

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

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017



CERTIFIED PUBLIC ACCOUNTANTS

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

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DECEMBER 31, 2018 AND 2017

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CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA | MEMPHIS

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 statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and net assets, 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Chattanooga, Tennessee
June 21, 2019

*Henderson Hutcherson
& McCullough, PLLC*

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

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

| | ASSETS | |
|---|-------------------------|-------------------------|
| | 2018 | 2017 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 221,567 | \$ 252,569 |
| Inventories | 5,058 | 4,714 |
| Unconditional promises to give | 89,731 | 8,632 |
| Prepaid expenses | 12,788 | 20,970 |
| Investments | <u>258,250</u> | <u>240,937</u> |
| Total current assets | <u>587,394</u> | <u>527,822</u> |
| PROPERTY AND EQUIPMENT | | |
| Construction in process | 111,991 | 78,276 |
| Property and equipment, net of accumulated depreciation | 2,748,939 | 2,927,505 |
| Land lease, net of accumulated amortization | 106,591 | 118,771 |
| Land | <u>46,248</u> | <u>46,248</u> |
| Total property and equipment | <u>3,013,769</u> | <u>3,170,800</u> |
| OTHER ASSETS | | |
| Cash value of life insurance | 160,056 | 144,075 |
| Investments restricted for long-term use | <u>3,685,321</u> | <u>3,970,104</u> |
| Total other assets | <u>3,845,377</u> | <u>4,114,179</u> |
| TOTAL ASSETS | <u>\$ 7,446,540</u> | <u>\$ 7,812,801</u> |

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

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

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

| | 2018 | 2017 |
|---|---------------------|---------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 256,231 | \$ 175,663 |
| Payroll withholdings | <u>10,792</u> | <u>13,837</u> |
| Total current liabilities | <u>267,023</u> | <u>189,500</u> |
| OTHER LIABILITIES | | |
| Deferred compensation | <u>164,972</u> | <u>137,327</u> |
| Total other liabilities | <u>164,972</u> | <u>137,327</u> |
| TOTAL LIABILITIES | <u>431,995</u> | <u>326,827</u> |
| NET ASSETS | | |
| Without donor restrictions | 4,931,989 | 5,289,662 |
| With donor restrictions | <u>2,082,556</u> | <u>2,196,312</u> |
| Total net assets | <u>7,014,545</u> | <u>7,485,974</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 7,446,540</u> | <u>\$ 7,812,801</u> |

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, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---------------------------------------|------------------------------------|---------------------|
| REVENUES AND PUBLIC SUPPORT | | | |
| Special events and merchandise sales | \$ 1,139,940 | \$ - | \$ 1,139,940 |
| Cost of special events and merchandise | <u>(97,520)</u> | <u>-</u> | <u>(97,520)</u> |
| Net special events and merchandise sales | 1,042,420 | - | 1,042,420 |
| Contributions | 534,287 | 5,970 | 540,257 |
| In-kind contributions | <u>209,867</u> | <u>-</u> | <u>209,867</u> |
| Total public support | 744,154 | 5,970 | 750,124 |
| Program service revenue | 21,438 | - | 21,438 |
| Other income | 2,434 | - | 2,434 |
| Investment losses | (180,894) | (107,546) | (288,440) |
| Net assets release from restrictions | <u>12,180</u> | <u>(12,180)</u> | <u>-</u> |
| Total program service revenue and other income (loss) | (144,842) | (119,726) | (264,568) |
| Total revenues and public support | <u>1,641,732</u> | <u>(113,756)</u> | <u>1,527,976</u> |
| EXPENSES | | | |
| Program services | 1,539,544 | - | 1,539,544 |
| Management and general | 144,539 | - | 144,539 |
| Fund raising | 310,835 | - | 310,835 |
| Unallocated payments to RMHC Global | <u>4,487</u> | <u>-</u> | <u>4,487</u> |
| Total expenses | <u>1,999,405</u> | <u>-</u> | <u>1,999,405</u> |
| CHANGE IN NET ASSETS | (357,673) | (113,756) | (471,429) |
| Net assets - beginning of year | <u>5,289,662</u> | <u>2,196,312</u> | <u>7,485,974</u> |
| Net assets - end of year | <u>\$ 4,931,989</u> | <u>\$ 2,082,556</u> | <u>\$ 7,014,545</u> |

