

**RONALD MCDONALD HOUSE CHARITIES OF THE SOUTHWEST, INC.
LUBBOCK, TEXAS**

FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2010

AND

INDEPENDENT AUDITOR'S REPORT

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Robison Johnston & Patton, LLP
CERTIFIED PUBLIC ACCOUNTANTS
A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Ronald McDonald House Charities of the Southwest, Inc.
Lubbock, Texas

We have audited the accompanying statement of financial position of Ronald McDonald House Charities of the Southwest, Inc. (a nonprofit corporation) as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Ronald McDonald House Charities of the Southwest, Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Robison Johnston & Patton LLP

May 20, 2011

RONALD MCDONALD HOUSE CHARITIES OF THE SOUTHWEST, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and Cash Equivalents	\$ 101,720	152,566		\$ 254,286
Investments	2,404,939	263,320	496,250	3,164,509
Investment in Unit Trust	3,468			3,468
Accounts Receivable, (net of allowance for bad debts of \$3,424)	26,335			26,335
Unconditional Promises to Give				
Unrestricted- Due in one to five years	30,166			30,166
Prepaid Insurance	7,815			7,815
Prepaid Expenses	8,745			8,745
Physical Properties				
Building Costs	1,777,182			1,777,182
Furniture and Equipment	968,381			968,381
Vehicles	73,144			73,144
Less: Accumulated Depreciation	(1,327,204)			(1,327,204)
Total Physical Properties	1,491,503	-	-	1,491,503
TOTAL ASSETS	\$ 4,074,691	\$ 415,886	\$ 496,250	\$ 4,986,827
LIABILITIES				
Accounts Payable	\$ 6,314			\$ 6,314
Advance-Donation Boxes	25,242			25,242
Federal Income Tax Payable	1,674			1,674
Sales Tax Payable	61			61
TOTAL LIABILITIES	33,291	-	-	33,291
NET ASSETS				
Unrestricted/ Undesignated	2,549,897			2,549,897
Unrestricted- Net Book Value of Fixed Assets	1,491,503			1,491,503
Temporarily Restricted- Building Replacement		55,382		55,382
Temporarily Restricted- Operations & Improvements		144,074		144,074
Temporarily Restricted- Other Donor Restrictions		216,430		216,430
Permanently Restricted- RMH Operations			496,250	496,250
TOTAL NET ASSETS	4,041,400	415,886	496,250	4,953,536
TOTAL LIABILITIES AND NET ASSETS	\$ 4,074,691	\$ 415,886	\$ 496,250	\$ 4,986,827

See accompanying notes to the financial statements

RONALD MCDONALD HOUSE CHARITIES OF THE SOUTHWEST, INC.
STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUES				
Public Support				
Contributions	\$ 919,859	\$ 19,541		\$ 939,400
Special Bequests	20,250			20,250
Grant Income	133,962	147,566		281,528
Total Public Support	<u>1,074,071</u>	<u>167,107</u>	-	<u>1,241,178</u>
Gross Income Special Events	97,056			97,056
Less: Direct Expenses	(53,058)			(53,058)
Medicaid/Medicare Payments	193,292			193,292
Investment Income	52,180		9,680	61,860
Unrealized Gain on Marketable Investments	249,373			249,373
Realized Gain on Marketable Investments	871			871
Loss on Sale of Assets	(2,060)			(2,060)
Net Assets Released from Restrictions				
Investment Returns from Restricted Assets	9,680		(9,680)	-
Restrictions Satisfied by Payments	123,285	(123,285)		-
TOTAL PUBLIC SUPPORT AND REVENUES	<u>1,744,690</u>	<u>43,822</u>	-	<u>1,788,512</u>
EXPENSES AND LOSSES				
Program Services				
House Operations	970,251			970,251
Three Family Rooms	104,395			104,395
Care Mobile	62,636			62,636
Scholarships	2,708			2,708
Supporting Services				
Management and General	94,398			94,398
Fund Raising	131,350			131,350
Unallocated Payments to RMHC, Inc.	15,336			15,336
TOTAL EXPENSES AND LOSSES	<u>1,381,074</u>	-	-	<u>1,381,074</u>
INCREASE IN NET ASSETS BEFORE INCOME TAXES	363,616	43,822	-	407,438
INCOME TAXES	1,674	-	-	1,674
INCREASE IN NET ASSETS	361,942	43,822	-	405,764
NET ASSETS AT BEGINNING OF YEAR	<u>3,679,458</u>	<u>372,064</u>	<u>496,250</u>	<u>4,547,772</u>
NET ASSETS AT END OF YEAR	<u>\$4,041,400</u>	<u>\$415,886</u>	<u>\$496,250</u>	<u>\$4,953,536</u>

