RONALD McDONALD HOUSE OF SAN FRANCISCO, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2014
(With Summarized Comparative Totals for 2013)

RONALD McDONALD HOUSE OF SAN FRANCISCO, INC.

Year Ended December 31, 2014
(With Summarized Comparative Totals for 2013)

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SHEA LABAGH DOBBERSTEIN
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
RONALD McDONALD HOUSE OF SAN FRANCISCO, INC.

We have audited the accompanying financial statements of RONALD McDONALD HOUSE OF SAN FRANCISCO, INC. (the "House"), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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 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 auditors' 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 auditors consider internal control relevant to the House'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 House'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 the House 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.

Report on Summarized Comparative Information

We have previously audited the House's 2013 financial statements, and our report dated August 12, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

SHEA LABAGH DOBBERSTEIN
Certified Public Accountants, Inc.

Shea Labagh Dobberstein

San Francisco, California
September 15, 2015

RONALD McDONALD HOUSE OF SAN FRANCISCO, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2014
(With Summarized Comparative Totals for 2013)

	2014				2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
ASSETS					
CASH AND CASH EQUIVALENTS	$ 752,726	$ –	$ –	$ 752,726	$ 707,421
PROMISES TO GIVE, NET	65,832	279,966	–	345,798	603,888
PREPAID EXPENSES AND OTHER CURRENT ASSETS	35,573	–	–	35,573	11,112
INVESTMENTS	2,602,660	1,162,132	481,250	4,246,042	3,855,973
PROPERTY AND EQUIPMENT, NET	635,734	–	–	635,734	487,591
TOTAL ASSETS	$ 4,092,525	$ 1,442,098	$ 481,250	$ 6,015,873	$ 5,665,985
LIABILITIES AND NET ASSETS					
LIABILITIES					
ACCOUNTS PAYABLE	$ 28,182	$ –	$ –	$ 28,182	$ 20,397
ACCRUED FUNDRAISING COST	5,000	–	–	5,000	36,952
ACCRUED EXPENSES AND PAYROLL	181,150	–	–	181,150	45,565
TOTAL LIABILITIES	214,332	–	–	214,332	102,914
COMMITMENTS	–	–	–	–	–
NET ASSETS					
UNRESTRICTED	3,878,193	–	–	3,878,193	3,355,792
TEMPORARILY RESTRICTED	–	1,442,098	–	1,442,098	1,726,029
PERMANENTLY RESTRICTED	–	–	481,250	481,250	481,250
TOTAL NET ASSETS	3,878,193	1,442,098	481,250	5,801,541	5,563,071
TOTAL LIABILITIES AND NET ASSETS	$ 4,092,525	$ 1,442,098	$ 481,250	$ 6,015,873	$ 5,665,985

See accompanying notes to financial statements.

RONALD McDONALD HOUSE OF SAN FRANCISCO, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2014
(With Summarized Comparative Totals for 2013)

	2014				2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES AND SUPPORT:					
Contributions and grants	$ 680,247	$ 208,547	$ –	$ 888,794	$ 1,160,384
In-kind contributions	333,355	–	–	333,355	237,679
Special events, less direct costs of $196,124 and $164,751, respectively	296,594	–	–	296,594	332,938
Other income	12,817	–	–	12,817	13,597
TOTAL REVENUES AND SUPPORT	1,323,013	208,547	–	1,531,560	1,744,598
INVESTMENT INCOME, NET	57,694	16,009	–	73,703	322,554
NET ASSETS RELEASED FROM RESTRICTIONS	508,487	(508,487)	–	–	–
TOTAL REVENUES, GAINS AND SUPPORT	1,889,194	(283,931)	–	1,605,263	2,067,152
EXPENSES:					
Program services	952,582	–	–	952,582	836,500
Supporting services:					
Management and administrative	148,863	–	–	148,863	164,807
Fundraising	265,348	–	–	265,348	234,000
TOTAL EXPENSES	1,366,793	–	–	1,366,793	1,235,307
CHANGES IN NET ASSETS	522,401	(283,931)	–	238,470	831,845
NET ASSETS AT BEGINNING OF YEAR	3,355,792	1,726,029	481,250	5,563,071	4,731,226
NET ASSETS AT END OF YEAR	$ 3,878,193	$ 1,442,098	$ 481,250	$ 5,801,541	$ 5,563,071

