Ronald McDonald House Charities of Kansas City, Inc.

Auditor's Report and Financial Statements

December 31, 2012 and 2011

BKD LLP

CPAs & Advisors

Ronald McDonald House Charities of Kansas City, Inc.

December 31, 2012 and 2011

Contents

BKD LLP
CPAs & Advisors

1201 Walnut Street, Suite 1700
Kansas City, MO 64106-2246
816.221.6300 Fax 816.221.6380 www.bkd.com

Independent Auditor's Report on Financial Statements

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

We have audited the accompanying financial statements of Ronald McDonald House Charities of Kansas City, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years 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 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 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 Kansas City, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Kansas City, Missouri
April 18, 2013

Ronald McDonald House Charities
of Kansas City, Inc.
Statements of Financial Position
December 31, 2012 and 2011

Assets

	2012	2011
Cash	$ 634,835	$ 335,515
Miscellaneous receivable	52,181	-
Contributions receivable, net of allowance; 2012 – $812, 2011 – $11,722	93,810	85,703
Investments	2,425,941	2,318,414
Property and equipment, net of accumulated depreciation; 2012 – $4,542,783, 2011 – $4,273,500	11,572,580	11,424,437
Other	567	549
Total assets	$ 14,779,914	$ 14,164,618

Liabilities and Net Assets

	2012	2011
Liabilities		
Accounts payable and accrued expenses	$ 105,372	$ 61,258
Line of credit	265,384	265,384
Notes payable	-	200,754
Total liabilities	370,756	527,396
Net Assets		
Unrestricted	13,148,719	12,478,990
Temporarily restricted	260,439	158,232
Permanently restricted	1,000,000	1,000,000
Total net assets	14,409,158	13,637,222
Total liabilities and net assets	$ 14,779,914	$ 14,164,618

Ronald McDonald House Charities of Kansas City, Inc.

Statements of Activities

Years Ended December 31, 2012 and 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions – general	$ 1,356,940	$ 326,465		$ 1,683,405
Contributions – McDonald's	470,170	23,571		493,741
Organization-sponsored fundraising events, net of costs of direct benefits to donors; 2012 - $132,192, 2011 - $134,593	519,248	65,425		584,673
External fundraising events	139,580	250		139,830
Other	104,362	-		104,362
Interest and dividends	66,060	-		66,060
Net realized and unrealized gains (losses) on investments	60,728	73,815		134,543
Net assets released from restriction	372,819	(372,819)		-
Total revenues, gains and other support	3,089,907	116,707		3,206,614
Expenses and Losses				
Program services				
Ronald McDonald Houses	1,519,606	-		1,519,606
Family Room	186,365	-		186,365
Total program services	1,705,971	-		1,705,971
Support services				
Fundraising	509,146	14,500		523,646
Management and general	205,061	-		205,061
Total support services	714,207	14,500		728,707
Total expenses and losses	2,420,178	14,500		2,434,678
Change in Net Assets	669,729	102,207		771,936
Net Assets, Beginning of Year	12,478,990	158,232	$ 1,000,000	13,637,222
Net Assets, End of Year	$ 13,148,719	$ 260,439	$ 1,000,000	$ 14,409,158

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 1,079,266	$ 162,208		$ 1,241,474
500,179	-		500,179
537,134	2,800		539,934
147,101	-		147,101
-	-		-
70,274	-		70,274
(42,868)	(41,043)		(83,911)
237,933	(237,933)		-
2,529,019	(113,968)		2,415,051
1,305,493	-		1,305,493
141,861	-		141,861
1,447,354	-		1,447,354
493,381	-		493,381
276,385	-		276,385
769,766	-		769,766
2,217,120	-		2,217,120
311,899	(113,968)		197,931
12,167,091	272,200	$ 1,000,000	13,439,291
$ 12,478,990	$ 158,232	$ 1,000,000	$ 13,637,222

Ronald McDonald House Charities of Kansas City, Inc.

