

**RONALD MCDONALD HOUSE CHARITIES
OF EASTERN WISCONSIN, INC.**

FINANCIAL STATEMENTS

For the Years Ended
December 31, 2016 and 2015



RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.
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Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ronald McDonald House Charities of Eastern Wisconsin, Inc.

We have audited the accompanying financial statements of Ronald McDonald House Charities of Eastern Wisconsin, Inc. (a nonprofit organization) 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.

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 Eastern Wisconsin, 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.

Sikich LLP

Brookfield, Wisconsin
April 6, 2017

FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.

STATEMENTS OF FINANCIAL POSITION

As of December 31,

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,121,773	\$ 739,608
Investments	7,590,646	5,021,541
Pledges receivable, net	329,635	635,750
Prepaid expenses and other assets	12,358	11,266
Total current assets	<u>9,054,412</u>	<u>6,408,165</u>
PROPERTY AND EQUIPMENT		
Building and improvements	15,299,568	15,316,343
Land and land improvements	732,751	732,751
Furnishings and equipment	2,323,318	2,288,048
Vehicles	66,939	66,939
Total property and equipment	<u>18,422,576</u>	<u>18,404,081</u>
Less: Accumulated depreciation	<u>3,636,340</u>	<u>3,225,366</u>
Net property and equipment	<u>14,786,236</u>	<u>15,178,715</u>
OTHER ASSETS		
Investments - board and donor restricted endowment funds	2,500,000	2,412,296
Pledges receivable, net	30,120	229,407
Total other assets	<u>2,530,120</u>	<u>2,641,703</u>
TOTAL ASSETS	<u><u>\$ 26,370,768</u></u>	<u><u>\$ 24,228,583</u></u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS	2016	2015
LIABILITIES		
Accounts payable and accrued expenses	\$ 412,124	\$ 172,153
Deferred sponsorship revenue	71,880	35,583
Total liabilities	484,004	207,736
NET ASSETS		
Unrestricted		
Undesignated	8,586,213	6,334,471
Designated	16,018,287	16,401,362
Total unrestricted	24,604,500	22,735,833
Temporarily restricted	14,315	17,065
Permanently restricted	1,267,949	1,267,949
Total net assets	25,886,764	24,020,847
TOTAL LIABILITIES AND NET ASSETS	\$ 26,370,768	\$ 24,228,583

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.

STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT				
Public support:				
Fundraising events	\$ 2,230,692	\$ -	\$ -	\$ 2,230,692
Less: Costs of direct benefits to donors	(495,372)	-	-	(495,372)
Net fundraising events	1,735,320	-	-	1,735,320
REVENUE				
Contributions	1,888,527	7,050	-	1,895,577
Lodging donations and other	124,573	-	-	124,573
Total revenue	2,013,100	7,050	-	2,020,150
Net assets released from restrictions	24,146	(24,146)	-	-
Total support, revenue and transfers	3,772,566	(17,096)	-	3,755,470
EXPENSES				
Program services:				
House operations	1,761,514	-	-	1,761,514
Grants and scholarships	266,942	-	-	266,942
Total program services	2,028,456	-	-	2,028,456
Support services:				
Management and general	198,280	-	-	198,280
Fundraising	174,782	-	-	174,782
Total support services	373,062	-	-	373,062
Remittances to RMHC Global	128,268	-	-	128,268
Total expenses	2,529,786	-	-	2,529,786
CHANGE IN NET ASSETS FROM OPERATIONS	1,242,780	(17,096)	-	1,225,684
INVESTMENT INCOME, NET	625,887	14,346	-	640,233
CHANGE IN NET ASSETS	1,868,667	(2,750)	-	1,865,917
NET ASSETS, BEGINNING OF YEAR	22,735,833	17,065	1,267,949	24,020,847
NET ASSETS, END OF YEAR	\$ 24,604,500	\$ 14,315	\$ 1,267,949	\$ 25,886,764

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.

STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT				
Public support:				
Fundraising events	\$ 2,186,555	\$ -	\$ -	\$ 2,186,555
Less: Costs of direct benefits to donors	(486,359)	-	-	(486,359)
Net fundraising events	1,700,196	-	-	1,700,196
REVENUE				
Contributions	1,034,575	12,164	-	1,046,739
Lodging donations and other	124,185	-	-	124,185
Total revenue	1,158,760	12,164	-	1,170,924
Net assets released from restrictions	42,601	(42,601)	-	-
Total support, revenue and transfers	2,901,557	(30,437)	-	2,871,120
EXPENSES				
Program services:				
House operations	1,660,220	-	-	1,660,220
Grants and scholarships	66,061	-	-	66,061
Total program services	1,726,281	-	-	1,726,281
Support services:				
Management and general	256,922	-	-	256,922
Fundraising	155,765	-	-	155,765
Total support services	412,687	-	-	412,687
Remittances to RMHC Global	124,738	-	-	124,738
Total expenses	2,263,706	-	-	2,263,706
CHANGE IN NET ASSETS FROM OPERATIONS	637,851	(30,437)	-	607,414
INVESTMENT INCOME, NET	(46,010)	-	-	(46,010)
CHANGE IN NET ASSETS	591,841	(30,437)	-	561,404
NET ASSETS, BEGINNING OF YEAR	22,143,992	47,502	1,267,949	23,459,443
NET ASSETS, END OF YEAR	\$ 22,735,833	\$ 17,065	\$ 1,267,949	\$ 24,020,847

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

	Program Services			Support Services				
	House Operations	Grants and Scholarships	Total Program Services	Management and General	Fundraising	Cost of Sales	Total Support Services	Total Expenses
Salaries, taxes, other benefits	\$ 535,822	\$ 6,942	\$ 542,764	\$ 135,829	\$ 163,174	\$ -	\$ 299,003	\$ 841,767
Van expenses	4,046	-	4,046	-	-	-	-	4,046
Utilities	131,070	-	131,070	1,324	-	-	1,324	132,394
House maintenance	132,368	-	132,368	1,337	-	-	1,337	133,705
Grounds maintenance	46,827	-	46,827	473	-	-	473	47,300
Janitorial & cleaning	113,672	-	113,672	1,148	-	-	1,148	114,820
Insurance	73,955	-	73,955	6,497	2,098	-	8,595	82,550
House supplies	78,596	-	78,596	8,733	-	-	8,733	87,329
Total house operating costs	1,116,356	6,942	1,123,298	155,341	165,272	-	320,613	1,443,911
Telephone	23,973	-	23,973	3,666	564	-	4,230	28,203
Postage	6,193	-	6,193	774	774	-	1,548	7,741
Office supplies	66,433	-	66,433	13,032	-	-	13,032	79,465
Total office expenses	96,599	-	96,599	17,472	1,338	-	18,810	115,409
Newsletter	13,811	-	13,811	-	2,437	-	2,437	16,248
Public relations	14,634	-	14,634	-	2,582	-	2,582	17,216
Stewardship	10,869	-	10,869	-	1,918	-	1,918	12,787
Volunteer expenses	17,125	-	17,125	951	951	-	1,902	19,027
Miscellaneous	30,852	-	30,852	19,857	284	-	20,141	50,993
Depreciation	461,268	-	461,268	4,659	-	-	4,659	465,927
Grant/Scholarship expenses	-	260,000	260,000	-	-	-	-	260,000
Total other expenses	548,559	260,000	808,559	25,467	8,172	-	33,639	842,198
Expenses before cost of sales	1,761,514	266,942	2,028,456	198,280	174,782	-	373,062	2,401,518
COST OF SALES								
Cost of direct benefits to donors	-	-	-	-	-	495,372	495,372	495,372
TOTAL FUNCTIONAL EXPENSES	\$ 1,761,514	\$ 266,942	\$ 2,028,456	\$ 198,280	\$ 174,782	\$ 495,372	\$ 868,434	2,896,890
Remittances to RMHC Global								128,268
TOTAL EXPENSES								\$ 3,025,158

