Ronald McDonald House Charities of Indiana-Michiana, Inc.

Financial Report
12.31.2016

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Contents

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Independent Auditor's Report

To the Board of Directors
Ronald McDonald House Charities of Indiana-Michiana, Inc.
South Bend, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Ronald McDonald House Charities of Indiana-Michiana, Inc. which comprise the statements of financial position as of December 31, 2016 and 2015, and 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Ronald McDonald House Charities of Indiana-Michiana, Inc.

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 Indiana-Michiana, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Elkhart, Indiana
October 31, 2017

Ronald McDonald House Charities of Indiana-Michiana, Inc.

Statements Of Financial Position
December 31, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 2,744,206	$ 2,633,235
Accounts receivable	21,323	21,866
Pledges receivable	730,968	-
Investments	290,679	273,260
Property and equipment, net	2,114,132	39,246
Total assets	$ 5,901,308	$ 2,967,607
Liabilities and Net Assets		
Accounts payable	$ 477,958	$ 23,820
Accrued expenses	8,880	6,824
Total liabilities	486,838	30,644
Net assets:		
Unrestricted	4,702,838	2,837,500
Temporarily restricted for capital projects	711,632	99,463
Total net assets	5,414,470	2,936,963
Total liabilities and net assets	$ 5,901,308	$ 2,967,607

See notes to financial statements.

Ronald McDonald House Charities of Indiana-Michiana, Inc.

Statements Of Activities
Years Ended December 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Resticted	**Total**	Unrestricted	Temporarily Resticted	Total
Support and revenue:						
Canister contributions	$ 108,789	$ -	**$ 108,789**	$ 107,630	$ -	$ 107,630
Family room contributions	21,997	-	**21,997**	27,681	-	27,681
Capital campaign contributions	-	2,261,331	**2,261,331**	-	99,463	99,463
Fundraising events	550,559	-	**550,559**	562,634	-	562,634
Interest and dividends	11,532	-	**11,532**	14,170	-	14,170
Unrealized gain on investments	8,889	-	**8,889**	8,656	-	8,656
Net assets released from purpose restrictions	1,649,162	(1,649,162)	**-**	-	-	-
Total support and revenue	2,350,928	612,169	**2,963,097**	720,771	99,463	820,234
Expenses:						
Program services:						
Family room	110,707	-	**110,707**	120,202	-	120,202
Administrative services	128,463	-	**128,463**	146,612	-	146,612
Fundraising	246,420	-	**246,420**	218,046	-	218,046
Total expenses	485,590	-	**485,590**	484,860	-	484,860
Change in net assets	1,865,338	612,169	**2,477,507**	235,911	99,463	335,374
Net assets, beginning of year	2,837,500	99,463	**2,936,963**	2,601,589	-	2,601,589
Net assets, end of year	$ 4,702,838	$ 711,632	**$ 5,414,470**	$ 2,837,500	$ 99,463	$ 2,936,963

See notes to financial statements.

Ronald McDonald House Charities of Indiana-Michiana, Inc.

Statement Of Functional Expenses
Year Ended December 31, 2016

	Family Room	Administrative Services	Fundraising	**Total**
Salaries and wages	$ 66,237	$ 58,625	$ 86,869	**$ 211,731**
Payroll taxes	5,844	5,108	7,662	**18,614**
Supplies	2,840	-	-	**2,840**
Depreciation	900	3,193	-	**4,093**
Insurance	12,079	-	-	**12,079**
Office supplies	7,269	5,258	-	**12,527**
Professional fees	-	9,500	-	**9,500**
Bank fees	-	3,256	-	**3,256**
Dues and subscriptions	5,149	-	-	**5,149**
Events	-	43,523	110,966	**154,489**
Canister services	-	-	18,480	**18,480**
Payments to RMHC National	-	-	22,443	**22,443**
Computer	5,321	-	-	**5,321**
Promotion	3,316	-	-	**3,316**
Travel	1,111	-	-	**1,111**
Miscellaneous	641	-	-	**641**
	$ 110,707	$ 128,463	$ 246,420	**$ 485,590**

See notes to financial statements.

Ronald McDonald House Charities of Indiana-Michiana, Inc.