RONALD McDONALD HOUSE OF SAN FRANCISCO, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2014
(With Summarized Comparative Totals for 2013)

	2014				2013
		Supporting Services			
	Program Services	Management and Administrative	Fundraising	Total	Total
Salaries and benefits	$ 490,650	$ 51,633	$ 138,891	$ 681,174	$ 516,840
Campaign expenses:					
Consulting fees	–	–	–	–	3,816
Direct mail	–	–	69,215	69,215	81,457
Depreciation and amortization	65,762	7,307	–	73,069	110,238
Bad debts	–	–	–	–	4,688
House expenses:					
Parking	5,368	893	939	7,200	7,200
House supplies	22,883	–	–	22,883	13,228
Repairs and maintenance	12,698	–	–	12,698	9,163
Others	4,422	–	–	4,422	7,147
Information technology and telecommunications	39,453	10,521	2,630	52,604	47,037
Insurance	12,417	–	–	12,417	10,382
Miscellaneous	2,062	1,846	4,110	8,018	6,877
Occupancy	142,000	–	–	142,000	110,000
Office expenses	8,655	1,440	1,515	11,610	9,852
Professional fees	14,976	69,609	48,048	132,633	161,563
Travel and seminars	8,250	5,614	–	13,864	11,255
Utilities	27,725	–	–	27,725	26,431
Volunteer expenses:					
In-kind donations	54,514	–	–	54,514	78,762
Supplies	40,747	–	–	40,747	19,371
	$ 952,582	$ 148,863	$ 265,348	$ 1,366,793	$ 1,235,307

See accompanying notes to financial statements.

RONALD McDONALD HOUSE OF SAN FRANCISCO, INC.

STATEMENTS OF CASH FLOWS

Year Ended December 31, 2014
(With Summarized Comparative Totals for 2013)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 238,470	$ 831,845
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Amortization of discount on promises to give	(2,548)	(7,551)
Net realized and unrealized gains on investments	33,040	(224,550)
Depreciation and amortization	73,069	110,238
Noncash donations	(65,983)	(35,417)
(Increase) decrease in operating assets:		
Promises to give	260,638	(24,896)
Prepaid expenses and other current assets	(24,461)	(10,944)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	111,418	(12,159)
NET CASH PROVIDED BY OPERATING ACTIVITIES	623,643	626,566
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,811,061)	(523,715)
Proceeds from sale of investments	1,389,895	310,347
Purchases of property and equipment	(157,172)	(6,291)
NET CASH USED IN INVESTING ACTIVITIES	(578,338)	(219,659)
NET INCREASE IN CASH AND CASH EQUIVALENTS	45,305	406,907
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	707,421	300,514
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 752,726	$ 707,421
NONCASH INVESTING ACTIVITIES		
In-kind donated property and equipment	$ 64,040	$ 35,417
In-kind donated investments	$ 1,943	$ –

RONALD McDONALD HOUSE OF SAN FRANCISCO, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – NATURE OF OPERATION

Ronald McDonald House of San Francisco, Inc. (the "House"), was founded in 1984 to provide temporary housing and other support services for families who have a child receiving specialized medical treatment at San Francisco medical centers. The House, while independently operated and funded, is part of the network of Ronald McDonald Houses located throughout the United States of America and abroad. Currently, the House operates one facility located in the Pacific Heights district of San Francisco, California.

In July 2010, the House signed a Memorandum of Understanding with The Regents of the University of California, on behalf of UCSF Benioff Children's Hospital ("UCSF") to sublease a portion of UCSF's new campus facility at Mission Bay in San Francisco, California for an additional facility which opened in February 2015 (Note 6). The House plans to continue to operate the current facility.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Summarized Financial Information – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the House's financial statements for the year ended December 31, 2013, from which the summarized information is derived.