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

STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED DECEMBER 31, 2017

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|---------------------|
| REVENUES AND PUBLIC SUPPORT | | | |
| Special events and merchandise sales | \$ 739,662 | \$ - | \$ 739,662 |
| Cost of special events and merchandise | <u>(106,732)</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>215,604</u> |
| Net public support | 979,004 | 31,147 | 1,010,151 |
| Program service revenue | 25,777 | - | 25,777 |
| Investment gains | 404,567 | 226,997 | 631,564 |
| Net assets release from restrictions | <u>12,180</u> | <u>(12,180)</u> | <u>-</u> |
| Total revenues and public support | <u>2,054,458</u> | <u>245,964</u> | <u>2,300,422</u> |
| EXPENSES | | | |
| 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>35,005</u> |
| Total expenses | <u>2,044,609</u> | <u>-</u> | <u>2,044,609</u> |
| CHANGE IN NET ASSETS | 9,849 | 245,964 | 255,813 |
| Net assets - beginning of year | <u>5,279,813</u> | <u>1,950,348</u> | <u>7,230,161</u> |
| Net assets - end of year | <u>\$ 5,289,662</u> | <u>\$ 2,196,312</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, 2018

| | Program Services | | | | Supporting Services | | | Total |
|----------------------------------|--------------------|-------------------|-------------------------|------------------|------------------------|------------------------|------------------|--------------------|
| | House | Family Room | Scholarships and Grants | Care Mobile | Total Program Services | Management and General | Fund Raising | |
| Salaries | \$ 376,523 | \$ 117,625 | \$ 44,457 | \$ - | \$ 538,605 | \$ 21,667 | \$ 114,664 | \$ 674,936 |
| Benefits | 76,145 | 26,727 | 9,962 | - | 112,834 | 7,374 | 26,046 | 146,254 |
| Payroll taxes | 25,893 | 9,226 | 3,352 | - | 38,471 | 1,660 | 8,932 | 49,063 |
| Supplies | 136,659 | 2,456 | - | - | 139,115 | - | 969 | 140,084 |
| Operating costs | - | - | - | 91,793 | 91,793 | - | - | 91,793 |
| Food | 86,123 | 109 | - | - | 86,232 | 45 | 4,443 | 90,720 |
| Utilities | 92,953 | - | - | - | 92,953 | - | - | 92,953 |
| Postage | 3,626 | - | 105 | - | 3,731 | 5,504 | 1,818 | 11,053 |
| Repairs and maintenance | 58,937 | 6,740 | - | 60 | 65,737 | - | - | 65,737 |
| Direct mail | - | - | - | - | - | - | 103,224 | 103,224 |
| Printing and advertising | 5,650 | - | 641 | 512 | 6,803 | 885 | 19,858 | 27,546 |
| Conferences and travel | 10,709 | - | - | - | 10,709 | 10,026 | - | 20,735 |
| Auto | 789 | - | - | - | 789 | 174 | - | 963 |
| Depreciation | 187,027 | 5,871 | - | - | 192,898 | - | - | 192,898 |
| Insurance | 26,555 | - | - | - | 26,555 | 25 | - | 26,580 |
| Technology | 5,601 | - | - | - | 5,601 | 17,652 | - | 23,253 |
| Miscellaneous | 55,821 | 3,407 | - | - | 59,228 | 31,810 | 25,881 | 116,919 |
| Amortization | 12,180 | - | - | - | 12,180 | - | - | 12,180 |
| Professional fees | 3,292 | - | - | - | 3,292 | 47,717 | 5,000 | 56,009 |
| Scholarships and grants | - | - | 52,018 | - | 52,018 | - | - | 52,018 |
| Total functional expenses | \$1,164,483 | \$ 172,161 | \$ 110,535 | \$ 92,365 | \$1,539,544 | \$ 144,539 | \$310,835 | \$1,994,918 |

