

**RONALD MCDONALD HOUSE  
CHARITIES OF CENTRAL INDIANA, INC.**

**FINANCIAL REPORT**

**December 31, 2017**



**Ronald McDonald  
House Charities®**  
Central Indiana

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Ronald McDonald House  
Charities of Central Indiana, Inc.  
Indianapolis, Indiana

### Report on the Financial Statements

We have audited the accompanying financial statements of Ronald McDonald House Charities of Central Indiana, Inc., which comprise the statements of financial position as of December 31, 2017 and 2016, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### 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.

**INDEPENDENT AUDITOR'S REPORT - continued**

**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 Central Indiana, Inc. as of December 31, 2017 and 2016, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Pile CPAs*

Indianapolis, Indiana  
August 10, 2018

**RONALD MCDONALD HOUSE  
CHARITIES OF CENTRAL INDIANA, INC.**

**STATEMENTS OF FINANCIAL POSITION**

December 31, 2017 and 2016

	<b><u>2017</u></b>	<b><u>2016</u></b>
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS</u></b>		
Cash	\$ 849,698	\$ 528,631
Contributions and grants receivable	84,242	229,254
Interest receivable	8,669	9,385
Prepaid expenses	25,682	21,063
<b>TOTAL CURRENT ASSETS</b>	<b>968,291</b>	<b>788,333</b>
<b><u>INVESTMENTS</u></b> , at fair value	9,440,361	8,100,684
<b><u>PROPERTY AND EQUIPMENT</u></b>		
Building and improvements	7,914,623	7,880,605
Furniture and fixtures	589,710	588,950
Equipment	421,269	387,315
	8,925,602	8,856,870
Less accumulated depreciation	7,742,504	7,512,722
	1,183,098	1,344,148
<b>TOTAL ASSETS</b>	<b>\$ 11,591,750</b>	<b>\$ 10,233,165</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b><u>CURRENT LIABILITIES</u></b>		
Accounts payable and accrued expenses	\$ 110,125	\$ 169,254
Accrued payroll	33,604	21,133
<b>TOTAL CURRENT LIABILITIES</b>	<b>143,729</b>	<b>190,387</b>
<b><u>NET ASSETS</u></b>		
Unrestricted:		
Undesignated	7,164,105	6,370,714
Board designated	2,713,419	2,649,823
	9,877,524	9,020,537
Temporarily restricted	1,074,247	525,991
Permanently restricted	496,250	496,250
<b>TOTAL NET ASSETS</b>	<b>11,448,021</b>	<b>10,042,778</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 11,591,750</b>	<b>\$ 10,233,165</b>

See Notes to Financial Statements.

**RONALD MCDONALD HOUSE  
CHARITIES OF CENTRAL INDIANA, INC.**

**STATEMENTS OF ACTIVITIES**

Year ended December 31, 2017

	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
<b><u>REVENUES AND SUPPORT</u></b>				
Contributions and pledges	\$ 1,090,605	\$ 347,421	\$ -	\$ 1,438,026
Grants	87,800	128,500	-	216,300
Bequests	32,696	-	-	32,696
In-kind contributions	183,854	-	-	183,854
	<u>1,394,955</u>	<u>475,921</u>	<u>-</u>	<u>1,870,876</u>
Specials events:				
Special event revenue, includes in-kind contributions	350,466	-	-	350,466
Less direct benefit costs	<u>182,902</u>	<u>-</u>	<u>-</u>	<u>182,902</u>
	<u>167,564</u>	<u>-</u>	<u>-</u>	<u>167,564</u>
RMH Room Donation/Fees	64,667	-	-	64,667
Canister collections	457,910	-	-	457,910
Investment income (loss):				
Interest and dividends	330,476	49,116	-	379,592
Unrealized gain (loss)	852,191	120,936	-	973,127
Realized gain (loss)	45,192	6,569	-	51,761
Other revenue	142,089	-	-	142,089
Net Assets released from restrictions	<u>104,286</u>	<u>(104,286)</u>	<u>-</u>	<u>-</u>
	<u>1,996,811</u>	<u>72,335</u>	<u>-</u>	<u>2,069,146</u>
<b>TOTAL REVENUES AND SUPPORT</b>	<b><u>3,559,330</u></b>	<b><u>548,256</u></b>	<b><u>-</u></b>	<b><u>4,107,586</u></b>
<b><u>FUNCTIONAL EXPENSES:</u></b>				
Program services	1,941,571	-	-	1,941,571
Supporting activities	<u>760,772</u>	<u>-</u>	<u>-</u>	<u>760,772</u>
<b>TOTAL EXPENSES</b>	<b><u>2,702,343</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>2,702,343</u></b>
<b>CHANGE IN NET ASSETS</b>	<b>856,987</b>	<b>548,256</b>	<b>-</b>	<b>1,405,243</b>
<b><u>NET ASSETS</u></b>				
Beginning of year	<u>9,020,537</u>	<u>525,991</u>	<u>496,250</u>	<u>10,042,778</u>
End of year	<u>\$ 9,877,524</u>	<u>\$ 1,074,247</u>	<u>\$ 496,250</u>	<u>\$ 11,448,021</u>

