

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

**RONALD MCDONALD HOUSE
CHARITIES OF SOUTHERN
CALIFORNIA**

December 31, 2017 (With Comparative Summarized
Financial Information for December 31, 2016)

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Report Of Independent Certified Public Accountants

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Report on the financial statements

We have audited the accompanying consolidated financial statements of Ronald McDonald House Charities of Southern California (a nonprofit organization) and subsidiaries, RMHCSC Holdings LLC and Los Angeles Electing Small Business Trust (collectively known as the “Organization”), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald Charities of Southern California and subsidiaries as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Combining Schedule of Financial Position by Location as of December 31, 2017 and the Combining Schedule of Activities by Location for the year ended December 31, 2017 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report on 2016 summarized comparative information

We have previously audited the Organization's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 24, 2017. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Los Angeles, California
October 2, 2018

Ronald McDonald House Charities of Southern California

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2017
 (With Comparative Summarized Financial Information as of December 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 5,315,010	\$ 2,816,070
Investments (Note 4)	28,111,581	24,619,733
Contributions receivable (net) (Note 5)	1,283,328	1,059,613
In-kind and other receivables (Note 8)	2,039,083	2,123,364
Prepaid expenses and other assets	264,965	208,357
Land, buildings, and equipment (net) (Note 7)	<u>40,105,350</u>	<u>40,769,115</u>
 Total assets	 <u>\$ 77,119,317</u>	 <u>\$ 71,596,252</u>
 Liabilities		
Accounts payable and accrued expenses	\$ 956,622	\$ 1,846,246
Notes payable (Note 13)	<u>4,945,402</u>	<u>6,467,044</u>
 Total liabilities	 <u>5,902,024</u>	 <u>8,313,290</u>
 Net assets		
Unrestricted	57,012,330	45,873,315
Temporarily restricted (Note 11)	10,012,343	13,469,777
Permanently restricted (Note 11)	<u>4,192,620</u>	<u>3,939,870</u>
 Total net assets	 <u>71,217,293</u>	 <u>63,282,962</u>
 Total liabilities and net assets	 <u>\$ 77,119,317</u>	 <u>\$ 71,596,252</u>

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

Ronald McDonald House Charities of Southern California

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

(With Comparative Summarized Financial Information for the Year Ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Revenues and Support					
Contributions	\$ 7,291,547	\$ 748,167	\$ 252,750	\$ 8,292,464	\$ 6,416,702
Capital campaigns	-	5,179,834	-	5,179,834	2,138,053
In-kind contributions	314,672	-	-	314,672	227,497
Special event revenues	4,870,133	21,527	-	4,891,660	5,223,432
Special event expenses	(1,464,620)	(8,844)	-	(1,473,464)	(1,399,728)
	<u>3,405,513</u>	<u>12,683</u>	<u>-</u>	<u>3,418,196</u>	<u>3,823,704</u>
Realized investment gains, net	798,672	182,068	-	980,740	148,163
Unrealized investment gains (losses)	2,103,216	454,312	-	2,557,528	622,411
Program fees	249,135	-	-	249,135	222,067
Rental and other income	322,461	-	-	322,461	521,308
Income before release from restrictions	14,485,216	6,577,064	252,750	21,315,030	14,119,905
Released from restrictions					
Operations	9,426,747	(9,426,747)	-	-	-
Endowments	<u>607,751</u>	<u>(607,751)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>24,519,714</u>	<u>(3,457,434)</u>	<u>252,750</u>	<u>21,315,030</u>	<u>14,119,905</u>
Expenses					
Programs	9,912,418	-	-	9,912,418	8,784,771
Management and general	1,353,220	-	-	1,353,220	1,305,442
Fundraising	<u>2,115,061</u>	<u>-</u>	<u>-</u>	<u>2,115,061</u>	<u>2,009,569</u>
Total expenses	<u>13,380,699</u>	<u>-</u>	<u>-</u>	<u>13,380,699</u>	<u>12,099,782</u>
Change in net assets	11,139,015	(3,457,434)	252,750	7,934,331	2,020,123
Net assets - beginning	<u>45,873,315</u>	<u>13,469,777</u>	<u>3,939,870</u>	<u>63,282,962</u>	<u>61,262,839</u>
Net assets - ending	<u>\$ 57,012,330</u>	<u>\$ 10,012,343</u>	<u>\$ 4,192,620</u>	<u>\$ 71,217,293</u>	<u>\$ 63,282,962</u>

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

Ronald McDonald House Charities of Southern California

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

(With Comparative Summarized Financial Information for the Year Ended December 31, 2016)

