

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

FINANCIAL STATEMENTS

DECEMBER 31, 2017



---

**CERTIFIED PUBLIC ACCOUNTANTS**

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

INDEX TO REPORT

DECEMBER 31, 2017

---

	<b>PAGE</b>
INDEPENDENT AUDITOR'S REPORT	1-2
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES AND NET ASSETS	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7-16



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Ronald McDonald House Charities of Greater Chattanooga, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Ronald McDonald House Charities of Greater Chattanooga, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and net assets, 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 controls 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 Greater Chattanooga, Inc. as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Chattanooga, Tennessee  
June 15, 2018

*Henderson Hutcherson  
& McCullough, PLLC*

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

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

---

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 252,569
Inventories	4,714
Unconditional promises to give	8,632
Prepaid expenses	20,970
Investments	240,937
Construction in process	78,276
Property and equipment, net of accumulated depreciation	2,927,505
Land lease, net of accumulated amortization	118,771
Land	46,248
Cash value of life insurance	144,075
Investments restricted for long-term use	<u>3,970,104</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 7,812,801</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 175,663
Payroll withholdings	13,837
Deferred compensation	<u>137,327</u>
Total liabilities	<u>326,827</u>
<b>NET ASSETS</b>	
Unrestricted:	
Undesignated	3,397,099
Board designated	<u>127,788</u>
Total unrestricted	3,524,887
Temporarily restricted	2,601,720
Permanently restricted	<u>1,359,367</u>
Total net assets	<u>7,485,974</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 7,812,801</u></b>

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

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

STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND PUBLIC SUPPORT</b>				
Special events and merchandise sales	\$ 739,662	\$ -	\$ -	\$ 739,662
Cost of special events and merchandise	<u>(106,732)</u>	<u>-</u>	<u>-</u>	<u>(106,732)</u>
Net special events and merchandise sales	632,930	-	-	632,930
Contributions	763,400	31,147	-	794,547
In-kind contributions	<u>215,604</u>	<u>-</u>	<u>-</u>	<u>215,604</u>
Net public support	979,004	31,147	-	1,010,151
Program service revenue	25,777	-	-	25,777
Investment gains	25,792	605,772	-	631,564
Net assets release from restrictions	<u>181,120</u>	<u>(181,120)</u>	<u>-</u>	<u>-</u>
Total revenues and public support	<u>1,844,623</u>	<u>455,799</u>	<u>-</u>	<u>2,300,422</u>
<b>EXPENSES</b>				
Program services	1,516,783	-	-	1,516,783
Management and general	183,325	-	-	183,325
Fund raising	309,496	-	-	309,496
Unallocated payments to RMHC Global	<u>35,005</u>	<u>-</u>	<u>-</u>	<u>35,005</u>
Total expenses	<u>2,044,609</u>	<u>-</u>	<u>-</u>	<u>2,044,609</u>
<b>CHANGE IN NET ASSETS</b>	(199,986)	455,799	-	255,813
Net assets - beginning of year	<u>3,724,873</u>	<u>2,145,921</u>	<u>1,359,367</u>	<u>7,230,161</u>
Net assets - end of year	<u>\$ 3,524,887</u>	<u>\$ 2,601,720</u>	<u>\$ 1,359,367</u>	<u>\$ 7,485,974</u>

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

# RONALD McDONALD HOUSE CHARITIES OF GREATER CHATTANOOGA, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services				Supporting Services			Total
	House	Family Room	Scholarships and Grants	Care Mobile	Total Program Services	Management and General	Fund Raising	
Salaries	\$ 328,760	\$ 114,137	\$ 45,101	\$ -	\$ 487,998	\$ 25,039	\$ 118,038	\$ 631,075
Benefits	70,968	19,806	10,418	-	101,192	6,439	23,489	131,120
Payroll taxes	28,418	8,746	3,293	-	40,457	1,854	9,177	51,488
Operating supplies	161,332	2,349	-	-	163,681	109	5,655	169,445
Operating costs	-	-	-	90,144	90,144	-	-	90,144
Office supplies	20,693	250	-	-	20,943	-	-	20,943
Food	30,488	302	-	-	30,790	190	275	31,255
Utilities	92,879	-	-	-	92,879	-	-	92,879
Postage	570	-	-	-	570	5,172	3,167	8,909
Repairs and maintenance	61,630	6,174	-	1,140	68,944	206	-	69,150
Direct mail	-	-	-	-	-	-	101,256	101,256
Printing and advertising	4,675	200	-	-	4,875	22,614	16,891	44,380
Conferences and travel	12,931	-	-	903	13,834	11,276	-	25,110
Bad debt	-	-	-	33,206	33,206	-	-	33,206
Auto	853	-	-	-	853	68	-	921
Depreciation	232,930	6,016	-	-	238,946	-	-	238,946
Insurance	22,630	-	-	-	22,630	4,815	-	27,445
Technology	11,535	-	-	-	11,535	17,380	3,821	32,736
Miscellaneous	17,963	2,099	-	120	20,182	33,715	27,727	81,624
Amortization	12,180	-	-	-	12,180	-	-	12,180
Professional fees	-	-	-	-	-	49,161	-	49,161
Scholarships and grants	-	-	60,944	-	60,944	5,287	-	66,231
<b>Total functional expenses</b>	<b><u>\$ 1,111,435</u></b>	<b><u>\$ 160,079</u></b>	<b><u>\$ 119,756</u></b>	<b><u>\$ 125,513</u></b>	<b><u>\$ 1,516,783</u></b>	<b><u>\$ 183,325</u></b>	<b><u>\$ 309,496</u></b>	<b><u>\$ 2,009,604</u></b>

