

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

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**Financial Report  
December 31, 2016**

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

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## 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, 2016 and 2015, and the related statements of activities and changes in 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2016 and 2015, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

May 18, 2017

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Statement of Financial Position December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>				
Cash	\$ 2,819,901	\$ 449,282	\$ -	\$ 3,269,183
Investments	1,155,256	34,119	1,196,310	2,385,685
Contributions receivable - Net	1,150,126	141,118	-	1,291,244
Prepaid expenses and other	465,276	-	-	465,276
Property and equipment - Net	55,235,090	-	-	55,235,090
<b>Total assets</b>	<b><u>\$ 60,825,649</u></b>	<b><u>\$ 624,519</u></b>	<b><u>\$ 1,196,310</u></b>	<b><u>\$ 62,646,478</u></b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 282,347	\$ -	\$ -	\$ 282,347
Deferred revenue	67,825	-	-	67,825
Accrued expenses - Net	322,004	-	-	322,004
<b>Total liabilities</b>	<b>672,176</b>	<b>-</b>	<b>-</b>	<b>672,176</b>
<b>Net Assets</b>				
Unrestricted	60,153,473	-	-	60,153,473
Temporarily restricted	-	624,519	-	624,519
Permanently restricted	-	-	1,196,310	1,196,310
<b>Total net assets</b>	<b><u>60,153,473</u></b>	<b><u>624,519</u></b>	<b><u>1,196,310</u></b>	<b><u>61,974,302</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 60,825,649</u></b>	<b><u>\$ 624,519</u></b>	<b><u>\$ 1,196,310</u></b>	<b><u>\$ 62,646,478</u></b>

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Statement of Financial Position December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>				
Cash	\$ 1,622,418	\$ 337,855	\$ -	\$ 1,960,273
Investments	957,809	34,119	1,196,310	2,188,238
Contributions receivable - Net	1,708,294	500,000	-	2,208,294
Settlement receivable - Net	425,000	-	-	425,000
Prepaid expenses and other	407,446	-	-	407,446
Property and equipment - Net	57,562,000	-	-	57,562,000
Total assets	<b><u>\$ 62,682,967</u></b>	<b><u>\$ 871,974</u></b>	<b><u>\$ 1,196,310</u></b>	<b><u>\$ 64,751,251</u></b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 242,920	\$ -	\$ -	\$ 242,920
Debt	1,703,000	-	-	1,703,000
Deferred revenue	154,392	-	-	154,392
Accrued expenses - Net	496,133	-	-	496,133
Total liabilities	2,596,445	-	-	2,596,445
<b>Net Assets</b>				
Unrestricted	60,086,522	-	-	60,086,522
Temporarily restricted	-	871,974	-	871,974
Permanently restricted	-	-	1,196,310	1,196,310
Total net assets	<u>60,086,522</u>	<u>871,974</u>	<u>1,196,310</u>	<u>62,154,806</u>
Total liabilities and net assets	<b><u>\$ 62,682,967</u></b>	<b><u>\$ 871,974</u></b>	<b><u>\$ 1,196,310</u></b>	<b><u>\$ 64,751,251</u></b>

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Statement of Activities and Changes in Net Assets

