

**RONALD McDONALD HOUSE CHARITIES  
OF GREATER CHATTANOOGA, INC.**

**Chattanooga, Tennessee**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2016 and 2015**

**JOHNSON, HICKEY & MURCHISON, P.C.**  
Certified Public Accountants  
Chattanooga, Tennessee

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

**Ronald McDonald House Charities of Greater Chattanooga, Inc.:**

We have audited the accompanying financial statements of Ronald McDonald House Charities of Greater Chattanooga, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows 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 from material misstatement, whether due to fraud or error.

### Auditors' 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 audits 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 auditors' 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 Greater Chattanooga, Inc. as of December 31, 2016 and 2015, 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 State of America.

*Johnson, Nickey & Meucham, P.C.*

June 23, 2017  
Chattanooga, Tennessee

**RONALD McDONALD HOUSE CHARITIES  
OF GREATER CHATTANOOGA, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015**

**ASSETS**

	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 278,583	\$ 231,215
Inventory	7,943	6,124
Unconditional promises to give	52,874	34,899
Prepaid expenses	32,845	29,361
Investments	270,099	157,245
Property and equipment, at cost	3,136,649	3,361,868
Land lease, net of accumulated amorti- zation of \$274,050 and \$261,870	130,950	143,130
Cash value of life insurance	97,318	87,595
Restricted for long-term purposes -		
Cash	256	100,256
Investments	3,473,660	3,110,931
	<b>\$ 7,481,177</b>	<b>\$ 7,262,624</b>

(The accompanying notes are an integral part of these statements.)

## LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
<b>LIABILITIES:</b>		
Accounts payable	\$ 121,118	\$ 82,936
Payroll withholdings	11,235	-
Deferred compensation	<u>118,663</u>	<u>94,506</u>
	<u>251,016</u>	<u>177,442</u>
<b>NET ASSETS:</b>		
Unrestricted -		
Undesignated	3,556,609	3,748,784
Board designated	168,264	138,606
Temporarily restricted	2,145,921	1,926,209
Permanently restricted	<u>1,359,367</u>	<u>1,271,583</u>
	<u>7,230,161</u>	<u>7,085,182</u>
	<u>\$ 7,481,177</u>	<u>\$ 7,262,624</u>

(The accompanying notes are an integral part of these statements.)

**RONALD McDONALD HOUSE CHARITIES OF GREATER CHATTANOOGA, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND OTHER SUPPORT:</b>				
Special events and merchandise sales	\$ 348,364	\$ -	\$ -	\$ 348,364
Less cost of special events and merchandise	<u>(63,895)</u>	<u>-</u>	<u>-</u>	<u>(63,895)</u>
Net special events and merchandise sales	284,469	-	-	284,469
Contributions	1,209,821	51,761	87,784	1,349,366
In-kind contributions	<u>409,737</u>	<u>-</u>	<u>-</u>	<u>409,737</u>
Net public support	1,904,027	51,761	87,784	2,043,572
Program service revenue	13,637	-	-	13,637
Investment gains	13,013	228,171	-	241,184
Net assets released from restrictions	<u>60,220</u>	<u>(60,220)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,990,897</u>	<u>219,712</u>	<u>87,784</u>	<u>2,298,393</u>
<b>EXPENSES:</b>				
Program services	1,670,286	-	-	1,670,286
Supporting services -				
Management and general	137,479	-	-	137,479
Fundraising	314,711	-	-	314,711
Unallocated payments to RMHC Global	<u>30,938</u>	<u>-</u>	<u>-</u>	<u>30,938</u>
Total expenses	<u>2,153,414</u>	<u>-</u>	<u>-</u>	<u>2,153,414</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(162,517)	219,712	87,784	144,979
<b>NET ASSETS:</b>				
Beginning	<u>3,887,390</u>	<u>1,926,209</u>	<u>1,271,583</u>	<u>7,085,182</u>
Ending	<u>\$ 3,724,873</u>	<u>\$ 2,145,921</u>	<u>\$ 1,359,367</u>	<u>\$ 7,230,161</u>

(The accompanying notes are an integral part of these statements.)

