Ronald McDonald House at Stanford

Financial Statements

December 31, 2012

(With Comparative Totals for 2011)

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TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Ronald McDonald House at Stanford
Palo Alto, California

We have audited the accompanying financial statements of Ronald McDonald House at Stanford (the "House"), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House at Stanford as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Ronald McDonald House at Stanford's 2011 financial statements, and our report dated July 18, 2011, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP

Armanino LLP
San Ramon, California

June 24, 2013

RONALD MCDONALD HOUSE AT STANFORD
Statement of Financial Position
December 31, 2012
(With Comparative Totals for December 31, 2011)

ASSETS

	2012	2011
Cash and cash equivalents	$ 5,725,609	$ 4,353,816
Certificates of deposit	7,702,027	8,800,554
Contributions and other receivables, net	2,283,683	769,019
Beneficial use of land	2,029,744	2,093,752
Prepaid expenses	54,090	34,552
Investments	15,726,143	14,101,351
Construction in process	117,682	-
Property and equipment, net	12,526,126	12,916,761
Total assets	$ 46,165,104	$ 43,069,805

LIABILITIES AND NET ASSETS

	2012	2011
Liabilities		
Accounts payable	$ 43,028	$ 39,798
Accrued expenses	142,920	280,162
Total liabilities	185,948	319,960
Net assets		
Unrestricted		
Operating	17,773,168	17,869,076
Board designated	1,745,739	1,745,739
Total unrestricted	19,518,907	19,614,815
Temporarily restricted	17,352,598	14,066,489
Permanently restricted	9,107,651	9,068,541
Total net assets	45,979,156	42,749,845
Total liabilities and net assets	$ 46,165,104	$ 43,069,805

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

RONALD MCDONALD HOUSE AT STANFORD
Statement of Activities
For the Year Ended December 31, 2012
(With Comparative Totals for the Year Ended December 31, 2011)

	2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
Revenues, gains and other support					
Contributions	$ 1,446,833	$ 2,021,428	$ 39,110	$ 3,507,371	$ 2,843,684
Special events revenue, net					
Sponsorships and participants	1,238,735	118,000	-	1,356,735	1,435,746
Donated goods and services	156,799	-	-	156,799	294,952
Less: direct benefit costs	(177,730)	-	-	(177,730)	(151,296)
Total special events revenue, net	1,217,804	118,000	-	1,335,804	1,579,402
Interest and dividends	28,974	537,168	-	566,142	505,580
Donated goods and services	280,758	164,880	-	445,638	481,327
Room donations	56,673	-	-	56,673	60,406
Program service revenue	94,724	-	-	94,724	169,026
Other income	6,493	-	-	6,493	6,830
Net assets released from restrictions	635,572	(635,572)	-	-	-
Total revenues, gains and other support	3,767,831	2,205,904	39,110	6,012,845	5,646,255
Expenses					
Program	2,464,478	-	-	2,464,478	2,660,778
Fundraising	1,015,818	-	-	1,015,818	1,130,273
Management and administrative	311,307	-	-	311,307	284,799
Total expenses	3,791,603	-	-	3,791,603	4,075,850
Change in net assets before net realized and unrealized gain (loss) on investments	(23,772)	2,205,904	39,110	2,221,242	1,570,405
Net realized and unrealized gain (loss) on investments	(72,136)	1,080,205	-	1,008,069	(1,019,162)
Change in net assets	(95,908)	3,286,109	39,110	3,229,311	551,243
Net assets, beginning of year	19,614,815	14,066,489	9,068,541	42,749,845	42,198,602
Net assets, end of year	$ 19,518,907	$ 17,352,598	$ 9,107,651	$ 45,979,156	$ 42,749,845

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

RONALD MCDONALD HOUSE AT STANFORD
Statement of Functional Expenses
For the Year Ended December 31, 2012
(With Comparative Totals for the Year Ended December 31, 2011)