See accompanying notes to the financial statements.

RONALD MCDONALD HOUSE CHARITIES OF THE SOUTHWEST, INC.
STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Program Services				Supporting Services			Totals
	House Operations	Three Family Rooms	Care Mobile	Scholarships	Total Program	Management And General	Fund Raising	
Payroll								
Salaries	\$ 227,306	\$ 69,455	\$ 18,942	\$ -	\$ 315,703	\$ 48,787	\$ 84,331	\$ 448,821
Payroll Taxes	20,559	6,282	1,713	-	28,554	3,186	7,056	38,796
Employee Benefits	20,435	6,812	-	-	27,247	3,667	12,938	43,852
Total Payroll	268,300	82,549	20,655	-	371,504	55,640	104,325	531,469
Other								
Supplies	61,876	8,946	3,728	-	74,550	9,689	5,531	89,770
Repairs and Maint.	16,698	1,855	-	-	18,553	-	-	18,553
Telephone	7,854	2,400	654	-	10,908	1,351	1,351	13,610
Depreciation	122,808	-	-	-	122,808	931	310	124,049
Grant Costs	-	-	-	2,708	2,708	-	-	2,708
Insurance	22,005	3,182	1,326	-	26,513	271	271	27,055
Utilities	29,059	-	-	-	29,059	296	296	29,651
Janitorial	1,005	-	-	-	1,005	10	10	1,025
Postage	1,868	270	113	-	2,251	483	1,687	4,421
Printing and Newsletter	3,670	193	-	-	3,863	15	1,903	5,781
Promotion	-	-	-	-	-	718	718	1,436
Travel	5,742	-	-	-	5,742	-	-	5,742
Equipment and Vehicle	6,488	938	391	-	7,817	566	520	8,903
Miscellaneous	53,572	2,822	-	-	56,394	3,059	2,206	61,659
Professional Fees	-	-	-	-	-	6,335	704	7,039
Special Events	-	-	-	-	-	-	11,518	11,518
Volunteer Services (Note 5)	315,840	-	-	-	315,840	-	-	315,840
Canisters	-	-	-	-	-	15,034	-	15,034
Rent Expense	48,000	1,240	1,240	-	50,480	-	-	50,480
Bad Debt	1,517	-	-	-	1,517	-	-	1,517
Care Mobile Support	-	-	34,529	-	34,529	-	-	34,529
Lawn Maintenance	3,949	-	-	-	3,949	-	-	3,949
	701,951	21,846	41,981	2,708	768,486	38,758	27,025	834,269
Total Expenses	\$ 970,251	\$ 104,395	\$ 62,636	\$ 2,708	\$ 1,139,990	\$ 94,398	\$ 131,350	\$ 1,365,738

See accompanying notes to the financial statements.

