

RONALD MCDONALD HOUSE CHARITIES OF
NASHVILLE, TENNESSEE, INC.

FINANCIAL STATEMENTS

AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2014

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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 statement of financial position as of December 31, 2014, and the related statements of activities, cash flows and functional expenses 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 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 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 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, 2014, 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.

KraftCPAs PLLC

Nashville, Tennessee
June 26, 2015

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents

Unrestricted	\$ 849,124
Restricted for capital improvements	379,267
Donor restricted support and other restrictions	271,230
	<u>1,499,621</u>

Short-term investments

Unrestricted	740,502
Restricted for capital improvements	2,363,747
Donor restricted support and other restrictions	69,163
	<u>3,173,412</u>

Receivables

Contributions	<u>24,828</u>
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TOTAL CURRENT ASSETS 4,697,861

Property and equipment, net 6,961,538

Long-term investments

Restricted for endowment	<u>500,000</u>
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TOTAL ASSETS \$ 12,159,399

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 39,411
Accrued expenses	<u>84,720</u>

TOTAL CURRENT LIABILITIES 124,131

NET ASSETS

Unrestricted	8,451,861
Temporarily restricted	3,083,407
Permanently restricted	500,000
TOTAL NET ASSETS	<u>12,035,268</u>

TOTAL LIABILITIES AND NET ASSETS \$ 12,159,399

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

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Public support				
Contributions, including in-kind contributions of \$303,431	\$ 1,410,970	\$ 369,802	\$ -	\$ 1,780,772
Donations and fundraising events of McDonald's Cooperatives and Operators	255,884	-	-	255,884
Fundraising events	289,230	-	-	289,230
Program revenues	8,915	-	-	8,915
Total public support	1,964,999	369,802	-	2,334,801
Investment revenues	89,220	14,057	-	103,277
Loss on disposal of property and equipment	(34,274)	-	-	(34,274)
Net assets released from restrictions	1,053,046	(1,053,046)	-	-
TOTAL REVENUES AND SUPPORT	3,072,991	(669,187)	-	2,403,804
EXPENSES				
Program services	1,240,293	-	-	1,240,293
Supporting services:				
Management and general	208,006	-	-	208,006
Fundraising	201,969	-	-	201,969
Total support services	409,975	-	-	409,975
TOTAL EXPENSES	1,650,268	-	-	1,650,268
CHANGE IN NET ASSETS	1,422,723	(669,187)	-	753,536
NET ASSETS - BEGINNING OF YEAR	7,029,138	3,752,594	500,000	11,281,732
NET ASSETS - END OF YEAR	\$ 8,451,861	\$ 3,083,407	\$ 500,000	\$ 12,035,268

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

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

OPERATING ACTIVITIES

Change in net assets \$ 753,536

Adjustments to reconcile change in net assets to net cash provided by
operating activities:

Depreciation 129,780

Net realized and unrealized losses on investments 37,232

In-kind contribution of property and equipment (36,092)

Loss on disposal of property and equipment 34,274

(Increase) decrease in:

Donations receivable 206,538

Increase (decrease) in:

Accounts payable 19,471

Accrued expenses (38,502)

TOTAL ADJUSTMENTS 352,701

NET CASH PROVIDED BY OPERATING ACTIVITIES 1,106,237

INVESTING ACTIVITIES

Aquisition of property and equipment (1,043)

Proceeds from sale of investments 763,871

Purchases of investments (903,781)

NET CASH USED IN INVESTING ACTIVITIES (140,953)

FINANCING ACTIVITIES

Principal payments on term note payable (1,450,000)

NET DECREASE IN CASH AND CASH EQUIVALENTS (484,716)

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 1,984,337

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 1,499,621

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

CASH PAID FOR

Interest \$ 16,134

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

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services	Supporting Services			Total Expenses
		Administration	Fundraising	Total	
Salaries and related benefits	\$ 477,282	\$ 139,568	\$ -	\$ 139,568	\$ 616,850
Postage and printing	123,136	5,141	4,469	9,610	132,746
Depreciation	129,780	-	-	-	129,780
In-kind expenses	169,739	-	97,600	97,600	267,339
Special events	-	-	94,343	94,343	94,343
Utilities and telephone	88,237	-	-	-	88,237
Maintenance	78,556	-	-	-	78,556
Interest expense and fees	-	16,134	-	16,134	16,134
Miscellaneous	58,048	-	-	-	58,048
Professional fees	1,859	31,573	-	31,573	33,432
Meetings and newsletter expenses	65,874	1,757	-	1,757	67,631
Insurance	19,576	2,176	-	2,176	21,752
Supplies	9,860	3,645	3,797	7,442	17,302
Bank charges	-	7,690	-	7,690	7,690
Recognition	6,704	-	1,760	1,760	8,464
House supplies	474	-	-	-	474
Office and related expenses	11,168	-	-	-	11,168
Solicitation permits	-	322	-	322	322
TOTAL FUNCTIONAL EXPENSES	<u>\$ 1,240,293</u>	<u>\$ 208,006</u>	<u>\$ 201,969</u>	<u>\$ 409,975</u>	<u>\$ 1,650,268</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, 2014