**RONALD McDONALD HOUSE CHARITIES OF GREATER CHATTANOOGA, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND OTHER SUPPORT:</b>				
Special events and merchandise sales	\$ 500,961	\$ -	\$ -	\$ 500,961
Less cost of special events and merchandise	(172,690)	-	-	(172,690)
Net special events and merchandise sales	328,271	-	-	328,271
Contributions	1,177,147	81,433	71,030	1,329,610
In-kind contributions	239,906	-	-	239,906
Net public support	1,745,324	81,433	71,030	1,897,787
Program service revenue	19,644	-	-	19,644
Investment losses	(4,428)	(10,941)	-	(15,369)
Gain on disposition of assets	99	-	-	99
Net assets released from restrictions	105,575	(105,575)	-	-
Total revenues and other support	<u>1,866,214</u>	<u>(35,083)</u>	<u>71,030</u>	<u>1,902,161</u>
<b>EXPENSES:</b>				
Program services	1,312,823	-	-	1,312,823
Supporting services -				
Management and general	147,354	-	-	147,354
Fundraising	346,135	-	-	346,135
Unallocated payments to RMHC Global	33,048	-	-	33,048
Total expenses	<u>1,839,360</u>	<u>-</u>	<u>-</u>	<u>1,839,360</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	26,854	(35,083)	71,030	62,801
<b>NET ASSETS:</b>				
Beginning	<u>3,860,536</u>	<u>1,961,292</u>	<u>1,200,553</u>	<u>7,022,381</u>
Ending	<u>\$ 3,887,390</u>	<u>\$ 1,926,209</u>	<u>\$ 1,271,583</u>	<u>\$ 7,085,182</u>

(The accompanying notes are an integral part of these statements.)



**RONALD McDONALD HOUSE CHARITIES OF GREATER CHATTANOOGA, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Services				Supporting Services			Total
	House	Family Room	Scholarships and Grants	Care Mobile	Total Program Services	Management and General	Fund-raising	
Salaries	\$ 276,079	\$ 104,837	\$ 42,089	\$ -	\$ 423,005	\$ 19,381	\$ 120,627	\$ 563,013
Benefits	60,547	19,159	10,066	-	89,772	6,506	19,874	116,152
Payroll taxes	21,185	8,012	3,212	-	32,409	1,483	9,178	43,070
Operating supplies	290,219	839	-	-	291,058	-	30,988	322,046
Operating costs	-	-	-	87,720	87,720	-	-	87,720
Office supplies	5,689	-	-	-	5,689	4,675	3,744	14,108
Food	133,108	1,056	-	-	134,164	665	-	134,829
Telephone	29,974	-	-	-	29,974	-	-	29,974
Utilities	90,525	-	-	-	90,525	-	-	90,525
Postage	105	-	3	-	108	3,429	3,388	6,925
Repairs and maintenance	50,787	8,375	-	120	59,282	149	-	59,431
Direct mail	-	-	-	-	-	-	75,131	75,131
Printing and advertising	10,885	199	-	640	11,724	212	5,511	17,447
Conferences and travel	14,895	-	6,092	-	20,987	12,997	-	33,984
Auto	7,731	-	-	-	7,731	174	-	7,905
Depreciation	266,099	6,045	-	-	272,144	-	-	272,144
Insurance	17,546	-	-	-	17,546	8,092	-	25,638
Miscellaneous	26,421	787	-	-	27,208	12,296	46,270	85,774
Amortization	12,180	-	-	-	12,180	-	-	12,180
Professional fees	405	-	-	-	405	67,420	-	67,825
Scholarships and grants	-	-	56,655	-	56,655	-	-	56,655
	<u>\$ 1,314,380</u>	<u>\$ 149,309</u>	<u>\$ 118,117</u>	<u>\$ 88,480</u>	<u>\$ 1,670,286</u>	<u>\$ 137,479</u>	<u>\$ 314,711</u>	<u>\$ 2,122,476</u>

(The accompanying notes are an integral part of these statements.)