	For the Year Ended							
	December 31, 2016				December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>								
Public support:								
Fundraising events	\$ 5,798,548	\$ -	\$ -	\$ 5,798,548	\$ 6,207,949	\$ -	\$ -	\$ 6,207,949
Less direct fundraising costs	<u>(1,153,350)</u>	<u>-</u>	<u>-</u>	<u>(1,153,350)</u>	<u>(1,154,992)</u>	<u>-</u>	<u>-</u>	<u>(1,154,992)</u>
Net fundraising events	4,645,198	-	-	4,645,198	5,052,957	-	-	5,052,957
Contributions	1,921,394	673,088	-	2,594,482	1,644,366	1,909,222	-	3,553,588
In-kind contributions	347,357	-	-	347,357	704,353	-	-	704,353
Other revenue:								
Room rental and house operations	284,668	-	-	284,668	285,119	-	-	285,119
Net investment income (loss)	35,086	93,786	-	128,872	(29,213)	2,093	-	(27,120)
Rental income	465,487	-	-	465,487	448,720	-	-	448,720
Loss on disposal of fixed assets	-	-	-	-	(1,897)	-	-	(1,897)
Net lawsuit settlement income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>299,088</u>	<u>-</u>	<u>-</u>	<u>299,088</u>
Total revenue and support	7,699,190	766,874	-	8,466,064	8,403,493	1,911,315	-	10,314,808
<b>Net Assets Released from Restrictions</b>	<u>1,014,329</u>	<u>(1,014,329)</u>	<u>-</u>	<u>-</u>	<u>7,208,542</u>	<u>(7,208,542)</u>	<u>-</u>	<u>-</u>
Total revenue, support, and net assets released from restrictions	8,713,519	(247,455)	-	8,466,064	15,612,035	(5,297,227)	-	10,314,808
<b>Expenses</b>								
Program services:								
House operations	6,052,235	-	-	6,052,235	6,611,247	-	-	6,611,247
Grants and scholarships	<u>461,685</u>	<u>-</u>	<u>-</u>	<u>461,685</u>	<u>469,081</u>	<u>-</u>	<u>-</u>	<u>469,081</u>
Total program services	6,513,920	-	-	6,513,920	7,080,328	-	-	7,080,328
Support services:								
Management and general	975,422	-	-	975,422	939,822	-	-	939,822
Fundraising	930,010	-	-	930,010	864,667	-	-	864,667
Remittances to RMHC, Inc.	<u>227,216</u>	<u>-</u>	<u>-</u>	<u>227,216</u>	<u>217,653</u>	<u>-</u>	<u>-</u>	<u>217,653</u>
Total support services	<u>2,132,648</u>	<u>-</u>	<u>-</u>	<u>2,132,648</u>	<u>2,022,142</u>	<u>-</u>	<u>-</u>	<u>2,022,142</u>
Total expenses	8,646,568	-	-	8,646,568	9,102,470	-	-	9,102,470
<b>Increase (Decrease) in Net Assets</b>	66,951	(247,455)	-	(180,504)	6,509,565	(5,297,227)	-	1,212,338
<b>Net Assets - Beginning of year</b>	<u>60,086,522</u>	<u>871,974</u>	<u>1,196,310</u>	<u>62,154,806</u>	<u>53,576,957</u>	<u>6,169,201</u>	<u>1,196,310</u>	<u>60,942,468</u>
<b>Net Assets - End of year</b>	<b><u>\$ 60,153,473</u></b>	<b><u>\$ 624,519</u></b>	<b><u>\$ 1,196,310</u></b>	<b><u>\$ 61,974,302</u></b>	<b><u>\$ 60,086,522</u></b>	<b><u>\$ 871,974</u></b>	<b><u>\$ 1,196,310</u></b>	<b><u>\$ 62,154,806</u></b>

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Statement of Functional Expenses Year Ended December 31, 2016

