

**RONALD MCDONALD HOUSE CHARITIES OF
SOUTHEASTERN MICHIGAN, INC.**

Financial Statements

*For the years ended
December 31, 2014 and 2013*



Table of Contents

| | |
|--|-------|
| Independent Auditors' Report | 1 |
| Statements of Financial Position | 2 |
| Statements of Activities and Changes in Net Assets | 3-4 |
| Statements of Cash Flow | 5-6 |
| Statements of Functional Expenses | 7-10 |
| Notes to the Financial Statements | 11-21 |



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ronald McDonald House Charities of Southeastern Michigan, Inc.
Detroit, Michigan

We have audited the accompanying financial statements of Ronald McDonald House Charities of Southeastern Michigan, Inc. (a Michigan nonprofit organization), which comprise the statement of financial position as of December 31, 2014 and the related statements of activities and changes in net assets, cash flows and functional expenses 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Southeastern Michigan, Inc. 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.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants
July 10, 2015

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Statements of Financial Position

December 31, 2014 and 2013

| | <u>ASSETS</u> | |
|--|--|----------------------------|
| | <u>2014</u> | <u>2013</u> |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 762,605 | \$ 305,241 |
| Room Fee Receivable | 17,810 | 78,325 |
| Pledges Receivable (Current Portion) | 457,331 | - |
| Inventory | 172,339 | 59,999 |
| Prepaid Expenses | 881 | 4,384 |
| Total Current Assets | <u>1,410,966</u> | <u>447,949</u> |
| Pledges Receivable - Net of \$30,000 Allowance | 49,747 | - |
| Marketable Securities | | |
| Permanently Restricted | 545,582 | 545,319 |
| Unrestricted | 466,824 | 1,479,879 |
| Total Marketable Securities | <u>1,012,406</u> | <u>2,025,198</u> |
| Costs for New Building in Progress | 3,690,918 | - |
| Property and Equipment - Net of Accumulated Depreciation of \$2,314,678 and \$2,215,932 in 2014 and 2013, Respectively | <u>34,683</u> | <u>808,549</u> |
| TOTAL ASSETS | <u><u>\$ 6,198,720</u></u> | <u><u>\$ 3,281,696</u></u> |
| | <u>LIABILITIES AND NET ASSETS</u> | |
| Current Liabilities | | |
| Accounts Payable | \$ 30,897 | \$ 21,297 |
| Accrued Expenses | 98,396 | 18,380 |
| Total Current Liabilities | <u>129,293</u> | <u>39,677</u> |
| TOTAL LIABILITIES | <u>129,293</u> | <u>39,677</u> |
| Net Assets | | |
| Unrestricted | 2,436,767 | 2,696,700 |
| Temporarily Restricted | 3,087,078 | - |
| Permanently Restricted | 545,582 | 545,319 |
| Total Net Assets | <u>6,069,427</u> | <u>3,242,019</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 6,198,720</u></u> | <u><u>\$ 3,281,696</u></u> |

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

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Statements of Activities and Changes in Net Assets

For the years ended December 31, 2014 and 2013

UNRESTRICTED

| | <u>2014</u> | <u>2013</u> |
|--|----------------------------|----------------------------|
| Revenues and Support | | |
| Contributions | \$ 1,293,582 | \$ 817,181 |
| Grants | 7,975 | 28,093 |
| Room Fees | 44,036 | 46,740 |
| Fundraising | <u>92,802</u> | <u>65,209</u> |
| Total Revenues and Support | <u>1,438,395</u> | <u>957,223</u> |
| Functional Expenses | | |
| Program | 719,914 | 642,018 |
| Management and General | 124,967 | 125,328 |
| Fundraising | <u>321,024</u> | <u>250,939</u> |
| Total Functional Expenses | <u>1,165,905</u> | <u>1,018,285</u> |
| Increase in Net Assets Before Other Income (Expenses) | 272,490 | (61,062) |
| Other Income (Expenses) | | |
| In-Kind Donations | 202,317 | 195,667 |
| Donated Food and Supplies | (38,446) | (33,024) |
| Donated Toys | (11,911) | (32,452) |
| Donated Office Supplies | (4,815) | (4,170) |
| Donated House Supplies | (33,806) | (34,176) |
| Donated Marketing | - | (42,600) |
| Loss on Impairment of Assets | (682,718) | - |
| Interest and Dividend Income | 67,481 | 81,037 |
| Realized Gain on Sale of Investments | 74,704 | 27,251 |
| Investment Fees | (20,671) | (18,725) |
| Unrealized Gain/(Loss) on Fair Market Value of Investments | <u>(84,558)</u> | <u>33,233</u> |
| Net Other Income (Expenses) | <u>(532,423)</u> | <u>172,041</u> |
| Increase in Unrestricted Net Assets | (259,933) | 110,979 |
| Unrestricted Net Assets - Beginning | <u>2,696,700</u> | <u>2,585,721</u> |
| Unrestricted Net Assets - Ending | <u><u>\$ 2,436,767</u></u> | <u><u>\$ 2,696,700</u></u> |