**RONALD McDONALD HOUSE CHARITIES OF GREATER CHATTANOOGA, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program Services				Supporting Services			Total
	House	Family Room	Scholarships and Grants	Care Mobile	Total Program Services	Management and General	Fund-raising	
Salaries	\$ 270,130	\$ 91,715	\$ 39,618	\$ -	\$ 401,463	\$ 18,802	\$ 120,230	\$ 540,495
Benefits	59,937	22,874	10,953	-	93,764	7,229	21,143	122,136
Payroll taxes	20,486	7,016	3,031	-	30,533	1,438	9,197	41,168
Operating supplies	82,751	148	-	-	82,899	-	43,774	126,673
Operating costs	-	-	-	52,308	52,308	-	-	52,308
Office supplies	1,967	-	-	-	1,967	15,456	-	17,423
Food	117,654	3,095	-	-	120,749	-	-	120,749
Telephone	29,525	117	-	-	29,642	466	-	30,108
Utilities	77,659	-	-	-	77,659	-	-	77,659
Postage	253	-	-	-	253	6,274	351	6,878
Repairs and maintenance	85,087	6,239	-	-	91,326	3,703	-	95,029
Direct mail	-	-	-	-	-	-	63,664	63,664
Printing and advertising	5,582	-	-	-	5,582	8,122	18,873	32,577
Conferences and travel	2,460	-	-	-	2,460	37,201	-	39,661
Auto	2,995	-	-	-	2,995	-	-	2,995
Depreciation	206,088	5,841	-	-	211,929	-	-	211,929
Insurance	24,023	-	-	-	24,023	779	-	24,802
Miscellaneous	9,115	-	-	-	9,115	5,029	57,789	71,933
Amortization	15,015	-	-	-	15,015	315	-	15,330
Professional fees	-	-	-	-	-	42,540	11,114	53,654
Scholarships and grants	-	-	56,080	-	56,080	-	-	56,080
Interest	3,061	-	-	-	3,061	-	-	3,061
	<u>\$ 1,013,788</u>	<u>\$ 137,045</u>	<u>\$ 109,682</u>	<u>\$ 52,308</u>	<u>\$ 1,312,823</u>	<u>\$ 147,354</u>	<u>\$ 346,135</u>	<u>\$ 1,806,312</u>

(The accompanying notes are an integral part of these statements.)

**RONALD McDONALD HOUSE CHARITIES  
OF GREATER CHATTANOOGA, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 144,979	\$ 62,801
Adjustments to reconcile increase in net assets to net cash provided by operating activities -		
Depreciation	272,144	211,929
Amortization	12,180	15,330
Life insurance	8,568	8,568
Noncash contributions	(409,737)	(239,906)
Noncash expenses	409,737	191,540
Gain on disposition of assets	-	(99)
(Gain) loss on sale of investments	1,757	(5,915)
Unrealized(gain) loss on investments	(123,278)	149,323
Net (increase) decrease in operating assets -		
Inventory	(1,819)	4,255
Unconditional promises to give	(17,975)	2,728
Prepaid expenses	(3,484)	(11,288)
Net increase (decrease) in operating liabilities -		
Accounts payable and payroll withholding	49,417	(53,397)
Deferred compensation	24,157	32,863
	<u>366,646</u>	<u>368,732</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(46,925)	(28,226)
Proceeds from sale of equipment	-	99
Purchase of investments	(354,062)	(253,047)
Proceeds from sale of investments	-	215,000
Payment of life insurance premiums	(18,291)	(18,592)
	<u>(419,278)</u>	<u>(84,766)</u>

(The accompanying notes are an integral part of these statements.)

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of notes payable	\$ -	\$ (215,091)
Net cash used by financing activities	<u>-</u>	<u>(215,091)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	(52,632)	68,875
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning	<u>331,471</u>	<u>262,596</u>
Ending	<u>\$ 278,839</u>	<u>\$ 331,471</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS:</b>		
Cash and cash equivalents	\$ 278,583	\$ 231,215
Restricted cash	<u>256</u>	<u>100,256</u>
	<u>\$ 278,839</u>	<u>\$ 331,471</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Interest paid	<u>\$ -</u>	<u>\$ 3,061</u>
<b>DISCLOSURE OF NONCASH INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	\$ (46,925)	\$ (76,592)
Noncash contributions	<u>-</u>	<u>48,366</u>
Cash paid for property and equipment	<u>\$ (46,925)</u>	<u>\$ (28,226)</u>

(The accompanying notes are an integral part of these statements.)