	Program Services	Fundraising	Management and Administrative	Total 2012	Total 2011
Salaries	$ 685,527	$ 234,296	$ 159,085	$ 1,078,908	$ 1,133,398
Payroll taxes and benefits	164,733	56,301	38,228	259,262	263,288
Total salaries, payroll taxes and benefits	850,260	290,597	197,313	1,338,170	1,396,686
Depreciation	414,025	4,268	8,537	426,830	430,407
Rent	222,021	2,289	4,578	228,888	228,888
Special events - auction and gift items	-	130,542	-	130,542	223,598
Special events - all other costs	-	190,431	-	190,431	261,870
Donor engagement and acquisition	-	38,217	-	38,217	37,089
Cleaning service and supplies	178,322	1,664	3,329	183,315	207,524
Insurance	52,036	536	1,073	53,645	64,221
Printing and supplies	269,985	102,379	2,044	374,408	448,400
Utilities	113,281	1,168	2,336	116,785	116,689
Professional fees - expansion	34,808	121,832	17,405	174,045	105,139
Professional fees - other	78,078	80,938	28,197	187,213	181,715
Repairs and maintenance	81,104	809	1,617	83,530	71,684
Public relations and newsletter	44,505	89	60	44,654	86,724
Telephone	18,953	195	391	19,539	23,569
Outside contractors	69,694	19,926	34,132	123,752	74,429
Hotel accommodations	2,296	-	-	2,296	1,219
Meetings and training	11,041	3,773	2,562	17,376	33,658
Equipment rentals	6,670	2,280	1,548	10,498	9,092
Postage	4,018	1,373	932	6,323	6,903
Taxes and fees	5,558	2,600	103	8,261	9,023
Other	7,823	19,912	5,150	32,885	57,323
Total	$ 2,464,478	$ 1,015,818	$ 311,307	$ 3,791,603	$ 4,075,850

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

RONALD MCDONALD HOUSE AT STANFORD
Statement of Cash Flows
For the Year Ended December 31, 2012
(With Comparative Totals for the Year Ended December 31, 2011)

	2012	2011
Cash flows from operating activities		
Change in net assets	$ 3,229,311	$ 551,243
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	426,830	430,407
Bad debt expense, net of recovery of bad debt	66,655	-
Unrealized and realized (gain) loss on investments	(1,081,571)	942,918
Donated stocks	(59,757)	(57,498)
Contributions restricted for capital campaign	(1,979,518)	-
Additions to permanently restricted funds	(39,110)	(93,166)
Rent expense in-kind	228,888	228,888
Amortization of discount on lease contribution	(164,880)	(170,057)
Changes in operating assets and liabilities		
Contribution and other receivables, other than capital campaign	(2,576)	(3,596)
Prepaid expenses	(19,538)	(5,304)
Accounts payable and accrued expenses	(134,012)	151,751
Net cash provided by operating activities	470,722	1,975,586
Cash flows from investing activities		
Maturities (purchases) of certificates of deposit	1,098,527	(3,542,681)
Purchases of investments	(8,654,351)	(5,489,827)
Proceeds from the sale of investments	8,262,604	6,440,299
Purchase of property and equipment	(36,195)	(7,905)
Payments for construction in progress	(117,682)	-
Net cash provided by (used in) investing activities	552,903	(2,600,114)
Cash flows from financing activities		
Capital campaign contributions	309,058	874,848
Additions to permanently restricted net assets	39,110	93,166
Net cash provided by (used in) financing activities	348,168	968,014
Increase in cash and cash equivalents	1,371,793	343,486
Cash and cash equivalents, beginning of year	4,353,816	4,010,330
Cash and cash equivalents, end of year	$ 5,725,609	$ 4,353,816
Supplemental noncash investing and financing activities		
Donated securities for the capital campaign	$ 91,717	$ 786,627

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

1. Organization

Ronald McDonald House at Stanford (the "House") was organized in 1978 for the purpose of providing low-cost temporary housing for children with life-threatening illnesses and their families who live in other communities but are receiving specialized medical treatment at nearby hospitals. The House previously operated under the name Children's Hospital at Stanford Family Center. In September 1996, the Board of Directors amended the articles of incorporation, changing the name to Ronald McDonald House at Stanford. Since the House opened in 1979, the donation requested from the families has remained at a modest $10 per night and no family is ever turned away due to inability to pay. The House is located in Palo Alto, California.