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

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Statements of Activities and Changes in Net Assets

For the years ended December 31, 2014 and 2013

| | <u>TEMPORARILY RESTRICTED</u> | |
|--|--------------------------------------|-----------------------------------|
| | <u>2014</u> | <u>2013</u> |
| Grants | \$ 150,000 | \$ - |
| Pledges | 357,078 | |
| In-Kind Donations - Hospital Portion of Construction Costs | <u>2,580,000</u> | <u>-</u> |
| Total Public Support | <u>3,087,078</u> | <u>-</u> |
| Increase in Temporarily Restricted Net Assets | 3,087,078 | - |
| Temporarily Restricted Net Assets - Beginning | - | - |
| Net Assets Released From Restrictions | <u>-</u> | <u>-</u> |
| Temporarily Restricted Net Assets - Ending | <u><u>\$3,087,078</u></u> | <u><u>\$ -</u></u> |
| | <u>PERMANENTLY RESTRICTED</u> | |
| | <u>2014</u> | <u>2013</u> |
| Interest and Dividend Income | <u>\$ 263</u> | <u>\$ 130</u> |
| Increase in Permanently Restricted Net Assets | 263 | 130 |
| Permanently Restricted Net Assets - Beginning | <u>545,319</u> | <u>545,189</u> |
| Permanently Restricted Net Assets - Ending | <u><u>545,582</u></u> | <u><u>545,319</u></u> |
| Total Net Assets, End of Year | <u><u>\$6,069,427</u></u> | <u><u>\$ 3,242,019</u></u> |

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

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Statements of Cash Flow

For the years ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|----------------|------------------|
| Cash Flows from Operating Activities | | |
| Increase in Net Assets | \$ 2,827,408 | \$ 111,109 |
| Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities | | |
| Depreciation | 98,745 | 126,558 |
| Loss on Impairment of Assets | 682,718 | - |
| Interest and Dividends Restricted for Reinvestment | (263) | (130) |
| Unrealized Loss on Fair Market Value of Investments | 84,558 | (33,233) |
| Realized Gain on Sale of Investments | (74,704) | (27,251) |
| In-Kind Donations | (2,693,339) | (49,245) |
| Changes in Operating Assets and Liabilities which Provided (Used) Cash | | |
| Accounts Receivable | (498,998) | (51,082) |
| Prepaid Expenses | (3,502) | 12,379 |
| Inventory | (112,340) | 15,516 |
| Accounts Payable | 9,897 | 297 |
| Accrued Expenses | 80,017 | (3,373) |
| Net Cash Provided by Operating Activities | 400,197 | 101,545 |
| Cash Flows from Investing Activities | | |
| Proceeds from Sales of Investments | 2,191,150 | 1,068,544 |
| Purchase of Investments | (1,054,635) | (1,145,567) |
| Purchases Associated with New Building | (1,073,913) | - |
| Purchase of Property and Equipment | (5,698) | (23,527) |
| Net Cash Provided by (Used in) Investing Activities | 56,904 | (100,550) |

The accompanying notes are an integral part of these financial statements

| | <u>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|
| Cash Flows from Financing Activities | | |
| Repayment of Loan From National | - | (1,377) |
| Interest and Dividends Restricted for Reinvestment | 263 | 130 |
| Net Cash Provided by (Used in) Financing Activities | <u>263</u> | <u>(1,247)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 457,364 | (252) |
| Cash and Cash Equivalents, Beginning of Year | <u>305,241</u> | <u>305,493</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 762,605</u> | <u>\$ 305,241</u> |