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 | | | |
|----------------------------------|----------------------------|--------------------------|--------------------------|--------------------------|----------------------------|--------------------------|--------------------------|----------------------------|
| | House | Family Room | Scholarships and Grants | Care Mobile | Total Program Services | Management and General | Fund Raising | Total |
| 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 |
| Total functional expenses | <u>\$ 1,111,435</u> | <u>\$ 160,079</u> | <u>\$ 119,756</u> | <u>\$ 125,513</u> | <u>\$ 1,516,783</u> | <u>\$ 183,325</u> | <u>\$ 309,496</u> | <u>\$ 2,009,604</u> |

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

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

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 and 2017

| | 2018 | 2017 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (471,429) | \$ 255,813 |
| Adjustment to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | 192,898 | 238,946 |
| Amortization | 12,180 | 12,180 |
| (Increase) / decrease in life insurance value | 1,018 | (8,516) |
| Noncash contributions | (209,867) | (215,604) |
| Noncash expenses | 209,867 | 169,409 |
| Net loss (gain) on investments | 508,921 | (432,914) |
| Change in assets and liabilities: | | |
| Inventories | (344) | 3,229 |
| Unconditional promises to give | (81,099) | 44,242 |
| Prepaid expenses | 8,182 | 11,875 |
| Accounts payable | 80,568 | 54,545 |
| Payroll withholdings | (3,045) | 2,602 |
| Deferred compensation | <u>27,645</u> | <u>18,664</u> |
| Net cash from operating activities | <u>275,495</u> | <u>154,471</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (14,332) | (29,857) |
| Payments on construction in process | (33,715) | (78,276) |
| Purchase of investments | (376,451) | (237,498) |
| Withdrawals from investments | 135,000 | 170,984 |
| Withdrawals from life insurance | - | 11,429 |
| Payments of life insurance premiums | <u>(16,999)</u> | <u>(17,523)</u> |
| Net cash from investing activities | <u>(306,497)</u> | <u>(180,741)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (31,002) | (26,270) |
| Cash and cash equivalents - beginning of year | <u>252,569</u> | <u>278,839</u> |
| Cash and cash equivalents - end of year | <u>\$ 221,567</u> | <u>\$ 252,569</u> |

RONALD McDONALD HOUSE OF CHARITIES OF GREATER CHATTANOOGA, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 1 – NATURE OF OPERATIONS

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. 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.

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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncement

On August 18, 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

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.

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.

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Grants

Contributions received are recorded as with donor restrictions or without donor restrictions, depending upon the existence or nature of any donor restrictions. Contributions with donor restrictions consist primarily of funds to be used by the Organization for a specific purpose or within a specific time period and 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 net assets with donor restrictions, 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) contributions with donor restrictions are reclassified to contributions without donor restrictions 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 are 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.

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. 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.

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 3 – 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:

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

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, 2018, the Organization's investments were classified as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------|---------------------|----------------|----------------|---------------------|
| Mutual funds - equity | \$ 3,050,888 | \$ - | \$ - | \$ 3,050,888 |
| Mutual funds - bonds | <u>892,683</u> | <u>-</u> | <u>-</u> | <u>892,683</u> |
| Total | <u>\$ 3,943,571</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,943,571</u> |

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

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------|---------------------|----------------|----------------|---------------------|
| 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, 2018 AND 2017

NOTE 4 – INVESTMENTS

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

| | 2018 | 2017 |
|----------------------------|---------------------|---------------------|
| Without donor restrictions | \$ 2,013,853 | \$ 2,179,747 |
| With donor restrictions | <u>1,929,718</u> | <u>2,031,294</u> |
| Total | <u>\$ 3,943,571</u> | <u>\$ 4,211,041</u> |

