# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Financial Report

## December 31, 2014

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Contents

Plante & Moran, PLLC
Suite 200
2155 Point Blvd.
Elgin, IL 60123
Tel: 847.697.6161
Fax: 847.697.6176
plantemoran.com

# Independent Auditor's Report

To the Board of Directors
Ronald McDonald House Charities® of
Chicagoland and Northwest Indiana

We have audited the accompanying financial statements of Ronald McDonald House Charities® of Chicagoland and Northwest Indiana (RMHC-CNI or the "Organization"), which comprise the statement of financial position as of December 31, 2014 and the related statements of activities and changes in 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 Chicagoland and Northwest Indiana as of December 31, 2014 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

May 22, 2015

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Statement of Financial Position
## December 31, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | $ 1,532,263 | $ 289,108 | $ - | $ 1,821,371 |
| Investments | 864,834 | 34,093 | 1,196,310 | 2,095,237 |
| Contributions receivable - Net | 2,230,526 | 639,000 | - | 2,869,526 |
| Prepaid expenses and other | 437,985 | - | - | 437,985 |
| Asset held for resale | 175,000 | - | - | 175,000 |
| Property and equipment - Net | 53,646,827 | 5,207,000 | - | 58,853,827 |
| Total assets | **$ 58,887,435** | **$ 6,169,201** | **$ 1,196,310** | **$ 66,252,946** |

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Liabilities and Net Assets** | | | | |
| **Liabilities** | | | | |
| Accounts payable | $ 910,920 | $ - | $ - | $ 910,920 |
| Long-term debt | 3,284,000 | - | - | 3,284,000 |
| Deferred revenue | 57,410 | - | - | 57,410 |
| Accrued expenses - Net | 1,058,148 | - | - | 1,058,148 |
| Total liabilities | 5,310,478 | - | - | 5,310,478 |
| **Net Assets** | | | | |
| Unrestricted | 53,576,957 | - | - | 53,576,957 |
| Temporarily restricted | - | 6,169,201 | - | 6,169,201 |
| Permanently restricted | - | - | 1,196,310 | 1,196,310 |
| Total net assets | 53,576,957 | 6,169,201 | 1,196,310 | 60,942,468 |
| Total liabilities and net assets | **$ 58,887,435** | **$ 6,169,201** | **$ 1,196,310** | **$ 66,252,946** |

## Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

### Statement of Activities and Changes in Net Assets
### Year Ended December 31, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Revenue and Support** | | | | |
| Public support: | | | | |
| Fundraising events | $ 6,504,383 | $ - | $ - | $ 6,504,383 |
| Less direct fundraising costs | (1,268,792) | - | - | (1,268,792) |
| Net fundraising events | 5,235,591 | - | - | 5,235,591 |
| Contributions | 3,085,350 | 708,750 | - | 3,794,100 |
| In-kind contributions | 840,324 | - | - | 840,324 |
| Other revenue: | | | | |
| Room rental and house operations | 282,387 | - | - | 282,387 |
| Net realized and unrealized gain (loss) on investments | (77,119) | 643 | - | (76,476) |
| Dividends and interest | 89,674 | - | - | 89,674 |
| Loss on asset held for resale | (625,000) | - | - | (625,000) |
| Rental income | 447,157 | - | - | 447,157 |
| Loss on disposal of fixed assets | (5,032) | - | - | (5,032) |
| Total revenue and support | 9,273,332 | 709,393 | - | 9,982,725 |
| **Expenses** | | | | |
| Program services: | | | | |
| House operations | 6,329,148 | 7,797 | - | 6,336,945 |
| Grants and scholarships | 393,406 | - | - | 393,406 |
| Total program services | 6,722,554 | 7,797 | - | 6,730,351 |
| Support services: | | | | |
| Management and general | 1,078,197 | - | - | 1,078,197 |
| Fundraising | 591,459 | - | - | 591,459 |
| Remittances to RMHC, Inc. | 221,565 | - | - | 221,565 |
| Total support services | 1,891,221 | - | - | 1,891,221 |
| Total expenses | 8,613,775 | 7,797 | - | 8,621,572 |
| **Increase in Net Assets** | 659,557 | 701,596 | - | 1,361,153 |
| **Net Assets** - Beginning of year | 52,917,400 | 5,467,605 | 1,196,310 | 59,581,315 |
| **Net Assets** - End of year | **$ 53,576,957** | **$ 6,169,201** | **$ 1,196,310** | **$ 60,942,468** |

See Notes to Financial Statements.

