567,636</u>

(5) AGREEMENTS WITH HOSPITAL AUTHORITY:

The Organization has an agreement with the Chattanooga-Hamilton County Hospital Authority which allows the Organization the use of the land on which the House is located for a 399 month period ending September, 2027. The fair value of the leased property was \$405,000 at the inception of the agreement. This value was originally recorded as a contribution, and is being amortized over the term of the agreement.

The Organization has an agreement, with the Chattanooga-Hamilton County Hospital Authority which allows the Organization to staff a family-like room within the Erlanger Medical Center for families of seriously ill and injured children. The agreement provides for the Organization to use the space for the room at no charge, subject to negotiation between the parties on an annual basis.

(6) CASH VALUE OF LIFE INSURANCE AND DEFERRED COMPENSATION PLAN:

The Organization has a deferred compensation plan for the benefit of two key employees. It is estimated that life insurance policies, purchased by the Organization on the lives of these employees, will generate sufficient cash value to fund the estimated 10 year, monthly benefit, for which the employees become eligible when they reach age 70. If the employees retire before the age of 70, benefits will not be paid out from this plan until they reach age 70. The amount reported as deferred compensation is calculated on the length of time until retirement age and the present value of the estimated accrued benefit.

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(7) ENDOWMENTS:

The Organization's endowment consists of five individual funds established for different purposes. Its endowment includes both donor restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies the following 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 as 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 SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- (a) the duration and preservation of the fund,
- (b) the purposes of the Organization and the donor restricted endowment fund,
- (c) general economic conditions,
- (d) the possible effect of inflation and deflation,
- (e) the expected total return from income and appreciation of investments,
- (f) other resources of the Organization, and
- (g) the investment policies of the Organization.

**RONALD McDONALD HOUSE CHARITIES
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(7) ENDOWMENTS (Continued):

Endowment net assets by type of fund consist of the following at December 31, 2010 -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ 1,165,322	\$ 844,849	\$ 2,010,171
Board designated funds	<u>59,518</u>	<u>-</u>	<u>-</u>	<u>59,518</u>
	<u>\$ 59,518</u>	<u>\$ 1,165,322</u>	<u>\$ 844,849</u>	<u>\$ 2,069,689</u>

Changes in endowment net assets for the year ended December 31, 2010, are as follows -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 75,542	\$ 972,491	\$ 705,838	\$ 1,753,871
Investment income	1,397	30,937	-	32,334
Net gains	15,235	154,846	-	170,081
Appropriations	(32,656)	(16,932)	-	(49,588)
Contributions	<u>-</u>	<u>23,980</u>	<u>139,011</u>	<u>162,991</u>
End of year	<u>\$ 59,518</u>	<u>\$ 1,165,322</u>	<u>\$ 844,849</u>	<u>\$ 2,069,689</u>

Endowment net assets by type of fund consist of the following at December 31, 2009 -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ 972,491	\$ 705,838	\$ 1,678,329
Board designated funds	<u>75,542</u>	<u>-</u>	<u>-</u>	<u>75,542</u>
	<u>\$ 75,542</u>	<u>\$ 972,491</u>	<u>\$ 705,838</u>	<u>\$ 1,753,871</u>

Changes in endowment net assets for the year ended December 31, 2009, are as follows -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 58,910	\$ 656,683	\$ 575,444	\$ 1,291,037
Investment income	1,397	27,979	-	29,376
Net gains	15,235	339,894	-	355,129
Appropriations	-	(52,065)	-	(52,065)
Contributions	<u>-</u>	<u>-</u>	<u>130,394</u>	<u>130,394</u>
End of year	<u>\$ 75,542</u>	<u>\$ 972,491</u>	<u>\$ 705,838</u>	<u>\$ 1,753,871</u>

**RONALD McDONALD HOUSE CHARITIES
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(7) ENDOWMENTS (Continued):

Description of endowment amounts classified as permanently and temporarily restricted net assets are as follows -

	2010	2009
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	<u>\$ 844,849</u>	<u>\$ 705,838</u>
Temporarily restricted net assets:		
The portion of perpetual endowment funds subject to a purpose restriction under SPMIFA	<u>\$1,165,322</u>	<u>\$ 972,491</u>

From time to time the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires to be retained as a fund of perpetual duration. There were no such deficiencies at December 31, 2010 or 2009.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for 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, as well as board designated funds. The primary investment objectives for endowment assets are growth and income, as well as to maximize total return and minimize risk over a longer term time horizon.