	Houses	Camp	Other Programs	Total Programs	Management and General	Fundraising	2017 Total	2016 Total
Salaries and related costs								
Salaries	\$ 2,839,728	\$ 492,663	\$ 2,795	\$ 3,335,186	\$ 716,677	\$ 918,981	\$ 4,970,844	\$ 4,738,832
Employee benefits	274,613	63,844	-	338,457	38,866	87,947	465,270	493,069
Payroll taxes	279,982	46,339	-	326,321	38,342	72,842	437,505	406,975
Retirement plan	105,931	16,148	-	122,079	17,132	36,067	175,278	132,987
Total salaries and related costs	3,500,254	618,994	2,795	4,122,043	811,017	1,115,837	6,048,897	5,771,863
Expenses								
HACER scholarships and grants	-	-	794,640	794,640	-	-	794,640	382,000
Contributions to RMHC Global	-	-	162,049	162,049	-	-	162,049	212,623
Activities and fees	167,823	51,127	17,416	236,366	206	93	236,665	156,478
Guest hotel costs	108,502	-	-	108,502	-	-	108,502	408,006
Guest services	14,652	158,365	-	173,017	-	-	173,017	169,838
Insurance	191,115	38,632	-	229,747	17,707	30,085	277,539	243,114
Utilities	291,326	49,986	-	341,312	26,305	44,695	412,312	326,300
Repairs and maintenance	177,415	56,929	15,922	250,266	18,061	30,687	299,014	292,075
Rent	108,426	-	-	108,426	9,040	15,360	132,826	142,114
Supplies	62,794	2,248	7,536	72,578	5,559	9,445	87,582	93,598
Outside services	94,300	21,561	-	115,861	-	363,863	479,724	376,739
Food and catering	57,214	1,489	-	58,703	839	7,802	67,344	83,144
Cleaning, gardening and housekeeping	309,430	36,982	62	346,474	-	-	346,474	336,893
Automobile costs	37,617	11,450	1,714	50,781	4,022	1,598	56,401	60,286
Printing	45,564	4,033	417	50,014	-	38,556	88,370	67,005
Advertising and promotion	34,944	2,703	240	37,887	6,188	14,785	58,860	47,415
Canister costs	-	-	-	-	-	174,259	174,259	225,113
Professional fees	241,060	256,582	-	497,642	69,809	29,753	597,204	463,254
Equipment	104,603	35,854	8,551	149,008	323	2,871	152,202	83,468
Telephone	121,428	15,099	720	137,247	10,522	17,878	165,647	143,425
Postage	24,147	2,665	352	27,164	2,066	9,318	38,548	38,207
Employee development	38,230	12,132	-	50,362	15,265	292	65,919	79,750
Conferences and meetings	29,865	7,537	-	37,402	-	236	37,638	42,528
Temporary labor	41,790	-	-	41,790	32,989	9,368	84,147	96,314
Property taxes	19,083	-	-	19,083	-	-	19,083	19,179
Tax related charges and expenses	-	-	-	-	223	-	223	225
Bank charges	9,087	1,179	10	10,276	33,839	4,180	48,295	42,564
Interest expense	-	-	-	-	145,025	-	145,025	80,604
Other expenses	40,053	8,316	1,643	50,012	8,745	16,721	75,478	80,875
Expenses before depreciation and income taxes	5,870,722	1,393,863	1,014,067	8,278,652	1,217,750	1,937,482	11,433,884	10,564,997
Depreciation	1,187,196	443,793	2,777	1,633,766	67,056	177,579	1,878,401	1,486,785
Trust's income taxes	-	-	-	-	68,414	-	68,414	48,000
Total expenditures	\$ 7,057,918	\$ 1,837,656	\$ 1,016,844	\$ 9,912,418	\$ 1,353,220	\$ 2,115,061	\$ 13,380,699	\$ 12,099,782

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

Ronald McDonald House Charities of Southern California

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

(With Comparative Summarized Financial Information For the Year Ended December 31, 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 7,934,331	\$ 2,020,123
Adjustments to reconcile changes in net assets to net cash provided by operations:		
Depreciation	1,878,401	1,486,785
Contributions restricted for long-term and capital projects	(5,432,584)	(2,140,503)
Net realized and unrealized investment (gains) losses	(2,845,768)	(1,075,073)
Unrealized loss (gain) on interest of land trust	(692,500)	304,500
Loss on disposition of assets	-	-
In-kind contributions of property and equipment	(91,127)	(8,000)
Increase (decrease) in cash resulting from changes in:		
Contribution receivable	406,624	284,275
In-kind and other receivables	84,281	(237,630)
Prepaid expenses and other assets	(56,607)	120,026
Accounts payable and accrued expenses	<u>(946,728)</u>	<u>(706,027)</u>
Net cash provided by operating activities	<u>238,323</u>	<u>48,476</u>
Cash flows from investing activities		
Purchases of investments	(14,791,064)	(3,615,429)
Proceeds from sales and maturities of investments	14,837,484	3,645,581
Purchases of property and equipment	<u>(1,066,404)</u>	<u>(8,699,164)</u>
Net cash used in investing activities	<u>(1,019,984)</u>	<u>(8,669,012)</u>
Cash flows from financing activities		
Contributions collected for long-term and capital purposes	4,802,243	2,321,260
Payment of long-term borrowings	(1,521,642)	(71,531)
Proceeds from long-term borrowings	<u>-</u>	<u>3,552,550</u>
Net cash provided by financing activities	<u>3,280,601</u>	<u>5,802,279</u>
Net change in cash and cash equivalents	<u>2,498,940</u>	<u>(2,818,257)</u>
Cash and cash equivalents - beginning of year	<u>2,816,070</u>	<u>5,634,327</u>
Cash and cash equivalents - end of year	<u><u>\$ 5,315,010</u></u>	<u><u>\$ 2,816,070</u></u>
Supplemental cash flow information:		
Interest payments	<u>\$ 145,025</u>	<u>\$ 85,455</u>
Income taxes paid	<u>\$ 68,414</u>	<u>\$ 48,000</u>
In-kind contributions of goods and services	<u>\$ 314,672</u>	<u>\$ 227,497</u>
Investing and financing activities not affecting cash		
Purchase of property and equipment by assuming short term liabilities	<u><u>\$ 57,104</u></u>	<u><u>\$ 902,120</u></u>

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

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

NOTE 1 – DESCRIPTION OF THE ORGANIZATION

Ronald McDonald House Charities of Southern California (“RMHCSC” or the “Organization”) is a not-for-profit corporation organized in California in 1977. The Organization’s mission is to provide comfort, care, and support to children and families in Southern California. The Organization owns and/or operates houses for this purpose in Los Angeles, Orange, Loma Linda, Pasadena, Bakersfield and Long Beach, California. It also operates Camp Ronald McDonald for Good Times (the “Camp”), as well as grant and scholarship programs.

The Organization has controlling interests in Los Angeles Electing Small Business Trust (“LA ESBT”) and RMHCSC Holdings LLC. Both LA ESBT and RMHCSC Holdings LLC hold interest in real property located primarily in the Los Angeles area. The interest was received as part of a bequest from a donor to support RMHCSC’s capital campaign. Every year, both entities also receive rental income and all the income is given to RMHCSC as contributions. As RMHCSC has a controlling interest in both entities, RMHCSC consolidated the two entities into RMHCSC’s financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). All intercompany transactions have been eliminated.

Net Assets

The Organization reports information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the Board of Directors (the “Board”).

Temporarily restricted net assets consist of contributions with donor-imposed restrictions requiring that the donations be used for a specified location, a specified purpose, or during a future specified period of time. To the extent contributions for each location’s operations exceed operating costs, current restricted revenues are added to temporarily restricted net assets. To the extent the location’s operating costs exceed current year contributions, prior temporarily restricted revenues are released from restriction and used to support current operations.

Permanently restricted net assets consist of contributions that must be held in perpetuity, based on restrictions imposed by donors. The earnings on these invested assets may be used in support of operations.

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information is included for informational purposes only and should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016 from which the summarized information was derived.