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Statement of Functional Expenses
## Year Ended December 31, 2014

| | Program Services | | | Support Services | | | Total Expenses |
|---|---|---|---|---|---|---|---|
| | House Operations | Grants and Scholarships | Total Program Services | Fundraising | Management and General | Total Support Services | Total |
| Salaries | $ 1,965,431 | $ 59,884 | $ 2,025,315 | $ 504,488 | $ 362,912 | $ 867,400 | $ 2,892,715 |
| Payroll taxes and other related expenses | 383,152 | 15,278 | 398,430 | 86,971 | 71,643 | 158,614 | 557,044 |
| Total salaries and related expenses | 2,348,583 | 75,162 | 2,423,745 | 591,459 | 434,555 | 1,026,014 | 3,449,759 |
| Employee activities | 5,227 | - | 5,227 | - | 10,911 | 10,911 | 16,138 |
| Printing and copying | 24,142 | - | 24,142 | - | 21,299 | 21,299 | 45,441 |
| Publications | 2,436 | - | 2,436 | - | 16,207 | 16,207 | 18,643 |
| Computer expense | 45,032 | - | 45,032 | - | 22,690 | 22,690 | 67,722 |
| Bank charges | 51,022 | - | 51,022 | - | 14,888 | 14,888 | 65,910 |
| Scholarships | - | 190,557 | 190,557 | - | - | - | 190,557 |
| Grants | - | 61,000 | 61,000 | - | - | - | 61,000 |
| Professional fees | 164,899 | - | 164,899 | - | 62,756 | 62,756 | 227,655 |
| Supplies | 282,748 | - | 282,748 | - | 18,281 | 18,281 | 301,029 |
| Communication and advertising | 104,964 | - | 104,964 | - | 20,571 | 20,571 | 125,535 |
| Insurance | 114,752 | - | 114,752 | - | 12,750 | 12,750 | 127,502 |
| Real estate taxes | 103,190 | - | 103,190 | - | 82,305 | 82,305 | 185,495 |
| Repairs and maintenance | 441,986 | - | 441,986 | - | - | - | 441,986 |
| Rentals | 53,098 | - | 53,098 | - | 100,994 | 100,994 | 154,092 |
| Telephone | 57,189 | - | 57,189 | - | - | - | 57,189 |
| Utilities | 310,743 | - | 310,743 | - | 3,270 | 3,270 | 314,013 |
| Special events | 22,324 | - | 22,324 | - | 9,952 | 9,952 | 32,276 |
| Postage and delivery | 2,276 | - | 2,276 | - | 17,358 | 17,358 | 19,634 |
| Meetings and conventions | 9,274 | - | 9,274 | - | 35,990 | 35,990 | 45,264 |
| Miscellaneous | 21,476 | 66,687 | 88,163 | - | 82,208 | 82,208 | 170,371 |
| Interest | 91,664 | - | 91,664 | - | - | - | 91,664 |
| Depreciation | 2,079,920 | - | 2,079,920 | - | 78,591 | 78,591 | 2,158,511 |
| Provision for doubtful accounts | - | - | - | - | 32,621 | 32,621 | 32,621 |
| Total functional expenses | 6,336,945 | 393,406 | 6,730,351 | 591,459 | 1,078,197 | 1,669,656 | 8,400,007 |
| Direct fundraising costs | - | - | - | 1,268,792 | - | 1,268,792 | 1,268,792 |
| Remittances to RMHC, Inc. | - | - | - | - | - | - | 221,565 |
| Total expenses | **$ 6,336,945** | **$ 393,406** | **$ 6,730,351** | **$ 1,860,251** | **$ 1,078,197** | **$ 2,938,448** | **$ 9,890,364** |

See Notes to Financial Statements.