Investments consist of the following at December 31, 2018:

| | Cost | Fair Value |
|-----------------------|---------------------|---------------------|
| Mutual funds - equity | \$ 3,095,449 | \$ 3,050,888 |
| Mutual funds - bonds | <u>880,625</u> | <u>892,683</u> |
| | <u>\$ 3,976,074</u> | <u>\$ 3,943,571</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 (losses) for the year ended December 31, 2018, is as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|------------------------|---------------------------------------|------------------------------------|---------------------|
| Interest and dividends | \$ 128,037 | \$ 77,897 | \$ 205,934 |
| Realized gain | - | - | - |
| Unrealized losses | <u>(308,931)</u> | <u>(185,443)</u> | <u>(494,374)</u> |
| Total | <u>\$ (180,894)</u> | <u>\$ (107,546)</u> | <u>\$ (288,440)</u> |

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

| | Without Donor Restrictions | With Donor Restrictions | Total |
|------------------------|---------------------------------------|------------------------------------|-------------------|
| Interest and dividends | \$ 125,867 | \$ 72,784 | \$ 198,651 |
| Realized gain | 168,206 | - | 168,206 |
| Unrealized gains | <u>110,494</u> | <u>154,213</u> | <u>264,707</u> |
| Total | <u>\$ 404,567</u> | <u>\$ 226,997</u> | <u>\$ 631,564</u> |

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | 2018 | 2017 |
|------------------------------|---------------------|---------------------|
| Buildings and family room | \$ 5,377,416 | \$ 5,377,416 |
| Land improvements | 44,551 | 44,551 |
| Furniture and equipment | 1,272,127 | 1,257,795 |
| Library | 3,550 | 3,550 |
| Software | <u>22,870</u> | <u>22,870</u> |
| Total property and equipment | 6,720,514 | 6,706,182 |
| Accumulated depreciation | <u>(3,971,575)</u> | <u>(3,778,677)</u> |
| | <u>\$ 2,748,939</u> | <u>\$ 2,927,505</u> |

NOTE 6 – 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 7 – DEFERRED COMPENSATION PLAN

The Organization has a deferred compensation plan for the benefit of a key employee. This is comprised of a life insurance policy, as well as a mutual fund in which the Organization deposits \$2,500 per quarter with a total liability of \$25,000 for 10 years. It is estimated that the policy purchased by the Organization on the life of this employee and the mutual fund will generate sufficient cash value to fund the estimated 10-year monthly benefit, for which the employee becomes eligible at age 70. If the employee retires before the age of 70, benefits will not be paid from this plan until the employee reaches 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. As the investments are owned by the Organization, all funds remaining in the two investment accounts at the conclusion of the 10 years is the property of the Organization.

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 8 – 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 gifts with donor restrictions:

- (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

In accordance with UPMIFA, the Organization considers 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, 2018:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|------------------------|---------------------------------------|------------------------------------|---------------------|
| Donor restricted funds | \$ - | \$ 1,929,718 | \$ 1,929,718 |
| Board designated funds | <u>1,755,603</u> | <u>-</u> | <u>1,755,603</u> |
| Total | <u>\$ 1,755,603</u> | <u>\$ 1,929,718</u> | <u>\$ 3,685,321</u> |

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 8 – ENDOWMENTS (Continued)

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

| | Without Donor Restrictions | With Donor Restrictions | Total |
|------------------------|---------------------------------------|------------------------------------|---------------------|
| Donor restricted funds | \$ - | \$ 2,031,293 | \$ 2,031,293 |
| Board designated funds | <u>1,938,811</u> | <u>-</u> | <u>1,938,811</u> |
| Total | <u>\$ 1,938,811</u> | <u>\$ 2,031,293</u> | <u>\$ 3,970,104</u> |

Changes in endowment net assets for the year ended December 31, 2018 is as follows:

| | Without Restrictions | With Donor Restrictions | Total |
|-----------------------|---------------------------------|------------------------------------|---------------------|
| Beginning of the year | \$ 1,938,811 | \$ 2,031,293 | \$ 3,970,104 |
| Investment income | 128,037 | 77,897 | 205,934 |
| Net gains/(losses) | (311,244) | (185,443) | (496,687) |
| Distributions | - | - | - |
| Contributions | <u>-</u> | <u>5,970</u> | <u>5,970</u> |
| End of the year | <u>\$ 1,755,604</u> | <u>\$ 1,929,717</u> | <u>\$ 3,685,321</u> |

