

RONALD MCDONALD HOUSE CHARITIES OF  
NASHVILLE, TENNESSEE, INC.

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017 AND 2016

RONALD MCDONALD HOUSE CHARITIES OF  
NASHVILLE, TENNESSEE, INC.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Ronald McDonald House Charities of Nashville, Tennessee, Inc.  
Nashville, Tennessee

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Ronald McDonald House Charities of Nashville, Tennessee, Inc. (the "House") which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, cash flows and functional expenses 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 of 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 Nashville, Tennessee, Inc., as of December 31, 2017 and 2016, 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.

*KraftCPAs PLLC*

Nashville, Tennessee  
June 26, 2018

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
ASSETS		
Cash and cash equivalents	\$ 5,460,296	\$ 4,714,539
Contributions receivable	41,692	33,695
Investments	3,269,253	3,034,389
Property and equipment, net	<u>6,711,830</u>	<u>6,769,802</u>
TOTAL ASSETS	<u>\$ 15,483,071</u>	<u>\$ 14,552,425</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 43,383	\$ 58,323
Accrued expenses	<u>46,373</u>	<u>69,950</u>
TOTAL LIABILITIES	<u>89,756</u>	<u>128,273</u>
NET ASSETS		
Unrestricted	9,967,452	9,167,918
Temporarily restricted	4,569,863	4,406,234
Permanently restricted	<u>856,000</u>	<u>850,000</u>
TOTAL NET ASSETS	<u>15,393,315</u>	<u>14,424,152</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,483,071</u>	<u>\$ 14,552,425</u>

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

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT								
Public support								
Contributions, including in-kind contributions of \$405,434 and \$284,026, respectively	\$ 1,796,282	\$ 222,161	\$ 6,000	\$ 2,024,443	\$ 1,397,175	\$ 156,237	\$ 100,000	\$ 1,653,412
Donations and fundraising events of McDonald's Cooperatives and Operators	377,867	-	-	377,867	334,661	-	-	334,661
Fundraising events	298,425	-	-	298,425	319,534	-	-	319,534
Less direct benefit costs	(34,990)	-	-	(34,990)	(31,874)	-	-	(31,874)
Net fundraising events	263,435	-	-	263,435	287,660	-	-	287,660
Program revenues	20,980	-	-	20,980	19,295	-	-	19,295
Total public support	2,458,564	222,161	6,000	2,686,725	2,038,791	156,237	100,000	2,295,028
Investment income, net	214,335	47,575	-	261,910	14,922	5,807	-	20,729
Loss on disposal of property and equipment	-	-	-	-	-	-	-	-
Transfer of temporarily restricted net assets	-	-	-	-	-	(250,000)	250,000	-
Net assets released from restrictions	106,107	(106,107)	-	-	29,295	(29,295)	-	-
TOTAL REVENUES AND SUPPORT	2,779,006	163,629	6,000	2,948,635	2,083,008	(117,251)	350,000	2,315,757
EXPENSES								
Program services	1,135,444	-	-	1,135,444	1,056,592	-	-	1,056,592
Supporting services:								
Management and general	268,615	-	-	268,615	275,158	-	-	275,158
Fundraising	503,207	-	-	503,207	350,764	-	-	350,764
Unallocated payments to RMHC Global	72,206	-	-	72,206	79,392	-	-	79,392
TOTAL EXPENSES	1,979,472	-	-	1,979,472	1,761,906	-	-	1,761,906
CHANGE IN NET ASSETS	799,534	163,629	6,000	969,163	321,102	(117,251)	350,000	553,851
NET ASSETS - BEGINNING OF YEAR	9,167,918	4,406,234	850,000	14,424,152	8,846,816	4,523,485	500,000	13,870,301
NET ASSETS - END OF YEAR	\$ 9,967,452	\$ 4,569,863	\$ 856,000	\$ 15,393,315	\$ 9,167,918	\$ 4,406,234	\$ 850,000	\$ 14,424,152