RONALD MCDONALD HOUSE CHARITIES OF THE SOUTHWEST, INC.
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in Net Assets	\$ 405,764
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operations	
Depreciation	124,049
Unrealized Gain on Investments	(249,373)
Realized Gain on Investments	(871)
(Increase) Decrease in Operating Assets	
Accounts Receivable	(3,163)
Unconditional Promises to Give	
Unrestricted	39,829
Prepaid Insurance	847
Prepaid Expenses	(6,643)
Increase (Decrease) in Operating Liabilities	
Accounts Payable	(11,694)
Advance- Donation Boxes	25,242
Federal Income Tax Payable	1,674
Payroll & Sales Taxes	(579)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>325,082</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(93,618)
Proceeds from Redemption of Investments	50,000
Acquisition of Property and Equipment	(183,743)
NET CASH USED IN INVESTING ACTIVITIES	<u>(227,361)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	97,721
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>156,565</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 254,286</u>

Supplemental disclosure of cash flow information

Interest Paid	-
Income Taxes Paid	-

Noncash investing activities in 2010 consist of:

The corporation has recorded unrealized gains on marketable investments totalling \$249,373 as unrestricted net assets.

There was a total of \$545,697 of in-kind donations received during 2010. Of this amount, \$40,367 was for capital items reflected as an investing activity in this financial statement.

See accompanying notes to the financial statements.

RONALD MCDONALD HOUSE CHARITIES OF THE SOUTHWEST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ronald McDonald House Charities ("RMHC") of the Southwest, Inc. is a not-for-profit corporation established under the laws of the State of Texas. On June 6, 1983, it was created for charitable purposes of owning and operating a facility which would provide for temporary housing, at a minimal cost, for families of critically ill children hospitalized in Lubbock County, Texas, and surrounding regions including west Texas, Big Country/ Concho Valley, Permian Basin, and Eastern New Mexico. Ronald McDonald House Charities of the Southwest operates three Ronald McDonald Family Rooms which extend the comfort of a Ronald McDonald House to a hospital setting. The Family Rooms are located inside Medical Center Hospital Odessa, Covenant's Women's and Children's Hospital in Lubbock and University Medical Center's Children's Hospital in Lubbock. Located just steps from neonatal and pediatric intensive care units, families of critically ill children can use the Ronald McDonald Family Room to rest, take showers, get something to eat and even do laundry. Additionally, the Family Rooms at Medical Center Hospital and Covenant Hospital each include two overnight sleep rooms. Ronald McDonald House Charities of the Southwest launched a Ronald McDonald Care Mobile program in the Permian Basin to provide healthcare service to children ages 0-18 who might not otherwise have access to adequate medical services. The program is a joint effort between the charity and Medical Center Hospital in Odessa, Texas. The hospital was granted the fully-equipped, 40 foot mobile clinic by Ronald McDonald House Charities' Global Headquarters in Oak Brook, IL. The hospital operates the mobile clinic and RMHC of the Southwest provides funding for 20% of the annual operating expenses. Representatives from both organizations serve on an Advisory Committee for the program. RMHC also recruits volunteers to assist with non-clinical aspects of operating the program.

Basis of Accounting

The financial statements of Ronald McDonald House Charities of the Southwest, Inc. have been prepared on the accrual basis. Revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. In addition, the corporation is required to present a statement of cash flows.

Contributions

The Ronald McDonald House Charities of the Southwest, Inc. reports contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Cash and Cash Equivalents

For purposes of the statement cash flows, the corporation considers cash in demand deposit and money market accounts to be cash and cash equivalents.

RONALD MCDONALD HOUSE CHARITIES OF THE SOUTHWEST, INC.
NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2010

Investments

The Ronald McDonald House Charities of the Southwest, Inc. records investments in marketable securities with readily determinable fair values at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Expense Allocation

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

Income Tax Status

The corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the corporation's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the corporation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Fixed Assets and Depreciation

Expenditures for physical properties are stated at cost. Donated assets are recorded at their estimated fair market value at the date of donation.