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Statement of Cash Flows
## Year Ended December 31, 2014

| | |
|---|---|
| **Cash Flows from Operating Activities** | |
| Increase in net assets | $ 1,361,153 |
| Adjustments to reconcile increase in net assets to net cash from operating activities: | |
| Depreciation | 2,158,511 |
| Bad debt expense | 32,621 |
| In-kind contributions | (840,324) |
| Net realized and unrealized loss on investments | 76,476 |
| Loss on asset held for resale | 625,000 |
| Loss on disposal of fixed assets | 5,032 |
| Amortization of discount on pledges | (46,508) |
| Changes in operating assets and liabilities which provided (used) cash: | |
| Contributions receivable | 5,362,729 |
| Prepaid expenses and other | (48,542) |
| Accounts payable | 683,062 |
| Accrued expenses | 446,227 |
| Deferred revenue | 7,642 |
| Net cash provided by operating activities | 9,823,079 |
| **Cash Flows from Investing Activities** | |
| Purchase of property and equipment | (6,720,788) |
| Purchases of investments | (1,118,923) |
| Proceeds from sale of investments | 1,474,784 |
| Net cash used in investing activities | (6,364,927) |
| **Cash Flows from Financing Activities** - Payments on long-term debt | (2,654,000) |
| **Net Increase in Cash** | 804,152 |
| **Cash** - Beginning of year | 1,017,219 |
| **Cash** - End of year | **$ 1,821,371** |
| **Supplemental Disclosure of Cash Flow Information** - Cash paid for interest | **$ 96,951** |

## Note 1 - Nature of Activities and Significant Accounting Policies

**Nature of Organization** - Ronald McDonald House Charities® of Chicagoland and Northwest Indiana (RMHC-CNI or the "Organization") is a not-for-profit corporation. The mission of RMHC-CNI is to care for families of children with complex medical needs by providing comfort, compassion, and a sense of community. RMHC-CNI keeps families of hospitalized children together in a 'home away from home'.

RMHC-CNI consists of four houses including the Ronald McDonald House near Ann & Robert H Lurie Children's Hospital of Chicago, Ronald McDonald House near Loyola University Medical Center, Ronald McDonald House near University of Chicago Comer Children's Hospital, and Ronald McDonald House near Advocate Children's Hospital. RMHC-CNI also operates three family rooms in Ann & Robert H Lurie Children's Hospital of Chicago, in University of Chicago Comer Children's Hospital, and in Edward Hospital. In addition to the operation of these four houses and three Ronald McDonald family rooms, RMHC-CNI offers other types of programs including a Ronald McDonald Care Mobile program and a scholarship program.

During 2013, RMHC-CNI entered into an agreement with Cadence Health to construct a new Ronald McDonald House (the "new House") near Central DuPage Hospital in Winfield, Illinois. The construction of the new House was funded primarily through a $5,000,000 contribution from Cadence Health. As part of the agreement, Cadence Health leased the site of the future house to RMHC-CNI (see Note 9). Construction began in March 2014 and was completed in January 2015. Upon opening of the new House, RMHC-CNI recognized an additional contribution of $1,000,000 from Cadence Health for the sole purpose of operations at the new House through 2017.

Significant accounting policies of RMHC-CNI are as follows:

**Contributions Receivable** - RMHC-CNI's contributions receivable are comprised primarily of pledges committed from various organizations and individual donors for use in RMHC-CNI's activities and for the construction of the new House. Contributions receivable at December 31, 2014 are expected to be collected within one to seven years. Although RMHC-CNI has recorded a provision for doubtful accounts, it is the opinion of management that all receivables are collectible in full. The provision recorded by management is a general provision for potential future losses and is not allocated to any one contribution.

**Investments** - Investments are stated at fair value. The common stocks, mutual funds, and money market fund are valued based on quoted market prices.

Investment income, gains and losses, and any investment-related expenses are recorded as changes in unrestricted net assets in the statement of activities and changes in net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or law.

## Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

RMHC-CNI's investments are exposed to various risks such as interest rate, market, and credit risks. Due to these risk factors, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amounts reported on the statement of financial position.

**Property and Equipment** - Property and equipment are recorded at cost when purchased or at fair value at the date of donation.

RMHC-CNI records depreciation using the straight-line method based on estimated useful lives ranging from 3 to 39 years. Costs of maintenance and repairs are charged to expense when incurred. Items purchased in connection with construction are capitalized at management's discretion based on the nature and estimated useful lives of those items.

RMHC-CNI reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of property and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property and equipment must be maintained, RMHC-CNI reports expirations of donor restrictions over time based on an estimate of the useful lives of the donated or acquired property and equipment.