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

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	<u>\$ 969,163</u>	<u>\$ 553,851</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	190,768	139,992
Net realized and unrealized (gains) losses on investments	(149,541)	47,037
Contributions for capital improvements	(145,001)	(283,479)
(Increase) decrease in:		
Contributions receivable	(7,997)	(2,014)
Increase (decrease) in:		
Accounts payable	(14,940)	28,512
Accrued expenses	<u>(23,577)</u>	<u>16,147</u>
TOTAL ADJUSTMENTS	<u>(150,288)</u>	<u>(53,805)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>818,875</u>	<u>500,046</u>
INVESTING ACTIVITIES		
Acquisition of property and equipment	(132,796)	(16,986)
Proceeds from sale of investments	247,043	2,748,529
Purchases of investments	<u>(332,366)</u>	<u>(2,116,722)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(218,119)</u>	<u>614,821</u>
FINANCING ACTIVITIES		
Collections for capital improvements	<u>145,001</u>	<u>283,479</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>145,001</u>	<u>283,479</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	745,757	1,398,346
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,714,539</u>	<u>3,316,193</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 5,460,296</u>	<u>\$ 4,714,539</u>

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

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017					2016				
	Supporting Services				Total	Supporting Services				Total
	Program Services	Management and General	Fundraising	Total	Expenses	Program Services	Management and General	Fundraising	Total	Expenses
Leased employee-related expenses	\$ 491,283	\$ 166,758	\$ -	\$ 166,758	\$ 658,041	\$ 464,252	\$ 162,921	\$ -	\$ 162,921	\$ 627,173
Postage and printing	73,066	3,755	117,503	121,258	194,324	63,783	6,065	109,180	115,245	179,028
Depreciation	152,977	37,791	-	37,791	190,768	105,219	34,773	-	34,773	139,992
Special events	-	-	61,449	61,449	61,449	-	-	62,186	62,186	62,186
Special events - in-kind media	-	-	262,900	262,900	262,900	-	-	110,055	110,055	110,055
Utilities and telephone	96,747	-	-	-	96,747	100,119	-	-	-	100,119
Maintenance	98,506	4,119	30,690	34,809	133,315	54,027	3,054	40,755	43,809	97,836
Miscellaneous	14,498	769	-	769	15,267	31,191	570	-	570	31,761
Professional fees	4,673	35,427	-	35,427	40,100	9,288	41,490	-	41,490	50,778
Meetings and newsletter expenses	16,559	3,173	25,535	28,708	45,267	15,766	7,051	25,097	32,148	47,914
Insurance	24,114	2,220	-	2,220	26,334	26,265	-	-	-	26,265
Supplies	16,488	2,470	2,883	5,353	21,841	13,527	6,328	943	7,271	20,798
Bank charges	-	10,447	-	10,447	10,447	-	7,500	-	7,500	7,500
Recognition	3,999	123	1,832	1,955	5,954	1,882	1,255	2,548	3,803	5,685
House supplies	135,531	-	-	-	135,531	163,485	-	-	-	163,485
Office equipment	5,405	707	-	707	6,112	3,971	1,344	-	1,344	5,315
Education	1,598	415	415	830	2,428	3,817	2,211	-	2,211	6,028
Solicitation permits	-	441	-	441	441	-	596	-	596	596
Fundraising events - direct donor benefits	-	-	34,990	34,990	34,990	-	-	31,874	31,874	31,874
SUBTOTAL FUNCTIONAL EXPENSES	1,135,444	268,615	538,197	806,812	1,942,256	1,056,592	275,158	382,638	657,796	1,714,388
Fundraising events - direct donor benefits	-	-	(34,990)	(34,990)	(34,990)	-	-	(31,874)	(31,874)	(31,874)
TOTAL FUNCTIONAL EXPENSES	<u>\$ 1,135,444</u>	<u>\$ 268,615</u>	<u>\$ 503,207</u>	<u>\$ 771,822</u>	1,907,266	<u>\$ 1,056,592</u>	<u>\$ 275,158</u>	<u>\$ 350,764</u>	<u>\$ 625,922</u>	1,682,514
Unallocated Payments to RMHC Global					72,206					79,392
TOTAL EXPENSES					<u>\$ 1,979,472</u>					<u>\$ 1,761,906</u>

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

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 1 - GENERAL

Ronald McDonald House Charities of Nashville, Tennessee, Inc. ("the House") is a not-for-profit organization that provides a "home away from home" for families of seriously ill children who are undergoing inpatient or outpatient medical treatment at area hospitals in Nashville, Tennessee.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements present the financial position and changes in net assets of the House on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Resources are classified as unrestricted, temporarily restricted and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations.

Contributions and support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.



RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and support (continued)

The House receives capital support from the Middle Tennessee and Southern Kentucky McDonald's Cooperatives, which consist of many operators of McDonald's restaurants in the region. The Cooperatives host various fund-raising campaigns, which benefit the House. These events are typically conducted at the discretion of, and controlled by, the Cooperatives. Proceeds from these events may be restricted. Accordingly, the House receives the net proceeds at the conclusion of such campaigns or events and records these contributions when received.

The House also receives support from donors to sponsor a Family Room at Vanderbilt Children's Hospital. The Family Room is managed by the House and its volunteers. Sponsorship proceeds are restricted for consumable products available in the Family Room. All other contributions are considered to be received for unrestricted use unless specifically restricted by the donor.

Gifts of equipment or materials are reported as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Cash and cash equivalents

The House considers all highly liquid deposit instruments that are readily convertible to known amounts of cash to be cash equivalents. For the purpose of the statement of cash flows, cash includes cash and cash equivalents with original maturities of 90 days or less.

In-kind contributions and expenses

Donated materials and equipment are reflected as contributions based upon their estimated fair value at the date of receipt. Additionally, contributions of services are recognized if the services received (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. No other amounts have been reflected for donated services because no objective basis is available to measure the value of such service. Nevertheless, a large number of volunteers have given significant amounts of their time to the House's programs, fund-raising campaigns and management. Contributions of \$405,434 and \$284,026 were derived from donated goods and services for the years ended December 31, 2017 and 2016, respectively. The House also has in-kind expenses totaling \$405,434 and \$284,026 related to the use of such goods and services, which are reflected in program and supporting service expenses for the years ended December 31, 2017 and 2016, respectively.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions receivable and unallocated payments to Ronald McDonald House Charities Global

The House receives contributions from collection canisters located at individual McDonald's restaurant locations across Middle Tennessee and Kentucky. Beginning during 2017, these contributions are collected by a third-party vendor on behalf of Ronald McDonald House Charities Global ("Global") and are remitted to Global, net a collection fee. Global withholds 25% of the net collection amount from these contributions and then remits the remainder to the House. Prior to 2017, these contributions were collected by the third-party and remitted to the House, net of the collection fee. The House was then required to remit 25% of the net collection amount from these contributions to Global. Total annual payments to Global are presented on the statements of functional expenses as 'Unallocated Payments to RMHC Global.'

In management's opinion, no allowance for uncollectable amounts was necessary as of December 31, 2017 and 2016.

Investments

Investments consist of McDonald's Corporation Stock and McDonald's Charities Investment Program (McCIP) fixed income and diversified equity accounts and are carried at the quoted market value on the last business day of the reporting period. Interest and dividend income, as well as realized and unrealized gains and losses, are reported in the period earned as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Donor-restricted investment income is reported as an increase in temporarily restricted net assets.

Property and equipment

Property and equipment is recorded at cost at the date of purchase or estimated fair value at the date of gift to the House, less accumulated depreciation. When depreciable assets are disposed, the cost and accumulated depreciation are removed from the accounts and any gain (except trade-ins) or loss is included in operations for the period. Gains on trade-ins are applied to reduce the cost of the new acquisition. Depreciation is recorded using the straight-line method over the assets' estimated useful lives.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and supporting services

The following program and supporting services are included in the accompanying financial statements:

*Program services:* The Nashville Ronald McDonald House serves families from across the country and around the world. Since opening in 1991, the House has served over 14,800 families who have come from all 95 counties in Tennessee, 66 counties in Kentucky, 41 other states, 2 U.S. territories and 14 foreign countries. Every year, the House serves approximately 500 to 700 families with an average length of stay of more than two weeks and a daily waiting list of 4-7 families. They request a \$15 per night donation from families to stay in the House; however, most families cannot afford to pay. The House has never turned a family away because of their inability to pay.

The Ronald McDonald Family Room, open since 2004, is a day-use room for any family of a child receiving treatment at Vanderbilt Children's Hospital. The Family Room is open from 9am to 9pm, seven days a week and is staffed by caring volunteers and part-time staff members. The Family Room has served more than 395,000 individuals since its opening and averages 1,500 visitors per month.

*Supporting services:* Management and general expenses relate to the overall direction of the House. Activities include House oversight, business management, recordkeeping, financing, board operations, and community planning and networking activities. Fundraising expenses include the costs of activities directed toward appeals for financial support, including special events. Other activities include the creation and distribution of fundraising materials. These costs include staff time, materials and other related expenses. Activities related to obtaining financial support include the various annual fundraising campaigns.