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015

	Program Services			Support Services					Total Expenses
	House Operations	Grants and Scholarships	Total Program Services	Management and General	Fundraising	Cost of Sales	Total Support Services		
Salaries, taxes, other benefits	\$ 504,863	\$ 6,061	\$ 510,924	\$ 175,961	\$ 138,844	\$ -	\$ 314,805	\$ 825,729	
Van expenses	4,118	-	4,118	-	-	-	-	4,118	
Utilities	142,151	-	142,151	1,436	-	-	1,436	143,587	
House maintenance	77,463	-	77,463	782	-	-	782	78,245	
Grounds maintenance	43,638	-	43,638	441	-	-	441	44,079	
Janitorial & cleaning	112,601	-	112,601	1,137	-	-	1,137	113,738	
Insurance	89,677	-	89,677	6,497	2,098	-	8,595	98,272	
House supplies	66,666	-	66,666	-	-	-	-	66,666	
Total house operating costs	1,041,176	6,061	1,047,237	186,255	140,942	-	327,197	1,374,434	
Telephone	24,559	-	24,559	3,756	578	-	4,334	28,893	
Postage	4,245	-	4,245	532	531	-	1,063	5,308	
Office supplies	44,639	-	44,639	39,451	-	-	39,451	84,090	
Total office expenses	73,443	-	73,443	43,739	1,109	-	44,848	118,291	
Newsletter	13,448	-	13,448	-	2,373	-	2,373	15,821	
Public relations	17,677	-	17,677	-	3,120	-	3,120	20,797	
Stewardship	6,021	-	6,021	-	1,062	-	1,062	7,083	
Volunteer expenses	13,519	-	13,519	751	750	-	1,501	15,020	
Miscellaneous	35,648	-	35,648	21,538	6,409	-	27,947	63,595	
Depreciation	459,288	-	459,288	4,639	-	-	4,639	463,927	
Grant/Scholarship expenses	-	60,000	60,000	-	-	-	-	60,000	
Total other expenses	545,601	60,000	605,601	26,928	13,714	-	40,642	646,243	
Expenses before cost of sales	1,660,220	66,061	1,726,281	256,922	155,765	-	412,687	2,138,968	
COST OF SALES									
Cost of direct benefits to donors	-	-	-	-	-	486,359	486,359	486,359	
TOTAL FUNCTIONAL EXPENSES	\$ 1,660,220	\$ 66,061	\$ 1,726,281	\$ 256,922	\$ 155,765	\$ 486,359	\$ 899,046	2,625,327	
Remittances to RMHC Global								124,738	
TOTAL EXPENSES								\$ 2,750,065	

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,865,917	\$ 561,404
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Net realized losses (gains) on investments	35,862	(551,927)
Net unrealized (gains) losses on investments	(467,464)	783,008
Depreciation	465,927	463,927
Loss on disposal of property and equipment	8,833	20,120
Provision for uncollectible pledges	1,200	-
Decrease (increase) in:		
Pledges receivable	504,202	1,196,454
Prepaid expenses and other assets	(1,092)	20,140
Increase (decrease) in:		
Accounts payable and accrued expenses	238,121	(51,852)
Deferred sponsorship revenue	36,297	(37,228)
Net cash provided by operating activities	<u>2,687,803</u>	<u>2,404,046</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(80,481)	(86,833)
Proceeds from sale of property and equipment	50	-
Purchase of investments	(4,177,651)	(8,351,169)
Proceeds from sale of investments	<u>1,952,444</u>	<u>5,317,990</u>
Net cash (used) by investing activities	<u>(2,305,638)</u>	<u>(3,120,012)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	382,165	(715,966)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>739,608</u>	<u>1,455,574</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,121,773</u>	<u>\$ 739,608</u>
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES		
Purchase of fixed assets included in accounts payable	<u>\$ 1,850</u>	<u>\$ -</u>

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Ronald McDonald House Charities of Eastern Wisconsin, Inc. (the Organization) is a not-for-profit organization formed in 1983 to construct and operate the Ronald McDonald House (the House) in Milwaukee, Wisconsin. The House is a 70-room residential facility built to provide temporary housing for families of seriously ill children receiving treatment in any of the Milwaukee area hospitals. The purpose of the House is to keep families together while their child is receiving medical treatment at an area hospital. The Organization provides rooms as well as family programs for over 2,000 families served each year. The Organization relies solely on public support, various fund-raising activities and contributions to fund its activities.

The scholarship program provides financial assistance to eligible graduating high school seniors. The House partners with the local McDonald's advertising cooperative for Southeastern Wisconsin to manage the scholarship program. A matching grant from RMHC Global helps fund 30 scholarships each year. Students are selected and awards are distributed based on demonstrated academic achievement, financial need and community involvement.

In 2016, the House made a grant to Columbia St. Mary's Foundation, Inc. to support the Smart Smiles Mobile Dental Clinic to provide dental services to Milwaukee area youth.

Method of Accounting

Assets, liabilities, revenues and expenses are recognized on the accrual basis method of accounting. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets:

Undesignated - Net assets that are not subject to donor-imposed restrictions or Board imposed stipulations.

Designated - Net assets subject to stipulations imposed by the Board of Directors and determined to be unavailable for general use.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Method of Accounting (Continued)

Temporarily Restricted Net Assets:

Net assets subject to donor-imposed restrictions that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those restrictions.