Statement Of Functional Expenses
Year Ended December 31, 2015

	Family Room	Administrative Services	Fundraising	**Total**
Salaries and wages	$ 74,855	$ 59,408	$ 53,838	**$ 188,101**
Payroll taxes	5,615	4,454	4,036	**14,105**
Supplies	1,907	-	-	**1,907**
Depreciation	1,028	3,449	-	**4,477**
Insurance	7,334	-	-	**7,334**
Office supplies	5,253	39,322	-	**44,575**
Professional fees	-	29,326	-	**29,326**
Bank fees	-	2,084	-	**2,084**
Dues and subscriptions	6,321	-	-	**6,321**
Events	-	4,821	118,789	**123,610**
Canister services	-	-	19,301	**19,301**
Payments to RMHC National	-	-	22,082	**22,082**
Computer	12,829	-	-	**12,829**
Promotion	2,279	-	-	**2,279**
Travel	1,776	-	-	**1,776**
Miscellaneous	1,005	3,748	-	**4,753**
	$ 120,202	$ 146,612	$ 218,046	**$ 484,860**

See notes to financial statements.

Ronald McDonald House Charities of Indiana-Michiana, Inc.

Statements Of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ 2,477,507**	$ 335,374
Adjustments to reconcile change in net assets to		
net cash provided by operating activities:		
In-kind contributions for capital projects	**(9,395)**	(20,230)
Depreciation	**4,093**	4,477
Unrealized gain on investments	**(8,889)**	(8,656)
Contributions for capital projects	**(2,261,331)**	(99,463)
Changes in certain assets and liabilities:		
Accounts receivable	**543**	(1,979)
Accounts payable	**24,264**	731
Accrued expenses	**2,056**	3,758
Net cash provided by operating activities	**228,848**	214,012
Cash flows from investing activities:		
Purchase of property and equipment	**(1,639,710)**	(13,206)
Sale of investments	**1,621**	300,000
Purchase of investments	**(10,151)**	(9,856)
Net cash (used in) provided by investing activities	**(1,648,240)**	276,938
Cash flows from financing activities:		
Contributions for capital projects received	**1,530,363**	99,463
Increase in cash and cash equivalents	**110,971**	590,413
Cash and cash equivalents, beginning	**2,633,235**	2,042,822
Cash and cash equivalents, ending	**$ 2,744,206**	$ 2,633,235
Supplemental disclosure of noncash investing activities:		
Property and equipment in accounts payable	**$ 429,874**	$ -

See notes to financial statements.

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Ronald McDonald House Charities of Indiana-Michiana, Inc. (the "Organization") is a nonprofit organization that operates a Ronald McDonald Family Room and makes grants. The Organization is located in South Bend, Indiana, and provides meals and temporary housing for parents and families of children receiving medical care at Memorial Hospital of South Bend, Inc. The Organization funds the operations of the family room through fees paid by users, fundraising activities and contributions. Grants are awarded to nonprofit organizations that help children reach their full potential in civic and social services, education and the arts, or health care and medical research.

Significant accounting policies: The financial statements have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the statements to the reader.

Use of estimates: The preparation of the 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 amount 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.

Classification and reporting of net assets: Accounting standards require the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the unrestricted, temporarily and permanently restricted net asset classes follows:

- Unrestricted net assets represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for the support of the Organization.

- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Temporarily restricted net assets also include, pursuant to Indiana law, cumulative appreciation and reinvested gains on permanently restricted net assets, which have not been appropriated by the Board of Directors.

- Permanently restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Cash and cash equivalents: For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Organization has cash on deposit in a financial institution which, at times, may exceed the limits of coverage provided by the Federal Deposit Insurance Corporation. Management does not believe there is a risk of loss associated with cash and cash equivalents.

Accounts and pledges receivable: Accounts and pledges receivable are carried at original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying past due accounts and by using a historical experience applied to an aging of accounts. Accounts are written off if deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The allowance for doubtful accounts was zero for the years ended December 31, 2016 and 2015.

Property and equipment and depreciation: Significant items are capitalized as property and equipment and are recorded at their historical cost, or, if donated, at fair value on the date of donation and are depreciated using accelerated and straight-line methods over the estimated useful lives of the related assets, ranging from five to seven years.

Investments: Investments in equity securities are carried at fair value determined by reference to the underlying assets. Investment income, including realized and unrealized gains and losses on investments and dividends and interest are reported under support and revenue in the statements of activities. Certificates of deposit are recorded at cost.