Allocation of functional expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and non-financial data or reasonable subjective methods determined by management.

Income taxes

The House qualifies as a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and files a U.S. Federal Form 990. Accordingly, income taxes are not provided.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the House's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Use of estimates

The preparation of financial statements in conformity with GAAP 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 and expenses during the reporting period. Actual results could differ from those estimates.

Recent authoritative accounting guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The House is currently evaluating the impact of the adoption of this guidance will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of this guidance is not expected to have a material impact on the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent authoritative accounting guidance (continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The House is currently evaluating the impact of the adoption of this guidance will have on its financial statements.

Events occurring after reporting date

The House has evaluated events and transactions that occurred between December 31, 2017 and June 26, 2018, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

The House maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to statutory limits. The House’s cash balances generally exceed statutory limits. The House has not experienced any losses in such accounts and management considers this to be a normal business risk.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer custodian of the House’s securities are covered by the Securities Investor Protection Corporation (“SIPC”), which provides protection to investors in certain circumstances, such as fraud or failure of the institution. Coverage is limited to \$500,000 per broker/dealer custodian, including up to \$250,000 in cash. The SIPC does not insure against market risk.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 4 - INVESTMENTS

Investments consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
McDonald's corporate stock	\$ 225,514	\$ 155,549
Bond mutual funds	2,341,076	2,313,370
Equity mutual funds	<u>702,663</u>	<u>565,470</u>
	<u>\$ 3,269,253</u>	<u>\$ 3,034,389</u>

The following schedule summarizes the investment income for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 112,369	\$ 67,766
Realized and unrealized gains (losses), net	<u>149,541</u>	<u>(47,037)</u>
	<u>\$ 261,910</u>	<u>\$ 20,729</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 5 - FAIR VALUE MEASUREMENTS

The House classifies assets measured at fair value based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs). The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial assets measured at fair value on a recurring basis include the following:

*Corporate stock:* The fair value of corporate stock is determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs).

*Mutual funds:* The fair values of mutual fund investments in equity securities and fixed income securities that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs).

There have been no changes in the valuation methodology used at December 31, 2017 and 2016, respectively.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the House believes the valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets measured at fair value on a recurring basis consist of the following as of December 31:

	2017			
	Level 1	Level 2	Level 3	Total
Investments				
Corporate stock	\$ 225,514	\$ -	\$ -	\$ 225,514
Mutual funds				
Bond funds	2,341,076	-	-	2,341,076
Equity funds				
Diversified emerging markets	28,241	-	-	28,241
Large value	148,563	-	-	148,563
Large growth	148,485	-	-	148,485
Small value	63,139	-	-	63,139
Foreign large blend	248,230	-	-	248,230
Mid-cap growth	66,005	-	-	66,005
Total investments at fair value	<u>\$ 3,269,253</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,269,253</u>
	2016			
	Level 1	Level 2	Level 3	Total
Investments				
Corporate stock	\$ 155,549	\$ -	\$ -	\$ 155,549
Mutual funds				
Bond funds	2,313,370	-	-	2,313,370
Equity funds				
Diversified emerging markets	27,613	-	-	27,613
Large value	141,066	-	-	141,066
Large growth	119,563	-	-	119,563
Small value	64,963	-	-	64,963
Foreign large blend	153,035	-	-	153,035
Mid-cap growth	59,230	-	-	59,230
Total investments at fair value	<u>\$ 3,034,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,034,389</u>



RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 4,848,285	\$ 4,848,285
Building and improvements	3,823,479	3,728,381
Furniture and equipment	594,152	556,454
Vehicles	<u>18,931</u>	<u>18,931</u>
	9,284,847	9,152,051
Less accumulated depreciation	<u>(2,573,017)</u>	<u>(2,382,249)</u>
	<u>\$ 6,711,830</u>	<u>\$ 6,769,802</u>

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Capital expenditures	\$ 4,075,767	\$ 3,953,852
Future operations	387,471	352,728
Family Room support	<u>106,625</u>	<u>99,654</u>
	<u>\$ 4,569,863</u>	<u>\$ 4,406,234</u>