Permanently Restricted Net Assets:

Permanently restricted net assets includes contributed net assets which require, by donor imposed restriction, that the corpus be invested in perpetuity and only the income be made available for the program operations in accordance with donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Subsequent Events

The Organization has evaluated subsequent events through April 6, 2017, the date on which the financial statements were available to be issued.

Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged. Revenues are reported in unrestricted net assets, unless use of the related assets is limited by the donor-imposed restrictions. Donor-restricted contributions, grants and investment income whose restrictions are met within the same year as received are reflected in the change in temporarily restricted net assets. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions.

Sponsorship revenue received in advance of the event is recorded as deferred revenue and is recognized as income in the period the event occurs.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services and Assets

Donated services are recorded in the financial statements at their estimated fair market value on the date the services are rendered if such services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. Donated assets are recorded in the financial statements as assets and revenue at their estimated fair market value on the date the assets are contributed. The Organization receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs and fund-raising campaigns. No amounts have been reflected in the financial statements for these services because they do not meet the criteria for financial statement recognition.

During 2016 and 2015, the Organization received approximately \$52,000 and \$57,000, respectively, of donated supplies and materials, of which approximately \$14,000 and \$9,000, respectively, was from donated investments.

Cash and Cash Equivalents

The Organization considers all short-term investments in interest-bearing bank accounts, securities and other instruments having an original maturity of three months or less to be equivalent to cash.

The Organization maintains its cash balance in financial institutions, which at times may exceed federally insured limits. At December 31, 2016 and 2015 the Organization's cash accounts exceeded federally insured limits by \$219,253 and \$311,649, respectively. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Investments

Investments are stated at fair value, which is based on quoted market prices. Realized gains and losses and changes in unrealized gains and losses are included in investment income (loss) on the Organization's statements of activities.

Allowance for Uncollectible Pledges

Allowance is made for uncollectible pledges based upon management's judgment and analysis of the credit worthiness of the donors, past collection experience, and other relevant factors. After all attempts to collect the receivable have failed, the receivable is written off against the allowance. However, actual write-offs may exceed the recorded allowance. Based upon management's evaluation, an allowance for uncollectible pledges of \$28,800 and \$30,000 as of December 31, 2016 and 2015, respectively was considered necessary.

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Expenditures for the acquisitions of property and equipment are capitalized at cost. The fair value of donated property at the date of gift is similarly capitalized. It is the Organization's policy to capitalize all property and equipment expenditures greater than \$1,000. Certain expenditures less than \$1,000 may be capitalized at the discretion of management. The Organization classifies property and equipment as designated unrestricted net assets on the statements of financial position. Depreciation is computed by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building and improvements	10-60
Land improvements	60
Furnishings and equipment	5-10
Vehicles	5

Depreciation expense during 2016 and 2015 totaled \$465,927 and \$463,927, respectively.

Retirement Plan

The Organization's employees are covered by a self-directed SIMPLE IRA Plan. The total retirement contributions during 2016 and 2015 were \$23,204 and \$20,400, respectively. These contributions are at the discretion of the Board of Directors.

Income Taxes

The Organization is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code as other than a private foundation and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the code.

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

2. PLEDGES RECEIVABLE

Pledges receivable consist primarily of pledges from private organizations, corporations, and individual donors. Net pledges receivable are summarized as follows:

	<u>2016</u>	<u>2015</u>
Total pledges receivable	\$ 389,265	\$ 902,630
Less: Allowance for uncollectible pledges	(28,800)	(30,000)
Less: Adjustments to present value for future cash flows from pledges receivable	(710)	(7,473)
PRESENT VALUE OF NET PLEDGES RECEIVABLE	<u>\$ 359,755</u>	<u>\$ 865,157</u>

The discount rate used to determine the present value of pledges receivable is 2.5%.

Payments on pledges receivable as of December 31, 2016 are estimated to be received as follows:

2017	\$ 358,435
2018	25,330
2019	5,500
TOTAL PLEDGES RECEIVABLE	<u>\$ 389,265</u>

3. FAIR VALUE MEASUREMENTS

GAAP establishes a framework for measuring fair value. That framework uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. GAAP requires the Organization to maximize the use of observable inputs when measuring fair value. The hierarchy describes three levels of inputs, which are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Significant unobservable inputs.

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

In many cases, a valuation technique used to measure fair value includes inputs from more than one level of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The categorization of an investment within the hierarchy reflects the relative ability to observe the fair value measure and does not necessarily correspond to the perceived risk of that investment.