The accompanying notes are an integral part of these financial statements

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Statements of Functional Expenses

For the years ended December 31, 2014 and 2013

| Program Expenses | 2014 | 2013 |
|-------------------------------|-------------------|-------------------|
| Bad Debt | \$ 30,210 | \$ - |
| Conferences | 2,362 | 6,084 |
| Contract Services | 6,805 | 7,136 |
| Counseling | 3,169 | 3,081 |
| Depreciation | 78,996 | 101,246 |
| Dues and Subscriptions | 2,566 | 929 |
| Employee Insurance | 17,900 | 14,897 |
| Grants and Contributions | 20,000 | 39,976 |
| House Supplies | 18,400 | 25,280 |
| Insurance | 18,150 | 17,909 |
| Marketing and Advocacy | 16,607 | 36,603 |
| Miscellaneous | 1,548 | 1,343 |
| Office Expense | 1,861 | 2,056 |
| Payments to National | 57,260 | 67,335 |
| Payroll Taxes | 13,027 | 12,757 |
| Postage | 3,981 | 3,522 |
| Printing | 3,998 | 2,352 |
| Professional Fees | 24,960 | 28,800 |
| Program Expenses | 111,492 | 8,905 |
| Repairs and Maintenance | 32,498 | 24,696 |
| Salary and Wages | 178,493 | 163,147 |
| SEP Contribution | 8,277 | 7,777 |
| Utilities and Telephone | 30,731 | 31,592 |
| Volunteer Program | 7,441 | 6,995 |
| Weekend Relief | 29,182 | 27,600 |
| Total Program Expenses | \$ 719,914 | \$ 642,018 |

The accompanying notes are an integral part of these financial statements

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Statements of Functional Expenses

For the years ended December 31, 2014 and 2013

| Management and General Expenses | 2014 | 2013 |
|--|-------------------|-------------------|
| Board Programs | \$ 7,248 | \$ 6,571 |
| Conferences | 2,293 | 5,904 |
| Contract Services | 5,171 | 5,423 |
| Depreciation | 14,812 | 18,984 |
| Dues and Subscriptions | 2,459 | 890 |
| Employee Insurance | 5,076 | 4,224 |
| Insurance | 2,562 | 2,528 |
| Meals and Entertainment | 972 | 1,051 |
| Miscellaneous | 774 | 671 |
| Office Expense | 13,025 | 14,394 |
| Payroll Taxes | 3,694 | 3,617 |
| Postage | 796 | 704 |
| Printing | 800 | 471 |
| Professional Fees | 3,120 | 3,600 |
| Repairs and Maintenance | 6,093 | 4,630 |
| Salary and Wages | 50,617 | 46,266 |
| SEP Contribution | 2,347 | 2,205 |
| Utilities and Telephone | 3,108 | 3,195 |
| Total Management and General Expenses | \$ 124,967 | \$ 125,328 |

The accompanying notes are an integral part of these financial statements

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Statements of Functional Expenses

For the years ended December 31, 2014 and 2013

| Fundraising | 2014 | 2013 |
|-----------------------------------|-------------------|-------------------|
| Conferences | \$ 2,293 | \$ 5,904 |
| Contract Services | 1,633 | 1,713 |
| Depreciation | 4,937 | 6,328 |
| Dues and Subscriptions | 320 | 116 |
| Employee Insurance | 3,741 | 3,113 |
| Fundraising Expenses | 225,911 | 136,985 |
| Insurance | 641 | 632 |
| Marketing and Advocacy | 16,607 | 36,603 |
| Meals and Entertainment | 972 | 1,052 |
| Miscellaneous | 6,276 | 5,447 |
| Office Expense | 3,721 | 4,113 |
| Payroll Taxes | 2,722 | 2,665 |
| Postage | 3,185 | 2,817 |
| Printing | 3,197 | 1,882 |
| Professional Fees | 3,120 | 3,600 |
| Repairs and Maintenance | 2,032 | 1,543 |
| Salary and Wages | 37,297 | 34,091 |
| SEP Contribution | 1,729 | 1,625 |
| Utilities and Telephone | 690 | 710 |
| Total Fundraising Expenses | \$ 321,024 | \$ 250,939 |

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

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Statements of Functional Expenses