See Notes to Financial Statements.

**RONALD MCDONALD HOUSE  
CHARITIES OF CENTRAL INDIANA, INC.**

**STATEMENTS OF ACTIVITIES** - continued

Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><u>REVENUES AND SUPPORT</u></b>				
Contributions and pledges	\$ 1,041,881	\$ 2,000	\$ -	\$ 1,043,881
Grants	41,250	154,000	-	195,250
Bequests	89,500	-	-	89,500
In-kind contributions	147,298	-	-	147,298
	<u>1,319,929</u>	<u>156,000</u>	<u>-</u>	<u>1,475,929</u>
Specials events:				
Special event revenue, includes in-kind contributions	272,160	-	-	272,160
Less direct benefit costs	<u>160,426</u>	<u>-</u>	<u>-</u>	<u>160,426</u>
	<u>111,734</u>	<u>-</u>	<u>-</u>	<u>111,734</u>
RMH Room Donation/Fees	80,485	-	-	80,485
Canister collections	491,080	-	-	491,080
Investment income (loss):				
Interest and dividends	183,682	25,715	-	209,397
Unrealized gain (loss)	282,167	41,822	-	323,989
Realized gain (loss)	437	70	-	507
Other revenue	105,966	-	-	105,966
Net Assets released from restrictions	<u>177,215</u>	<u>(177,215)</u>	<u>-</u>	<u>-</u>
	<u>1,321,032</u>	<u>(109,608)</u>	<u>-</u>	<u>1,211,424</u>
<b>TOTAL REVENUES AND SUPPORT</b>	<u>2,752,695</u>	<u>46,392</u>	<u>-</u>	<u>2,799,087</u>
<b><u>FUNCTIONAL EXPENSES:</u></b>				
Program services	1,901,082	-	-	1,901,082
Supporting activities	<u>712,178</u>	<u>-</u>	<u>-</u>	<u>712,178</u>
<b>TOTAL EXPENSES</b>	<u>2,613,260</u>	<u>-</u>	<u>-</u>	<u>2,613,260</u>
<b>CHANGE IN NET ASSETS</b>	139,435	46,392	-	185,827
<b><u>NET ASSETS</u></b>				
Beginning of year, restated	<u>8,881,102</u>	<u>479,599</u>	<u>496,250</u>	<u>9,856,951</u>
End of year	<u>\$ 9,020,537</u>	<u>\$ 525,991</u>	<u>\$ 496,250</u>	<u>\$ 10,042,778</u>

See Notes to Financial Statements.