**Net Assets** - Net assets of RMHC-CNI are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting RMHC-CNI's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets are released from restrictions.
- Permanently restricted net assets - Net assets subject to donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on temporarily or permanently restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

## Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

**Revenue and Support Recognition** - Revenue from house operations is recognized as earned.

Contributions of cash and other assets, including unconditional promises to give, are reported as revenue in the year pledged. These amounts are recorded at their fair value. Donor promises to give are recorded at the present value of estimated future cash flows. Conditional promises to give are recorded when the conditions on which they depend are met. Contributions that include donor restrictions that limit the use of the gift are recorded as restricted support. When the donor restrictions are fulfilled, temporarily restricted gifts are reclassified as unrestricted activities. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support.

**Donated Services** - RMHC-CNI receives donations of various services. In accordance with generally accepted accounting standards, these services are recorded in the statement of activities when they meet certain criteria.

A substantial number of volunteers have donated significant amounts of their time to RMHC-CNI's programs and services, which do not meet the requirements to be recorded.

**Scholarships** - RMHC-CNI awards scholarships to students based on objective measurements and selection criteria. Total scholarships awarded are based on annual budgeted amounts and are matched in part by Global Ronald McDonald House Charities.

**Functional Allocation of Expenses** - The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

**Income Taxes** - RMHC-CNI is exempt from income tax under the provisions of the Internal Revenue Code Section 501(c)(3). RMHC-CNI is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax period in progress. RMHC-CNI believes it is no longer subject to income tax examinations for years prior to 2011.

## Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by RMHC-CNI and recognize a tax liability if RMHC-CNI has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service or other applicable taxing authorities. Management has analyzed the tax positions taken by RMHC-CNI and has concluded that as of December 31, 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including May 22, 2015, which is the date the financial statements were available to be issued.

**Upcoming Accounting Change** - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending December 31, 2018. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

## Note 2 - Contributions Receivable

Included in contributions receivable are unconditional promises to give generated from various donors through fundraising activities and other efforts. Pledge commitments extend through 2021. Contributions receivable as of December 31, 2014 are as follows:

| | |
|---|---|
| Gross promises to give before unamortized discount and allowance for doubtful accounts | $ 2,941,513 |
| Less unamortized discount, using discount rates of .44 percent to 2.04 percent | (48,848) |
| Less allowance for doubtful pledges | (23,139) |
| Net contributions receivable | $ 2,869,526 |
| Amounts due: | |
| Within one year | $ 1,671,251 |
| Within one to five years | 1,240,262 |
| More than five years | 30,000 |
| Total | $ 2,941,513 |

## Note 3 - Property and Equipment

The cost of property and equipment is summarized as follows:

| | |
|---|---|
| Land | $ 5,540,121 |
| Land improvements | 105,800 |
| Buildings | 51,951,130 |
| Canisters | 481,450 |
| Transportation equipment | 35,055 |
| Furniture and fixtures | 5,098,610 |
| Leasehold improvements | 71,874 |
| Construction in progress | 6,862,259 |
| Total cost | 70,146,299 |
| Less accumulated depreciation | (11,292,472) |
| Net carrying amount | $ 58,853,827 |

Depreciation expense for the year ended December 31, 2014 was $2,158,511.

RMHC-CNI completed the construction of the new Ronald McDonald House near Central DuPage Hospital at a cost approximately $6,900,000, including furniture and fixtures. The cost includes approximately $409,000 of in-kind contributions.

## Note 4 - Debt

On July 23, 2012, RMHC-CNI entered into a draw note with a financial institution. RMHC-CNI may draw up to a maximum of $14,000,000, which is reduced $1,000,000 every six months beginning January 23, 2013 and continuing until the draw note expires on July 23, 2019. This draw note was amended on July 23, 2014, to reduce the maximum draw on the note to $5,000,000, and is further reduced to $4,500,000 on January 23, 2015, $3,500,000 on January 23, 2018, $2,500,000 on July 23, 2018, and $1,500,000 on January 23, 2019, until the draw note expires on July 23, 2019.

The interest rate on the draw note is the 30-day LIBOR plus 1.95 percent and is reset on the 10th day of each month. The draw note is collateralized by substantially all the assets of RMHC-CNI. As of December 31, 2014, the maximum draw on the note was $5,000,000 and the outstanding balance on the draw note was $3,284,000.

RMHC-CNI also has an available revolving note with the same financial institution. RMHC-CNI may draw up to a maximum of $1,000,000 and the note expires on July 23, 2015. Interest rate on the revolving note is the 90-day LIBOR plus 1.95 percent and is reset on the 10th day of each month. The revolving note is collateralized by substantially all the assets of RMHC-CNI. There were no amounts drawn on the revolving note as of December 31, 2014.