For the years ended December 31, 2014 and 2013

| Total Functional Expenses | <u>2014</u> | <u>2013</u> |
|----------------------------------|---------------------|---------------------|
| Bad Debt | \$ 30,210 | \$ - |
| Board Programs | 7,248 | 6,571 |
| Conferences | 6,948 | 17,892 |
| Contract Services | 13,609 | 14,272 |
| Counseling | 3,169 | 3,081 |
| Depreciation | 98,745 | 126,558 |
| Dues and Subscriptions | 5,345 | 1,935 |
| Employee Insurance | 26,717 | 22,234 |
| Fundraising Expenses | 225,911 | 136,985 |
| Grants and Contributions | 20,000 | 39,976 |
| House Supplies | 18,400 | 25,280 |
| Insurance | 21,353 | 21,069 |
| Marketing and Advocacy | 33,214 | 73,206 |
| Meals and Entertainment | 1,944 | 2,103 |
| Miscellaneous | 8,598 | 7,461 |
| Office Expense | 18,607 | 20,563 |
| Payments to National | 57,260 | 67,335 |
| Payroll Taxes | 19,443 | 19,039 |
| Postage | 7,962 | 7,043 |
| Printing | 7,995 | 4,705 |
| Professional Fees | 31,200 | 36,000 |
| Program Expenses | 111,492 | 8,905 |
| Repairs and Maintenance | 40,623 | 30,869 |
| Salary and Wages | 266,407 | 243,504 |
| SEP Contribution | 12,353 | 11,607 |
| Utilities and Telephone | 34,529 | 35,497 |
| Volunteer Program | 7,441 | 6,995 |
| Weekend Relief | 29,182 | 27,600 |
| Total Functional Expenses | <u>\$ 1,165,905</u> | <u>\$ 1,018,285</u> |

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

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Notes to Financial Statements

December 31, 2014 and 2013

NOTE A: MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Effective December 31, 2005 the Organization changed its name from Ronald McDonald House of Detroit, Inc. to Ronald McDonald House Charities of Southeastern Michigan, Inc. ("RMHC"). "Ronald McDonald House of Detroit" is registered as a DBA of RMHC. RMHC is a non-profit entity that provides a home away from home, known as Ronald McDonald House, and provides support services to families of sick children. RMHC also makes contributions and grants to non-profit organizations which benefit children in the areas of health care, medical research, education, civic and social services in southeast Michigan.

Basis of Accounting

The Organization follows accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) that the Organization follows to ensure they consistently report their financial condition, results of operations, and cash flows. References to GAAP issued by the FASB in the following footnotes are the FASB Accounting Standards Codification (ASC).

Net Asset Classification

In accordance with the recommendations of *FASB ASC 958-205-25*, RMHC reports information regarding its financial position and activities according to donee classes of net assets depending on the existence of any donor imposed restrictions: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. RMHC records donor-restricted contributions and investment returns whose restrictions have been satisfied in the same reporting period as unrestricted support in such year.

Public Support and Revenue

All contribution revenue including pledges receivable is recognized in the period received unless the promise contains a donor-imposed condition in accordance with the recommendations of *FASB ASC 958-605-25*.

Grants and contributions of cash and other assets are reported temporarily or permanently as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

See Independent Auditors' Report

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Notes to Financial Statements

December 31, 2014 and 2013

**NOTE A: MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
(continued)**

Cash and Cash Equivalents

RMHC considers all highly-liquid investments, not held in its investment accounts, with original maturities of three months or less to be cash equivalents.

Accounts and Pledges Receivable

Accounts and pledges receivable are stated at the amount management expects to receive from outstanding balances. Pledges represent donations promised during the Organization's fundraising campaign in 2014 that will be collected in future periods. Balances that are considered uncollectible after RMHC has attempted reasonable collection efforts are written off through a direct charge to bad debt expense and a credit to the applicable receivable account. Actual past write-offs have not exceeded management's expectations, and management does not believe an allowance for room fees is necessary at December 31, 2014 and 2013. An allowance of \$30,000 (approximately 5%) was used for the pledges.

Investments

Investments consist of mutual fund investments in money market securities, equity securities, and debt securities. See Note E for the classification of investments according to the fair value hierarchy set forth by *FASB ASC 820-10-50*.