**RONALD MCDONALD HOUSE  
CHARITIES OF CENTRAL INDIANA, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES**

Year ended December 31, 2017

	<u>Program Services</u>				<u>Supporting Activities</u>			
	<u>House Operations</u>	<u>Riley Operations</u>	<u>Other Program Services</u>	<u>Total Program</u>	<u>Mgmt. and General</u>	<u>Fund- Raising</u>	<u>Total Supporting</u>	<u>Total</u>
Advertising expense	\$ 20,049	\$ 20,048	\$ 6,014	\$ 46,111	\$ -	\$ 20,717	\$ 20,717	\$ 66,828
Benefits and payroll taxes	60,973	32,139	36,851	129,963	23,452	78,581	102,033	231,996
Community Grants	-	-	98,516	98,516	-	-	-	98,516
Depreciation and amortization	159,969	48,487	-	208,456	31,994	-	31,994	240,450
Dues and subscriptions	796	428	472	1,696	425	5,453	5,878	7,574
Guest/volunteer meals and events	261	21	1,692	1,974	935	871	1,806	3,780
In-kind expenses	43,697	9,960	114,474	168,131	-	11,567	11,567	179,698
Insurance	15,649	2,093	1,874	19,616	2,965	1,469	4,434	24,050
Laundry and housekeeping	95,310	-	-	95,310	-	-	-	95,310
Maintenance and contract services	189,227	5,092	48,224	242,543	26,384	24,974	51,358	293,901
Other expenses	4,731	1,506	3,691	9,928	10,274	17,061	27,335	37,263
Postage and shipping	21,016	7,005	19,615	47,636	7,005	85,464	92,469	140,105
Printing and publications	4,429	1,473	4,309	10,211	1,472	8,689	10,161	20,372
Professional fees	5,327	5,327	5,557	16,211	13,915	36,656	50,571	66,782
Salaries and wages	263,026	153,249	172,103	588,378	69,218	252,390	321,608	909,986
Scholarships	-	-	125,000	125,000	-	-	-	125,000
Supplies	30,115	6,000	920	37,035	3,771	3,020	6,791	43,826
Travel and transportation	1,542	402	1,179	3,123	7,716	8,978	16,694	19,817
Unallocated Payments to RMHC Global	-	-	80,913	80,913	-	-	-	80,913
Interest Expense	-	-	-	-	4,621	-	4,621	4,621
Utilities	9,129	1,062	629	10,820	420	315	735	11,555
	<u>\$ 925,246</u>	<u>\$ 294,292</u>	<u>\$ 722,033</u>	<u>\$ 1,941,571</u>	<u>\$ 204,567</u>	<u>\$ 556,205</u>	<u>\$ 760,772</u>	<u>\$ 2,702,343</u>

See Notes to Financial Statements.



**RONALD MCDONALD HOUSE  
CHARITIES OF CENTRAL INDIANA, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES** - continued

Year ended December 31, 2016

	<u>Program Services</u>				<u>Supporting Activities</u>			
	<u>House Operations</u>	<u>Riley Operations</u>	<u>Other Program Services</u>	<u>Total Program</u>	<u>Mgmt. and General</u>	<u>Fund- Raising</u>	<u>Total Supporting</u>	<u>Total</u>
Advertising expense	\$ 20,401	\$ 20,401	\$ 6,800	\$ 47,602	\$ -	\$ 20,400	\$ 20,400	\$ 68,002
Benefits and payroll taxes	48,055	32,309	36,036	116,400	19,848	63,019	82,867	199,267
Community Grants	-	-	132,933	132,933	-	-	-	132,933
Depreciation and amortization	178,983	48,057	-	227,040	-	-	-	227,040
Dues and subscriptions	1,002	131	-	1,133	195	5,548	5,743	6,876
Guest/volunteer meals and events	1,135	94	7,374	8,603	4,078	3,797	7,875	16,478
In-kind expenses	33,303	7,607	87,308	128,218	-	13,226	13,226	141,444
Insurance	13,716	2,082	1,809	17,607	1,873	1,423	3,296	20,903
Laundry and housekeeping	93,653	-	-	93,653	-	-	-	93,653
Maintenance and contract services	183,335	4,207	79,405	266,947	11,267	23,786	35,053	302,000
Other expenses	6,977	1,560	2,835	11,372	3,943	42,815	46,758	58,130
Postage and shipping	20,648	6,882	20,030	47,560	7,016	82,159	89,175	136,735
Printing and publications	5,669	1,890	5,523	13,082	1,890	11,135	13,025	26,107
Professional fees	1,357	1,357	9,544	12,258	17,957	13,194	31,151	43,409
Salaries and wages	216,739	139,299	147,913	503,951	76,147	270,088	346,235	850,186
Scholarships	-	-	116,701	116,701	-	-	-	116,701
Supplies	31,085	6,672	476	38,233	2,854	793	3,647	41,880
Travel and transportation	1,050	3,077	277	4,404	5,364	7,647	13,011	17,415
Unallocated Payments to RMHC Global	-	-	105,017	105,017	-	-	-	105,017
Interest Expense	-	-	-	-	-	-	-	-
Utilities	7,750	-	618	8,368	442	274	716	9,084
	<u>\$ 864,858</u>	<u>\$ 275,625</u>	<u>\$ 760,599</u>	<u>\$ 1,901,082</u>	<u>\$ 152,874</u>	<u>\$ 559,304</u>	<u>\$ 712,178</u>	<u>\$ 2,613,260</u>