The little ones coming for treatment have a variety of life-threatening conditions that often require intensive invasive procedures including solid organ transplants (heart, liver, kidney, lung, etc.), cancer treatments, including bone marrow and stem cell transplants; and neurological surgery. Of the families who stayed at the House in 2012, 76% came from California, 23% traveled from other states, and 1% were from other countries around the world. The House is the only organization offering specially-designed, communal housing to families with children being treated at Lucile Packard Children's Hospital (the "Hospital").

Forty-seven guestrooms offer families a place to stay all designed to meet their specific needs during this challenging time. The House features a children's activity room, toddler play area, teen lounge, computer center, family library, and fitness center. Shared areas such as a large kitchen and dining room, TV rooms on each floor and a multi-purpose "great room" create a sense of community among the families. Additional benefits offered through the House help families with everyday tasks that could otherwise be daunting: shuttles to and from the hospital, free laundry facilities, group shopping trips, continental breakfast provided seven days a week, and donated meals prepared by corporate and community groups 7 - 9 times per week.

Programs offered to the families staying at the House include activities that provide the families, patients and siblings alike an opportunity to enjoy common family activities that they would likely do in their own home. These activities are led by volunteers and include Bingo Night, birthday celebrations, Furry Friends pet-assisted therapy, movie nights, gardening, Quilts of the Heart, scrap-booking, and arts and crafts. Relaxation and healing opportunities are provided through weekly massages and haircuts.

The Day Pass Program served 420 individuals in 2012 and invites families whose children are being treated at the Hospital, but whom are not staying at the House due to capacity constraints or geographical restrictions, to enjoy the comfort and amenities of the House. Families can take advantage of the community kitchen, TV rooms, library laundry facilities, showers, computers and Wi-Fi, Children's Activity Room, family activities and the Meals for Munchkins program. This program is available every day of the week from 9 am to 9 pm.

1. Organization (continued)

The "Happy Wheels" cart served over 8,000 individuals at the Hospital, bringing them comfort and a bit of fun. The cart circulates through the common areas and on some units serving patients, siblings and family members on morning and evening shifts during the week. Happy Wheels provides hot beverages, snack service, and hygiene kits while keeping the little ones entertained with books, fun activities and toys.

2. Summary of Significant Accounting Policies

Basis of presentation

The financial statements have been prepared on the accrual basis of accounting. Net assets and changes therein are classified as follows:

Permanently Restricted Net Assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the House.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that may or will be met by actions of the House and/or passage of time.

Unrestricted net assets - net assets not subject to donor-imposed stipulations. These net assets are intended for use by management and the Board of Directors for general operations.

Board-designated net assets - net assets designated by the Board of Directors to be reserved for the capital campaign.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. The House recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Use of estimates

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

2. Summary of Significant Accounting Policies (continued)

Contributions and revenue

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received at fair value. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

Special event revenue is recognized when the event is held. Goods and services donated for the special events are recognized as in-kind revenue and expense at their estimated fair value on the date donated.

Donated stock, materials and equipment are recorded as contributions at their estimated fair value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the House reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The House is the beneficiary under various wills and trust agreements. Such amounts are recognized in the House's financial statements as bequests receivable and planned gifts when clear title is established and the proceeds are measurable. As of December 31, 2012, no bequests receivable have been recorded.

Cash and cash equivalents

Cash and cash equivalents consist of short-term, highly liquid investments with original maturity dates of three months or less and exclude cash held in managed investment accounts or certificates of deposit.

Certificates of deposit

The House, as part of its cash management policy, maintains a portfolio of certificates of deposit with maturities from six to 24 months.