**RONALD McDONALD HOUSE CHARITIES  
OF GREATER CHATTANOOGA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Operations and organization -**

The Organization operates and maintains the Ronald McDonald House of Chattanooga, Tennessee and the Ronald McDonald House Family Room at Children's Hospital at Erlanger to serve families of critically ill children who are hospitalized. The Organization is responsible for raising the necessary funds to operate and maintain the House and the Family Room. The Organization also supports community efforts to better conditions for area children through a variety of means, including grants and awards to children's organizations.

The Organization, along with Children's Hospital at Erlanger, operates a Care Mobile. The Care Mobile is a mobile school-based medical clinic operating in Bradley County and Polk County. It provides medical care to underserved children who are uninsured or insured through Medicaid.

The Organization through its scholarship program, awards scholarships to eligible graduating high school seniors and second year scholarships to deserving previously awarded recipients.

The Organization is a not-for-profit corporation exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. However, income, if any, from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been determined to be other than a private foundation under Section 509(a)(2).

**Accounting -**

The financial statements of Ronald McDonald House Charities of Greater Chattanooga, Inc. have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

**Estimates -**

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support, revenues and expenses. Actual results could vary from the estimates that were used.

**RONALD McDONALD HOUSE CHARITIES  
OF GREATER CHATTANOOGA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued):

**Basis of presentation -**

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Promises to give -**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using treasury bond rates to approximate the risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. All promises to give recorded in the current year are expected to be collected in less than one year.

**Contributions -**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending upon the existence or nature of any donor restrictions. Temporarily restricted net assets consist primarily of funds to be used by the Organization for a specific purpose or within a specific time period. Permanently restricted net assets consist of assets donated with the intent of the donor that only income earned by the assets will be expended.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**RONALD McDONALD HOUSE CHARITIES  
OF GREATER CHATTANOOGA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued):

**Donated services, supplies, and property and equipment -**

Donated property and equipment, house supplies, and services, which meet the criteria for recognition, are reflected as contributions at their estimated fair values at the date of donation. Donated property and equipment is recorded as unrestricted support in the absence of donor restrictions as to how long the asset must be used. Donated house supplies are expensed when received, as they are normally consumed within a short period of time.

Donated volunteer services requiring specific expertise are recognized as contributions in the period in which the services are provided.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with its charitable intent. These services are not considered to meet the criteria for recognition and, therefore, are not recorded in the financial statements.

**Inventory -**

Inventory consists of various promotional and fundraising items which are recorded at cost, by the first-in first-out method, or estimated fair value at the time of donation, as applicable.

**Property and depreciation -**

The Organization capitalizes significant expenditures for property and equipment at historical cost or estimated fair value if donated. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Depreciation expense was \$272,144 and \$211,929 for the years ended December 31, 2016 and 2015, respectively.

**Impairment of long-lived assets -**

The Organization evaluates its long-lived assets for any events or changes in circumstances which indicate that the carrying amount of such assets may not be fully recoverable. The Organization evaluates the recoverability of long-lived assets by measuring the carrying amount of such assets against the estimated undiscounted future cash flows associated with them. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair value.

**RONALD McDONALD HOUSE CHARITIES  
OF GREATER CHATTANOOGA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued):

**Cash and cash equivalents -**

For purposes of these financial statements, the Organization considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. The Organization's cash balances are maintained in bank accounts that may exceed Federal Deposit Insurance Corporation limits from time to time. The Organization has not experienced any losses in such accounts and management believes that it is not exposed to any significant credit risk.

**Functional allocation of expenses -**

The costs of providing the various programs and other 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.

**Scholarships -**

The Organization awards scholarships to students through its scholarship committee based on eligibility guidelines which include financial need, academic achievement, community involvement, county of residency, and application to a college in Tennessee or surrounding states. The Ronald McDonald Scholarship Program is administered and promoted to area high schools by the Community Foundation of Greater Chattanooga, Inc. Matching funds from the global Ronald McDonald House Charities and monies raised through local McDonald's restaurants are used to fund this program.

**Advertising -**

Advertising costs for special events and general marketing are expensed as incurred.