Investments in debt and equity securities with readily available fair market values are stated at fair market value as determined by quoted market prices, with unrealized gains and losses recognized in the statement of activities and changes in net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Income Taxes

RMHC is a not-for-profit organization that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

See Independent Auditors' Report

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Notes to Financial Statements

December 31, 2014 and 2013

**NOTE A: MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
(continued)**

Property and Equipment

Property and equipment are stated at cost. Equipment is depreciated using the straight-line method over the estimated useful lives of the assets (three to seven years). Building and improvements are depreciated using the straight-line method over the estimated useful lives of the assets (ten to forty years). Expenditures for maintenance and repairs that do not materially extend the useful life of the related asset are charged to expense as incurred. Management annually reviews these assets for impairment (see Note J).

Functional Allocation of Expenses

In the statements of functional expenses, expenses have been allocated between program services, management and general services and fundraising based on various appropriate bases, as determined by management. Although the methods of allocation used are considered reasonable, other methods of allocation could be used which would produce different results.

Donated Services

RMHC receives donated services from unpaid volunteers who assist in fund raising and special projects. No amounts have been recognized in the statement of activities for these services because the criteria for recognition in the financial statements have not been satisfied. However, construction labor donated as part of capital improvement projects is capitalized when the amounts are both material and readily determinable.

NOTE B: PENSION PLAN

RMHC maintains a Simplified Employee Pension Plan (SEP) covering all employees at the rate of 6 percent of eligible salaries. The Plan is non-contributory. SEP contribution expenses for the years ended December 31, 2014 and 2013 were \$12,353 and \$11,607, respectively.

NOTE C: IN-KIND DONATIONS

The Organization received in-kind donations of \$2,782,317 and \$195,667 in the years ending 2014 and 2013, respectively. The donations consisted of building improvements (see Note J), house and office supplies, food, and toys.

See Independent Auditors' Report

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Notes to Financial Statements

December 31, 2014 and 2013

NOTE D - CONCENTRATION OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

RMHC maintains their cash balances within two financial institutions located in Michigan. The account balances are insured up to \$250,000 per deposit institution by the Federal Deposit Insurance Corporation. At various times during the year, RMHC may have had deposits on hand in accounts at these institutions that were not insured because they exceeded the \$250,000 deposit insurance limits. The Organization had approximately \$461,000 in deposits in excess of these limits as of December 31, 2014. The Organization did not have any deposits in excess of these limits as of December 31, 2013.

NOTE E - FAIR VALUE MEASUREMENTS

Effective January 1, 2008 the Organization adopted ASC topic Fair Value Measurements and Disclosures. This topic defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. The Organization has elected the option to defer the effective date of ASC topic Fair Value Measurements as it pertains to non-financial assets and liabilities.

ASC topic Fair Value Measurements establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. ASC topic Fair Value Measurements requires that assets and liabilities be classified in their entirety based on the lowest level of input that is significant to the fair value measurement in its entirety.

Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability, and may affect the valuation of the asset or liability and its placement within the fair value hierarchy. The Organization classifies fair value balances based on the fair value hierarchy defined by ASC topic Fair Value Measurements as follows:

Level 1 - Consists of unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access as of the reporting date.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Notes to Financial Statements

December 31, 2014 and 2013

NOTE E - FAIR VALUE MEASUREMENTS – (continued)

Level 2 - Consists of inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3 - Consists of unobservable inputs for assets and liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost-benefit constraints.

All investments except the money market are considered Level 1; money markets are considered Level 2 since they are valued at the net asset value (NAV) of the shares held at year end. The following table presents assets measured and recorded at fair value on a recurring basis as of December 31, 2014 and 2013:

| | Cost | | Fair Market Value | |
|-----------------|-------------------|---------------------|---------------------|---------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Money Market | \$ 107,252 | \$ 80,014 | \$ 107,252 | \$ 80,014 |
| Exchange-Traded | 124,720 | 102,004 | 129,118 | 112,263 |
| Mutual Funds | 765,866 | 1,745,437 | 776,036 | 1,832,921 |
| Total | <u>\$ 997,838</u> | <u>\$ 1,927,455</u> | <u>\$ 1,012,406</u> | <u>\$ 2,025,198</u> |

NOTE F – ENDOWMENT FUNDS

The Organization has two endowments established to provide continued financial support for the Organization, collectively known as the Joan Kroc Endowment (“Kroc”) (comprised of four funds, including one cash fund) and the Judith and Edward Narens Family Fund (“Narens”) (comprised of one fund), respectively. These endowments include donor-restricted funds.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies 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 funds.

