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**RONALD MCDONALD HOUSE CHARITIES OF
NASHVILLE, TENNESSEE, INC.**

FINANCIAL STATEMENTS

December 31, 2013

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
Nashville, Tennessee

FINANCIAL STATEMENTS

December 31, 2013

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Ronald McDonald House Charities of Nashville, Tennessee, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, 2013, 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.

Fox, Kolb & Associates, PLLC
Fox, Kolb & Associates, PLLC

Brentwood, Tennessee
June 10, 2014

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2013

ASSETS

Current assets

Cash and cash equivalents (Note 6)

Unrestricted	\$ 686,660
Restricted for capital improvements	1,020,193
Donor restricted support and other restrictions	<u>277,484</u>
	1,984,337

Short-term marketable securities (Notes 2 and 6)

Unrestricted	615,817
Restricted for capital improvements	2,400,154
Donor restricted support and other restrictions	<u>54,763</u>
	3,070,734

Receivables

Donations receivable	<u>231,366</u>
Total current assets	5,286,437

Land, building and equipment, net (Note 3)

7,088,457

Long-term marketable securities

Restricted for endowment (Note 2)	<u>500,000</u>
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\$ 12,874,894

LIABILITIES AND NET ASSETS

Current liabilities

Current portion of term note payable (Note 5)	\$ 25,000
Accounts payable	19,940
Accrued expenses	<u>123,222</u>
Total current liabilities	168,162

Term note payable (Note 5)

1,425,000

Total liabilities

1,593,162

Net assets

Unrestricted	7,029,138
Temporarily restricted (Note 6)	3,752,594
Permanently restricted (Note 7)	<u>500,000</u>
Total net assets	<u>11,281,732</u>

\$ 12,874,894

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues				
Public support				
Contributions, including in-kind contributions of \$124,709	\$ 840,649	\$ 676,707	\$ -	\$ 1,517,356
Donations and fundraising events of McDonald's				
Cooperatives and Operators	-	237,552	-	237,552
Fundraising events	268,770	-	-	268,770
Program revenues	15,190	-	-	15,190
Total public support	1,124,609	914,259	-	2,038,868
Investment revenues				
Interest and dividend income	84,903	-	-	84,903
Realized and unrealized losses on marketable securities, net	558,110	-	-	558,110
Total investment revenue	643,013	-	-	643,013
Total public support and revenues	1,767,622	914,259	-	2,681,881
Net assets released from restrictions (Note 6)	12,066	(12,066)	-	-
Expenses				
Program services	1,094,782	-	-	1,094,782
Support services				
Management and general	234,034	-	-	234,034
Fundraising	95,484	-	-	95,484
Total support services	329,518	-	-	329,518
Total expenses	1,424,300	-	-	1,424,300
Change in net assets	355,388	902,193	-	1,257,581
Net assets, January 1, 2013	6,673,750	2,850,401	500,000	10,024,151
Net assets, December 31, 2013	\$ 7,029,138	\$ 3,752,594	\$ 500,000	\$ 11,281,732

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2013

	Program Services	Support Services			Total Expenses
		Management and General	Fundraising	Total	
Salaries and benefits	\$ 473,846	\$ 149,152	\$ -	\$ 149,152	\$ 622,998
Postage and printing	98,352	8,545	4,781	13,326	111,678
Depreciation	139,386	-	-	-	139,386
In-kind expenses	124,709	-	-	-	124,709
Special events	-	-	89,342	89,342	89,342
Utilities and telephone	83,044	-	-	-	83,044
Maintenance	61,829	-	-	-	61,829
Interest expense and fees	-	35,503	-	35,503	35,503
Miscellaneous	13,221	-	-	-	13,221
Professional fees	5,946	30,991	-	30,991	36,937
Meetings and newsletter expenses	55,125	1,404	-	1,404	56,529
Insurance	21,027	2,176	-	2,176	23,203
Supplies	6,108	2,800	476	3,276	9,384
Bank charges	-	6,735	-	6,735	6,735
Recognition	3,409	-	885	885	4,294
House supplies	2,082	-	-	-	2,082
Office equipment	4,849	533	-	533	5,382
Education	1,849	1,001	-	1,001	2,850
Solicitation permits	-	322	-	322	322
Fair value of interest rate swap (Note 1)	-	(5,128)	-	(5,128)	(5,128)
Total functional expenses	<u>\$ 1,094,782</u>	<u>\$ 234,034</u>	<u>\$ 95,484</u>	<u>\$ 329,518</u>	<u>\$ 1,424,300</u>