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

| | Without Donor Restrictions | With Donor Restrictions | Total |
|-----------------------|---------------------------------------|------------------------------------|---------------------|
| Beginning of the year | \$ 1,700,511 | \$ 1,773,149 | \$ 3,473,660 |
| Investment income | 125,867 | 72,784 | 198,651 |
| Net gains/(losses) | 280,817 | 154,213 | 435,030 |
| Distributions | (170,984) | - | (170,984) |
| Contributions | <u>2,600</u> | <u>31,147</u> | <u>33,747</u> |
| End of the year | <u>\$ 1,938,811</u> | <u>\$ 2,031,293</u> | <u>\$ 3,970,104</u> |

Description of endowment amounts classified as with donor restrictions are as follows:

| | |
|--|--------------|
| The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation of by UPMIFA | \$ 1,359,367 |
| The portion of perpetual endowment funds that is subject to a purpose restriction under UPMIFA | \$ 570,351 |

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 8 – ENDOWMENTS (Continued)

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, 2018.

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 9 – BOARD DESIGNATION OF NET ASSETS WITHOUT DONOR RESTRICTIONS

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

| | 2018 | 2017 |
|------------------------------|-------------------|-------------------|
| Designated for major repairs | \$ <u>118,057</u> | \$ <u>127,788</u> |

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

NOTES TO FINANCIAL STATEMENTS

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NOTE 10 – RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions consist of the following:

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Land lease | \$ 106,591 | \$ 118,771 |
| Endowments for operations | 616,598 | 718,174 |
| Endowment whose earnings are to fund operations | 769,461 | 769,461 |
| Endowment whose earnings are to fund the scholarship program | <u>589,906</u> | <u>589,906</u> |
| Total | <u>\$ 2,082,556</u> | <u>\$ 2,196,312</u> |

NOTE 11 – AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at December 31:

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Financial assets at year-end: | | |
| Cash | \$ 221,567 | \$ 252,569 |
| Unconditional promises to give | 89,731 | 8,632 |
| Investments | 258,250 | 240,937 |
| Endowments | 3,685,321 | 3,970,104 |
| Other assets | <u>5,058</u> | <u>4,714</u> |
| Total financial assets | 4,259,927 | 4,476,956 |
| Less amounts not available to be used within one year: | | |
| Net assets with donor restrictions | 2,082,556 | 2,196,312 |
| Less net assets with purpose restrictions to be met in less than a year | <u>(12,180)</u> | <u>(12,180)</u> |
| | <u>2,070,376</u> | <u>2,184,132</u> |
| Financial assets available to meet general expenditures over the next twelve months | <u>\$ 2,189,551</u> | <u>\$ 2,292,824</u> |

The Organization is substantially supported by unrestricted contributions and in-kind donations, as well as by investment earnings on restricted endowments. The majority of contributions do not have donor restrictions; however, the Organization must maintain sufficient resources to fund ongoing operations. All net assets with donor restrictions either have purpose restrictions that are to be met in more than a year or are not meant to be available for general expenditures. Therefore, all endowments have been excluded from financial assets available for general expenditure within one year.

As part of the Organization's cash management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization has approximately 11% of its estimated annual functional expenditures in cash.

RONALD McDONALD HOUSE OF CHARITIES OF GREATER CHATTANOOGA, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 12 – 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 \$25,085 and \$25,054 for the years ended December 31, 2018 and 2017, respectively.

NOTE 13 – 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 years ended December 31, 2018 and 2017, the Organization received \$2,869 and \$81,195 from these revenue streams, respectively. 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 \$2,000 and \$1,690 for the years ended December 31, 2018 and 2017, respectively.

NOTE 14 – 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, 2015 through December 31, 2018, the years that remain subject to examination by major tax jurisdictions as of December 31, 2018.

NOTE 15 – RECLASSIFICATION

Certain prior year items have been reclassified in order to improve comparability with current year amounts. These reclassifications had no impact on net income.

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to December 31, 2018 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.