Contributions receivable

Unconditional promises to give are recorded at their net realizable value. If such promises to give are due in more than one year, they are discounted to the present value of their estimated future cash flows using a discount rate commensurate with the risks involved. Reserves for potential uncollectable contributions receivable are maintained based on historical credit losses and management's expectations.

2. Summary of Significant Accounting Policies (continued)

Beneficial use of land

The House and its facilities are located on a leased parcel of land for which the rental payments are below market rates (see Note 3). During 2006, the House obtained an independent appraisal of the value of the leasehold land value and has recorded it as a lease contribution receivable on the Statement of Financial Position. The receivable has been discounted to its net present value.

Investments

Investments consist of money market funds, marketable equity securities and debt securities and are stated at fair values using quoted market prices. Unrealized and realized gains and losses include investment management fees and are reflected in the Statement of Activities.

Property and equipment

Property and equipment are recorded at cost, if purchased, and at estimated fair value, if donated, provided there is an objective basis for determining the value. Depreciation is calculated on the straight-line basis using an estimated useful life of 5 to 7 years for furniture and equipment and 30 and 39 years for the renovated and new buildings, respectively.

Expenditures for major renewals and betterments are capitalized, while expenditures for maintenance and repairs, which do not improve assets or extend their useful lives, are charged to expense as incurred. When property is retired, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized.

Long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets' carrying value is adjusted to fair value.

Donated goods and services

Donated goods and services are reflected at the fair value of the contribution received. The contributions of goods and services are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The House recognized in-kind contributions for goods and services during the year ended December 31, 2012 of $634,766 (see Note 15).

2. Summary of Significant Accounting Policies (continued)

Volunteer services

For the year ended December 31, 2012, the House benefited from approximately 27,000 hours of volunteer assistance. The value of this contributed time is not reflected in these financial statements because the criteria for recognition have not been met.

Functional expense allocation

Costs of providing the House's programs and other activities have been allocated between program services, management and administration and fund-raising functional expense based upon time and other cost studies performed by the House.

Income taxes

The House has been granted tax-exempt status under Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code. In addition, the House has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. However, the House is subject to taxes on income, if any, that is unrelated to its exempt purpose.

The House evaluated its current tax positions and has concluded that as of December 31, 2012, the House does not have any significant uncertain tax positions for which a reserve would be necessary.

Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the House uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the House. Unobservable inputs are inputs that reflect the House's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

2. Summary of Significant Accounting Policies (continued)

Fair value of financial instruments (continued)

The following methods and assumptions were used to estimate the fair value of financial instruments:

Level 1 Investments include quoted prices (unadjusted) in active markets for identical investments that the House has the ability to access at the measurement date.

Level 2 Investments include other significant observable inputs (including quoted prices for similar instruments, interest rates, prepayment terms, credit risk, etc.).

Level 3 Investments include significant unobservable inputs (including the House's own assumptions in determining fair value instruments).

The category within the fair value hierarchy is based up on the lowest level of input that is significant to the fair value measurement.

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the House's financial statements for the year ended December 31, 2011 from which the summarized information was derived. Certain amounts in the 2011 financial statements have been reclassified to conform with the 2012 presentation.

3. Beneficial Use of Land

The House and its facilities are located on a leased parcel of land in Palo Alto, California. The terms of the lease require an annual rental payment of $1.00 through the year 2028. The House recognized as revenue and a contribution receivable the difference between the fair rental value of the property and the stated amount of the lease payment at the date of contribution. A contribution receivable has been recorded as follows as of December 31, 2012:

Noncurrent portion of contribution receivable	$3,318,896
Less: discount to net present value	(1,518,041)
Noncurrent portion of contribution receivable, net	1,800,855
Current portion of contribution receivable	228,889
	$2,029,744

4. Contributions and Other Receivables

Contributions and other receivables consist of the following at December 31, 2012:

Capital campaign	$2,333,036
Unrestricted purposes	138,775
Total receivables	2,471,811
Less: allowance for doubtful accounts	(93,321)
Less: discount to net present value	(94,807)
Total net receivables	$2,283,683

Net receivables are anticipated to be collected as follows:

Within 1 year	$1,504,112
Within 1 to 5 years	779,571
Total net receivables	$2,283,683

During the year ended December 31, 2009, the House received a conditional promise to give in the amount of $1,000,000. This grant will be awarded upon the House obtaining approval for a building permit from the City of Palo Alto.