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2013

Cash flows from operating activities

Change in net assets	\$ 1,257,581
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	139,386
Fair value of interest rate swap	(5,128)
Net realized and unrealized losses on marketable securities	(558,110)
Changes in operating assets and liabilities:	
Donations receivable	(23,011)
Accounts receivable - other	28,385
Accounts payable	7,053
Accrued expenses	<u>21,092</u>
Net cash from operating activities	<u>867,248</u>

Cash flows from investing activities

Proceeds from sale of marketable securities	983,983
Purchases of marketable securities	<u>(568,361)</u>
Net cash from investing activities	<u>415,622</u>

Cash flows from financing activities

Principal payments on long-term debt	<u>(550,000)</u>
Net cash from financing activities	<u>(550,000)</u>

Net change in cash and cash equivalents 732,870

Cash and cash equivalents, January 1, 2013 1,251,467

Cash and cash equivalents, December 31, 2013 \$ 1,984,337

Supplemental disclosure of cash flow information

Cash paid during the year for:	
Interest	<u><u>\$ 35,503</u></u>

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Ronald McDonald House Charities of Nashville, Tennessee, Inc. ("the House") is a nonprofit 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.

Basis of Accounting and Financial Statement Presentation: The financial statements have been prepared using the accrual basis of accounting.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions may change in the near future resulting in different actual results.

Contributions: The House accounts for contributions under accounting principles generally accepted in the United States of America policy, *"Not-for-Profit Entities: Revenue Recognition"*, whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor imposed restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction.

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 are restricted to capital expenditures. 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.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 non-financial 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 \$124,709 were derived from donated goods and services for the year ended December 31, 2013. The House also incurred expenses totaling \$124,709 for the year ended December 31, 2013, related to the use of such goods and services, which are reflected in operating expenses.

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

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.

Valuation of 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 their quoted fair values on the last business day of the reporting period. The changes in unrealized gains and losses are recognized in the statement of activities for the year.

The following are descriptions of the valuation methods and assumptions used by the House to estimate the fair values of investments:

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).

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table presents investments measured at fair value:

	December 31, 2013	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate stock	\$ 242,575	\$ 242,575	\$ -	\$ -
Mutual funds	3,328,159	3,328,159	-	-

Investment income, dividend, interest, and gains or 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.

Land, Building and Equipment: Land, building and equipment are stated at cost, or if donated, at the approximate fair value at the date of donation less accumulated depreciation. Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation, and any resulting gain or loss is recognized.

The assets' estimated lives used in computing depreciation are as follows:

Building and improvements	40 years
Furniture and equipment	5 years
Vehicles	5 years

The House capitalizes all assets purchased in excess \$1,000 unless it relates to normal repairs, maintenance and replacement.

Income Taxes: The House is a nonprofit corporation pursuant to Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income pursuant to Section 501(a). Accordingly, no provision for income taxes is required for the House in the financial statements.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The House follows guidance issued by the FASB with respect to accounting and disclosure requirements for uncertainty in tax positions. The House has analyzed its filing positions in all significant tax jurisdictions where it is required to file income tax returns for the open tax years in such jurisdictions. The House has identified as major tax jurisdictions, as defined, its federal income tax return. The House's federal tax returns remain subject to retroactive examination for various periods. The House currently believes that all significant filing positions are highly certain and that, more likely than not, all of its significant income tax filing positions and deductions would be sustained. Therefore, the House has no significant reserves for uncertain tax positions. If interest and penalties are assessed, interest costs will be recognized in interest expense and penalties will be recognized in general and administrative expenses.

Concentration of Credit Risk: Financial instruments that potentially subject the House to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities and donations receivable. The House's cash is deposited primarily in financial institutions in Tennessee and may at times exceed federally insured amounts. The House's cash equivalents consist primarily of deposit accounts with FDIC insured financial institutions and investment in money market funds managed by Charles Schwab Institutional. As of December 31, 2013, the House had deposits of approximately \$885,000 in excess of the federally insured limit. Marketable securities consist primarily of investments in bonds and diversified equity accounts also managed by Charles Schwab Institutional. Donations receivable are limited to a few donors. The House has not experienced any losses in such accounts. Management does not believe significant credit risk exists at December 31, 2013.

Fair Value of Financial Instruments: The House accounts for the fair value of financial instruments in accordance with accounting principles generally accepted in the United States of America policy, "*Fair Value Measurements and Disclosures*." The policy defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The policy classifies the inputs used to measure fair value into the following hierarchy:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The House's financial instruments are cash and cash equivalents, marketable securities, donations receivable, accounts payable and its term note payable. The recorded values of cash and cash equivalents, marketable securities, donations receivable and accounts payable approximate their fair values based on their short-term nature. The recorded values of marketable securities and the term note payable approximate their fair value, as interest approximates market rates.