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

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

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

---

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 255,813
Adjustment to reconcile change in net assets to net cash from operating activities:	
Depreciation	238,946
Amortization	12,180
Increase in life insurance value	(8,516)
Noncash contributions	(215,604)
Noncash expenses	169,409
Net gain on investments	(432,914)
Change in assets and liabilities:	
Inventories	3,229
Unconditional promises to give	44,242
Prepaid expenses	11,875
Accounts payable	54,545
Payroll withholdings	2,602
Deferred compensation	18,664
Net cash from operating activities	<u>154,471</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of property and equipment	(29,857)
Payments on construction in process	(78,276)
Purchase of investments	(237,498)
Withdrawals from investments	170,984
Withdrawals from life insurance	11,429
Payments of life insurance premiums	<u>(17,523)</u>
Net cash from investing activities	<u>(180,741)</u>

**NET CHANGE IN CASH AND CASH EQUIVALENTS**

	(26,270)
Cash and cash equivalents - beginning of year	<u>278,839</u>
Cash and cash equivalents - end of year	<u>\$ 252,569</u>



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

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Nature of Operations**

Ronald McDonald House Charities of Greater Chattanooga, Inc. (The Organization) operates and maintains the Ronald McDonald House of Chattanooga, Tennessee and the Ronald McDonald 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.

The Organization, along with Children's Hospital at Erlanger, operates the Ronald McDonald Care Mobile. The Care Mobile is a mobile school based medical clinic operating and physically located in Bradley County, but schools in Grundy, Hamilton, and Polk Counties are served through the telehealth program. The Care Mobile 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).

#### **Basis of Presentation**

The financial statements of the Organization have been prepared on the accrual basis of accounting, which recognizes revenues and expenses in the period to which they apply rather than when received or expended.

#### **Use of Estimates**

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

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

**NOTE 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.

**Unconditional 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 and Grants**

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.

**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.

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Donated Services, Supplies, and Property and Equipment (Continued)**

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.

**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 an accredited two or four-year college. 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.

**Inventories**

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 Equipment**

Property and equipment are stated at cost, or if donated, at the approximate fair value at the date of the donation. Significant additions and improvements that have estimated useful lives in excess of one year are capitalized. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets.

**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.

**Income Tax Status**

The Organization qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from federal and state income taxes.

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Functional Allocation of Expenses**

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

**Advertising**

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

**NOTE 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:

Mutual 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.

As of December 31, 2017, the Organization's investments were classified as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds - equity	\$ 3,091,867	\$ -	\$ -	\$ 3,091,867
Mutual funds - bonds	<u>1,119,174</u>	<u>-</u>	<u>-</u>	<u>1,119,174</u>
Total	<u>\$ 4,211,041</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,211,041</u>

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

**NOTE 3 – INVESTMENTS**

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

Unrestricted	\$ 240,937
Board designated	127,788
Temporarily restricted	2,482,949
Permanently restricted	<u>1,359,367</u>
Total	<u>\$ 4,211,041</u>

Investments consist of the following at December 31, 2017:

	Cost	Fair Value
Mutual funds - equity	\$ 2,292,808	\$ 3,091,867
Mutual funds - bonds	<u>1,111,273</u>	<u>1,119,174</u>
	<u>\$ 3,404,081</u>	<u>\$ 4,211,041</u>