To satisfy its long-term 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 that places a greater emphasis on equity based investments to achieve its long-term objectives within prudent risk constraints.

**RONALD McDONALD HOUSE CHARITIES
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(7) ENDOWMENTS (Continued):

The Organization currently has no specific policy as to percent or amount to appropriate for expenditure each year. However, in accordance with the stipulations of the donors, its procedure has been not to distribute more than the total return on the funds for the current year. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to continue to increase in value. This is consistent with its objective to maintain the purchasing power of the endowment assets, as well as to provide real growth through appreciation.

(8) NOTE PAYABLE:

The Organization's note payable consists of the following -

	<u>2010</u>	<u>2009</u>
Note to SunTrust Bank, payable in monthly installments of \$8,533 plus interest at LIBOR plus 1.90% through September, 2011, with remaining balance due October, 2011, secured by building	<u>\$ 295,104</u>	<u>\$ 415,104</u>
Maturities of note payable are as follows - For the year ending December 31, 2011		<u>\$ 295,104</u>

Interest expense related to the note was \$7,914 and \$10,451 for the years ended December 31, 2010 and 2009, respectively.

(9) BOARD DESIGNATION OF UNRESTRICTED NET ASSETS:

The Board has designated certain funds to be used for board-designated purposes rather than for general operating purposes, as follows -

	<u>2010</u>	<u>2009</u>
Designated for major repairs	\$ -	\$ 99,646
Designated for endowment	<u>59,518</u>	<u>75,542</u>
	<u>\$ 59,518</u>	<u>\$ 175,188</u>

**RONALD McDONALD HOUSE CHARITIES
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(10) RESTRICTIONS ON NET ASSETS:

Restricted net assets consist of the following -

	<u>2010</u>	<u>2009</u>
Temporarily restricted:		
Land lease	\$ 204,030	\$ 216,210
Care Mobile	-	71,062
Facility upgrades	46,000	12,500
Endowment for operations	<u>1,165,322</u>	<u>972,491</u>
	<u>\$1,415,352</u>	<u>\$1,272,263</u>
Permanently restricted:		
Endowment whose earnings are to fund operations	\$ 565,978	\$ 530,101
Endowment whose earnings are to fund the scholarship program	<u>278,871</u>	<u>175,737</u>
	<u>\$ 844,849</u>	<u>\$ 705,838</u>

(11) PENSION PLAN:

During the year, the Organization had a defined contribution pension plan for the benefit of its employees. An employee must have two years of service with the Organization to be eligible to participate in the plan. Employees may elect to defer up to \$10,000 or 20% of their annual compensation, whichever is lower. Employer contributions are an amount equal to 10% of employees' compensation. Pension expense was \$21,770 and \$20,727 for the years ended December 31, 2010 and 2009, respectively. Effective December 31, 2010, the Organization discontinued this plan. As of the date of this report, the Organization is in the process of establishing a new 401k plan.

(12) CONCENTRATION OF CREDIT RISK:

At December 31, 2010 and 2009, the Organization had no funds on deposit at financial institutions in excess of the amounts federally insured.

(13) SUBSEQUENT EVENTS:

Management has evaluated subsequent events through March 25, 2011, the date which these financial statements were available for issue.



To the Board of Directors
Ronald McDonald House Charities of Greater Chattanooga, Inc.

We have audited the financial statements of Ronald McDonald House Charities of Greater Chattanooga, Inc. for the year ended December 31, 2010, and have issued our report thereon. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our engagement letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. The only new accounting policy adopted during the 2010 year is relative to uncertain tax positions; the application of existing policies was not changed during the 2010 year. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements include those related to the depreciable lives of capital assets, the fair value of the investments, and the present value of the deferred compensation liabilities. We evaluated the key factors and assumptions used to develop these estimates in determining that each one is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No material misstatements were identified for the 2010 year.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 25, 2011.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Ronald McDonald House Charities of Greater Chattanooga, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Johnson, Wiley & Meacham, P.C.

March 25, 2011