Basis of Presentation – Accounting principles generally accepted in the United States of America require that the House report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of the House are classified and reported as described below:

Unrestricted: Those net assets which represent the portion of expendable funds that are available to support the House's general mission and operations. The Board of Directors or their designee may designate a portion of these net assets for specific purposes. As of December 31, 2014 and 2013, there were no Board designated net assets.

Temporarily Restricted: Those net assets which are donor-restricted for (a) support for specific operating activities; (b) investment for a specified term; (c) use in a specified future period; (d) acquisition of long-lived assets; or (e) appropriated but unspent earnings on permanently restricted net assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Permanently Restricted: Those net assets received from donors which are permanently restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income. At both December 31, 2014 and 2013, the House had $481,250 in permanently restricted net assets.

Use of Estimates – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

Cash and Cash Equivalents – The House considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents held in money market funds and invested in permanently restricted accounts are intended for investment purposes and are classified separately under investments.

Promises to Give, Net – Unconditional promises to give are recorded at fair value and are recognized as revenues in the period such promises are made by the donor. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, determined using a risk-free interest rate of return. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. There were no conditional promises to give at December 31, 2014 and 2013.

The House uses the allowance method to record an estimate for potentially uncollectible unconditional promises and reduce promises to give to the amount management expects to collect. The allowance is based on prior experience and management's analysis of specific promises made. Management reviews the collectibility of the promises to give on an ongoing basis and determined that no allowance for uncollectible unconditional promises to give is warranted at December 31, 2014 and 2013.

Investments – The House states investments with readily determinable fair values at their fair values in the accompanying statements of financial position. Donated investments received are recorded at their fair value on the date of donation. Gains and losses and investment income derived from investments are accounted for as unrestricted, temporarily restricted, or permanently restricted based on restrictions imposed by donors, if any.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued) – Realized gains or losses on investments represent the difference between the original cost of the securities on a specific identified cost basis and the related fair market value on the date of sale or distribution. They include the original cost of the investments written-off, if any. When the investments are sold, gains or losses are classified as realized. The difference between the original cost and the fair value of investments held at the end of the year represents unrealized appreciation or depreciation.

Fair Value – The House has adopted the provisions of Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 820, *Fair Value Measurement and Disclosures*. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include listed mutual funds held in the name of the House.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. As of December 31, 2014 and 2013, the House held no Level II investments.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include investments in privately held investment companies. As of December 31, 2014 and 2013, the House held no Level III investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Property and Equipment, Net – Acquisitions of property and equipment in excess of $1,000 with an expected useful life in excess of one year are recorded at cost; assets acquired by gift are recorded at fair market value at the date of donation.

Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets, which range from three to five years for furniture and equipment, and twenty-five years for building and building improvements. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When assets are sold or retired, the cost and accumulated depreciation are removed from the respective accounts and any gain or loss is reflected in the accompanying statements of activities and changes in net assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment, Net (Continued) – The House regularly evaluates its long-lived assets for indicators of possible impairment. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset's fair market value or discounted estimates of future cash flows. Management has not identified any such impairment losses to date.

Revenue Recognition

Contributions – Contributions consist principally of donations from individuals and organizations. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other 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), restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

Donated Services – The House generally pays for services requiring specific expertise. Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the House. For the years ended December 31, 2014 and 2013, the House recorded approximately $138,000 and $87,000, respectively, of donated services which consist of professional fees such as legal, electrical, architectural and investment fees. The value of these services has been recorded in the accompanying financial statements because they met the definition for recognition under accounting principles generally accepted in the United States of America.

Functional Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. Expenses which apply to more than one functional category have been allocated between program services and support services based on the time spent on these functions by specific employees as estimated by management. Indirect expenses are allocated based on the overall number of staff in the various functional categories. All other costs are charged directly to the appropriate functional category.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk – Financial instruments, which potentially subject the House to concentration of credit risk, consist principally of cash and cash equivalents, marketable securities and mutual funds with high credit quality financial institutions. These instruments are subject to the normal market risk conditions.