See Notes to Financial Statements.

**RONALD MCDONALD HOUSE  
CHARITIES OF CENTRAL INDIANA, INC.**

**STATEMENTS OF CASH FLOWS**

Year ended December 31, 2017 and 2016

	<b><u>2017</u></b>	<b><u>2016</u></b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 1,405,243	\$ 185,827
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	240,450	227,040
(Gain) loss in fixed asset disposals	-	4,339
Unrealized (gain) loss on investments	(973,127)	(323,989)
Realized (gain) loss on investments	(51,761)	(507)
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions and grants receivable	145,012	(96,247)
Interest receivable	716	(829)
Prepaid expenses	(4,619)	12,285
Increase (decrease) in:		
Accounts payable and accrued expenses	(59,129)	51,686
Accrued payroll	12,471	8,307
Deferred revenue	-	(15,000)
Net cash provided by (used in) operating activities	715,256	52,912
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchase of property and equipment	(79,400)	(170,262)
Purchase of investments	(825,935)	(118,543)
Proceeds from sale of investments	511,146	99,980
Net cash provided by (used in) investing activities	(394,189)	(188,825)
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Borrowings on line of credit	250,000	-
Payments on line of credit	(250,000)	-
Net cash provided by (used in) financing activities	-	-
Increase (decrease) in cash and cash equivalents	321,067	(135,913)
<b><u>CASH</u></b>		
Beginning of year	528,631	664,544
End of year	\$ 849,698	\$ 528,631

See Notes to Financial Statements.

**RONALD MCDONALD HOUSE  
CHARITIES OF CENTRAL INDIANA, INC.**

**STATEMENTS OF CASH FLOWS** - continued  
Year ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b><u>SUPPLEMENTAL DISCLOSURES</u></b>		
<b><u>OF CASH FLOW INFORMATION</u></b>		
In-kind contributions	\$ <u>193,785</u>	\$ <u>149,298</u>
Cash payments for interest	\$ <u>4,621</u>	\$ <u>-</u>

See Notes to Financial Statements.

**RONALD MCDONALD HOUSE  
CHARITIES OF CENTRAL INDIANA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017

**NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business

The mission of Ronald McDonald House Charities of Central Indiana, Inc. (the "Organization") is to provide a supportive home-away-from-home for families of children receiving medical care at Riley Hospital for Children at IU Health and other area hospitals, and we champion programs that improve the health, education and well-being of children. Today we operate two Ronald McDonald Houses, a Community Grants Initiative and a Scholarship Program. For 35 years we have been providing comfort, care and connectivity to families when they need it most; we exist to keep families close to their hospitalized children. In 2016, after a successful unification with the Ronald McDonald House Charities of Central Indiana (whose name we adopted) we are now providing critical funding to smaller nonprofits that align with our mission of supporting the health, education and well-being of children, and we support 25 local youth each year with college scholarships. The House has been and will always be the foundation of our work and mission. Thanks to hundreds of volunteers we maintain and operate two facilities in Indianapolis, one 52 room House on the IUPUI campus and a satellite location in Riley Hospital to provide temporary housing for the parents of seriously ill or injured children undergoing treatment at local hospitals. The Organization's main source of revenue is contributions.