**Uncertain tax positions -**

The Organization follows the requirements of professional literature in accounting for uncertain tax positions. Under this guidance, an Organization must recognize the tax benefit associated with tax positions taken when it is more than likely that the position will not be sustained. The Organization does not believe there are any material uncertain tax positions, and, accordingly, it will not recognize any liability for uncertain tax positions. For the years ended December 31, 2016 and 2015, there were no interest or penalties related to uncertain tax positions. The returns for the years of 2013 and beyond remain subject to examination.



**RONALD McDONALD HOUSE CHARITIES  
OF GREATER CHATTANOOGA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**(2) FAIR VALUE MEASUREMENTS:**

The Organization follows professional guidance which establishes a framework for measuring fair value. This guidance defines fair value as the price the Organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. It established a three tier hierarchy of inputs to establish a classification of fair value measurements for disclosure purposes. The three levels of the fair value hierarchy are described as follows -

Level 1:

Inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2:

Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3:

Inputs are unobservable and supported by little or no market activity.

The Organization uses the following methods and assumptions in estimating the fair market values of financial instruments -

Equity funds - fair values equal the net asset value (NAV) per unit of shares held by the Organization at year end. The NAV per unit is based on the market value of the underlying investments held by the mutual fund at year end. The net asset value per unit is a publicly-quoted price in an active market.

**RONALD McDONALD HOUSE CHARITIES  
OF GREATER CHATTANOOGA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**(2) FAIR VALUE MEASUREMENTS** (Continued):

Corporate bonds - Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

At December 31, 2016, the Organization's investments were classified as follows, based on fair values -

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Total</u>
Mutual funds - equity	\$ 2,583,688	\$ -	\$ -	\$ 2,583,688
Mutual funds - bond	1,160,071	-	-	1,160,071
CSV of life insurance	<u>97,318</u>	<u>-</u>	<u>-</u>	<u>97,318</u>
Total	<u>\$ 3,841,077</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,841,077</u>

At December 31, 2015, the Organization's investments were classified as follows, based on fair values -

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Total</u>
Mutual funds - equity	\$ 2,273,956	\$ -	\$ -	\$ 2,273,956
Mutual funds - bond	994,220	-	-	994,220
CSV of life insurance	<u>87,595</u>	<u>-</u>	<u>-</u>	<u>87,595</u>
Total	<u>\$ 3,355,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,355,771</u>

**RONALD McDONALD HOUSE CHARITIES  
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**(3) INVESTMENTS:**

Investments are reported in the statements of financial position as follows -

	2016	2015
Unrestricted	\$ 270,099	\$ 157,245
Board designated	168,264	138,606
Temporarily restricted	1,946,029	1,700,742
Permanently restricted	1,359,367	1,271,583
	\$ 3,743,759	\$ 3,268,176

Investments consist of the following at December 31, 2016, and 2015 -

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
	Mutual funds - equity	\$2,177,207	\$2,583,688	\$1,987,862
Mutual funds - bond	1,147,341	1,160,071	987,466	994,220
	\$3,324,548	\$3,743,759	\$2,975,328	\$3,268,176

Realized gains and losses are determined by the average cost method.

Summary of investment earnings (losses), for the year ended December 31, 2016, is as follows -

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends \$	9,729	\$ 109,818	\$ -	\$ 119,547
Realized losses	(1,757)	-	-	(1,757)
Unrealized gains	4,925	118,353	-	123,278
	\$ 12,897	\$ 228,171	\$ -	\$ 241,068

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**(3) INVESTMENTS** (Continued):

Summary of investment earnings (losses), for the year ended December 31, 2015, is as follows -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 6,616	\$ 122,690	\$ -	\$ 129,306
Realized gains	4,758	1,157	-	5,915
Unrealized losses	<u>(14,535)</u>	<u>(134,788)</u>	-	<u>(149,323)</u>
	<u>\$ (3,161)</u>	<u>\$ (10,941)</u>	<u>\$ -</u>	<u>\$ (14,102)</u>

**(4) PROPERTY AND EQUIPMENT:**

Property and equipment consists of the following -

	<u>2016</u>	<u>2015</u>
Buildings and family room	\$ 5,364,617	\$ 5,361,922
Land improvements	44,551	44,551
Furniture and equipment	1,240,424	1,219,064
Library	3,550	3,550
Software	<u>22,870</u>	<u>-</u>
	6,676,012	6,629,087
Accumulated depreciation	<u>(3,539,363)</u>	<u>(3,267,219)</u>
	<u>\$ 3,136,649</u>	<u>\$ 3,361,868</u>