Depreciation of physical properties is calculated on the straight-line method over the following estimated useful lives:

Buildings	5-40 years
Furniture and Equipment	5-10 years
Office Remodeling	10 years
Vehicles	5-10 years

At December 31, 2010, the cost of such assets were as follows:

Buildings	\$1,777,182
Furniture & Equipment	968,381
Vehicles	73,144
	<u>2,818,707</u>
Less Accumulated Depreciation	<u>(1,327,204)</u>
	<u>\$1,491,503</u>

RONALD MCDONALD HOUSE CHARITIES OF THE SOUTHWEST, INC.
NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2010

NOTE 2: INVESTMENTS

	Cost	Market Value	Carrying Value
Schwab Institutional (McCIP) **	\$565,098	\$787,596	\$787,596
Schwab Institutional (McCIP)	\$1,494,180	\$1,889,725	\$1,889,725
The American Funds Group:			
New Economy Fund	\$38,917	\$61,007	\$61,007
Washington Mutual Fund	\$38,916	\$58,050	\$58,050
Capital Income Builder	\$38,836	\$56,136	\$56,136
Income Fund of America	\$314,701	\$311,995	\$311,995
	\$2,490,648	\$3,164,509	\$3,164,509

** 1,004 shares of McDonald Common Stock held in this account.

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment Income	\$52,180	\$0	\$9,680	\$61,860
Unrealized Gains on Investments	249,373	0	0	249,373
Realized Gains on Investments	871	0	0	871
	\$302,424	\$0	\$9,680	\$312,104

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2010:

Medicaid/Medicare	\$29,759
Less Allowance for Bad Debt	(3,424)
	\$26,335

NOTE 4: PROMISES TO GIVE

Revenues are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. The Organization considers the balance of unconditional promises receivable to be fully collectible. Accordingly, no allowance has been recorded.

RONALD MCDONALD HOUSE CHARITIES OF THE SOUTHWEST, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 5: DONATED MATERIALS AND SERVICES

\$181,857 has been reflected in these financial statements for donated supplies and materials. Donated materials that are readily identified and may be accurately measured are reflected as contributions in the accompanying financial statements at their estimated fair value upon date of receipt.

The Organization received donated services of \$315,840 in 2010, which have been recognized in the accompanying statement of activities.

NOTE 6: LEASES

On September 11, 1984, Ronald McDonald House Charities of the Southwest, Inc. entered into a lease agreement with Texas Tech University.

The terms of this agreement provide for the construction of the Ronald McDonald House upon 1.125 acres of land owned by the University. The lease payments totaled ten dollars, which was paid at its inception. The lease agreement expires on September 10, 2033. All costs for maintenance and operation of Ronald McDonald House and the land under this lease agreement are to be completely borne by Ronald McDonald House Charities of the Southwest, Inc. During a prior period, independent appraisers determined the annual fair market rental value to be \$48,000. This amount has been reflected as contributions in the accompanying financial statements.

NOTE 7: ENDOWMENTS

In March, 1993, Ronald McDonald House Charities of the Southwest, Inc. received an endowed donation in the form of 10,000 shares of McDonald Corporation common stock. The terms of the endowment provide that the principal remain intact and any income derived from earnings or gain on its sale may be used only for operational expenses. At December 31, 2010, the corporation had 1,004 shares of stock remaining. The original value of this endowed donation totaled \$496,250 and comprises the total assets in the corporation's permanently restricted activities. As of December 31, 2010, the investments permanently restricted are comprised of McDonald's common stock and other securities valued at \$77,067 and \$419,183.

NOTE 8: RETIREMENT PLAN

The eligible employees of Ronald McDonald House Charities of the Southwest, Inc. may participate in a defined contribution retirement plan. The plan is administered by Mutual of America. The plan is qualified under Internal Revenue Service code Section 403(b) and offers participation to any full-time employee of the corporation. The corporation's contributions are equal to three percent of the salary of participating employees. Vesting begins after one year and increases 20% per year for four years. Therefore, employees will become 100% vested after five years of employment. Employees voluntarily contribute to the plan based upon elections at the plan's anniversary date. During the year ended December 31, 2010, the corporation's contributions to the plan totaled \$2,580 based on eligible salaries of \$92,288.