	Program Services			Support Services			Total
	House Operations	Grants and Scholarships	Total Program Services	Fundraising	Management and General	Total Support Services	
Salaries	\$ 1,845,433	\$ 151,866	\$ 1,997,299	\$ 799,613	\$ 351,453	\$ 1,151,066	\$ 3,148,365
Payroll taxes and other related expenses	<u>362,261</u>	<u>20,414</u>	<u>382,675</u>	<u>130,397</u>	<u>80,732</u>	<u>211,129</u>	<u>593,804</u>
Total salaries and related expenses	2,207,694	172,280	2,379,974	930,010	432,185	1,362,195	3,742,169
Employee activities	5,170	-	5,170	-	10,443	10,443	15,613
Printing and copying	2,983	-	2,983	-	19,786	19,786	22,769
Publications	1,097	-	1,097	-	987	987	2,084
Computer expense	15,721	-	15,721	-	68,091	68,091	83,812
Bank charges	-	-	-	-	97,069	97,069	97,069
Scholarships	-	222,000	222,000	-	-	-	222,000
Grants	-	67,405	67,405	-	-	-	67,405
Professional fees	217,348	-	217,348	-	75,747	75,747	293,095
Supplies	259,385	-	259,385	-	7,526	7,526	266,911
Communication and advertising	19,714	-	19,714	-	13,907	13,907	33,621
Insurance	123,448	-	123,448	-	20,575	20,575	144,023
Real estate taxes	(144,714)	-	(144,714)	-	-	-	(144,714)
Repairs and maintenance	564,401	-	564,401	-	662	662	565,063
Rentals	50,492	-	50,492	-	107,099	107,099	157,591
Telephone	73,480	-	73,480	-	2,066	2,066	75,546
Utilities	345,972	-	345,972	-	3,094	3,094	349,066
Special events	3,343	-	3,343	-	19,723	19,723	23,066
Postage and delivery	1,927	-	1,927	-	5,046	5,046	6,973
Meetings and conventions	3,999	-	3,999	-	32,380	32,380	36,379
Miscellaneous	28,876	-	28,876	-	21,601	21,601	50,477
Interest	14,442	-	14,442	-	-	-	14,442
Depreciation	2,257,457	-	2,257,457	-	48,252	48,252	2,305,709
Recovery of doubtful accounts	-	-	-	-	(10,817)	(10,817)	(10,817)
Total functional expenses	6,052,235	461,685	6,513,920	930,010	975,422	1,905,432	8,419,352
Direct fundraising costs	-	-	-	1,153,350	-	1,153,350	1,153,350
Remittances to RMHC, Inc.	-	-	-	-	-	-	227,216
Total expenses	<u>\$ 6,052,235</u>	<u>\$ 461,685</u>	<u>\$ 6,513,920</u>	<u>\$ 2,083,360</u>	<u>\$ 975,422</u>	<u>\$ 3,058,782</u>	<u>\$ 9,799,918</u>

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Statement of Functional Expenses Year Ended December 31, 2015

	Program Services			Support Services			Total
	House Operations	Grants and Scholarships	Total Program Services	Fundraising	Management and General	Total Support Services	
Salaries	\$ 1,980,184	\$ 165,967	\$ 2,146,151	\$ 739,347	\$ 207,345	\$ 946,692	\$ 3,092,843
Payroll taxes and other related expenses	388,245	29,547	417,792	125,320	47,662	172,982	590,774
Total salaries and related expenses	2,368,429	195,514	2,563,943	864,667	255,007	1,119,674	3,683,617
Employee activities	6,086	-	6,086	-	11,177	11,177	17,263
Printing and copying	11,213	-	11,213	-	37,193	37,193	48,406
Publications	1,414	-	1,414	-	8,760	8,760	10,174
Computer expense	45,931	-	45,931	-	12,234	12,234	58,165
Bank charges	47,027	-	47,027	-	7,827	7,827	54,854
Scholarships	-	210,000	210,000	-	-	-	210,000
Grants	-	2,500	2,500	-	-	-	2,500
Professional fees	245,602	-	245,602	-	291,297	291,297	536,899
Supplies	313,810	-	313,810	-	12,879	12,879	326,689
Communication and advertising	69,421	-	69,421	-	19,270	19,270	88,691
Insurance	122,665	-	122,665	-	20,445	20,445	143,110
Real estate taxes	192,207	-	192,207	-	-	-	192,207
Repairs and maintenance	499,966	-	499,966	-	1,043	1,043	501,009
Rentals	51,307	-	51,307	-	101,703	101,703	153,010
Telephone	76,899	-	76,899	-	837	837	77,736
Utilities	303,267	-	303,267	-	3,287	3,287	306,554
Special events	19,386	-	19,386	-	14,992	14,992	34,378
Postage and delivery	2,107	-	2,107	-	13,962	13,962	16,069
Meetings and conventions	10,337	-	10,337	-	28,424	28,424	38,761
Miscellaneous	37,050	61,067	98,117	-	55,318	55,318	153,435
Interest	51,825	-	51,825	-	-	-	51,825
Depreciation	2,135,298	-	2,135,298	-	22,362	22,362	2,157,660
Provision for doubtful accounts	-	-	-	-	21,805	21,805	21,805
Total functional expenses	6,611,247	469,081	7,080,328	864,667	939,822	1,804,489	8,884,817
Direct fundraising costs	-	-	-	1,154,992	-	1,154,992	1,154,992
Remittances to RMHC, Inc.	-	-	-	-	-	-	217,653
Total expenses	<u>\$ 6,611,247</u>	<u>\$ 469,081</u>	<u>\$ 7,080,328</u>	<u>\$ 2,019,659</u>	<u>\$ 939,822</u>	<u>\$ 2,959,481</u>	<u>\$ 10,257,462</u>