During 2016, the House entered into an agreement with a donor to create a permanent endowment for the purpose of supporting the cost of families housed at the House regardless of their ability to pay. Prior to 2016, the donor had contributed \$250,000 that was included in the capital expenditures classification within temporarily restricted net assets. During 2016, pursuant to the agreement, the \$250,000 was recategorized from temporarily restricted net assets to the permanently restricted endowment. See Note 8. Additionally, the donor contributed \$6,000 and \$100,000 to the endowment during 2017 and 2016, respectively. The donor stipulated an annual earnings distribution from the endowment, as defined by the agreement.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 8 - ENDOWMENT FUNDS

The House follows accounting principles generally accepted in the United States of America policy, "Not-for-Profit Entities", which provides guidance on the net asset classification of donor restricted endowment funds for organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The House's endowment consists of two individual funds established by donors to support House operations. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment designated net asset composition by type of fund as of December 31:

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 856,000	\$ 856,000
Total funds	<u>\$ -</u>	<u>\$ 856,000</u>	<u>\$ 856,000</u>

  

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 850,000	\$ 850,000
Total funds	<u>\$ -</u>	<u>\$ 850,000</u>	<u>\$ 850,000</u>

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 8 - ENDOWMENT FUNDS (CONTINUED)

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

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 850,000	\$ 850,000
Contributions	-	6,000	6,000
Investment income, net	47,575	-	47,575
Amounts appropriated for expenditure	(47,575)	-	(47,575)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 856,000</u>	<u>\$ 856,000</u>

  

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 500,000	\$ 500,000
Contributions	-	100,000	100,000
Transfer from temporarily restricted to permanently restricted	-	250,000	250,000
Investment income, net	5,807	-	5,807
Amounts appropriated for expenditure	(5,807)	-	(5,807)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 850,000</u>	<u>\$ 850,000</u>

Interpretation of UPMIFA

The Board of Trustees of the House have interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 8 - ENDOWMENT FUNDS (CONTINUED)

Interpretation of UPMIFA (continued)

As a result of this interpretation, the House classifies as permanently restricted net assets (a) the original value of permanently restricted gifts donated to the Endowment, (b) the original value of subsequently permanently restricted gifts donated to the Endowment, and (c) accumulation of the 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 House in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the House considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the House
- The investment policies of the House

The House has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the House must hold in perpetuity. Under this policy, as approved by the Finance Committee of the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the inflation index. The House expects its endowment funds, over time, to provide an average rate of return of approximately six percent annually. Actual returns in any given year may vary from this amount.

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 appreciation (realized and unrealized) and current yield (interest and dividends). The House 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 House has a general spending policy of periodically appropriating all appreciation and earnings of the endowment funds through the calendar year-end to provide funds for the general operations of the House, which aligns with the spending policy set forth by the House's initial endowment donor. The House expects the current spending policy to allow its endowment to remain constant and provide a secondary source of funds for the operating expenses of the House. This is consistent with the House's objective to maintain the purchasing power of the endowment assets held in perpetuity.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 8 - ENDOWMENT FUNDS (CONTINUED)

Interpretation of UPMIFA (continued)

Additionally, an endowment specific spending policy was instituted by one donor, in which, the donor desires for an annual distribution to be made from the endowment for the purpose of supporting the cost of families housed at the House regardless of their ability to pay. The donor desires for the amount of the annual distribution to be equal to five percent of the average fair market value of the endowment (determined as the close of the immediately preceding calendar year) and for such distribution to be made from the income and other earnings of the endowment only. Although the donor's desire that the endowment annually distribute a set percentage of the annual fair market value of the endowment and that such distribution be made from only the income and other earnings of the endowment and not from the corpus of the endowment shall be taken into consideration, the Corporate Board of Directors of the House ultimately shall not be obligated to follow such desire of the donor and may set the amount of the annual distribution in accordance with the general endowment spending policy of the House notwithstanding whether such amount so set may come in part or in whole from the corpus of the endowment.

NOTE 9 - EMPLOYEE BENEFIT PLAN

The House sponsors a Section 403(b) retirement plan. The plan allows employees to make voluntary contributions, subject to certain limitations under the Internal Revenue Code. The plan provides for discretionary employer contributions that are determined annually by the Board of Directors. The House expensed \$19,553 and \$17,562 related to discretionary contributions to the plan for the years ended December 31, 2017 and 2016, respectively.