A summary of the Organization's significant accounting policies follows:

A. Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting.

These financial statements have been prepared to focus on the entity as a whole and to present transactions according to the existence, or absence of, donor-imposed restrictions in conformity with accounting principles generally accepted in the United States of America. This has been done by classification of transactions and balances into three categories of net assets: unrestricted net assets which have no donor-imposed restrictions, temporarily restricted net assets which have donor-imposed restrictions that will expire in the future, and permanently restricted net assets which have donor-imposed restrictions which do not expire. Unrestricted net assets include general and board-designated which may be used at the discretion of management for capital improvements.

B. Cash

The Organization's cash consists of checking and savings accounts with two financial institutions. The Organization maintains its cash in bank accounts which, at times, may exceed federally insured limits. To date, there have been no losses on such accounts.

C. Investments

Investments consist of money market funds, mutual funds, and exchange-traded funds. The Organization accounts for investments with readily determinable fair values in the statement of financial position at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

**RONALD MCDONALD HOUSE  
CHARITIES OF CENTRAL INDIANA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017

**NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES** - continued

C. Investments - continued

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the Organization's financial statements.

D. Contributions and Grants Receivable

Contributions and grants receivable consists of amounts management expects to collect from donors and grantors, and are reported at net realizable value. All amounts are expected to be collected within one year, and none are considered uncollectible as of the year ended December 31, 2017 and 2016.

E. Property and Equipment

Property and equipment are stated at cost. Donated property and equipment is recorded at fair value. The Organization's capitalization policy is \$1,000 for assets purchased with an estimated useful life of 3 years or more. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years.

Expenditures for property and equipment and for renewals or betterments which extend the originally estimated economic life of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense. When an asset is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities. Projects in progress are not depreciated until the asset is placed into service.

The Organization reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying value may not be fully recoverable. If impairment is present, the carrying value of the impaired assets are reduced to its fair value. During the years ended December 31, 2017 and 2016, there was no impairment loss recognized on long-lived assets.

F. In-kind Contributions

In addition to receiving cash contributions, the Organization received in-kind contributions of goods from various donors totaling \$193,785 and \$149,298 for the years ended December 31, 2017 and 2016, respectively.

In-kind contributions of goods consisted mainly of household products and supplies, linens, tickets to professional sporting and entertainment events for guests, video games, TV's and DVD players, toys, nonperishable food items and canned goods. In-kind contributions are reflected in the accompanying statement of activities at their estimated values at date of receipt.

**RONALD MCDONALD HOUSE  
CHARITIES OF CENTRAL INDIANA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017

**NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES** - continued

G. Volunteer Services

Contributions of services are recognized if the services received (a) create or enhance a nonfinancial asset, or (b) be specialized skills, provided by entities or persons possessing those skills, that would be purchased if they were not donated. Donated services for operations reflected in the statement of activities for 2017 and 2016 was \$17,893 and \$0, respectively.

The Organization utilizes significant volunteer services to help support the staff and guests of the Organization by providing office assistance, light housekeeping and maintenance. The Organization tracks volunteer services and uses a national service rating system to estimate their value. The estimated value of volunteer services utilized by the Organization for the year ended December 31, 2017 and 2016 was \$832,892 and \$846,662, respectively, and have not been reflected in the financial statements. If the value of volunteer services had been recorded by the Organization, in-kind contribution revenue and program expenses would have been \$832,892 and \$846,662 higher than reported as of December 31, 2017 and 2016, respectively.

H. Functional Expenses

Expenses have been classified as House operations, Riley operations, other program services, management and general, and fundraising based on the actual direct expenditures and cost allocation based on estimates of time and usage by Organization personnel and programs.