Cash and Cash Equivalents

Short-term investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents. Short-term investments with an original maturity greater than three months are included in investments. Cash and cash equivalents are reported at cost, which approximates market value. The Organization maintains cash in various financial institutions that periodically, and as of year-end, exceeds federally insured limits of \$250,000. The amount in excess of federally insured limits is \$4,771,275 and \$2,190,698 as of December 31, 2017 and 2016, respectively. Management does not consider this concentration to be a significant credit risk.

Investments

Investments consist of money market, fixed income, different types of equity fund investments, and managed futures restricted by donors or designated by the Board for long-term investment. Under the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 958-320, *Investments – Debt and Equity Securities*, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the consolidated statement of financial position. Net appreciation (depreciation) in the fair value of investments, which consists of both the realized gains or losses and the unrealized appreciation (depreciation) of those investments, is reported in the consolidated statement of activities.

Investments which are not publicly traded consist primarily of money market funds and are recorded at fair value using the net asset value ("NAV"). The Organization uses the NAV to determine the fair value of the underlying investments which (a) do not have a readily determinable fair value, and (b) prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. Depending on the underlying asset, the NAV is determined by the underlying fund manager through national exchange price for securities with a readily determinable value or valuations and estimates. The financial statements of those investments are audited annually (typically June 30 or December 31) by independent auditors.

Investment return on restricted assets is reported as an increase in unrestricted net assets if the asset restriction expires in the reporting period in which the income is recognized. All other restricted investment return is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments - Continued

Interest income and dividend income are accrued as earned. Investment activities and results on the consolidated financial statements include investment advisory and management fees. All security transactions are recorded on a trade date basis.

Donated Services and Noncash Gifts

Many individuals have donated time and services to advance the Organization's programs and objectives. In some instances, the value of these services has not been recorded in the consolidated financial statements because they do not meet the requirements for recognition under US GAAP. Many other donated goods and products used in programs were received but are not recorded in the consolidated financial statements because there is no objective basis for measuring their values. See Note 14 for the listing of in-kind goods and services that satisfied the revenue recognition and valuation requirements. These items are recorded as income, as well as expenses in the appropriate expense category.

Land, Buildings, and Equipment

Land, buildings and equipment are presented at cost or donated value and are being depreciated on the straight-line method over the useful lives of 3-5 years for vehicles, 3-15 years for fixtures and equipment, and 15-30 years for buildings and improvements. The Organization's policy is to capitalize all asset improvements in excess of \$1,000 that extend the useful life or increase the utility of the property.

Accounting for the Impairment of Long-Lived Assets and Disposal of Long-Lived Assets

The Organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the years ended December 31, 2017 and 2016, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Revenue and Expense Recognition

Contributions, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate class of net assets. Contributions where donor restrictions are met within the same fiscal year as the contribution is received are included in unrestricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate. An allowance for uncollectible contributions is estimated based upon such factors as prior collection history, type of contribution and nature of fundraising activity. Expenses are recognized when incurred.

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Functional Expense Reporting

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying consolidated statement of activities and detailed in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

Advertising Expenses

Advertising costs are expensed as incurred. During 2017 and 2016, advertising costs were approximately \$58,860, and \$47,415, respectively, and are reported as advertising and promotional expenses on the consolidated statement of functional expense.

Income Taxes

The Organization follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Organization has also been recognized by the California Franchise Tax Board as an Organization that is exempt from California franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax Obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

The Organization, on behalf of the Los Angeles House (“House”), is the sole trustee of an electing small business trust (“ESBT”) that qualifies as a California S Corporation stockholder, but is treated as a separate trust for tax purposes (see Note 9).

Use of Estimates

The preparation of financial statements in conformity with US 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 revenues and expenses during the reporting period. While management believes that these estimates are adequate as of December 31, 2017 and 2016, it is possible that actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 3 – SIGNIFICANT ACCOUNTING PRONOUNCEMENTS

In May 2015, the FASB issued ASU 2015-07, *Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The guidance specifically clarifies how investments valued using the net asset value (NAV) practical expedient within the fair value hierarchy should be classified. The ASU was issued in order to address diversity in practice. The amended standard's key provision exempts investments measured using the NAV practical expedient from categorization within the fair value hierarchy and related disclosures. The new guidance is effective for the Organization for the year ended December 31, 2017, with early adoption permitted. The impact of adopting this standard was merely a change to the investment disclosure in the notes the consolidated financial statements.

In August 2015, the FASB issued Accounting Standards Update 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The guidance defers the implementation date of Standard 2014-09, *Revenue from Contracts with Customers (Topic 606)* to reporting periods beginning after December 15, 2019 for nonpublic entities. The Organization is in the process of evaluating the impact of this standard on its operations.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. The guidance redefines the term “lease” to mean “conveys the right to control the use of identified property, plant and equipment for a period of time in exchange for consideration.” The customer has right to control if it receives both the 1) right to obtain substantially all economic benefits from using an asset and 2) right to direct the use of that asset.

- **Lessee Impact:** The key impact to lessees is the requirement to show operating leases on the statement of financial position through recognizing a Right of Use (ROU) asset and liability, with the lease liability measured at the present value of the future lease payments and the asset measured at the lease liability adjusted for payments made before lease commencement and initial indirect costs. The leases would be classified into financing leases (recognize interest expense and amortization based on the interest method) and operating leases (recognize rent expense on a straight-line basis over the lease term).
- **Lessor Impact:** The impact to lessors is minimal, remaining similar to today's standards. For direct financing leases, recognize any loss up front, defer profit and account for investment in lease using the interest method and for operating leases, recognize an asset sale and account for investment in the lease using the interest method of the lease term.

The new guidance is effective for the year ending December 31, 2020. The Organization is in the process of evaluating the impact of this standard on its operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 3 – SIGNIFICANT ACCOUNTING PRONOUNCEMENTS – Continued

In August 2016, the FASB issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The guidance is intended to simplify and improve how a not-for-profit organization (NFP) classifies its net assets, as well as the information it presents in financial statements about its liquidity, financial performance and cash flows. The main provisions of this update require an NFP to do the following:

- Present net assets in two classes instead of three – net assets with donor restrictions and net assets without donor restrictions.
- Continue to present the statement of cash flows using either direct or indirect methods but no longer require the presentation of the indirect method (reconciliation) if using the direct method.
- Provide enhanced disclosure about:
 - Amounts and purposes of governing board designations;
 - Composition of net assets with donor restrictions and how the restrictions affect the use of resources;
 - Qualitative information about how an NFP manages its liquid resources;
 - Qualitative information about the availability of financial assets;
 - Expenses in both their natural and functional classes;
 - Description of cost allocation methods

The new guidance is effective for the year ending December 31, 2018. The Organization is in the process of evaluating the impact of this standard on its operations.

NOTE 4 – INVESTMENTS

RMHCSC accounts for its investments at fair value. ASC 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value which focuses on an exit price between market participants. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

The three levels of fair value hierarchy are described below:

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that RMHCSC has the ability to access at the measurement date. These investments include cash and cash equivalents and short term investments.

Level 2 Valuations based on inputs, including broker quotes, in markets that are not active or for which all significant inputs are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. These investments include money market funds.

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 4 – INVESTMENTS – Continued

Level 3 Valuations based on inputs that are both significant to the fair value measurement and unobservable, as they trade infrequently and therefore have little or no price transparency. These inputs into the determination of fair value require significant management judgment or estimation and these investments typically are privately held investments and partnership interests.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Organization evaluates its hierarchy disclosures each reporting period and, based on various factors, it is possible that an asset or liability may be classified differently from period to period.

However, the Organization expects that changes in classifications between different levels will be rare.

The Organization holds marketable debt and equity securities that are intended to provide resources to be used for programs and operations. A portion of these investments are permanently restricted by donor stipulation, and the remainder is a combination of temporarily restricted and unrestricted amounts.

The fair values of investments that are measured on a recurring basis are listed below:

Asset Class	Level 1	December 31, 2017				2016 Total
		Level 2	Level 3	Net Asset Value	Total	
Mutual funds / exchange traded funds:						
Equity - international (a)	\$ 2,772,614	\$ -	\$ -	\$ 2,772,614	\$ 2,772,614	\$ 2,380,800
Equity - emerging markets (b)	429,359	-	-	-	429,359	373,992
Equity - global (c)	2,719,187	-	-	-	2,719,187	2,794,607
Fixed income - domestic (d)	5,014,714	-	-	-	5,014,714	5,168,425
Fixed income - global (e)	2,252,948	-	-	-	2,252,948	2,184,790
Absolute return (f)	1,184,908	-	-	3,107,660	4,292,568	5,571,711
Cash and cash equivalents	467,143	-	-	-	467,143	124,349
Separately managed accounts:						
Equity - large cap domestic (g)	3,680,583	-	-	-	3,680,583	3,238,339
Equity - small-mid cap domestic (h)	602,209	-	-	-	602,209	532,978
Absolute return (i)	-	-	-	315,193	315,193	-
Money market funds:						
	-	3,347,063	-	-	3,347,063	724,242
	19,123,665	3,347,063	-	3,422,853	25,893,581	23,094,233
Interest in land trust	-	-	1,410,000	-	1,410,000	1,211,000
Interest in limited liability company	-	-	808,000	-	808,000	314,500
-	-	-	2,218,000	-	2,218,000	1,525,500
	\$ 19,123,665	\$ 3,347,063	\$ 2,218,000	\$ 3,422,853	\$ 28,111,581	\$ 24,619,733

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 4 – INVESTMENTS – Continued

The Organization's policy is to recognize transfers in and out of Level 1, 2, and 3 as of the end of the year or change in circumstances that caused the transfer. There has been no transfer from the Level 1 and Level 2 assets to Level 3 during 2017 and 2016.

- (a) Equity – international - Comprised of mutual funds investing no less than 65% of assets in equity securities of non-U.S. companies with market capitalizations generally in excess of \$1 billion. While generally limited in their use, the funds may invest in derivative securities.
- (b) Equity – emerging markets - Comprised of a mutual fund investing in equity securities of non-U.S. companies, generally located in developing economies with market capitalizations generally in excess of \$1 billion. While generally limited in their use, the fund may invest in fixed income instruments as well as derivative securities.
- (c) Equity – global - Comprised of a mutual fund investing in the following security types issued by both U.S. and non-U.S. companies of various market capitalizations: primarily common stocks; secondarily fixed income securities (including sovereign debt, convertible bonds, and high yield), options, preferred stock and asset-backed securities.
- (d) Fixed income– domestic - Comprised of mutual funds investing in fixed income instruments of varying maturities issued primarily by U.S. public or private-sector entities and secondarily by non-U.S. entities. Fixed income instruments include investment grade bonds and high yield securities but may also be represented by derivatives including forwards, options, futures, swaps and asset-backed securities. Securities of varying maturities are permitted as well as those denominated in currencies other than the U.S. dollar.
- (e) Fixed income – global - Comprised of a mutual fund investing primarily in fixed income instruments issued by U.S. and non-U.S. governments and government agencies. Fixed income instruments may also include those issued by corporations and may be represented by derivatives, high yield and convertible debt, commercial paper and certificates of deposit.
- (f) Absolute return - Comprised of mutual funds investing in equity and debt securities issued by U.S. public or private-sector entities, including corporations, governments and government agencies, as well as non-U.S. entities. Long and short positions may also be taken in the following types of foreign and domestically issued securities: common and preferred stocks, exchange traded funds, other mutual funds, U.S. Treasury inflation-protect securities, derivatives and commodities.

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 4 – INVESTMENTS – Continued

In addition to Mutual Fund Exposure, Hedge Fund Strategies, generally structured as limited partnerships or investment companies, are allowed to operate with greater flexibility than most traditional investment managers and their compensation usually includes substantial performance incentives. Investments in Hedge Funds may include investments in the following: common and preferred stocks, options, warrants, convertible securities, foreign securities, foreign currencies, commodities, commodity futures, financial futures, derivatives, mortgage-backed and mortgage-related securities, real estate, bonds (both investment-grade and non-investment-grade, including high-yield debt, distressed or other securities) and other assets. Strategies may utilize short selling and leverage.

- (g) Separately Managed - Equity – large cap domestic - Comprised primarily of common stocks of U.S. companies with market capitalizations similar to companies in the Russell 1000 Index.
- (h) Separately Managed - Equity – small-mid cap domestic - Comprised primarily of common stocks of U.S. companies with market capitalizations similar to companies in the Russell 2500 Index.

The Organization's valuation methodologies used for mutual fund assets, money market funds, and separately managed funds measured at fair value are based on NAV of shares held by the Organization at year end. There have been no changes in the methodologies used at December 31, 2017 and 2016. The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization's valuation methodologies used for alternative investments, which consist of funds that utilize a variety of absolute return strategies are based on the NAV of shares held by the Organization at year-end. Fair-value is determined by the respective investment manager that holds the alternative investments based on valuation procedures adopted by the respective company. Based on their valuation, the fair value of the alternative investments was estimated to be \$3,422,853, and \$3,702,337 at December 31, 2017 and 2016, respectively.

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 4 – INVESTMENTS – Continued

The 2017 and 2016 activity in alternative investments was as follows:

	2017	2016
Balance at the beginning of the year	\$ 3,702,337	\$ 3,703,502
Realized gains (losses)	-	-
Investment income, net	76,593	72,521
Unrealized gains (losses)	165,592	(65,191)
Additions (withdrawals)	(521,669)	(8,495)
Balance at the end of the year	<u><u>\$ 3,422,853</u></u>	<u><u>\$ 3,702,337</u></u>

The Los Angeles House has a beneficial interest in a land trust that holds real property located primarily in the Los Angeles area. This interest was received as a bequest from a donor to the Los Angeles House's capital campaign. Valuations of the trust properties are based on real estate comparables as of year end, obtained from an independent real estate professional. These comparables were used to value the investment using the sales comparable appraisal method. The sales comparable method is a method that uses the average dollar per square foot of comparables sold to value the investment. Using these comparables, the fair market value of the interest in the land trust was estimated to be \$1,410,000 and \$1,211,000 at December 31, 2017 and 2016, respectively.

The Los Angeles House is the sole member of a California limited liability company ("LLC") that is a general partner in a company that holds real property located primarily in the Los Angeles area. This interest was received as a bequest from a donor to the Los Angeles house's capital campaign. Valuations of the LLC's properties are based on real estate comparables as of year end, obtained from an independent real estate professional. These comparables were used to value the investment using the capitalization method. The capitalization method is a method that capitalizes an income stream into a value indication by converting a series of future periodic installments of net income into present value. The present value of the income stream is calculated using an overall capitalization rate, which is the capitalization rate plus a recapture (or sinking fund) rate. At December 31, 2017, the capitalization rate is 7.32% and sinking fund rate is 1.96%, resulting in an Overall Rate (OAR) of 40.02%. At December 31, 2016, the capitalization rate is 5.86% and sinking fund rate is 1.96%, resulting in an Overall Rate (OAR) of 30.16%. Using these comparables and rates, the fair market value of the interest in the land trust was estimated to be \$808,000 and \$314,500 at December 31, 2017 and 2016, respectively.

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 4 – INVESTMENTS - Continued

The 2017 and 2016 activity in the land trust was as follows:

	2017	2016
Balance at the beginning of the year	\$ 1,211,000	\$ 1,200,000
Adjustment to fair value	199,000	11,000
Balance at the end of the year	\$ 1,410,000	\$ 1,211,000

The 2017 and 2016 activity in the limited liability company was as follows:

	2017	2016
Balance at the beginning of the year	\$ 314,500	\$ 630,000
Adjustment to fair value	493,500	(315,500)
Balance at the end of the year	\$ 808,000	\$ 314,500

Investment income (losses) and expenses consisted of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Interest and dividend income	\$ 599,522	\$ 393,614
Gain (loss) on sales of investments	488,384	(126,753)
Investment broker fees	(107,165)	(118,697)
Unrealized gains (losses) on investments	1,865,027	926,910
Unrealized (losses) gains on land trust and limited liability company	692,500	(304,500)
Total realized and unrealized investment gains (losses), net	\$ 3,538,268	\$ 770,574

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 4 – INVESTMENTS - Continued

The following tables present the category, fair value, redemption frequency, and redemption notice period for the investments, the fair values of which are estimated using the NAV per share as of December 31, 2017 and 2016:

	December 31, 2017		
	Fair value	Redemption frequency	Redemption notice period
Mutual funds / exchange traded funds:			
Absolute return	<u>\$ 3,422,853</u>	Daily	Daily
Money market funds	<u>\$ 3,347,063</u>	Daily	Daily
	December 31, 2016		
	Fair value	Redemption frequency	Redemption notice period
Mutual funds / exchange traded funds:			
Absolute return	<u>\$ 3,702,337</u>	Daily	Daily
Money market funds	<u>\$ 724,242</u>	Daily	Daily

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2017 and 2016 consist of the following amounts:

	2017	2016
Capital campaign contributions due to Camp	\$ 24,246	\$ 199,162
Capital campaign contributions due to Long Beach House	101,316	144,595
Capital campaign contributions due to Inland Empire House	1,231,625	378,598
Capital campaign contributions due to Community Grants Board	-	375,000
Contributions receivable before adjustment to reported value	1,357,187	1,097,355
Less: adjustments to record contributions receivable at fair value		
Discount to present value	(39,925)	(10,302)
Allowance for uncollectible pledges	(33,934)	(27,440)
Total contributions receivable, net	<u>\$ 1,283,328</u>	<u>\$ 1,059,613</u>

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 5 – CONTRIBUTIONS RECEIVABLE – Continued

Contributions receivable are expected to be realized in the following periods:

Due in one year or less	\$ 406,570
Due in two to five years	947,117
Due thereafter	3,500
	<hr/> <u>\$ 1,357,187</u>

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category. Promises to give are recorded after discounting, at a rate of 2.00%, to the present value of the future cash flows. Unconditional promises to give received during the year ended December 31, 2017 have been discounted at credit-adjusted rates in accordance with ASC 820.

The Organization has established an allowance for uncollectible pledges to further adjust pledges receivable to fair value. Management records a 2.5% allowance for all pledges.

NOTE 6 – CAPITAL CAMPAIGNS

The Long Beach House began a capital campaign in 2007 to raise funds for construction of facilities. The campaign has raised approximately \$6.5 million. The balance of pledges receivable at December 31, 2017 of approximately \$101,316 is scheduled to be received between 2018 and 2022.

Camp Ronald McDonald for Good Times began a capital campaign in 2005 to raise funds for the renovation of existing facilities, as well as the construction of additional facilities. As of December 31, 2017 the campaign has raised approximately \$10.4 million. The balance of pledges receivable at December 31, 2017 of approximately \$24,246 is scheduled to be received in 2018 and 2023.

The Inland Empire House began a capital campaign in 2013 to raise funds for the renovation of existing facilities. As of December 31, 2017, the campaign has raised approximately \$7.6 million. The balance of pledges receivable at December 31, 2017 of approximately \$1,231,625 is scheduled to be received in between 2018 and 2023.

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 7 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment was comprised of the following at December 31, 2017 and 2016:

	2017	2016
Construction projects in progress	\$ 5,094	\$ 11,051,951
Land	5,205,554	5,205,554
Buildings and improvements	50,310,395	38,229,770
Furniture and fixtures	4,860,165	4,679,297
Transportation equipment	217,759	217,759
Less: accumulated depreciation	(20,493,617)	(18,615,216)
	<u><u>\$ 40,105,350</u></u>	<u><u>\$ 40,769,115</u></u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$1,878,401 and \$1,486,785, respectively.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Leases

The Organization leases property from Bakersfield Memorial Hospital for its Bakersfield House rent-free. The original lease was for a five-year term which ended in December 2013 with options to renew thereafter annually. The lease was renewed in 2016. The fair market value of the rent was \$11,210 and \$11,641 for the years ended December 31, 2017 and 2016, respectively, and is included in in-kind contributions.

The Organization no longer needed the use of the property leased from Loma Linda University with the expansion of the Inland Empire House. The Organization and Loma Linda University mutually agreed to end this leasing arrangement on March 31, 2017. The annual lease payment was \$1 per year. The fair market value of the rent until March 31, 2017 was \$2,957. The in-kind rent receivable balance of \$37,517 was reversed and offset to other income.

The Organization leases property from Memorial Health Services for its Long Beach House. The lease is for a 35-year term, which expires in May 2045, with options to renew for three additional five year terms. The annual lease payment is \$1 per year. The annual fair market value of the rent was \$40,658 for years ended December 31, 2017 and 2016. The in-kind rent receivable was \$1,114,717 and \$1,155,375 at December 31, 2017 and 2016, respectively, and is recorded in in-kind and other receivables.

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 8 – COMMITMENTS AND CONTINGENCIES – Continued

In June 2012, Tom Bell Chevrolet loaned a 2012 Chevrolet Equinox, and a 2012 Chevrolet Silverado for a period of five years to the Organization at no charge to be used for RMHCSC business purposes. The fair market value of the rent was \$9,946 for the years ended December 31, 2017 and 2016. The in-kind lease receivable was \$0 and \$4,541 at December 31, 2017 and 2016, respectively, and is recorded in in-kind and other receivables.

The Organization is obligated under non-cancellable operating leases for various equipment and vehicle leases. The leases expire between 2018 and 2022. Future minimum obligations are due as follows:

	<u>Operating Leases</u>
Due in 2018	\$ 29,557
Due in 2019	13,036
Due in 2020	9,195
Due in 2021	9,195
Thereafter	4,459
	<hr/> <hr/>
	\$ 65,442

NOTE 9 – PROVISION FOR INCOME TAXES

The income tax provisions for the ESBT for the year ended December 31, 2017 were \$55,415 and \$13,000 for federal and state, respectively. For the year ended December 31, 2016, income tax provisions were \$39,000 and \$9,000 for federal and state, respectively.

NOTE 10 – RETIREMENT PLAN

The Organization has adopted a qualified salary deferral 401(k) plan that covers substantially all employees who have met certain service requirements. The Organization may elect to match the employee contributions to the plan. The voluntary employee contributions are limited to a percentage of compensation of qualified participants. The Organization elected to make matching contributions of \$164,068 and \$132,987 in 2017 and 2016, respectively.

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 11 – NET ASSETS

TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2017 and 2016 temporarily restricted net assets are available for the following purposes:

	2017	2016
Bakersfield operations	\$ 741,762	\$ 758,902
Los Angeles operations	168,112	-
Camp operations	32,267	12,018
Camp capital	3,010,755	555,977
Orange County operations	776,219	928,224
Inland Empire operations	52,586	506,737
Inland Empire capital	-	4,887,900
Pasadena operations	1,419,065	1,453,672
Pasadena emergency fund	27,221	27,221
Long Beach operations	1,717,340	1,544,892
Central Office – Couples Against Leukemia	708,270	598,947
Central Office – Capital	21,239	21,239
Central Office – Operations	75,871	-
Grants Board – Operations	786,928	1,236,428
Grants Board – HACER	340,035	436,752
Grants Board – ASIA	113,155	113,725
Grants Board – Future Achievers	21,518	21,518
Grants Board capital	-	365,625
Total temporarily restricted net assets	<u>\$ 10,012,343</u>	<u>\$ 13,469,777</u>

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at December 31, 2017 and 2016 are held in perpetuity for the various locations:

	2017	2016
Los Angeles House	\$ 1,324,259	\$ 1,324,259
Camp Ronald McDonald for Good Times	694,316	441,566
Orange County House	2,161,645	2,161,645
Inland Empire House	12,400	12,400
Total permanently restricted net assets	<u>\$ 4,192,620</u>	<u>\$ 3,939,870</u>

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 11 – NET ASSETS – Continued

RELEASED FROM RESTRICTION

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

NOTE 12 – ENDOWMENTS

RMHCSC has classified as permanently restricted, the fair value of donations restricted by donors to be held as endowments in perpetuity. As a result, permanently restricted net assets include the fair value of the original and subsequent gifts made to the endowment fund. As disclosed in Note 2, RMHCSC's accounting policy is to consider restrictions that are satisfied in the same period that the restricted revenue is received to be unrestricted. For this reason, accumulated earnings, as well as gains and losses related to endowment assets have been reported as unrestricted because the donors have specified that those revenues are available for use in operations. In accordance with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and with generally accepted accounting principles, RMHCSC considers that this policy together with its annual budget approval process, constitutes its decision to appropriate those funds for expenditure.

Net earnings (realized and unrealized) on the investment of endowment assets are classified as temporarily restricted until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA and until expended in a manner consistent with the purpose or time restrictions, if any, imposed by the donor. Any investment return classified as permanently restricted represents only those amounts required to be retained permanently as a result of explicit donor stipulation.

With regard to endowment losses or appropriations in excess of the fair value of the original gift, in accordance with FASB ASC No. 958-320, *Investments – Debt and Equity Securities*, the portion of a donor-restricted endowment that is classified as permanently restricted is not reduced by losses on the investments of the fund, except to the extent required by the donor, including losses related to specific investments that the donor requires the Organization to hold in perpetuity. Similarly, the amount of permanently restricted net assets is not reduced by the Organization's appropriations from the fund. In the absence of donor stipulations or law to the contrary, losses or appropriations of a donor-restricted endowment reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have been satisfied before the loss or appropriation occurs. Any remaining loss or appropriation reduces unrestricted net assets.

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 fund

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 12 – ENDOWMENTS - Continued

- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

From time to time, the fair values of endowment assets may, due to unfavorable market fluctuations, fall below the level that donors require to be retained as a fund of perpetual duration. In accordance with generally accepted accounting principles, declines of this nature are reported as losses in unrestricted net assets. As values recover, the increases are reported as unrestricted gains. As of December 31, 2017, there were no such declines in value below the amount of the original endowments.

RMHCSC has adopted investment and spending policies for endowment assets to provide a predictable stream of revenues for operating activities and to preserve the purchasing power of the endowment assets. Under these policies, endowment assets are invested to produce a return that is expected to meet or exceed the rate of inflation as measured by the Consumer Price Index plus 5.0% and to meet or exceed a benchmark consisting of 70% of the S&P 500 and 30% of the BC Aggregate Index on a risk adjusted basis over the defined time horizon. Actual results during any period may vary from these expectations. RMHCSC relies on a total return strategy which allows the earning objective to be achieved through both capital appreciation and current yield. This strategy involves a diversified asset allocation that provides a balance between equity and debt investments. RMHCSC's spending policy is to appropriate investment income (dividends and interest) and investment gains for current operations at each location. The spending policy was established considering the long-term expected return on assets and the long-term growth of the asset.

Changes in endowment assets for the year ended December 31, 2017 and 2016 are as follows:

	December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at December 31, 2016	\$ -	\$ -	\$ 3,939,870	\$ 3,969,870
Contributions	-	-	252,750	252,750
Investment income	-	110,821	-	110,821
Investment broker fees	-	(20,072)	-	(20,072)
Net realized and unrealized gains	-	517,000	-	517,000
Appropriation of Endowment				
Income for Expenditures	<u>-</u>	<u>(607,749)</u>	<u>-</u>	<u>(607,749)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,192,620</u>	<u>\$ 4,192,620</u>

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 12 – ENDOWMENTS - Continued

	December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at December 31, 2015	\$ -	\$ -	\$ 3,937,420	\$ 3,937,420
Contributions	- -	- -	2,450	2,450
Investment income	- -	66,833	- -	66,833
Investment broker fees	- -	(21,708)	- -	(21,708)
Net realized and unrealized gains	- -	150,309	- -	150,309
Appropriation of Endowment				
Income for Expenditures	<u>- -</u>	<u>(195,434)</u>	<u>- -</u>	<u>(195,434)</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,939,870</u>	<u>\$ 3,969,870</u>

All endowments at December 31, 2017 and 2016 are donor restricted endowment funds.

NOTE 13 – NOTES PAYABLE

Morgan Stanley Smith Barney

The notes payable consist of a Portfolio Loan Account (PLA) in place at MSSB. The PLA is secured by investment accounts held at MSSB. The terms of the PLA include monthly interest only payments based on a variable rate, which is determined by the corresponding PLA index plus 1.25%.

The variable rate ranged from 2.02% to 2.81% in 2017, and was 2.81% as of December 31, 2017. The balance of the PLA was \$4,945,402 and \$6,467,044 at December 31, 2017 and 2016, respectively.

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2017

NOTE 14 – IN-KIND CONTRIBUTIONS AND EXPENSES

In-kind goods and services that satisfied the revenue recognition requirements were recorded as follows:

	2017	2016
Expenses for operations		
Automobile costs	\$ 12,467	\$ -
Cleaning, gardening, housekeeping	17,820	19,020
Special event site fees	1,000	8,419
Rent	11,210	19,721
Professional fees	127,970	128,579
Supplies	53078	51,758
	<hr/> 223,545	<hr/> 227,497
Capital improvements		
Construction in progress	-	8,000
Furniture and Equipment	<hr/> 91,127	<hr/> -
	<hr/> 91,127	<hr/> 8,000
Total in-kind contributions	<hr/> <hr/> \$ 314,672	<hr/> <hr/> \$ 235,497

NOTE 15 – RELATED PARTIES

RMHCSC is a local chapter of Ronald McDonald House Charities, Inc. (“RMHC, Inc.”), an organization that supports a global network of Ronald McDonald Houses and other programs directed at children around the world. RMHCSC has a license agreement with the McDonald’s Corporation for the use of its name and trademarks. This license agreement also includes programmatic guidelines that should be followed. As part of the license agreement, twenty-five percent of the revenues from all national fundraising efforts that take place in McDonald’s restaurants, such as the donation boxes that are located on the counter tops and at the drive thru windows, are sent to RMHC, Inc. and are reflected in the consolidated financial statements as a payment to Ronald McDonald House Charities Global. During 2017 and 2016, the contribution from McDonald’s Corporation was \$871,900 and \$785,070, respectively.

NOTE 16 – SUBSEQUENT EVENTS

In June 2018, The organization paid off the remaining balance of the inland empire portion of the note payable to Morgan Stanley Smith Barney in the amount of \$1,883,601.

The Organization evaluated its December 31, 2017 financial statements for subsequent events through October 2, 2018, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events, other than indicated above, which would require recording or disclosure in the financial statements.

SUPPLEMENTARY SCHEDULES

Ronald McDonald House Charities of Southern California
 COMBINING SCHEDULE OF FINANCIAL POSITION BY LOCATION
 As of December 31, 2017

	Los Angeles House	Bakersfield House	Camp Ronald McDonald	Orange County House	Inland Empire House	Pasadena House	Long Beach House	Central Office	Grants Board	Total
Assets										
Cash and cash equivalents	\$ 250,115	\$ 148,477	\$ 65,876	\$ 584,730	\$ 1,523,750	\$ 384,061	\$ 634,639	\$ 1,723,362	\$ -	\$ 5,315,010
Investments	6,177,260	829,676	4,782,923	7,383,228	1,840,647	1,577,340	1,659,827	1,992,612	1,868,068	28,111,581
Contributions receivable (net)	-	-	23,230	-	1,162,252	-	97,846	-	-	1,283,328
In-kind and other receivables	5,416	20,919	47,328	49,587	288	2,500	1,115,345	203,389	594,311	2,039,083
Prepaid expenses and other assets	39,984	3,630	58,963	27,450	33,120	26,803	22,984	52,031	-	264,965
Land, buildings and equipment (net)	<u>12,276,526</u>	<u>24,044</u>	<u>9,985,779</u>	<u>1,642,034</u>	<u>12,787,724</u>	<u>24,664</u>	<u>3,325,950</u>	<u>38,629</u>	<u>-</u>	<u>40,105,350</u>
Total assets	<u>\$18,749,301</u>	<u>\$ 1,026,746</u>	<u>\$14,964,099</u>	<u>\$ 9,687,029</u>	<u>\$17,347,781</u>	<u>\$ 2,015,368</u>	<u>\$ 6,856,591</u>	<u>\$ 4,010,023</u>	<u>\$ 2,462,379</u>	<u>\$77,119,317</u>
Liabilities										
Accounts payable and accrued expenses	\$ 163,152	\$ 52,902	\$ 116,904	\$ 139,225	\$ 118,499	\$ 39,423	\$ 101,070	\$ 224,926	\$ 521	\$ 956,622
Notes payables	3,061,801	-	-	-	1,883,601	-	-	-	-	4,945,402
Inter-entity payables (receivables)	<u>6,077</u>	<u>(2,146)</u>	<u>193,053</u>	<u>(11,583)</u>	<u>16,777</u>	<u>(6,845)</u>	<u>(2,863)</u>	<u>(242,306)</u>	<u>49,836</u>	<u>-</u>
	<u>3,231,030</u>	<u>50,756</u>	<u>309,957</u>	<u>127,642</u>	<u>2,018,877</u>	<u>32,578</u>	<u>98,207</u>	<u>(17,380)</u>	<u>50,357</u>	<u>5,902,024</u>
Net assets										
Unrestricted	14,025,900	234,228	10,916,805	6,621,523	15,263,918	536,503	5,041,044	3,222,022	1,150,387	57,012,330
Temporarily restricted	168,112	741,762	3,043,021	776,219	52,586	1,446,287	1,717,340	805,381	1,261,635	10,012,343
Permanently restricted	<u>1,324,259</u>	<u>-</u>	<u>694,316</u>	<u>2,161,645</u>	<u>12,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,192,620</u>
	<u>15,518,271</u>	<u>975,990</u>	<u>14,654,142</u>	<u>9,559,387</u>	<u>15,328,904</u>	<u>1,982,790</u>	<u>6,758,384</u>	<u>4,027,403</u>	<u>2,412,022</u>	<u>71,217,293</u>
Total liabilities and net assets	<u>\$18,749,301</u>	<u>\$ 1,026,746</u>	<u>\$14,964,099</u>	<u>\$ 9,687,029</u>	<u>\$17,347,781</u>	<u>\$ 2,015,368</u>	<u>\$ 6,856,591</u>	<u>\$ 4,010,023</u>	<u>\$ 2,462,379</u>	<u>\$77,119,317</u>

Ronald McDonald House Charities of Southern California

COMBINING SCHEDULE OF ACTIVITIES BY LOCATION

For the Year Ended December 31, 2017

	Los Angeles House	Bakersfield House	Camp Ronald McDonald	Orange County House	Inland Empire House	Pasadena House	Long Beach House	Central Office	Grants Board	Total
Revenues and support										
Contributions	\$ 1,194,282	\$ 98,841	\$ 1,100,175	\$ 760,516	\$ 1,075,153	\$ 259,253	\$ 582,167	\$ 2,147,558	\$ 1,074,519	\$ 8,292,464
Capital campaign	-	-	2,454,777	-	2,725,057	-	-	-	-	5,179,834
In-kind contributions	14,479	11,210	127,970	119,221	19,924	4,597	17,271	-	-	314,672
Special event revenues	866,602	366,549	604,355	888,691	485,488	341,069	1,023,054	307,102	8,750	4,891,660
Special event expenses	(314,661)	(103,050)	(141,644)	(244,796)	(123,800)	(122,459)	(307,389)	(115,198)	(467)	(1,473,464)
	<u>551,941</u>	<u>263,499</u>	<u>462,711</u>	<u>643,895</u>	<u>361,688</u>	<u>218,610</u>	<u>715,665</u>	<u>191,904</u>	<u>8,283</u>	<u>3,418,196</u>
Realized investment gains, net	183,537	30,942	81,586	329,302	103,471	57,699	62,118	77,825	54,260	980,740
Unrealized investment gains	1,046,008	57,539	143,427	626,355	225,070	106,733	107,095	146,892	98,409	2,557,528
Program fees	74,563	5,868	-	24,043	92,743	11,362	40,556	-	-	249,135
Rental and other income	154,360	366	172,815	7,138	(21,374)	1,818	5,587	1,751	-	322,461
Inter-entity	215,704	13,009	50,525	94,896	435,768	32,880	57,024	(74,806)	(825,000)	-
Total revenues and support	<u>3,434,874</u>	<u>481,274</u>	<u>4,593,986</u>	<u>2,605,366</u>	<u>5,017,500</u>	<u>692,952</u>	<u>1,587,483</u>	<u>2,491,124</u>	<u>410,471</u>	<u>21,315,030</u>
Expenses										
Program expense	2,154,380	307,474	1,837,653	1,003,727	1,601,872	456,782	904,717	847,989	797,824	9,912,418
Management and general	339,619	17,150	123,669	340,674	149,487	37,155	98,364	240,522	6,580	1,353,220
Fundraising	304,811	71,933	296,732	214,152	214,784	34,490	179,130	798,843	186	2,115,061
Total expenses	<u>2,798,810</u>	<u>396,557</u>	<u>2,258,054</u>	<u>1,558,553</u>	<u>1,966,143</u>	<u>528,427</u>	<u>1,182,211</u>	<u>1,887,354</u>	<u>804,590</u>	<u>13,380,699</u>
Change in net assets	636,064	84,717	2,335,932	1,046,813	3,051,357	164,525	405,272	603,770	(394,119)	7,934,331
Net assets - beginning	<u>14,882,207</u>	<u>891,273</u>	<u>12,318,210</u>	<u>8,512,574</u>	<u>12,277,547</u>	<u>1,818,265</u>	<u>6,353,112</u>	<u>3,423,633</u>	<u>2,806,141</u>	<u>63,282,962</u>
Net assets - ending	<u>\$ 15,518,271</u>	<u>\$ 975,990</u>	<u>\$ 14,654,142</u>	<u>\$ 9,559,387</u>	<u>\$ 15,328,904</u>	<u>\$ 1,982,790</u>	<u>\$ 6,758,384</u>	<u>\$ 4,027,403</u>	<u>\$ 2,412,022</u>	<u>\$ 71,217,293</u>