If an investment that is measured using net asset value (NAV) has a readily determinable fair value (that is, it can be traded at the measurement date at its published NAV), it is included in Level 1 of the hierarchy. Otherwise, investments measured using NAVs are not included in Level 1, 2, or 3, but are separately reported.

The Organization recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels in the years ended December 31, 2016 and 2015.

Valuation Techniques

Following is a description of the valuation techniques used for assets measured at fair value on a recurring basis. There have been no changes to the techniques used during the years ended December 31, 2016 and 2015.

- Level 1 financial instruments consist primarily of common stocks, mutual funds, and other securities actively traded on public exchanges. The mutual funds have a daily redemption frequency with no redemption notice required. Fair value is estimated using the NAV per share of each security at published market quotations.

Recurring Measurements

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Investments, at fair value				
Common and preferred stock	\$ 6,825,584	\$ -	\$ -	\$ 6,825,584
Mutual funds	3,265,062	-	-	3,265,062
Total investments, at fair value	<u>\$ 10,090,646</u>	<u>\$ -</u>	<u>\$ -</u>	10,090,646
Less: Board and donor restricted endowment funds (see Note 8)				<u>(2,500,000)</u>
INVESTMENTS NET OF ENDOWMENT FUNDS				<u><u>\$ 7,590,646</u></u>

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

3. FAIR VALUE MEASUREMENTS (Continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis:

	December 31, 2015			Total
	Level 1	Level 2	Level 3	
Investments, at fair value				
Common and preferred stock	\$ 5,103,187	\$ -	\$ -	\$ 5,103,187
Mutual funds	2,330,650	-	-	2,330,650
Total investments, at fair value	<u>\$ 7,433,837</u>	<u>\$ -</u>	<u>\$ -</u>	7,433,837
Less: Board and donor restricted endowment funds (see Note 8)				<u>(2,412,296)</u>
INVESTMENTS NET OF ENDOWMENT FUNDS				<u>\$ 5,021,541</u>

Investment income is summarized as follows:

	2016	2015
Dividends	\$ 52,587	\$ 58,440
Interest	177,551	157,038
Net realized (losses) gains on investments	(35,862)	551,927
Changes in net unrealized gains (losses) on investments	467,464	(783,008)
Investment expenses	(21,507)	(30,407)
NET INVESTMENT (LOSS) INCOME	<u>\$ 640,233</u>	<u>\$ (46,010)</u>

4. NET ASSETS

Unrestricted

The Organization's board of directors has chosen to place the following limitations on unrestricted net assets:

	2016	2015
Designated for endowment purposes	\$ 1,232,051	\$ 1,222,647
Designated for investment in property and equipment	14,786,236	15,178,715
Total board designated net assets	16,018,287	16,401,362
Unrestricted	8,586,213	6,334,471
UNRESTRICTED NET ASSETS	<u>\$ 24,604,500</u>	<u>\$ 22,735,833</u>

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

4. NET ASSETS (Continued)

Temporarily Restricted

As of December 31, 2016 and 2015, temporarily restricted net assets were available for program expenses. The following is a summary of temporarily restricted net assets as of December 31,:

	<u>2016</u>	<u>2015</u>
Purpose restriction:		
Healthy food program	\$ -	\$ 3,022
Movie night	2,600	-
Miscellaneous	5,256	1,059
Renovation of quilt area	1,523	4,002
Van expenses	4,936	8,982
TOTAL TEMPORARILY RESTRICTED		
NET ASSETS	<u>\$ 14,315</u>	<u>\$ 17,065</u>

Permanently Restricted

Permanently restricted net assets consist of endowment funds to be held in perpetuity, the annual income from which is expendable to support the operations of the Organization. As a result, such income is included in the accompanying statements of activities as temporarily restricted investment income (loss) until appropriated for expenditure.

5. COMMITMENTS

Land

The land on which the House is located is leased from Milwaukee County (the Lessor). During 2012, the Organization recorded an acquisition of land based on the consideration given to the Lessor in exchange for land, and an extension of the lease and purchase option until 2083. The annual rental cost to lease the land is one dollar. At the end of the extended lease term, or earlier at the Lessor's sole option, the land will transfer to the Organization for one dollar. There are no future obligations under this lease; therefore, the value of the land has been recorded as an asset of the Organization.

Unemployment Insurance

The Organization has elected with the state to finance its unemployment benefit costs under the reimbursement method. This method requires the Organization to reimburse the state for 100% of the unemployment benefits charged to the Organization's account. A money market, included in cash and cash equivalents, in the amount of \$15,020 and \$15,000 in 2016 and 2015, respectively, was pledged as collateral for utilization of the reimbursement method.