5. Investments

Investments are comprised of the following at December 31, 2012:

	Fair Value	Cost	Life to Date Unrealized Gains (losses)
Money market funds	$ 562,088	$ 562,088	$ -
Debt securities	5,425,902	5,497,118	(71,216)
Equity securities	9,738,153	9,307,995	430,158
Total investments	$15,726,143	$15,367,201	$358,942

5. Investments (continued)

The following tables summarize the valuation of the House's certificates of deposit and investments measured on a recurring basis at December 31, 2012:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$7,702,027	$ -	$ 7,702,027
Investments	-	-	-	
Money market funds	562,088	-	-	562,088
Debt securities	5,425,902	-	-	5,425,902
Equity securities	9,738,153	-	-	9,738,153
Total investments	15,726,143	-	-	15,726,143
Total	$15,726,143	$7,702,027	$ -	$23,428,170

Management fees paid to external investment advisors in 2012 of $75,505 are included in the net unrealized and realized gain on investments in the Statement of Activities.

6. Property and Equipment

Property and equipment consists of the following at December 31, 2012:

Non depreciable assets	
Artwork	$ 56,953
Depreciable assets	
Building	17,167,020
Furniture and equipment	719,370
Construction in process	117,682
	18,061,025
Less accumulated depreciation	(5,417,217)
	$12,643,808

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted as follows at December 31, 2012:

Beneficial use of land, net	$ 2,029,744
Capital campaign	8,494,889
Purpose restrictions	153,423
Earnings on endowment, net	6,674,542
	$17,352,598

7. Temporarily Restricted Net Assets (continued)

Net assets released from restrictions during 2012 were for the following purposes:

Recognition of beneficial use of land receivable	$228,888
Purpose Restrictions	114,899
Capital campaign costs	291,785
	$635,572

8. Endowment

The House's endowment consists of three donor restricted funds established for the benefit of the House; the Kroc Fund, the Children's Legacy Fund and the Program Endowment Fund. The Kroc Fund consists of a $500,000 gift from Joan B. Kroc. The Children's Legacy Fund (the "CLF") began as a gift from the David and Lucile Packard Foundation. The CLF requires that the initial funds be preserved and allows donors to stipulate a permanent restriction on all memorial and planned gifts. Contributions placed in this fund during the year ended December 31, 2012 amounted to $39,110. The Program Endowment Fund consists of contributions to a prior capital campaign that donors gave permission to be transferred to a permanent endowment fund.

Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. All endowment gifts stipulate that the principal remain intact and that investment earnings be expended on House operations.

The permanently restricted net assets of these funds consist of the following on December 31, 2012:

Kroc Endowment Fund	$ 500,000
Children's Legacy Fund	6,357,636
Program Endowment Fund	2,250,015
	$9,107,651

8. Endowment (continued)

Interpretation of relevant law

The Board of Directors of the House has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair market 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 House classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, 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 purposes of the organization and 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 House has adopted investment and spending policies for endowment assets with the philosophy that the House is to exist in perpetuity, and therefore, should provide for spending in perpetuity. To attain this goal, the overriding objective of the House is to maintain purchasing power while preserving the endowment corpus. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to grow the aggregate portfolio value at the rate of the Bay Area Consumer Price Index plus 4.5% over the House's investment horizon while assuming a moderate level of investment risk. The House expects its endowment funds, over time, to provide an average rate of return of approximately 7.5 % annually. Actual returns in any given year may vary from this amount.

8. Endowment (continued)

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the House relies on a total return strategy in which investment returns are achieved through both capital and appreciation (realized and unrealized) and current yield (interest and dividends).