See Independent Auditors' Report

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Notes to Financial Statements

December 31, 2014 and 2013

NOTE F – ENDOWMENT FUNDS – (continued)

The remaining portion of the donor-restricted endowment funds that are not classified as permanently restricted net assets are 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 funds:

- The duration and preservation of the funds
- The purposes of the Organization and the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

A description of the rules for income allocation and withdrawals from the funds are described in Note K - Permanently Restricted Net Assets.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. The Organization did not have a deficiency in the level of the Kroc endowment or the Narens endowment for either year.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets.

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 that, during 2010, placed a

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Notes to Financial Statements

December 31, 2014 and 2013

NOTE F – ENDOWMENT FUND – (continued)

greater emphasis on equity and mutual fund investments to achieve its long-term return objectives within prudent risk constraints. During 2013 and 2014, the Organization was more heavily invested in lower-risk fixed income obligations due to the market conditions.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The requirements of each endowment are described in Note K - Permanently Restricted Net Assets.

**Combined Changes in Endowment Net Assets for
the Year Ended December 31, 2014**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment Net Assets, Beginning of Year | \$ 354,613 | \$ - | \$ 545,319 | \$ 899,932 |
| Investment Return | | | | |
| Investment Income | 25,009 | - | 263 | 25,272 |
| Net Appreciation (Realized and Unrealized) | <u>(14,816)</u> | <u>-</u> | <u>-</u> | <u>(14,816)</u> |
| Total Investment Return | <u>10,193</u> | <u>-</u> | <u>263</u> | <u>10,456</u> |
| Endowment Net Assets, End of Year | <u>\$ 364,806</u> | <u>\$ -</u> | <u>\$ 545,582</u> | <u>\$ 910,388</u> |

NOTE G: ADVERTISING

The Organization uses radio and television advertising to promote its programs throughout the area it serves. The cost of advertising is expensed as incurred. During the years ending December 31, 2014 and 2013, advertising expense totaled \$33,214 and \$73,206, respectively.

See Independent Auditors' Report

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Notes to Financial Statements

December 31, 2014 and 2013

NOTE H: LEASE COMMITMENT

The property on which the building stood until March of 2015 was leased from Children's Hospital of Michigan, with annual rent of \$1. The lease term began on July 10, 1978 and was set to end on July 9, 2077. The Organization signed a new 99 year lease with the hospital for its new location in August of 2014 that will run for 99 years from the occupancy of the new House (approximately March of 2114). The entire lease was prepaid in 2015 for \$99 so there will be no future minimum lease payments. See Note J for additional information on the new House location.

Management has not determined the fair market value of the in-kind rent contribution; consequently, no amount has been recorded as an in-kind donation as of December 31, 2014 or 2013.

NOTE I: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following components at December 31, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|------------------------------------|------------------|-------------------|
| Building | \$ 906,459 | \$ 1,022,420 |
| Building Improvements | 796,089 | 1,329,175 |
| Equipment, Furniture, and Fixtures | 642,518 | 668,591 |
| Computer Software | <u>4,295</u> | <u>4,295</u> |
| Total | 2,349,361 | 3,024,481 |
| Less Accumulated Depreciation | <u>2,314,678</u> | <u>2,215,932</u> |
| Property and Equipment, Net | <u>\$ 34,683</u> | <u>\$ 808,549</u> |

NOTE J: HOUSE RELOCATION AND ASSET IMPAIRMENT

During 2013, the hospital approached the Organization about relinquishing the remaining life of its 99 year lease in exchange for a new physical location. The old lease was cancelled and a new lease was signed in August of 2014 as described in Note H. The Hospital committed to paying for all construction costs of the new location except for \$800,000 that was to be funded by the Organization. Construction of the new location began in August of 2014 and ended in March of 2015. The Hospital paid a total of \$4.3 million dollars of costs for the new location

See Independent Auditors' Report

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Notes to Financial Statements

December 31, 2014 and 2013

NOTE J: HOUSE RELOCATION AND ASSET IMPAIRMENT – (continued)

that were recognized as an in-kind donation pro rata over the construction project. Four and a half out of seven and a half months of the project occurred in 2014, so \$2.58 million was recognized as in-kind revenue and prepaid expense in 2014. The remaining \$1.72 million was recognized in March of 2015 upon completion of the project and the occupancy of the new location. All of the costs incurred for the move and new construction, whether in-kind or paid by the Organization, were recognized as prepaid expense on the 2014 financials and were capitalized or expensed as appropriate in 2015.