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Revenue and support: Contributions and investment earnings are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. All donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 and reported in the statement of activities as net assets released from restrictions.

Contributions are included in revenue in the period the gifts are pledged or received.

Contributed goods and services: Contributed materials and equipment are reflected as contributions in the accompanying statements at their estimated fair value at date of receipt. Contributed services provided by volunteers, members of the Board of Directors and local organizations and businesses are not recorded in the financial statements. Specialized services that would have been purchased, if not provided by the local businesses, are valued at fair value.

Newly adopted accounting pronouncement: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for the Organization’s December 31, 2018 financial statements. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that period. The Organization has not yet selected a transition method and is currently evaluating the effect that the pending adoption of the updated standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The ASU will be effective for the Organization’s December 31, 2018 financial statements. Early adoption is permitted. Retrospective application is required for many provisions of this guidance. The Organization is currently evaluating the effect of the pending adoption of the new standard on its financial statements.

Reclassifications: Certain prior-year amounts have been reclassified to conform to the current-year presentation. Such reclassifications had no effect on previously reported changes in net assets.

Subsequent events: Ronald McDonald House Charities of Indiana-Michiana, Inc. has evaluated subsequent events for potential recognition and/or disclosure through October 31, 2017, the date the financial statements were available to be issued.

Note 2. Pledges Receivable

The following is the detail of the pledges receivable at December 31, 2016:

Amount due in:	
Less than one year	$ 238,500
One to five years	527,500
Total amounts due	766,000
Unamortized discount	(35,032)
Pledges receivable, net	$ 730,968

Note 3. Investments

Investments at fair value as of December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Core Bonds	$ 15,177	$ 14,952
Mid-Cap Growth	12,361	11,063
Large Cap Growth	27,655	27,953
Large Cap Value	29,585	24,394
Small Cap Value	13,789	10,869
Core International	31,683	31,289
Emerging Markets	5,290	4,415
Global Allocation	33,271	31,965
Commodities	13,100	12,375
Domestic common stocks	108,768	103,985
	$ 290,679	$ 273,260

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

Investment return for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Interest and dividends*	$ 11,532	$ 14,170
Net unrealized gain	8,889	8,656
	$ 20,421	$ 22,826

* Includes interest income from cash and cash equivalents of $1,336 and $2,327 for the years ended December 31, 2016 and 2015 respectively.

Note 4. Property and Equipment

Property and equipment and the related accumulated depreciation at December 31, 2016 and 2015 are as follows:

	2016	2015
Furniture and fixtures	$ 48,942	$ 49,000
Construction in progress	2,104,876	25,840
	2,153,818	74,840
Less accumulated depreciation	(39,686)	(35,594)
	$ 2,114,132	$ 39,246

The total commitments to complete construction-in-progress for family room and leasehold improvement projects is estimated to be $605,000 at December 31, 2016.

Note 5. Fair Value Measurement

ASC 820, Fair Value Measurement, defines fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Certain of the Organization's financial assets are measured at fair value on a recurring basis, including money market funds, and fixed income and equity instruments. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to fair value measurement. Investments held by the Organization are all considered Level 1.

Note 6. Income Tax Status

The Organization qualifies as a public charity and is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. Contributions to the Organization are tax deductible by the donors to the extent allowable.

The Organization has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBTI). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. At December 31, 2016, there were no unrecognized tax benefits identified or recorded as liabilities.

The Organization files Form 990 in the U.S. federal jurisdiction and the related exempt organization forms for the state of Indiana. With few exceptions, the Organization is no longer subject to examination by the governmental authorities for years before 2013.

Note 7. Ronald McDonald House Charities License Agreement

The Organization holds a license from McDonald’s Corporation and Ronald McDonald House Charities to operate in the community. The license agreement requires the Organization to remit 25 percent of “Special RMHC Fundraising Contributions” to Ronald McDonald House Charities on a quarterly basis. In some cases, the fundraising amounts are collected by the global organization and the net amount is remitted to the Organization. In other cases, the Organization receives the gross proceeds and remits 25 percent to the global organization. Local contributions and proceeds from local fundraisers are not subject to these remittance requirements.

The Organization remitted $22,443 and $22,082 from canister collections in 2016 and 2015 respectively.