**(5) AGREEMENTS WITH HOSPITAL AUTHORITY:**

The Organization has an agreement with the Chattanooga-Hamilton County Hospital Authority which allows the Organization the use of the land on which the House is located for a 399 month period ending September, 2027. The fair value of the leased property was \$405,000 at the inception of the agreement. This value was originally recorded as a contribution, and is being amortized over the term of the agreement.

The Organization has an agreement with the Chattanooga-Hamilton County Hospital Authority which allows the Organization to staff a family-like room within the Erlanger Medical Center for families of seriously ill and injured children. The agreement provides for the Organization to use the space for the room at no charge, subject to negotiation between the parties on an annual basis.

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**(6) CASH VALUE OF LIFE INSURANCE AND DEFERRED COMPENSATION PLAN:**

The Organization has a deferred compensation plan for the benefit of two key employees. It is estimated that life insurance policies purchased by the Organization on the lives of these employees will generate sufficient cash value to fund the estimated 10 year monthly benefit, for which the employees become eligible when they reach age 70. If the employees retire before the age of 70, benefits will not be paid out from this plan until they reach age 70. The amount reported as deferred compensation is calculated on the length of time until retirement age and the present value of the estimated accrued benefit.

**(7) ENDOWMENTS:**

The Organization's endowment consists of five individual funds established for different purposes. The endowment includes both donor restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 Organization classifies the following as permanently restricted net assets:

- (a) the original value of gifts donated to the permanent endowment,
- (b) the original value of subsequent gifts to the permanent endowment, and
- (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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**(7) ENDOWMENTS** (Continued):

The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- (a) the duration and preservation of the fund,
- (b) the purposes of the Organization and the donor restricted endowment fund,
- (c) general economic conditions,
- (d) the possible effect of inflation and deflation,
- (e) the expected total return from income and appreciation of investments,
- (f) other resources of the Organization, and
- (g) the investment policies of the Organization.

Endowment net assets by type of fund consist of the following at December 31, 2016 -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ 1,946,029	\$ 1,359,367	\$ 3,305,396
Board designated funds	<u>168,264</u>	<u>-</u>	<u>-</u>	<u>168,264</u>
	<u>\$ 168,264</u>	<u>\$ 1,946,029</u>	<u>\$ 1,359,367</u>	<u>\$ 3,473,660</u>

Changes in endowment net assets for the year ended December 31, 2016, are as follows -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 138,606	\$ 1,700,742	\$ 1,271,583	\$ 3,110,931
Investment income	4,733	109,818	-	114,551
Net gains	4,925	118,353	-	123,278
Contributions	<u>20,000</u>	<u>17,116</u>	<u>87,784</u>	<u>124,900</u>
End of year	<u>\$ 168,264</u>	<u>\$ 1,946,029</u>	<u>\$ 1,359,367</u>	<u>\$ 3,473,660</u>

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**(7) ENDOWMENTS** (Continued):

Endowment net assets by type of fund consist of the following at December 31, 2015 -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ 1,700,742	\$1,271,583	\$ 2,972,325
Board designated funds	<u>138,606</u>	<u>-</u>	<u>-</u>	<u>138,606</u>
	<u>\$ 138,606</u>	<u>\$ 1,700,742</u>	<u>\$1,271,583</u>	<u>\$ 3,110,931</u>

Changes in endowment net assets for the year ended December 31, 2015, are as follows -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 124,790	\$ 1,782,905	\$ 1,200,553	\$ 3,108,248
Investment income	5,282	122,690	-	127,972
Net losses	(7,466)	(133,631)	-	(141,097)
Appropriations	(30,000)	(85,000)	-	(115,000)
Contributions	<u>46,000</u>	<u>13,778</u>	<u>71,030</u>	<u>130,808</u>
End of year	<u>\$ 138,606</u>	<u>\$ 1,700,742</u>	<u>\$ 1,271,583</u>	<u>\$ 3,110,931</u>

Description of endowment amounts classified as permanently and temporarily restricted net assets are as follows -

	<u>2016</u>	<u>2015</u>
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	<u>\$ 1,359,367</u>	<u>\$1,271,583</u>
Temporarily restricted net assets:		
The portion of perpetual endowment funds subject to a purpose restriction under SPMIFA	<u>\$ 1,946,029</u>	<u>\$1,700,742</u>

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 SPMIFA requires to be retained as a fund of perpetual duration. There were no such deficiencies at December 31, 2016 or 2015.