The balance of the above draw note matures as follows:

| | |
|---|---|
| 2018 | $ 784,000 |
| 2019 | 2,500,000 |
| Total | $ 3,284,000 |

## Note 5 - Temporarily Restricted Net Assets

RMHC-CNI receives contributions whereon the donor places certain temporary restrictions on the use of the funds. Temporarily restricted net assets at December 31, 2014 are available for the following purposes:

| | |
|---|---|
| Contributions restricted for use in house operations | $ 37,691 |
| Time restricted contributions to be used for general support | 34,093 |
| Contributions restricted for use in the family enrichment program | 7,417 |
| Contributions restricted for naming rights to rooms in the new House | 5,680,000 |
| Contributions restricted for use in constructions of the new House | 237,000 |
| Contributions restricted for naming rights at the Loyola House kitchen | 75,000 |
| Contributions restricted for use in construction of the Loyola House kitchen | 98,000 |
| Total temporarily restricted net assets | $ 6,169,201 |

## Note 6 - Permanently Restricted Net Assets

RMHC-CNI's permanently restricted net assets are composed solely of donor-restricted endowment funds. The income on such funds is to be used for support of the RMHC-CNI's programs unless otherwise specified by the donor:

| | |
|---|---|
| Ronald McDonald House operating expense endowment | $ 996,250 |
| General support endowment | 200,060 |
| Total permanently restricted net assets | $ 1,196,310 |

## Note 7 - Donor-restricted Endowments

RMHC-CNI's permanently restricted net assets are composed solely of donor-restricted endowment funds. These endowments were established to support the ongoing operations of RMHC-CNI. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

### Interpretation of Relevant Law

The board of directors of RMHC-CNI 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, RMHC-CNI classifies 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by RMHC-CNI in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, RMHC-CNI 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 purpose of RMHC-CNI 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 RMHC-CNI, and
(7) the investment policies of RMHC-CNI.

## Note 7 - Donor-restricted Endowments (Continued)

**Permanently Restricted Endowment Net Asset Composition by Type of Fund as of December 31, 2014**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ - | $ 1,196,310 | $ 1,196,310 |

**Changes in Permanently Restricted Endowment Net Assets for the Fiscal Year Ended December 31, 2014**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets - Beginning of year | $ - | $ - | $ 1,196,310 | $ 1,196,310 |
| Net realized and unrealized gains, dividends, and interest on permanently restricted funds | - | 45,977 | - | 45,977 |
| Appropriation of endowment assets for expenditure | - | (45,977) | - | (45,977) |
| Endowment net assets - End of year | $ - | $ - | $ 1,196,310 | $ 1,196,310 |

### Return Objectives and Risk Parameters

RMHC-CNI has adopted an investment and spending policy for endowment assets that attempts to provide sufficient liquidity to meet all reasonably anticipated operating requirements while seeking to achieve asset growth of the endowment assets. Endowment assets include those assets of donor-restricted funds that RMHC-CNI must hold in perpetuity. Under this policy, which was approved by the board of directors, the investment portfolio shall be managed with the objective of attaining a competitive rate of return given the constraints of aforementioned safety and liquidity objectives. The investment portfolio is subject to periodic review to ensure this objective is met.

### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, RMHC-CNI 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). RMHC-CNI targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

## Note 7 - Donor-restricted Endowments (Continued)

### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy that allows the Organization to appropriate any future interest or investment income generated from the fund.

## Note 8 - Related Party Transactions

RMHC-CNI remits 25 percent of the proceeds from certain fundraising events to Global Ronald McDonald House Charities. These payments totaled approximately $221,500 for the year ended December 31, 2014, of which approximately $68,000 is included in accounts payable.

## Note 9 - Operating Leases

RMHC-CNI is obligated under a lease agreement for office facilities expiring on January 31, 2023. Total rent expense under this lease was approximately $96,000 for the year ended December 31, 2014.

Approximate future minimum rental payments are as follows:

| Years Ending December 31 | | Amount |
|---|---|---|
| 2015 | | $ 95,000 |
| 2016 | | 97,000 |
| 2017 | | 99,000 |
| 2018 | | 102,000 |
| 2019 | | 104,000 |
| Thereafter | | 334,000 |
| | Total | $ 831,000 |

RMHC-CNI was granted a 50-year lease on land owned by the United States Veterans Administration and occupied by the Ronald McDonald House near Loyola University Medical Center. The use of land was granted without cost to the Organization. The lease was granted under U.S. Senate Bill No. 677, which was signed into law on October 1, 1993.