See Notes to Financial Statements.



# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Statement of Cash Flows

	Year Ended	
	December 31, 2016	December 31, 2015
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (180,504)	\$ 1,212,338
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	2,305,709	2,157,660
Bad debt (recovery) expense	(10,817)	21,805
In-kind contributions	(347,357)	(704,353)
Net realized and unrealized (gain) loss on investments	(128,872)	27,120
Loss on disposal of fixed assets	-	1,897
Amortization of discount on pledges	(12,334)	(17,589)
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	1,267,546	1,255,564
Settlement receivable	425,000	(425,000)
Prepaid expenses and other	(57,830)	30,539
Accounts payable	39,427	(668,000)
Accrued expenses	(174,129)	(562,015)
Deferred revenue	(86,567)	96,982
Net cash provided by operating activities	3,039,272	2,426,948
<b>Cash Flows from Investing Activities</b>		
Credits (purchases) of property and equipment	41,213	(761,925)
Purchases of investments	(119,685)	(232,186)
Proceeds from sale of investments	51,110	112,065
Proceeds from sale of land	-	175,000
Net cash used in investing activities	(27,362)	(707,046)
<b>Cash Flows from Financing Activities - Payments on long-term debt</b>	(1,703,000)	(1,581,000)
<b>Net Increase in Cash</b>	1,308,910	138,902
<b>Cash - Beginning of year</b>	1,960,273	1,821,371
<b>Cash - End of year</b>	<b>\$ 3,269,183</b>	<b>\$ 1,960,273</b>
<b>Supplemental Disclosure of Cash Flow Information - Cash paid for interest</b>	<b>\$ 11,116</b>	<b>\$ 54,570</b>

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

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## Notes to Financial Statements December 31, 2016 and 2015

### 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 five 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, Ronald McDonald House near Advocate Children's Hospital, and Ronald McDonald House near Central DuPage 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 five 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 near Central DuPage Hospital in Winfield, Illinois. The construction was funded primarily through a \$5,000,000 contribution from Cadence Health. Construction 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 funding 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, 2016 and 2015 are expected to be collected within one to five years. RMHC-CNI has recorded a provision for doubtful accounts. 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.

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

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## Notes to Financial Statements December 31, 2016 and 2015

### 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.

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

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## Notes to Financial Statements December 31, 2016 and 2015

### 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).

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

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## Notes to Financial Statements December 31, 2016 and 2015

### 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, 2016 and 2015, 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 18, 2017, which is the date the financial statements were available to be issued.

**Upcoming Accounting Pronouncement** - Not-for-profit Entities Financial Reporting Model - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Organization is currently evaluating the impact this standard will have on the financial statements.