Statement of Functional Expenses

Year Ended December 31, 2012

	Program Services		Support Services		
	Ronald McDonald Houses	Family Room	Management and General	Fundraising	Total Expenses
Salaries and benefits	$ 473,324	$ 147,509	$ 89,156	$ 193,445	$ 903,434
Supplies and other office expenses	10,395	1,515	10,179	5,318	27,407
Utilities and telephone	128,702	-	-	-	128,702
Repairs and maintenance	228,220	19,401	4,489	27,537	279,647
Seminars and training	2,393	719	2,287	2,052	7,451
Family services	119,650	883	-	2,064	122,597
Insurance	52,472	10,151	10,653	3,318	76,594
Volunteers/donor appreciation	3,215	1,023	201	4,996	9,435
Newsletters and printing	846	593	522	8,232	10,193
Depreciation	386,378	4,438	4,823	42,442	438,081
Interest	2,963	-	41,232	-	44,195
Payments to affiliates	-	-	-	70,689	70,689
Leases	2,482	-	946	689	4,117
Professional services	380	-	30,385	-	30,765
Board expenses	-	-	10,188	-	10,188
Annual giving campaign	16,012	133	-	77,391	93,536
Red Shoe Shindig	-	-	-	7,755	7,755
Trent Green Golf Classic	-	-	-	973	973
Miscellaneous fundraising expenses	-	-	-	59,170	59,170
Bad debt expense	30	-	-	14,630	14,660
Loss on disposal of equipment	92,144	-	-	2,945	95,089
	$ 1,519,606	$ 186,365	$ 205,061	$ 523,646	$ 2,434,678

Ronald McDonald House Charities of Kansas City, Inc.

Statement of Functional Expenses

Year Ended December 31, 2011

	Program Services		Support Services		
	Ronald McDonald Houses	Family Room	Management and General	Fundraising	Total Expenses
Salaries and benefits	$ 374,874	$ 120,328	$ 110,623	$ 239,143	$ 844,968
Supplies and other office expenses	4,405	845	10,204	5,905	21,359
Utilities and telephone	121,492	-	-	-	121,492
Repairs and maintenance	243,226	2,578	4,517	21,251	271,572
Seminars and training	2,979	1,348	4,012	1,576	9,915
Family services	109,845	1,273	74	1,508	112,700
Insurance	48,802	9,873	10,561	3,225	72,461
Volunteers/donor appreciation	3,425	1,512	252	4,438	9,627
Newsletters and printing	1,126	595	933	9,846	12,500
Depreciation	358,716	3,509	3,739	41,189	407,153
Interest	26,066	-	48,852	-	74,918
Payments to affiliates	-	-	46,594	-	46,594
Leases	2,211	-	2,420	714	5,345
Professional services	-	-	29,716	-	29,716
Board expenses	-	-	3,085	37	3,122
Annual giving campaign	7,791	-	-	67,401	75,192
Red Shoe Shindig	-	-	-	27,867	27,867
Trent Green Golf Classic	-	-	-	1,500	1,500
Miscellaneous fundraising expenses	-	-	-	58,802	58,802
Bad debt expense	335	-	-	3,106	3,441
Loss on disposal of equipment	200	-	803	5,873	6,876
	$ 1,305,493	$ 141,861	$ 276,385	$ 493,381	$ 2,217,120

Ronald McDonald House Charities of Kansas City, Inc.

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	$ 771,936	$ 197,931
Items not requiring (providing) operating activities cash flows		
Depreciation	438,081	407,153
Loss on disposal of equipment	95,089	6,876
Net realized and unrealized (gains) losses on investments	(134,543)	83,911
Contributions of property and equipment or contributions received restricted for acquisition of property and equipment	(620,171)	(72,963)
Contribution of investment securities	-	(25,155)
Changes in		
Contributions receivable	(8,107)	96,057
Miscellaneous receivable and other assets	(52,199)	4,955
Accounts payable and accrued expenses	(16,268)	9,855
Net cash provided by operating activities	473,818	708,620
Investing Activities		
Purchase of property and equipment	(283,487)	(508,370)
Purchase of investments	(94,680)	(70,487)
Proceeds from disposition of investments	121,696	233,262
Net cash used in investing activities	(256,471)	(345,595)
Financing Activities		
Proceeds from contributions restricted for acquisition of property and equipment	282,727	-
Borrowings on line of credit	-	265,384
Principal payments on note payable	(200,754)	(605,526)
Net cash provided by (used in) financing activities	81,973	(340,142)
Increase in Cash	299,320	22,883
Cash, Beginning of Year	335,515	312,632
Cash, End of Year	$ 634,835	$ 335,515
Supplemental Cash Flows Information		
Interest paid	$ 11,966	$ 26,413
Investments acquired through noncash contributions	-	25,155
Property and equipment acquired through noncash contributions	337,444	72,963
Property and equipment purchases in accounts payable	60,382	-

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

Nature of Operations

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250,000. At December 31, 2012, the Organization did not have any cash accounts that exceeded federally insured limits.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC insurance per covered institution.

Investments and Investment Return

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

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

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building improvements	10 - 15 years
Building under capital lease	50 years
Vans and autos	5 years
Furniture, fixtures and equipment	5 years
Donation box equipment	5 years

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

An impairment loss of $87,351 was recognized during 2012 for the partial malfunction of the original Longfellow HVAC system. The loss is included in the loss on disposal of equipment line item in the accompanying Statement of Functional Expenses. Fair value was determined based on management's best estimate derived from the opinion of the contractor who installed the original system. There was no asset impairment recognized during 2011.