Derivatives and Hedging Activities: The House had an interest rate swap contract that was entered into as hedge of cash flow variability caused by changes in interest rates on variable rate long-term debt issued in 2011 (Note 5). The differential interest required to be paid or that will be received under this contract is accrued consistent with the terms of the agreement and is recognized in interest expense as accrued. Terms of the swap contract require the differential interest to be paid or received monthly.

Accounting principles generally accepted in the United States of America require derivative instruments, such as interest rate swap contracts, to be recognized at fair value as either assets or liabilities in the statement of financial position. The House refinanced this long-term debt in June 2013 into a term note payable (Note 5) and the interest rate swap contract was eliminated. Accordingly, no asset or liability was reported in the statement of financial position at December 31, 2013. The elimination of the interest rate swap contract created a \$5,128 increase to the statement of activities due to the elimination of the \$5,128 fair value of interest rate swap liability reported in the statement of financial position at December 31, 2012.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2013 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2013. Management has performed their analysis through June 10, 2014, the date the financial statements were available to be issued.

NOTE 2 - MARKETABLE SECURITIES

Marketable securities at fair value consist of the following at December 31, 2013:

McDonald's Corporate Stock	\$ 242,575
Bond mutual funds	703,715
Equity mutual funds	<u>2,624,444</u>
	<u>\$ 3,570,734</u>

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 2 - MARKETABLE SECURITIES (Continued)

Interest and dividend income earned on marketable securities and cash and cash equivalents for the year ended December 31, 2013 totaled \$84,903. Net realized and unrealized losses on marketable securities for the year ended December 31, 2013 totaled \$558,110. Included in marketable securities are permanently restricted assets totaling \$500,000.

NOTE 3 - LAND, BUILDING AND EQUIPMENT

Land, building and equipment consist of the following at December 31, 2013:

Land	\$ 4,848,285
Building and improvements	3,687,878
Furniture and equipment	562,279
Vehicles	<u>18,931</u>
	9,117,373
Less: accumulated depreciation	<u>(2,028,916)</u>
	<u>\$ 7,088,457</u>

Depreciation expense for the year ending December 31, 2013 was \$139,386.

NOTE 4 - RETIREMENT PLAN

The House maintains a 403(b) retirement plan covering all active employees. The plan provides for discretionary employer contributions. Contributions to the plan for the year ending December 31, 2013 were \$19,113.

NOTE 5 - TERM NOTE PAYABLE

In 2008, the House financed the acquisition of 1.25 acres of vacant land through liquidation of investments totaling approximately \$2,000,000 and entered into a long-term debt agreement with a financial institution in the amount of \$2,250,000. The House refinanced the note during 2011 and paid \$250,000 in principal payments. This long-term debt was payable in full at maturity, on or before June 24, 2013. Interest was variable, tied to the London InterBank Offered Rate (LIBOR), and payable monthly. In connection with this debt agreement, the House entered into an interest rate swap contract fixing the interest rate on a portion of the variable rate borrowing in order to manage changes in market conditions related to its debt obligations (Note 1). This debt was unsecured; however, the House agreed in the debt agreement that the property will not be subject to any future lien, encumbrance, charge or security interest during the life of the debt agreement.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 5 – TERM NOTE PAYABLE (Continued)

The House made principal payments totaling \$500,000 before refinancing the remaining long-term debt into a \$1,500,000 term note payable in June 2013, maturing June 2015. This refinance eliminated the interest rate swap contract. The note bears interest at LIBOR plus 1.65% (1.90% at December 31, 2013) and is secured by the real estate listed above. The House made an additional \$50,000 of principal payments after refinancing. An additional principal payment of \$25,000 is required by March 31, 2013 and the balance of the principal, \$1,425,000 at December 31, 2013, is due by maturity.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Capital expenditures	\$ 3,420,347
Operations	280,129
Family Room support	<u>52,118</u>
	<u>\$ 3,752,594</u>

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

Capital expenditures	\$ 6,624
Family room	<u>5,442</u>
	<u>\$ 12,066</u>

NOTE 7 – 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.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 7 – RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION
(Continued)

Endowment designated net asset composition by type of fund as of December 31, 2013:

	<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>

Changes in endowment net assets for the year ended December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 500,000	\$ 500,000
Investment income, net	-	-	-	-
Endowment transfers, net	-	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<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.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 7 - RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION
(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:

- (1) The duration and preservation of the fund
- (2) The purposes of the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the House
- (7) 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 organization 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.

RONALD MCDONALD HOUSE CHARITIES OF NASHVILLE, TENNESSEE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 7 – RESTRICTIONS ON NET ASSETS AND ENDOWMENT COMPOSITION
(Continued)

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, 2013.

NOTE 8 – SUBSEQUENT EVENT

During April 2014, the House made principal payments totaling \$525,000 toward the installment note payable.