In the normal course of business, the House will have cash balances at major financial institutions which will exceed the amounts which are guaranteed by the Federal Deposit Insurance Corporation ("FDIC"). The House has not experienced any losses on such accounts.

Income Taxes – The House is a qualified organization exempt from federal and state income taxes under §501(c)(3) of the Internal Revenue Code and §23701d of the California Revenue and Taxation Code, respectively.

The House adopts the provisions of FASB ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. The House had no unrecognized tax benefits at December 31, 2014 or 2013, and no adjustment is anticipated for the twelve months following December 31, 2014. The House files exempt organization returns and, if applicable, unrelated business income tax returns in the U.S. Federal and California jurisdictions. The House's tax returns for the years ended December 31, 2011, 2012, and 2013 are open for potential IRS/California Franchise Tax Board examination. To date, the House has not been notified by either taxing authority of any pending examination.

Recent Accounting Pronouncements – On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "*Revenue from Contracts with Customers*". The provisions of ASU No. 2014-09 include a five-step process by which entities will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the payment to which an entity expects to be entitled in exchange for those goods or services. The standard also will require enhanced disclosures, provide more comprehensive guidance for transactions such as service revenue and contract modifications, and enhance guidance for multiple-element arrangements. ASU No. 2014-09 will be effective for U.S. nonpublic companies for annual reporting periods beginning after December 15, 2018 and for interim and annual reporting periods thereafter. Management is currently reviewing the effect of ASU No. 2014-09 on their revenue recognition.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued) – In May 2015, the FASB issued Accounting Standards Update ("ASU") 2015-07, *Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* Under the guidance in ASU 2015-07, investments for which fair value is measured using the net asset value per share practical expedient will no longer be categorized within the fair value hierarchy levels, but will be presented as a reconciling item. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied, will continue to be included in the fair value hierarchy. ASU 2015-07 also eliminates the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value by limiting those disclosure requirements to investments for which the entity has elected to measure the fair value using that practical expedient. ASU 2015-07 is effective for annual periods beginning after December 15, 2016 for nonpublic entities. Early adoption is permitted. Management is currently evaluating the impact of adopting this guidance on its financial statements.

Reclassification – Certain amounts for the year ended December 31, 2013, in the accompanying statements of activities and changes in net assets have been reclassified to conform to the December 31, 2014 presentation with no effect on previously reported net assets and changes in net assets.

NOTE 3 – PROMISES TO GIVE, NET

Unconditional promises to give consist of the following at December 31, 2014 and 2013 related substantially to the comprehensive campaign begun by the House in 2011. Amounts from donors are expected to be paid as follows:

	2014	2013
Receivables due in less than one year	$ 248,394	$ 394,147
Receivables due in one to five years	99,790	214,675
Total promises to give	348,184	608,822
Less: Discount to net present value	2,386	4,934
Less: Allowance for uncollectible promises to give	-	-
Total promises to give, net	$ 345,798	$ 603,888

NOTE 4 – INVESTMENTS

The House's investments are recorded at fair value on a recurring basis. Investments are valued using Level I inputs and are; therefore, based on unadjusted quoted market prices within active markets at December 31, 2014 and 2013, the reporting dates. The following tables represent investments at fair value at December 31, 2014 and 2013:

	2014		
	Fair Value	Cost	Unrealized Gains (Losses)
Mutual funds:			
Bond funds	$ 1,869,380	$ 1,909,977	$ (40,597)
Equity funds	2,228,964	1,817,717	411,247
Money market funds	147,698	147,698	-
	$ 4,246,042	$ 3,875,392	$ 370,650