Spending policy and how the investment objectives relate to pending policy

The House has a policy that provides the Board of Directors the discretion to spend up to 4.5% of the three year rolling average of the actual fund's value. In establishing this policy, the House considered the long-term expected return on its endowment. Accordingly, over the long term, the House expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return. The House did not appropriate any earnings during the year ended December 31, 2012.

Changes in endowment net assets for the year ended December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$5,057,169	$9,068,541	$14,125,710
Investment income	-	537,168	-	537,168
Net realized/unrealized gain on investment	-	1,080,205	-	1,080,205
Total investment return	-	1,617,373	-	1,617,373
Contributions, net	-	-	39,110	39,110
Endowment net assets, end of year	$ -	$6,674,542	$9,107,651	$15,782,193

9. Fundraising Costs

The Denim to Diamonds gala and the Randy Cross Invitational golf tournament are the two major fundraising events which are held annually along with various other special events. Including event associated contributions, total proceeds from special events were $1,395,534 in 2012 and associated expenses were $498,703. Included in these revenue and expense amounts are $156,799 of in-kind contributions of goods and services provided as an integral part of these events. Excluded from these revenue amounts are $118,000 of contributions temporarily restricted the 2013 fundraising events. Net proceeds from these events were $896,831 in 2012.

10. Retirement Plan

The House maintains a tax deferred 403(b) plan for all eligible employees. After 12 months of service, the House generally contributes 5% of eligible full time employees' compensation beginning with their respective plan entry date. The House made contributions of $44,171 to the plan for the year ended December 31, 2012. The House paid $2,821 for the plan's administration costs during the year ended December 31, 2012.

11. Concentrations of Risk

The House has defined its financial instruments which are potentially subject to credit risk as cash, receivables, certificates of deposit and investments.

At December 31, 2012, the House had cash deposits in excess of federally insured limits. Investments are subject to a formal investment policy. The House attempts to limit its credit risk associated with cash equivalents, certificates of deposit and marketable securities by utilizing outside advisors and managers to place its investments with highly rated corporate and financial institutions.

The majority of the House's revenue is derived from public and private donations, along with several fundraising events scheduled throughout the year. The success of these events could vary from year to year. Contributions receivable are due from various individuals which mitigate the risk associated therein.

The House had two donors that accounted for approximately 82% of contributions receivable as of December 31, 2012 and two donors that accounted for approximately 57% of contribution revenue for the year then ended.

12. Related Party

Approximately $2,253,000 of net contributions receivable are due from Board members and staff at December 31, 2012. The House received approximately $2,282,000 in donations from Board members and staff in 2012.

13. Long-Term Housing Needs

While the House served 620 families in 2012, the facility is not able to serve all of the families of seriously ill children who need housing. During 2012, the House's waiting list averaged 35 to 40 families each night due to a lack of rooms. With the Hospital set to expand by 100 beds and with longer lengths of stay due to increasingly complex medical cases, the House faces even higher demand over the coming years. In 2011, the House commissioned a demand study to explore how many additional rooms we would need in the future, and initiated plans to build an adjacent facility that will more than double our capacity to provide a home-away-from-home for families of critically ill children. In 2012, the House began moving through the City of Palo Alto building approval process. Designs for a three story 52,000 square foot addition have been approved by the City's Architectural Review Board. The addition is expected to be completed in 2015, and will allow the House to serve 120 families each night. In 2012, included in the Statement of Functional Expenses is approximately $174,000 of professional fees related to finding a long-term solution to meet all current and projected housing needs.

14. In-Kind Expenses

Donated goods and services were as follows for the year ended December 31, 2012:

Beneficial use of land	$228,888
Event auction and gift items	130,542
Event materials and supplies	26,255
Cleaning services and supplies	94,929
Professional services and other	70,335
Toys and games	83,817
	$634,766

15. Subsequent Events

The House evaluated subsequent events through June 24, 2013, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.