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Notes to Financial Statements December 31, 2016 and 2015

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

**Upcoming Accounting Change** - In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statement of financial position. The reporting of lease-related expenses in the statement of activities and changes in net assets and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Organization's financial statements as a result of the leases for office facilities and land currently classified as operating leases. The effect of applying the new lease guidance on the financial statements is expected to increase long-term assets and other long-term liabilities on the statement of financial position.

### 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, 2016 and 2015 are as follows:

	2016	2015
Gross promises to give before unamortized discount and allowance for doubtful accounts	\$ 1,317,397	\$ 2,258,298
Less unamortized discount, using discount rates of .87 percent to 1.85 percent	(18,925)	(31,259)
Less allowance for doubtful pledges	(7,228)	(18,745)
Net contributions receivable	<u>\$ 1,291,244</u>	<u>\$ 2,208,294</u>
Amounts due:		
Within one year	\$ 933,164	\$ 1,582,364
Within one to five years	384,233	660,934
In more than five years	-	15,000
Total	<u>\$ 1,317,397</u>	<u>\$ 2,258,298</u>

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Notes to Financial Statements December 31, 2016 and 2015

### Note 3 - Property and Equipment

The cost of property and equipment as of December 31, 2016 and 2015 is summarized as follows:

	2016	2015
Land	\$ 5,540,121	\$ 5,540,121
Land improvements	105,800	105,800
Buildings	58,960,554	59,036,159
Canisters	578,921	565,000
Transportation equipment	35,055	35,055
Furniture and fixtures	5,698,486	5,658,003
Leasehold improvements	71,874	71,874
Total cost	70,990,811	71,012,012
Less accumulated depreciation	(15,755,721)	(13,450,012)
Net carrying amount	\$ 55,235,090	\$ 57,562,000

Depreciation expense for the years ended December 31, 2016 and 2015 was \$2,305,709 and \$2,157,660, respectively.

### Note 4 - Debt

On July 23, 2012, RMHC-CNI entered into a draw note with a financial institution. As of December 31, 2015, the maximum draw on the note \$5,000,000. This draw note was amended on July 23, 2016 to reduce the maximum draw on the note to \$500,000, and further reduced to \$250,000 on January 1, 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, 2016 and 2015, the outstanding balance on the draw note was \$0 and \$1,703,000, respectively.

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 expired on July 23, 2016. The revolving note was amended on July 23, 2016 to extend the maturity date to July 23, 2017. 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, 2016 and 2015.

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Notes to Financial Statements December 31, 2016 and 2015

### 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, 2016 and 2015 are available for the following purposes:

	2016	2015
Contributions restricted for use in house operations	\$ 132,493	\$ 132,493
Time-restricted contributions to be used for general support	34,119	34,119
Contributions restricted for use in house operations of the Cadence House	317,285	641,787
Contributions restricted for use in miscellaneous programs	140,622	63,575
Total temporarily restricted net assets	<u>\$ 624,519</u>	<u>\$ 871,974</u>

### 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 RMHC-CNI's programs unless otherwise specified by the donor:

	2016	2015
Ronald McDonald House operating expense endowment	\$ 996,250	\$ 996,250
General support endowment	200,060	200,060
Total permanently restricted net assets	<u>\$ 1,196,310</u>	<u>\$ 1,196,310</u>

### 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.



# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Notes to Financial Statements December 31, 2016 and 2015

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

#### 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
- (7) The investment policies of RMHC-CNI

#### Permanently Restricted Endowment Net Asset Composition by Type of Fund as of December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,196,310	\$ 1,196,310

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Notes to Financial Statements December 31, 2016 and 2015

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

#### Changes in Permanently Restricted Endowment Net Assets for the Fiscal Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - Beginning of year	\$ -	\$ -	\$ 1,196,310	\$ 1,196,310
Net realized and unrealized gains, dividends, and interest on permanently restricted funds	-	88,666	-	88,666
Appropriation of endowment assets for expenditure	-	(88,666)	-	(88,666)
Endowment net assets - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,196,310</u>	<u>\$ 1,196,310</u>