	2013		
	Fair Value	Cost	Unrealized Gains (Losses)
Mutual funds:			
Bond funds	$ 1,469,855	$ 1,507,100	$ (37,245)
Equity funds	2,232,892	1,784,730	448,162
Money market funds	153,226	153,226	-
	$ 3,855,973	$ 3,445,056	$ 410,917

For the years ended December 31, 2014 and 2013, net investment income consists of the following:

	2014	2013
Interest and dividends	$ 137,358	$ 125,001
Net realized and unrealized gains (losses) on investments	(33,041)	224,550
	104,317	349,551
Less: Investment fees	30,614	26,997
	$ 73,703	$ 322,554

NOTE 5 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at December 31:

	2014	2013
Building and building improvements	$ 2,224,886	$ 2,160,846
Furniture and equipment	242,535	85,363
	2,467,421	2,246,209
Less: Accumulated depreciation and amortization	1,831,687	1,758,618
	$ 635,734	$ 487,591

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 amounted to $73,069 and $110,238, respectively.

NOTE 6 – COMMITMENTS

Lease

The House leases the land at its location in San Francisco, California under a noncancelable operating lease through November 2026 with an option to renew every 5 years after the date of its expiration. The lease agreement provides for the House to pay an annual lease payment of $1. The House has elected to report the fair market value of the rent as a donation to match with the expense on an annual ongoing basis. The difference between the fair market value of the rent and the actual rent paid is recorded as contributions received and rent expense. For each of the years ended December 31, 2014 and 2013, the value of the donated rent is approximately $142,000 and $110,000, respectively.

In July 2010, the House entered into a memorandum of agreement with UCSF regarding their new in-hospital facility. The agreement provides for the House to pay an annual lease payment of $1, which will commence in 2015. The agreement will have an initial term of at least five years and will automatically renew for five additional five-year terms.

License

In March 1997, the House entered into a non-exclusive licensing agreement with McDonald's Corporation whereby the House is allowed to use the various trade and service marks ("Marks") relating to "Ronald McDonald House" and Ronald McDonald House Charities. The license agreement allows the House to use the Marks for purposes of raising funds for the House and to identify its affiliation with Ronald McDonald House Charities. The agreement shall continue until terminated by either party, with or without cause, upon thirty (30) days written notice.

NOTE 6 – COMMITMENTS (Continued)

The licensing agreement requires the House to comply with various provisions including: submitting the annual audited financial statements to the McDonald's Corporation, maintenance of certain insurance policies, Board constituency, and House maintenance.

The agreement provides for no compensation to be paid by the House to McDonald's Corporation. While there is a likely fair value associated with the agreement, the value is not determinable; therefore, no amount has been recorded in the accompanying financial statements.

Fundraising

The House has an annual agreement with a direct mail marketing company (True Sense Marketing – "TSM") to assist the House with direct mail solicitations to possible donors. The agreement is subject to one year renewal options unless either party provides written notice to the other party within 90 days of the contract expiration.

The term of the agreement provides that the House will receive the gross donations received through TSM. The House in turn is subject to compensate TSM for costs associated with operating the direct mail campaigns based upon the fee schedule detailed in the agreement. As of December 31, 2014 and 2013, financial results of the agreement are as follows:

	2014	2013
Unrestricted contributions	$ 79,555	$ 76,653
Fundraising costs	$ 49,992	$ 66,033
Amount due to TSM	$ 5,000	$ 36,952

NOTE 7 – PENSION PLAN

The House established a defined contribution plan ("Plan") for qualified personnel in February 1994. After two years of service, eligible employees may participate in the Plan. The Plan provides for the House to contribute, at its discretion, up to a maximum of 5% of the employee's eligible compensation subject to the limitations imposed by applicable provisions of the IRC. The House contributed approximately $10,500 and $11,300 for the years ended December 31, 2014 and 2013, respectively.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

At December 31, temporarily restricted net assets consist of the following:

	2014	2013
Mission Bay – capital and operations campaign fund	$ 960,856	$ 960,856
Comprehensive campaign fund	1,245,236	1,056,689
Unappropriated endowment	162,776	146,767
Parent sleep room renovations fund	18,500	18,500
Lodging and hospital programs fund	20,000	45,000
	2,407,368	2,227,812
Less: Comprehensive campaign fund released from restrictions	965,270	501,783
	$ 1,442,098	$ 1,726,029

NOTE 9 – ENDOWMENT NET ASSETS AND POLICIES

The House's endowment funds consist of funds whose corpus is to remain intact and include those assets the House must hold in perpetuity. Investment earnings on permanently restricted net assets, including realized and unrealized capital gains, are classified as temporarily restricted net assets until they are appropriated for distribution in accordance with donor-imposed restrictions or based on the House's spending policy.

Interpretation of Relevant Law

The House 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 House 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.

NOTE 9 – ENDOWMENT NET ASSETS AND POLICIES (Continued)

Interpretation of Relevant Law (Continued)

The House considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the House and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) the investment policies of the House. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable to the extent of the House's spending policy. None of the permanently restricted net assets have donor imposed purpose restrictions on the income and/or appreciation.

This is consistent with the House's investment policy objectives: a) to establish the criteria for matching short, intermediate and long-term objectives, b) to provide a frame of reference that will help maintain focus on objectives over the right time, and c) to establish the criteria against which progress can be measured. It is the House's policy to achieve long-term returns that are in excess of average returns of the appropriate benchmark investments. It is management's intent to revise and address market indices. Endowment assets include those assets of donor-restricted funds that the House must hold in perpetuity or for a donor-specified term.

Return Objectives and Risk Parameters

The House has adopted an investment policy, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding sufficient to assist the House in fulfilling their mission, while also maintaining the purchasing power of the endowment assets held in perpetuity. In establishing this policy, the House considered the long-term expected investment return on its endowment assets. Accordingly, over the long-term, the House expects its endowment assets, over time, to produce an average rate of return of approximately 5% annually, net of investment expenses.

The House's investments are invested in mutual funds intended to preserve capital and satisfy short-term, intermediate and long-term rate of return objectives. The House's mutual funds portfolio is classified into three separate investment groups, each with different risk and time profiles. The investment groups consist of a) short-term operating funds which are used for the day-to-day operating expenses of the House; b) intermediate-term funds which are earmarked for capital improvement projects and other intermediate-term needs; and c) long-term funds which are designated for endowment purposes, both board-designated and permanently restricted. The House 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).

NOTE 9 – ENDOWMENT NET ASSETS AND POLICIES (Continued)

Endowment net assets at December 31 are as follows:

	2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2013
Donor-Restricted Endowment Funds	$ –	$ 162,776	$ 481,250	$ 644,026	$ 628,017

The changes in endowment net assets during the years ended December 31, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2013	$ –	$ 88,539	$ 481,250	$ 569,789
Dividends and interest	–	15,437	–	15,437
Net realized and unrealized gains	–	42,791	–	42,791
Endowment net assets, December 31, 2013	–	146,767	481,250	628,017
Dividends and interest	–	19,867	–	19,867
Net realized and unrealized gains (losses)	–	(3,858)	–	(3,858)
Endowment net assets, December 31, 2014	$ –	$ 162,776	$ 481,250	$ 644,026

NOTE 10 – RELATED PARTY TRANSACTIONS

As of December 31, 2014 and 2013, outstanding promises to give from members of the Board of Directors of the House or companies of individuals with which the Board of Directors are affiliated were approximately $160,000 and $351,000, respectively. For the year ended December 31, 2013, contributions of approximately $335,000 were also received from these related parties.

NOTE 11 – CONCENTRATIONS

As of December 31, 2014 and 2013, a significant portion of the outstanding promises to give were due from three and one donors which were approximately $104,000 and $165,000, respectively.

For each of the years ended December 31, 2014 and 2013, a significant portion of the contributions and grants were received from one donor which were approximately $300,000.

NOTE 12 – SUBSEQUENT EVENTS

The House has evaluated subsequent events through September 15, 2015, the date the financial statements were available to be issued.