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, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 \$303,431 in 2014 were derived from donated goods and services. The House also has in-kind expenses totaling \$267,339 in 2014, related to the use of such goods and services, which are reflected in operating expenses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions receivable

Contributions receivable represent contributions collected by a third party vendor on behalf of the House. These contributions are remitted to the House the month following collection, net a collection fee.

In management's opinion, no allowance for uncollectable amounts was necessary as of December 31, 2014.

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.

Fair value measurements

The House classifies assets measured at fair value based on a hierarchy of valuation techniques consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (valued using quoted prices for similar assets in active markets or quoted prices for identical or similar assets in markets that are not active or are directly or indirectly observable), and Level 3 (valued based on significant unobservable inputs that reflect estimates and assumptions). 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 need to 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, fixed income securities and international holding securities that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs).

No changes in the valuation methodology have been made since the prior year.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurements (continued)

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

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.

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 families from all 95 counties in Tennessee, 65 counties in Kentucky, 38 other states and 13 foreign countries. Every year, the House serves between 500 and 700 families with an average length of stay of two weeks and a daily waiting list of 4-6 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 the 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. They serve more than 2,500 individuals every month at the Family Room.

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.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The House files U.S. Federal Form 990 for organizations exempt from income tax. Tax returns for years prior to fiscal year 2011 are no longer open to examination.

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.

Events occurring after reporting date

The House has evaluated events and transactions that occurred between December 31, 2014 and June 26, 2015, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

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.

NOTE 4 – INVESTMENTS

Investments consist of the following as of December 31, 2014:

McDonald's corporate stock	\$ 234,250
Bond mutual funds	709,723
Equity mutual funds	<u>2,729,439</u>
	<u>\$ 3,673,412</u>

The following schedule summarizes the investment income for the years ended December 31, 2014:

Interest and dividend income	\$ 140,509
Realized and unrealized losses, net	<u>(37,232)</u>
	<u>\$ 103,277</u>

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

NOTE 5 - FAIR VALUE MEASUREMENTS

Financial assets measured at fair value on a recurring basis consist of the following as of December 31, 2014:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments				
Corporate stock	\$ 234,250	\$ -	\$ -	\$ 234,250
Mutual funds				
Bond funds	709,722	-	-	709,722
Equity funds				
Diversified emerging markets	132,304	-	-	132,304
Large value	695,158	-	-	695,158
Large growth	661,150	-	-	661,150
Small value	263,543	-	-	263,543
Foreign large blend	666,352	-	-	666,352
Mid-cap growth	310,933	-	-	310,933
	<u>\$ 3,673,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,673,412</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2014:

Land	\$ 4,848,285
Building and improvements	3,687,878
Furniture and equipment	508,709
Vehicles	<u>18,931</u>
	9,063,803
Less accumulated depreciation	<u>(2,102,265)</u>
	<u>\$ 6,961,538</u>

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of December 31, 2014:

Capital expenditures	\$ 2,743,014
Operations	278,469
Family Room support	<u>61,924</u>
	<u>\$ 3,083,407</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restriction specified by the donors as follows:

Capital expenditures	\$ 1,017,055
Donor designations	12,074
Family room	<u>9,860</u>
	<u>\$ 1,038,989</u>

NOTE 8 - RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION

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 UPMIFA. The House's endowment consists of individual funds established by Charles Schwab Institutional for a variety of purposes. The endowment includes donor-restricted endowment funds. 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, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ -	\$ 500,000	\$ 500,000
Total funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

NOTE 8 - RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION (CONTINUED)

Changes in endowment net assets for the year ended December 31, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 500,000	\$ 500,000
Investment income, net	14,057	-	14,057
Amounts appropriated for expenditure	<u>(14,057)</u>	<u>-</u>	<u>(14,057)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>

Interpretation of UPMIFA

The Board of Trustees of the House have interpreted the Uniform Prudent Management of Institutional Funds Act (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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

NOTE 8 - RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION (CONTINUED)

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 6 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 policy of periodically appropriating all appreciation and earnings of the endowment fund through the calendar year-end to provide funds for the general operations of the House. 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.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the House to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported as an offset to unrestricted net assets. There were no deficiencies in these funds as of December 31, 2014.

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 \$19,625 in 2014 related to discretionary contributions to the plan.