Temporarily and Permanently Restricted Net Assets

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

Contributions

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

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

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

In-kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions in the form of goods and services from various donors. Such contributions are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets, or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. It is the policy of the Organization to record the estimated fair value of certain in-kind contributions as revenue in the financial statements, and similarly increase an expense or capitalized asset by a like amount. In-kind contributions recognized during 2012 and 2011 were approximately $592,000 and $312,000, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time to the Organization. Contributed goods and services not subject to objective measurement or valuation are not reflected in the financial statements.

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization is not aware of any uncertain tax positions at December 31, 2012 and 2011. The Organization files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

Functional Allocation of Expenses

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

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 2: Investments

Investments at December 31 consisted of the following:

	2012	2011
Money market accounts	$ 172,298	$ 139,454
Mutual funds	782,799	530,477
Treasury notes	124,030	99,690
U.S. government obligations	146,314	217,961
Non-government obligations	378,200	372,979
Common stock	816,144	949,822
Interest receivable	6,156	8,031
	$ 2,425,941	$ 2,318,414

Note 3: Contributions Receivable

Contributions receivable at December 31 consisted of the following unconditional promises to give:

	2012	2011
Due within one year	$ 54,115	$ 42,118
Due in one to five years	47,175	61,975
	101,290	104,093
Less		
Allowance for uncollectible contributions	(812)	(11,722)
Unamortized discount	(6,668)	(6,668)
	$ 93,810	$ 85,703

A discount rate of 5% was used in 2012 and 2011.

Note 4: Property and Equipment

Property and equipment at December 31 consisted of the following:

	2012	2011
Land and parking lot	$ 146,746	$ 146,746
Building improvements	2,439,677	2,422,067
Buildings and improvements under capital lease	11,726,181	11,733,786
Vans and autos	13,436	13,436
Furniture and equipment	1,007,243	791,536
Donation box equipment	164,254	165,917
Family Room	400,032	230,465
Construction in progress	217,794	193,984
	16,115,363	15,697,937
Less accumulated depreciation	(4,542,783)	(4,273,500)
	$ 11,572,580	$ 11,424,437

During 2011, the Organization purchased two apartment buildings located on Cherry Street across from the Longfellow facility. The property was not in useable condition, thus no depreciation was taken during 2011. The Organization conducted a feasibility study during 2012 to determine the best use of the property and decided to demolish the existing building and rebuild. Demolition began in January 2013.

Note 5: Line of Credit

The Organization has a $750,000 revolving bank line of credit due on demand. At December 31, 2012 and 2011, there was $265,384 borrowed against this line. The line is collateralized by certain investments totaling $1,165,590 and $1,159,006 at December 31, 2012 and 2011, respectively. Interest varies with the bank's prime rate, which was 3.25% on December 31, 2012 and 2011 and is payable monthly. On January 9, 2013, the Organization paid the line of credit balance in full.

Note 6: Notes Payable

The Organization had an unsecured note payable with a bank due on July 20, 2012. The outstanding balance on this note payable was $200,754 at December 31, 2011. Interest varied with the bank's prime rate, with a floor of 4.5%, and was 4.5% at December 31, 2011. The note was paid in full during 2012.

Note 7: Net Assets

Temporarily Restricted Net Assets

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

	2012	2011
Accumulated earnings on endowment	$ 100,727	$ 32,886
For periods after December 31	89,980	85,703
Expansion - new house	50,000	-
Other miscellaneous projects	19,732	39,643
	$ 260,439	$ 158,232

Permanently Restricted Net Assets

Permanently restricted net assets at December 31 are restricted to:

	2012	2011
Investment in perpetuity, the income of which is expendable to support operations	$ 1,000,000	$ 1,000,000

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The following purpose restrictions were accomplished during the years ended December 31, 2012 and 2011:

	2012	2011
Endowment earnings appropriated for expenditure	$ 5,974	$ 5,318
Time restrictions expired	57,006	171,447
Family room remodel	226,128	-
Other capital projects	27,223	-
Other miscellaneous projects	56,488	61,168
	$ 372,819	$ 237,933

Note 8: Endowment

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

The Organization’s governing body has interpreted the Uniform Prudent Management of Institutional Funds Act as adopted by the state of Missouri (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The composition of net assets of the donor restricted endowment fund at December 31 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2012	$ 137,345	$ 100,727	$ 1,000,000	$ 1,238,072
2011	98,119	32,886	1,000,000	1,131,005