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**(7) ENDOWMENTS** (Continued):

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for 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, as well as board designated funds. The primary investment objectives for endowment assets are growth and income, as well as to maximize total return and minimize risk over a longer term time horizon.

To satisfy its long-term objectives, the Organization 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 Organization targets a diversified asset allocation that places a greater emphasis on equity based investments to achieve its long-term objectives within prudent risk constraints.

The Organization currently has no specific policy as to percent or amount to appropriate for expenditure each year. However, in accordance with the stipulations of the donors, its procedure has been not to distribute more than the total return on the funds for the current year. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to continue to increase in value. This is consistent with its objective to maintain the purchasing power of the endowment assets, as well as to provide real growth through appreciation.

**(8) BOARD DESIGNATION OF UNRESTRICTED NET ASSETS:**

The Board has designated certain funds to be used for board-designated purposes rather than for general operating purposes, as follows -

	2016	2015
Designated for major repairs	<u>\$ 168,264</u>	<u>\$ 138,606</u>



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**(9) RESTRICTIONS ON NET ASSETS:**

Restricted net assets consist of the following -

	<u>2016</u>	<u>2015</u>
Temporarily restricted:		
Land lease	\$ 130,950	\$ 143,130
Care Mobile	68,942	82,337
Endowment for operations	<u>1,946,029</u>	<u>1,700,742</u>
	<u>\$ 2,145,921</u>	<u>\$ 1,926,209</u>
Permanently restricted:		
Endowment whose earnings are to fund operations	\$ 769,461	\$ 683,150
Endowment whose earnings are to fund the scholarship program	<u>589,906</u>	<u>588,433</u>
	<u>\$ 1,359,367</u>	<u>\$ 1,271,583</u>

**(10) PENSION PLAN:**

The Organization has a 401(k) plan for the benefit of its employees. An employee must be at least 21 years of age and have one year of service with the Organization to be eligible to participate in the plan. Employer contributions are an amount equal to employee contributions up to 6% of an employee's compensation. Pension expense was \$26,841 and \$24,573 for the years ended December 31, 2016 and 2015, respectively.

**(11) RELATED PARTY TRANSACTIONS:**

Ronald McDonald House Charities (RMHC) is a system of independent, separately registered public benefit organizations, referred to as "Chapters" within the global organization. The Organization is an independent operating Chapter within the RMHC system. Each Chapter is licensed by McDonald's Corporation and Ronald McDonald House Charities, Inc. to use RMHC related trademarks in conjunction with fundraising activities and the operation of its programs; the License Agreement also sets standards of operations for programs, governance, finance, branding and reporting.

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**(11) RELATED PARTY TRANSACTIONS** (Continued):

Ronald McDonald House Charities, Inc. (RMHC Global), a separately registered nonprofit organization, ensures delivery of the mission across the globe. As a center of excellence, RMHC Global builds and sustains a robust infrastructure of support to the network of Chapters, including operations, licensing and compliance, finance, risk management, communications, marketing and development. The Organization remits to RMHC Global 25% of its revenues from all national fundraising efforts facilitated by RMHC Global, as defined by the license agreement. During the years ended December 31, 2016 and 2015, the Organization received \$30,938 and \$33,048, respectively, from these revenue streams.

The Organization pays for bookkeeping, tax and payroll services to a Company that is owned in part by the Treasurer of the Organization. Included in professional fees is accounting, tax and payroll expenses related to these services of approximately \$12,867 and \$29,967 for the years ended December 31, 2016 and 2015, respectively.

**(12) RECLASSIFICATIONS:**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**(13) SUBSEQUENT EVENTS:**

Management has evaluated subsequent events through June 23, 2017, the date which these financial statements were available for issue.