I. Tax Status

The Organization is exempt from federal and state income taxes on its related activities under Internal Revenue Service Code Section 501(c)(3). Accordingly, no provision for federal and state income taxes has been made.

The Organization files the required federal and state information returns. Whenever tax returns are filed, the filing organization must evaluate the merits of its tax positions and determine if they will be ultimately sustained. Those tax positions for the Organization include maintaining their tax-exempt status and the taxability of any unrelated business income. The Organization believes these positions are sustainable. Although the Organization has not incurred any interest and penalties associated with these positions, it is their policy to expense them in the statement of activities.

J. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. Evaluation of Subsequent Events

The Organization has evaluated subsequent events through August 10, 2018, which is the date the financial statements were available to be issued.

**RONALD MCDONALD HOUSE  
CHARITIES OF CENTRAL INDIANA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017

**NOTE 2 PREPAID OPERATING LEASES**

In September 1981, the Organization entered into a 25-year land lease with Indiana University. In consideration for the use of the land, the Organization transferred title and rights to the building constructed on the land to Indiana University. In 1997, the lease was transferred to IU Health (formerly Clarian Health) and was renewed through August 2026. Accordingly, the cost of the building constructed on the land and subsequent leasehold improvements have been recorded as a prepaid operating lease and reported under Property and Equipment in the Statement of Financial Position. The original cost of the building is amortized over the term of the lease using the straight-line method. Subsequent leasehold improvements are amortized on the straight-line method over the estimated useful lives of the improvements or the lease term remaining, whichever is less. Facility lease amortization for this lease included in the Statement of Activities was \$113,067 for 2017 and 2016.

The Organization opened its expansion in Riley Hospital in March 2004. The Organization has signed a 15-year agreement with IU Health which provides that the ownership of all improvements vest in the Hospital and all moveable equipment and furnishings vest in the Organization when the term expires.

The original cost of the expansion less the cost of the furnishings is amortized over the term of the agreement using the straight-line method. Amortization expense related to the construction of the expansion included in the Statement of Activities was \$46,609 for 2017 and 2016.

**NOTE 3 INVESTMENTS**

Investments are composed of the following:

	<b><u>2017</u></b>	<b><u>2016</u></b>
Money market funds	\$ 255,810	\$ 103,700
Mutual funds	6,803,280	5,860,277
Exchange-Traded Funds (ETF's)	2,381,271	2,136,707
	<u>\$ 9,440,361</u>	<u>\$ 8,100,684</u>

Net return on investments is as follows:

	<b><u>2017</u></b>	<b><u>2016</u></b>
Investment income, net of related expenses of \$22,000 for 2017 and 2016	\$ 379,072	\$ 187,097
Unrealized gain (loss)	973,127	323,989
Realized gain (loss)	51,761	507
	<u>\$ 1,403,960</u>	<u>\$ 511,593</u>

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**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 4 FAIR VALUE MEASUREMENTS**

The Organization utilizes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

- **Level 1**            Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
  
- **Level 2**            Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
  
- **Level 3**            Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. While the Organization believes its valuation methods are appropriate and consistent with the other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended December 31, 2017 and 2016, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

The following is a description of the valuation methodologies used for assets measured at fair value:

*Money market funds:* Valued at the net asset value ("NAV") of share held at year-end.

*Mutual funds:* Valued at the net asset value ("NAV") of share held at year-end.

*Exchange-traded funds:* Valued at listing closing price of shares held at year-end.