Changes in endowment net assets for the years ended December 31, 2012 and 2011 were:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 98,119	$ 32,886	$ 1,000,000	$ 1,131,005
Investment return				
Investment income	39,226	-	-	39,226
Net appreciation	-	73,815	-	73,815
Total investment return	39,226	73,815	-	113,041
Appropriation of endowment assets for expenditure	-	(5,974)	-	(5,974)
Endowment net assets, end of year	$ 137,345	$ 100,727	$ 1,000,000	$ 1,238,072

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 66,523	$ 79,051	$ 1,000,000	$ 1,145,574
Investment return				
Investment income	31,596	-	-	31,596
Net depreciation	-	(40,847)	-	(40,847)
Total investment return	31,596	(40,847)	-	(9,251)
Appropriation of endowment assets for expenditure	-	(5,318)	-	(5,318)
Endowment net assets, end of year	$ 98,119	$ 32,886	$ 1,000,000	$ 1,131,005

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at December 31 consisted of:

	2012	2011
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation	$ 1,000,000	$ 1,000,000
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under UPMIFA without purpose restriction	100,727	32,886

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Organization is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets, which the Organization did not have at December 31, 2012 and 2011.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include assets of donor-restricted endowment funds the Organization must hold in perpetuity.

Under the Organization’s policies, the primary investment goal is long-term asset growth with the generation of investment income a secondary goal. The Organization’s investment policy details other guidelines for investment assets. The Organization expects its endowment funds to provide returns over a rolling three year period, which will be reasonably consistent with those from a comparably positioned "unmanaged" fund consisting of equity, fixed income and cash indices, as applicable. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization follows the donor's stipulation in regard to this endowment, which requires the original gift to be held in perpetuity and the income earned to be used for operating expenses. The Organization has a policy (the spending policy) of appropriating for expenditure each year up to 5% of the endowment fund's average fair value over the prior three years and up to an amount equal to the excess of the Organization's budgeted expenses over budgeted income as approved by the Board.

Note 9: Long-term Leases

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

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

Property and equipment includes the following property under the capital lease at December 31, 2012 and 2011:

	2012	2011
Land	$ 1,613,691	$ 1,613,691
Building and improvements	10,112,490	10,120,095
	11,726,181	11,733,786
Less accumulated depreciation	1,623,444	1,384,707
	$ 10,102,737	$ 10,349,079

Note 10: Retirement Plan

The Organization has a defined contribution pension plan covering substantially all employees. Regularly scheduled employees are eligible to participate in the plan after reaching age 21 and completing six months of eligible service. For both 2012 and 2011, the Organization contributed the 5% required of eligible compensation and also matched 50% of the employees' contributions up to 4% of eligible compensation. The Organization's retirement expense amounted to $38,662 and $35,550 for the years ended 2012 and 2011, respectively.

Note 11: Fundraising Events

Included in the statements of activities is a total for all major Organization-sponsored fundraising events held during 2012 and 2011. The revenue generated from each event, net the costs of direct benefits provided to donors, is as follows:

	2012	2011
Trent Green Golf Classic	$ 209,084	$ 145,330
Red Shoe Shindig	507,781	529,197
	716,865	674,527
Less costs of direct benefits to donors	(132,192)	(134,593)
	$ 584,673	$ 539,934

Note 12: Allocation of Joint Costs

The Organization conducted activities that included requests for contributions, as well as program components. Those activities included direct mailings that solicited contributions and requested the completion of a personalized welcome card for families staying at the facility. The costs of conducting those activities included a total of $38,492 and $40,417 of joint costs in 2012 and 2011, respectively, which are not specifically attributable to particular components of the activities. The joint costs were allocated as follows:

	2012	2011
Fundraising	$ 26,175	$ 32,719
Program	12,317	7,698
	$ 38,492	$ 40,417

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

Note 13: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

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

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

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2012 and 2011:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Money market accounts	$ 172,298	$ 172,298	$ -	$ -
Mutual funds	782,799	782,799	-	-
Treasury notes	124,030	-	124,030	-
U.S. government obligations	146,314	-	146,314	-
Non-government obligations	378,200	-	378,200	-
Common stock	816,144	816,144	-	-
Total	$ 2,419,785	$ 1,771,241	$ 648,544	$ -

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011				
Money market accounts	$ 139,454	$ 139,454	$ -	$ -
Mutual funds	530,477	530,477	-	-
Treasury notes	99,690	-	99,690	-
U.S. government obligations	217,961	-	217,961	-
Non-government obligations	372,979	-	372,979	-
Common stock	949,822	949,822	-	-
Total	$ 2,310,383	$ 1,619,753	$ 690,630	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2012.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2012:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-lived assets	$ 100,000	$ -	$ -	$ 100,000

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Long-lived Assets

Certain equipment was valued at fair value on December 31, 2012, due to an impairment recorded. The fair value was determined based on management's best estimate derived from the opinion of the contractor who installed the original system.