Summary of investment earnings for the year ended December 31, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 7,062	\$ 191,589	\$ -	\$ 198,651
Realized gain	-	168,206	-	168,206
Unrealized gains	<u>18,730</u>	<u>245,977</u>	-	<u>264,707</u>
Total	<u>\$ 25,792</u>	<u>\$ 605,772</u>	<u>\$ -</u>	<u>\$ 631,564</u>

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following as of December 31, 2017:

Buildings and family room	\$ 5,377,416
Land improvements	44,551
Furniture and equipment	1,257,795
Library	3,550
Software	<u>22,870</u>
	6,706,182
Accumulated depreciation	<u>(3,778,677)</u>
Total	<u>\$ 2,927,505</u>

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

**NOTE 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.

**NOTE 6 – CASH VALUE OF LIFE INSURANCE AND DEFERRED COMPENSATION PLAN**

The Organization has a deferred compensation plan for the benefit of a key employee. It is estimated that life insurance policies purchased by the Organization on the life of this employee will generate sufficient cash value to fund the estimated 10-year monthly benefit, for which the employee becomes eligible when they reach age 70. If the employee retires 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.

**NOTE 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 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 Organization classifies the following as permanently restricted net assets:

- (1) the original value of gifts donated to the permanent endowment
- (2) the original value of subsequent gifts to the permanent endowment, and
- (3) 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

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

**NOTE 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 UPMIFA. In accordance with UPMIFA, the Organization consider the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and 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 organization
- (7) The investment policies of the organization

Endowment net assets by type of fund consist of the following at December 31, 2017:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted funds	\$ -	\$ 2,482,949	\$ 1,359,367	\$ 3,842,316
Board designated funds	<u>127,788</u>	<u>-</u>	<u>-</u>	<u>127,788</u>
Total	<u>\$ 127,788</u>	<u>\$ 2,482,949</u>	<u>\$ 1,359,367</u>	<u>\$ 3,970,104</u>

Changes in endowment net assets for the year ended December 31, 2017 is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Beginning of the year	\$ 168,264	\$ 1,946,029	\$ 1,359,367	\$ 3,473,660
Investment income	7,062	191,589	-	198,651
Net gains	20,846	414,184	-	435,030
Distributions	(70,984)	(100,000)	-	(170,984)
Contributions	<u>2,600</u>	<u>31,147</u>	<u>-</u>	<u>33,747</u>
End of the year	<u>\$ 127,788</u>	<u>\$ 2,482,949</u>	<u>\$ 1,359,367</u>	<u>\$ 3,970,104</u>

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

**NOTE 7 – ENDOWMENTS (Continued)**

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

**Permanently restricted net assets:**

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation of by UPMIFA	\$ 1,359,367
--	--------------

**Temporarily restricted net assets:**

The portion of perpetual endowment funds that is subject To a purpose restriction under UPMIFA	\$ 2,482,949
--	--------------

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 to be retained as a fund of perpetual duration. There were no such deficiencies at December 31, 2017.

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.

**NOTE 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:

Designated for major repairs	\$ <u>127,788</u>
------------------------------	-------------------



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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

**NOTE 9 – RESTRICTIONS ON NET ASSETS**

Restricted net assets consist of the following as of December 31, 2017:

Temporarily restricted	
Land lease	\$ 118,771
Endowments for operations	<u>2,482,949</u>
Total	<u>\$ 2,601,720</u>
Permanently restricted	
Endowment whose earnings are to fund operations	\$ 769,461
Endowment whose earnings are to fund the scholarship program	<u>589,906</u>
Total	<u>\$ 1,359,367</u>

**NOTE 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 \$25,054 for the year ended December 31, 2017.

**NOTE 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.

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 receives revenues from national fundraising efforts facilitated by RMHC Global. During the year ended December 31, 2017, the Organization received \$81,195 from these revenue streams. The Organization must remit 25% of these revenue streams to RMHC Global in accordance with the license agreement.

The Organization pays for consulting services from a Company that is owned in part by the Treasurer of the Organization. Included in professional fees are consulting expenses related to these services of approximately \$1,690 for the year ended December 31, 2017.

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

**NOTE 12 – UNCERTAIN TAX POSITIONS**

The Organization follows the accounting guidance for uncertainty in income taxes using the provisions of FASB ASC Topic 740, *Income Taxes*. The Organization has determined that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits. The Organization's evaluation was performed for tax years ended December 31, 2014 through December 31, 2017, the years that remain subject to examination by major tax jurisdictions as of December 31, 2017.

**NOTE 13 – SUBSEQUENT EVENTS**

Management has evaluated events and transactions subsequent to December 31, 2017 through the date of the independent auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring recognition or disclosure.