#### Permanently Restricted Endowment Net Asset Composition by Type of Fund as of December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,196,310</u>	<u>\$ 1,196,310</u>

#### Changes in Permanently Restricted Endowment Net Assets for the Fiscal Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - Beginning of year	\$ -	\$ -	\$ 1,196,310	\$ 1,196,310
Net realized and unrealized gains, dividends, and interest on permanently restricted funds	-	1,841	-	1,841
Appropriation of endowment assets for expenditure	-	(1,841)	-	(1,841)
Endowment net assets - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,196,310</u>	<u>\$ 1,196,310</u>

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

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**Notes to Financial Statements  
December 31, 2016 and 2015**

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

### **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.

### **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 \$227,200 and \$217,600 for the years ended December 31, 2016 and 2015, respectively, of which approximately \$63,000 and \$58,000 is included in accounts payable for the years ended December 31, 2016 and 2015, respectively.

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Notes to Financial Statements December 31, 2016 and 2015

### 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 \$106,000 and \$99,000 for the years ended December 31, 2016 and 2015, respectively.

Approximate future minimum rental payments are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2017	\$ 99,000
2018	102,000
2019	104,000
2020	106,000
2021	108,000
Thereafter	<u>119,000</u>
Total	<u>\$ 638,000</u>

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.

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 Ronald McDonald House near Cadence Health - CDH Campus was 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.

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Notes to Financial Statements December 31, 2016 and 2015

### 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 approximately \$377,000 and \$363,000 for the years ended December 31, 2016 and 2015, respectively.

Approximate minimum future rentals to be received on these noncancelable leases as of December 31, 2016 for each of the next five years are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2017	\$ 393,000
2018	408,000
2019	<u>297,000</u>
Total	<u>\$ 1,098,000</u>

### 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 change 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.

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

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## **Notes to Financial Statements December 31, 2016 and 2015**

### **Note 13 - Fair Value Measurements (Continued)**

The following tables present information about RMHC-CNI's assets measured at fair value on a recurring basis at December 31, 2016 and 2015 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. Due to the assets being purchased on December 30, 2015, management has chosen to value the Level 3 assets at cost, which approximates fair value at December 31, 2015. In 2016, investments for which prices are not observable are the private equity funds. The fair value of the private equity funds is based on the underlying fair value of the fund's private investments in the equity and debt securities of operating companies. Fair value of private investments is based on Level 3 inputs and is determined by reference to public market or private transactions or valuations for comparable companies or assets in the relevant asset class when such amounts are available.

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 Level 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 2016 and 2015.

# Ronald McDonald House Charities® of Chicagoland and Northwest Indiana

## Notes to Financial Statements December 31, 2016 and 2015

### Note 13 - Fair Value Measurements (Continued)

#### Assets Measured at Fair Value on a Recurring Basis at December 31, 2016

	Level 1	Level 2	Level 3	Balance at December 31, 2016
Investments:				
Money market funds	\$ 371,145	\$ -	\$ -	\$ 371,145
Common stocks	11,356	-	-	11,356
Mutual funds:				
Equities	1,208,115	-	-	1,208,115
Fixed income	535,578	-	-	535,578
Other	2,519	-	-	2,519
Private equity funds	-	-	256,972	256,972
Total investments	<u>\$ 2,128,713</u>	<u>\$ -</u>	<u>\$ 256,972</u>	<u>\$ 2,385,685</u>

#### Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	Level 1	Level 2	Level 3	Balance at December 31, 2015
Investments:				
Money market fund	\$ 309,734	\$ -	\$ -	\$ 309,734
Common stocks	23,554	-	-	23,554
Mutual funds:				
Equities	1,098,730	-	-	1,098,730
Fixed income	513,574	-	-	513,574
Other	2,646	-	-	2,646
Private equity funds	-	-	240,000	240,000
Total investments	<u>\$ 1,948,238</u>	<u>\$ -</u>	<u>\$ 240,000</u>	<u>\$ 2,188,238</u>