The asset values for building improvements, furniture and fixtures, etc. for the old location that were not utilized in the new location were written down in 2014 and an impairment loss was recognized. The amount of the impairment loss was \$682,718 and represented the undepreciated portion of these assets as of March, 2015. The gross asset values were written down for each category and the net asset value left as of December 31, 2014 represents three months of 2015 depreciation on the assets not moved and the net book value of other assets that were retained including canister additions and some furniture and equipment.

The amount of expense allocated to fundraising on the statement of functional expenses is higher in 2014 than in previous years due to a few fundraising campaigns that were designed to raise money for operating shortfalls caused by the additional cost incurred by the Organization as a result of the relocation. Future fundraising expenses are expected to be more consistent with prior periods.

NOTE K: PERMANENTLY RESTRICTED NET ASSETS

Support Group Endowment

On November 29, 1989, Mr. and Mrs. Narens contributed \$50,000 to an endowment Fund for the Family Support Group Program. The name of the endowment fund is "Judith and Edward Narens Family Fund". The corpus of the fund will be maintained in perpetuity. The annual income earned by the fund is applied as follows:

1. 85 percent shall be used to support the Family Support Group Program,
2. 10 percent shall be added to the principal, and
3. 5 percent shall be used to defray the cost of administration.

For the years ended December 31, 2014 and 2013, the endowment fund incurred net gains of \$2,627 and \$1,297, respectively; therefore, the endowment fund was

See Independent Auditors' Report

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Notes to Financial Statements

December 31, 2014 and 2013

NOTE K: PERMANENTLY RESTRICTED NET ASSETS - (continued)

increased by \$263 and \$130 as of December 31, 2014 and 2013. The corpus balance at December 31, 2014 and 2013 was \$49,332 and \$49,069, respectively.

Joan Kroc Endowment

In February 1993, Mrs. Joan Kroc contributed 10,000 shares of McDonald's Corporation common stock. The shares were sold and the proceeds are currently invested in a portfolio of money market and mutual funds. The corpus balance (\$496,250) will be maintained in perpetuity. The value of this endowment above and beyond \$496,250 is considered by management to be unrestricted. The annual income earned by the fund will be used to defray operational expenses of the house.

NOTE L: TEMPORARILY RESTRICTED NET ASSETS

There was a \$150,000 grant written to the Organization in 2014 for which funds were not received until 2015 since it was a reimbursement grant for the new location construction. There were also donations pledged in the amount of \$357,078 (net of a \$30,000 allowance) that were recorded in 2014 as discussed in Note A. Since the funds were pledged in 2014 and the money was not received until 2015 the full amount of the receivable was shown as temporarily restricted net assets since the cash was not available to spend in 2014. The net assets will be released from restriction as the funds are collected.

NOTE M: UNCERTAINTY IN INCOME TAXES

The Organization has been classified as a not-for-profit organization and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Organization is subject to a tax on income from any unrelated business.

On January 1, 2009, the Organization adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's

See Independent Auditors' Report

RONALD MCDONALD HOUSE CHARITIES OF SOUTHEASTERN MICHIGAN, INC.

Notes to Financial Statements

December 31, 2014 and 2013

NOTE M: UNCERTAINTY IN INCOME TAXES - (continued)

financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2014 and 2013.

The Organization may be subject to random audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years ending before December 31, 2011. The Organization's policy is to classify income tax related interest and penalties, if any, in interest expense and penalties expenses, respectively. The Organization had no income tax related interest expense or penalties for the years ended December 31, 2014 and 2013.

NOTE N: LINE OF CREDIT

The Organization has a \$500,000 revolving line of credit with Chase Bank, due November 10, 2015, with interest payable at 3% above LIBOR. The line is secured by all assets of the Organization. As of December 31, 2014, there was no outstanding balance on the line of credit.

NOTE O: DATE OF MANAGEMENT'S REVIEW

Management has evaluated subsequent events through July 10, 2015, the date the financial statements were available for issuance, in accordance with FASB ASC 855-10-50-4.