The University of Chicago owns the property on which the Ronald McDonald House near University of Chicago Comer Children's Hospital is constructed. RMHC-CNI committed to a 25-year lease agreement in 2005 to lease the property for $1 per year.

## Note 9 - Operating Leases (Continued)

The Oak Lawn Community High School District 229 owns the property on which the Ronald McDonald House near Advocate Hope Children's Hospital is constructed. RMHC-CNI committed to a 25-year lease agreement in 2006. The lease terms called for a $200,000 payment upon commencement of the lease, a $100,000 payment in year seven of the lease, and a $25,000 payment in year 20 of the lease. At the conclusion of this 25-year period, the lease contains a renewal clause for an additional 25-year term. RMHC-CNI is recognizing rent expense on a straight-line basis over the term of the lease.

Cadence Health owns the property on which the new Ronald McDonald House near Cadence Health - CDH Campus is being constructed. RMHC-CNI committed to a 25-year lease agreement in 2013 to lease the property for $1 per year. The lease contains a renewal clause for an additional 25-year term.

## Note 10 - Minimum Future Rentals

RMHC-CNI has entered into two lease agreements as a lessor for space in the House near Ann & Robert Lurie Children's Hospital. The lease term for each lease is from September 15, 2012 through September 14, 2019. The leases also require the tenants to pay operating expenses which are included in RMHC-CNI's rental income. Total rental income recognized under these leases was $441,157 for the year ended December 31, 2014.

Approximate minimum future rentals to be received on these noncancelable leases as of December 31, 2014 for each of the next five years are as follows:

| Years Ending December 31 | Amount |
|---|---|
| 2015 | $ 364,000 |
| 2016 | 378,000 |
| 2017 | 393,000 |
| 2018 | 408,000 |
| 2019 | 297,000 |
| Total | $ 1,840,000 |

## Note 11 - In-kind Donations

Donated items received by RMHC-CNI have been reflected in the financial statements at their estimated fair values.

RMHC-CNI's leases with the University of Chicago, the United States Veterans Administration, and Cadence Health have actual rental values which are not estimable (see Note 9). As a result, related in-kind contributions and expenses associated with these leases have not been reflected in the financial statements. While gross revenue and expenses would be affected by this amount, if recorded, there would be no net effect on increase in net assets.

## Note 12 - Concentration of Credit Risk and Market Concentration

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization places its cash deposits with high-quality financial institutions; however, deposits regularly exceed FDIC limits.

## Note 13 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about RMHC-CNI's assets measured at fair value on a recurring basis at December 31, 2014 and the valuation techniques used by RMHC-CNI to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that RMHC-CNI has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

## Note 13 - Fair Value Measurements (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. RMHC-CNI's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

RMHC CNI's policy is to recognize transfers in and transfers out of Levels 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no transfers in 2014.

**Assets Measured at Fair Value on a Recurring Basis at December 31, 2014**

| | Level 1 | Level 2 | Level 3 | Balance at December 31, 2014 |
|---|---|---|---|---|
| Investments: | | | | |
| Money market fund | $ 270,234 | $ - | $ - | $ 270,234 |
| Common stocks | 2,320 | - | - | 2,320 |
| Mutual funds: | | | | |
| Equities | 1,176,265 | - | - | 1,176,265 |
| Fixed Income | 170,433 | - | - | 170,433 |
| Balanced | 475,985 | - | - | 475,985 |
| Total investments | $ 2,095,237 | $ - | $ - | $ 2,095,237 |

The Organization also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. This asset is land held for sale, received as an in-kind contribution. RMHC-CNI has estimated the fair value of this asset based primarily on Level 3 inputs as described above. The fair value is generally valued using the fair value of the land provided by third-party appraisals. These valuations include assumptions related to cash flows projections, discount rates, and recent comparable sales. The numerical range of unobservable inputs for these valuation assumptions is not meaningful. At December 31, 2014, RMHC-CNI recognized a noncash impairment charge of $625,000 to adjust this asset to its estimated fair value.

**Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2014**

| | Level 3 | Total Losses for the Year Ended December 31, 2014 |
|---|---|---|
| Assets - Land held for sale | $ 175,000 | $ 625,000 |