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**NOTE 4 FAIR VALUE MEASUREMENTS** - continued

Assets measured at fair value as of December 31 are summarized as follows:

	<b>2017</b>			
	<b><u>Fair Value</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
Money Market Funds	\$ 255,810	\$ -	\$ 255,810	\$ -
Mutual Funds:				
Bond Fund	3,048,554	3,048,554	-	-
Small Blend	261,762	261,762	-	-
Large Growth	1,317,120	1,317,120	-	-
Large Blend	1,361,471	1,361,471	-	-
Large Value	814,373	814,373	-	-
Exchange-Traded Funds:				
Small Blend	346,846	346,846	-	-
Large Blend	2,034,425	2,034,425	-	-
	<b>\$ 9,440,361</b>	<b>\$ 9,184,551</b>	<b>\$ 255,810</b>	<b>\$ -</b>

	<b>2016</b>			
	<b><u>Fair Value</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
Money Market Funds	\$ 103,700	\$ -	\$ 103,700	\$ -
Mutual Funds:				
Bond Fund	2,710,615	2,710,615	-	-
Small Blend	283,000	283,000	-	-
Large Growth	1,071,801	1,071,801	-	-
Large Blend	1,052,393	1,052,393	-	-
Large Value	742,468	742,468	-	-
Exchange-Traded Funds:				
Small Blend	306,784	306,784	-	-
Large Blend	1,829,923	1,829,923	-	-
	<b>\$ 8,100,684</b>	<b>\$ 7,996,984</b>	<b>\$ 103,700</b>	<b>\$ -</b>

Management evaluated the significance of transfers between levels based upon the nature of the financial instruments and size of the transfer relative to total assets. For the years ended December 31, 2017 and 2016, there were no significant transfers in or out of Levels 1, 2 or 3.

**NOTE 5 ENDOWMENT**

The Organization's endowment consists of donor-restricted contributions that were made to provide a source of income for operations. As required by Accounting Principles Generally Accepted in the United States of America ("GAAP"), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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**NOTE 5 ENDOWMENT** - Continued

Interpretation of relevant law

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the purchasing power 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 as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

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 the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment

- (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

Changes in Endowment Net Assets as of December 31, 2017 and 2016 are as follows:

	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
Endowment net assets, January 1, 2016,	\$ 454,099	\$ 496,250	\$ 950,349
Investment income	25,715	-	25,715
Net depreciation, realized and unrealized	41,892	-	41,892
Total investment return	67,607	-	67,607
Appropriation for expenditure	(25,715)	-	(25,715)
Endowment net assets, December 31, 2016	495,991	496,250	992,241
Investment income	49,116	-	49,116
Net depreciation, realized and unrealized	127,505	-	127,505
Total investment return	176,621	-	176,621
Appropriation for expenditure	(15,413)	-	(15,413)
Endowment net assets, December 31, 2017	\$ 657,199	\$ 496,250	\$ 1,153,449

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**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5 ENDOWMENT** - Continued

Funds with deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2017 and 2016.

Return Objectives and Risk Parameters

The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to 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.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return 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 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 of appropriating for distribution each year the interest and dividend income from the endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through investment return.

**NOTE 6 LINE OF CREDIT**

The Organization has a line of credit with PNC Bank with a maximum debt facility of \$250,000 available through September 30, 2018. At December 31, 2017 and 2016, there were no amounts outstanding on the line of credit. The line of credit bears interest at 3% plus one-month LIBOR. The rate was 4.55% and 3.74% as of December 31, 2017 and 2016, respectively.

**NOTE 7 RETIREMENT PLAN**

The Organization has a 401(K) retirement plan (the "Plan") for employees who meet certain eligibility requirements. The Plan permits eligible employees, through salary deferrals, to contribute up to IRS limits annually. The Organization matches 50% of employee contributions up to 6% of compensation. For employees who were hired prior to January 1, 2006, the Organization contributes 10% of employee compensation to the plan regardless of salary deferrals. The Organization contributed \$19,759 and \$20,700 to the Plan in 2017 and 2016, respectively.

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**NOTE 8 LEASE COMMITMENTS**

The Organization is obligated under various operating leases for equipment with monthly payments ranging from \$155 to \$630 and various expiration dates through 2020.

Future minimum lease obligations under the agreements are as follows:

2018	\$	9,470
2019		7,574
2020		629
Thereafter		-
	<u>\$</u>	<u>17,673</u>

Total operating lease payments for the years ended December 31, 2017 and 2016 were \$9,908 and \$13,216, respectively.