RONALD MCDONALD HOUSE CHARITIES OF THE SOUTHWEST, INC.
NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2010

NOTE 9: FINANCIAL INSTRUMENTS

Concentration of Credit Risk Due to Temporary Cash Investments and Promises to Give Receivable

Financial instruments that potentially subject the corporation to concentrations of credit risk consist principally of temporary cash investments and promises to give receivable. The corporation places temporary cash investments with financial institutions that exceed the FDIC insured limits as of December 31, 2010. Concentrations of credit risk with respect to promises receivable are limited due to the large number of contributors comprising the corporation's contributor base and their dispersion across different industries and geographic areas. As of December 31, 2010, the corporation has no significant concentrations of credit risk.

NOTE 10: RESTRICTIONS ON NET ASSETS

Restrictions on net assets consist primarily of funds raised through capital campaign drives in prior years. These funds were generated and have been restricted for the purpose of expanding the corporation's program facility and subsequent periods maintenance of the facility. Additionally, certain donor restricted funds have been accumulated for the purpose of grant funding and the specified donor purposes.

Temporarily restricted net assets are available for the following purposes:

Payment of Capital Activities	\$55,382
Subsequent Years' Activities	\$63,864
Subsequent Years' Activities- Grants	\$152,566
Operations and Improvements	\$144,074

NOTE 11: INCOME TAXES

During the current fiscal year, the Organization commenced participation with a Unit Trust. This trust operates a charitable bingo establishment. A portion of the Organization's earnings from this establishment are considered unrelated business income. The Organization provides for tax on its earnings from the trust.

During the year ended December 31, 2010, Ronald McDonald House Charities of the Southwest, Inc. adopted FASB ASC 740 (formerly FIN 48). No amounts have been reflected on the financial statements for unrecognized tax benefits. The federal income tax returns of the Organization for 2008, 2009, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

Regina K. Johnston, P.C.
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**INDEPENDENT AUDITOR'S REPORT ON
ADDITIONAL INFORMATION**

The Board of Directors
Ronald McDonald House Charities of the Southwest, Inc.
Lubbock, Texas

We have audited the financial statements of Ronald McDonald House Charities of the Southwest, Inc. as of and for the year ended December 31, 2010, and our report thereon dated May 20, 2011 which expressed an unqualified opinion on those financial statements appears on page 1. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying statement of income and expenses-operating format is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Robison Johnston & Patton LLP

May 20, 2011

RONALD MCDONALD HOUSE CHARITIES OF THE SOUTHWEST, INC.
STATEMENT OF INCOME AND EXPENSES- OPERATING FORMAT
 FOR THE YEAR ENDED DECEMBER 31, 2010

OPERATING REVENUES	
Room Donations	\$ 18,308
Medicaid/Medicare Payments	193,292
Total Operating Revenues	<u>211,600</u>
 OPERATING EXPENSES	
Salaries and Wages	448,822
Taxes	38,796
Employee Benefits	43,852
Household Supplies	27,355
Repairs and Maintenance	18,553
Postage	4,420
Printing	5,781
Professional Fees	7,039
Promotion and Travel	7,177
Telephone	13,609
Utilities	29,652
Office Supplies	55,314
Insurance	27,054
Equipment and Vehicle Expenses	8,904
Depreciation	124,049
Miscellaneous	68,762
Lawn Maintenance	3,949
Bad Debt	1,517
Unallocated Payments to RMHC, Inc	15,336
Care Mobile Support	34,529
Canisters	15,034
Rent Expense	2,480
Volunteer Services	315,840
Janitorial Expenses	1,025
Total Operating Expenses	<u>1,318,849</u>
OPERATING INCOME (LOSS)	<u>(1,107,249)</u>
 NONOPERATING INCOME (EXPENSE)	
Donations, Memorials, and Bequests	893,343
Realized Gain on Marketable Investments	871
Investment Income	61,860
Fund Raiser Proceeds	97,056
Fund Raiser Expenses	(64,576)
Grant Income	281,528
Grant Payments	(2,708)
Federal Income Tax	(1,674)
Loss on Sale of Assets	(2,060)
Total Nonoperating Income (Expense)	<u>1,263,640</u>
NET INCOME	<u>\$ 156,391</u>

See auditor's report on accompanying information.