6. RELATED PARTY TRANSACTIONS

Certain members of the Board serve in management roles of the corporations that provide services to the Organization, causing these corporations to be related parties. The Organization receives contributions from these corporations and members of the Board of Directors. During 2016 and 2015, approximately \$102,000 and \$162,000, respectively, was received from these related parties. The balance of related party transactions in pledges receivable for the years ended December 31, 2016 and 2015 was approximately \$37,000 and \$95,000, respectively.

The Organization incurred approximately \$44,000 during 2015, for construction related costs to related parties. The Organization owed \$0 to the related parties as of December 31, 2016 and 2015. Transactions with the related parties were completed in the same manner as the Organization transacts with unrelated third parties.

The Organization remits 25 percent of the proceeds from certain fundraising events to Global Ronald McDonald House Charities. The portion due to Global totaled approximately \$128,000 and \$125,000 for the years ended December 31, 2016 and 2015, respectively, of which approximately \$36,000 and \$32,000, respectively, is included in accounts payable.

7. ENDOWMENT FUNDS

Interpretation of Relevant Law Governing Endowments

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, 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 fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor restricted endowment
- General economic conditions

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

7. ENDOWMENT FUNDS (Continued)

Interpretation of Relevant Law Governing Endowments (Continued)

- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- The investment policies of the organization

Board and Donor Restricted Endowment Funds

The Board had designated net assets in such an amount that when added to the permanent endowment will total \$2,500,000, which will support the mission of the Organization. Of these funds, \$1,267,949 resulted from donor-restricted funds and are classified as permanently restricted and \$1,232,051 resulted from an internal Board designation and is not donor-restricted. The total endowment assets are shown as other assets on the statements of financial position.

The composition of net assets by type of endowment fund as of December 31, 2016 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ -	\$ 1,267,949	\$ 1,267,949
Board-designated endowment funds	1,232,051	-	-	1,232,051
TOTAL ENDOWMENT FUNDS	\$ 1,232,051	\$ -	\$ 1,267,949	\$ 2,500,000

The composition of net assets by type of endowment fund as of December 31, 2015 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ (78,300)	\$ -	\$ 1,267,949	\$ 1,189,649
Board-designated endowment funds	1,222,647	-	-	1,222,647
TOTAL ENDOWMENT FUNDS	\$ 1,144,347	\$ -	\$ 1,267,949	\$ 2,412,296

RONALD MCDONALD HOUSE CHARITIES OF EASTERN WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

7. ENDOWMENT FUNDS (Continued)

Board and Donor Restricted Endowment Funds (Continued)

Changes in endowment net assets for the year ended December 31, 2016 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,144,347	\$ -	\$ 1,267,949	\$2,412,296
Net realized gains on restricted funds	2,333	2,401	-	4,734
Unrealized gain on restricted funds	65,730	-	-	65,730
Investment income on restricted funds	21,959	11,945	-	33,904
Appropriation of endowment assets for expenditure	(2,318)	(14,346)	-	(16,664)
ENDOWMENT NET ASSETS, END OF YEAR	\$ 1,232,051	\$ -	\$ 1,267,949	\$2,500,000

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,232,051	\$ -	\$ 1,267,949	\$2,500,000
Net realized gains on restricted funds	112,820	116,107	-	228,927
Unrealized (loss) on restricted funds	(169,728)	(155,034)	-	(324,762)
Investment income on restricted funds	37,825	38,927	-	76,752
Appropriation of endowment assets for expenditure	(68,621)	-	-	(68,621)
ENDOWMENT NET ASSETS, END OF YEAR	\$ 1,144,347	\$ -	\$ 1,267,949	\$2,412,296

7. ENDOWMENT FUNDS (Continued)

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 UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$0 and \$78,300 in 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions.

Endowment Investment Policy

The Organization has adopted an investment and spending policy for endowment assets that attempts to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for the donor-specified periods, as well as those of board-designated endowment funds. Under the Organization's policy, which was approved by the Board of Directors, the investment portfolio shall be managed with the objective of attaining a comprehensive rate of return given the constraints of aforementioned safety and liquidity objectives. The investment portfolio is subject to periodic review to ensure this objective is met.

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 (investment income such as interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The Organization has a policy of appropriating for distribution each year 5% of its endowment fund's average market value of the prior three years as of December 31. In establishing this policy, the Organization considered the long term expected return on investments, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation.