



Grant Thornton

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

**RONALD MCDONALD HOUSE
CHARITIES OF SOUTHERN
CALIFORNIA**

December 31, 2016 (With Comparative Summarized
Financial Information for December 31, 2015)

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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, 2016, 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, 2016, 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, 2016 and the Combining Schedule of Activities by Location for the year ended December 31, 2016 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 2015 summarized comparative information

We have previously audited the Organization's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 12, 2016. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Los Angeles, California
October 24, 2017

Ronald McDonald House Charities of Southern California

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2016

(With Comparative Summarized Financial Information as of December 31, 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 2,816,070	\$ 5,634,327
Investments (Note 4)	24,619,733	23,879,312
Contributions receivable (net) (Note 5)	1,059,613	1,524,645
In-kind and other receivables	2,123,364	1,885,734
Prepaid expenses and other assets	208,357	328,383
Land, buildings, and equipment (net) (Note 7)	<u>40,769,115</u>	<u>32,646,616</u>
Total assets	<u><u>\$ 71,596,252</u></u>	<u><u>\$ 65,899,017</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,846,246	\$ 1,650,153
Notes payable (Note 13)	<u>6,467,044</u>	<u>2,986,025</u>
Total liabilities	<u>8,313,290</u>	<u>4,636,178</u>
Net assets		
Unrestricted	45,873,315	45,039,253
Temporarily restricted	13,469,777	12,286,166
Permanently restricted	<u>3,939,870</u>	<u>3,937,420</u>
Total net assets	<u>63,282,962</u>	<u>61,262,839</u>
Total liabilities and net assets	<u><u>\$ 71,596,252</u></u>	<u><u>\$ 65,899,017</u></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, 2016

(With Comparative Summarized Financial Information for the Year Ended December 31, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Revenues and Support					
Contributions	\$ 5,893,059	\$ 521,193	\$ 2,450	\$ 6,416,702	\$ 6,829,701
Capital campaigns	-	2,138,053	-	2,138,053	4,305,833
In-kind contributions	227,497	-	-	227,497	270,591
Special event revenues	5,086,227	137,205	-	5,223,432	4,807,036
Special event expenses	(1,295,843)	(103,885)	-	(1,399,728)	(1,268,675)
	<u>3,790,384</u>	<u>33,320</u>	<u>-</u>	<u>3,823,704</u>	<u>3,538,361</u>
Realized investment gains, net	122,888	25,275	-	148,163	694,186
Unrealized investment gains (losses)	419,244	203,167	-	622,411	(1,544,638)
Program fees	222,067	-	-	222,067	286,605
Rental and other income	<u>521,308</u>	<u>-</u>	<u>-</u>	<u>521,308</u>	<u>568,157</u>
Income before release from restrictions	11,196,447	2,921,008	2,450	14,119,905	14,948,796
Released from restrictions					
Operations	195,434	(195,434)	-	-	-
Endowments	<u>1,541,963</u>	<u>(1,541,963)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>12,933,844</u>	<u>1,183,611</u>	<u>2,450</u>	<u>14,119,905</u>	<u>14,948,796</u>
Expenses					
Programs	8,784,771	-	-	8,784,771	8,834,816
Management and general	1,305,442	-	-	1,305,442	1,222,749
Fundraising	<u>2,009,569</u>	<u>-</u>	<u>-</u>	<u>2,009,569</u>	<u>1,998,974</u>
Total expenses	<u>12,099,782</u>	<u>-</u>	<u>-</u>	<u>12,099,782</u>	<u>12,056,539</u>
Change in net assets	834,062	1,183,611	2,450	2,020,123	2,892,257
Net assets - beginning	<u>45,039,253</u>	<u>12,286,166</u>	<u>3,937,420</u>	<u>61,262,839</u>	<u>58,370,582</u>
Net assets - ending	<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>

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, 2016

(With Comparative Summarized Financial Information for the Year Ended December 31, 2015)

	Houses	Camp	Other Programs	Total Programs	Management and General	Fundraising	2016 Total	2015 Total
Salaries and related costs								
Salaries	\$ 2,571,136	\$ 467,000	\$ 2,795	\$ 3,040,931	\$ 756,755	\$ 941,146	\$ 4,738,832	\$ 4,456,667
Employee benefits	292,438	67,721	-	360,159	37,708	95,202	493,069	471,926
Payroll taxes	252,652	43,031	-	295,683	37,274	74,018	406,975	381,881
Retirement plan	71,104	16,470	-	87,574	16,869	28,544	132,987	109,957
Total salaries and related costs	3,187,330	594,222	2,795	3,784,347	848,606	1,138,910	5,771,863	5,420,431
Expenses								
HACER scholarships and grants	-	-	382,000	382,000	-	-	382,000	966,076
Contributions to RMHC Global	-	-	212,623	212,623	-	-	212,623	219,163
Activities and fees	82,887	57,003	14,531	154,421	205	1,852	156,478	133,513
Guest hotel costs	408,006	-	-	408,006	-	-	408,006	108,900
Guest services	13,494	156,344	-	169,838	-	-	169,838	176,972
Insurance	153,517	47,733	-	201,250	15,511	26,353	243,114	248,915
Utilities	222,815	47,296	-	270,111	20,818	35,371	326,300	385,367
Repairs and maintenance	209,681	28,107	-	237,788	20,113	34,174	292,075	241,241
Rent	117,642	-	-	117,642	9,067	15,405	142,114	145,901
Supplies	67,523	4,529	5,486	77,538	5,950	10,110	93,598	99,017
Outside services	47,900	20,456	219	68,575	-	308,164	376,739	338,360
Food and catering	70,802	-	30	70,832	5,793	6,519	83,144	65,867
Cleaning, gardening and housekeeping	297,417	39,426	50	336,893	-	-	336,893	146,264
Automobile costs	40,278	12,347	984	53,609	4,750	1,927	60,286	64,669
Printing	43,125	2,626	80	45,831	686	20,488	67,005	83,348
Advertising and promotion	32,612	3,536	87	36,235	8,077	3,103	47,415	36,785
Canister costs	-	-	-	-	-	225,113	225,113	224,818
Professional fees	144,324	237,946	-	382,270	76,223	4,761	463,254	659,085
Equipment	65,077	14,809	-	79,886	239	3,343	83,468	271,283
Telephone	103,812	14,323	715	118,850	9,105	15,470	143,425	122,287
Postage	24,881	2,297	386	27,564	2,141	8,502	38,207	42,273
Employee development	50,619	12,652	142	63,413	16,139	198	79,750	57,350
Conferences and meetings	35,366	7,162	-	42,528	-	-	42,528	58,686
Temporary labor	44,882	-	-	44,882	40,057	11,375	96,314	74,429
Property taxes	19,179	-	-	19,179	-	-	19,179	13,752
Tax related charges and expenses	-	-	-	-	225	-	225	1,025
Bank charges	6,319	304	24	6,647	32,667	3,250	42,564	44,666
Interest expense	-	-	-	-	80,604	-	80,604	87,602
Other expenses	49,572	9,105	265	58,942	6,559	15,374	80,875	87,400
Expenses before depreciation and income taxes	5,539,060	1,312,223	620,417	7,471,700	1,203,535	1,889,762	10,564,997	10,625,445
Depreciation	871,219	441,205	647	1,313,071	53,907	119,807	1,486,785	1,395,094
Trust's income taxes	-	-	-	-	48,000	-	48,000	36,000
Total expenditures	\$ 6,410,279	\$ 1,753,428	\$ 621,064	\$ 8,784,771	\$ 1,305,442	\$ 2,009,569	\$ 12,099,782	\$ 12,056,539

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, 2016

(With Comparative Summarized Financial Information For the Year Ended December 31, 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 2,020,123	\$ 2,892,257
Adjustments to reconcile changes in net assets to net cash provided by (used in) operations:		
Depreciation	1,486,785	1,395,094
Contributions restricted for long-term and capital projects	(2,140,503)	(4,328,770)
Net realized and unrealized investment (gains) losses	(1,075,073)	1,075,452
Unrealized loss (gain) on interest of land trust	304,500	(225,000)
Loss on disposition of assets	-	31,961
In-kind contributions of property and equipment	(8,000)	-
Increase (decrease) in cash resulting from changes in:		
Contribution receivable	284,275	(1,257,148)
In-kind and other receivables	(237,630)	121,451
Prepaid expenses and other assets	120,026	(81,208)
Accounts payable and accrued expenses	(706,027)	236,994
Net cash provided by (used in) operating activities	<u>48,476</u>	<u>(138,917)</u>
Cash flows from investing activities		
Purchases of investments	(3,615,429)	(10,715,396)
Proceeds from sales and maturities of investments	3,645,581	9,641,451
Purchases of property and equipment	<u>(8,699,164)</u>	<u>(3,128,889)</u>
Net cash used in investing activities	<u>(8,669,012)</u>	<u>(4,202,834)</u>
Cash flows from financing activities		
Contributions collected for long-term and capital purposes	2,321,260	4,836,827
Payment of long-term borrowings	(71,531)	(588,542)
Proceeds from long-term borrowings	<u>3,552,550</u>	<u>-</u>
Net cash provided by financing activities	<u>5,802,279</u>	<u>4,248,285</u>
Net change in cash and cash equivalents	<u>(2,818,257)</u>	<u>(93,466)</u>
Cash and cash equivalents - beginning of year	<u>5,634,327</u>	<u>5,727,793</u>
Cash and cash equivalents - end of year	<u>\$ 2,816,070</u>	<u>\$ 5,634,327</u>
Supplemental cash flow information:		
Interest payments	<u>\$ 85,455</u>	<u>\$ 87,602</u>
Income taxes paid	<u>\$ 48,000</u>	<u>\$ 36,000</u>
In-kind contributions of goods and services	<u>\$ 227,497</u>	<u>\$ 270,591</u>
Investing and financing activities not affecting cash		
Purchase of property and equipment by assuming short term liabilities	<u>\$ 902,120</u>	<u>\$ 374,353</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

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, 2015 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 \$2,190,698 and \$5,124,920 as of December 31, 2016 and 2015, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

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, 2016 and 2015, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

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 2016 and 2015, advertising costs were approximately \$47,415, and \$36,785, respectively, and are reported as advertising and promotional expenses on the consolidated statement of functional expense.

Income Taxes

The Organization has been recognized by the Internal Revenue Service as an organization that is exempt from income taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. It is however subject to tax on net unrelated business income. In accordance with FASB ASC No. 740, *Uncertainty in Income Taxes*, the Organization recognizes the impact of tax positions in the consolidated financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The Organization has evaluated its tax positions for the open tax years of 2012 through 2016 for federal tax purposes and 2011 through 2016 for California tax purposes. As of December 31, 2016, the Organization has determined that there are no other material uncertain tax positions that require recognition or disclosure in the consolidated financial statements or which may have an effect on its tax exempt status nor is material change to uncertain tax positions anticipated during 12 months following December 31, 2016.

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, 2016 and 2015, it is possible that actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

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 ending December 31, 2017, with early adoption permitted. The Organization is in the process of evaluating the impact of this standard on its operations.

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 annual reporting periods beginning after December 15, 2018.

The Organization is in the process of evaluating the impact of this standard on its operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

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:
 - o Amounts and purposes of governing board designations;
 - o Composition of net assets with donor restrictions and how the restrictions affect the use of resources;
 - o Qualitative information about how an NFP manages its liquid resources;
 - o Qualitative information about the availability of financial assets;
 - o Expenses in both their natural and functional classes;
 - o Description of cost allocation methods

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. |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

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	December 31, 2016				2015
	Level 1	Level 2	Level 3	Total	Total
Mutual funds / exchange traded funds:					
Equity - large cap domestic (a)	\$ -	\$ -	\$ -	\$ -	\$ 224,466
Equity - international (b)	2,380,800	-	-	2,380,800	2,408,659
Equity - emerging markets (c)	373,992	-	-	373,992	327,222
Equity - global (d)	2,794,607	-	-	2,794,607	2,630,494
Fixed income - domestic (e)	5,168,425	-	-	5,168,425	4,876,934
Fixed income - global (f)	2,184,790	-	-	2,184,790	2,043,427
Absolute return (g)	1,869,374	-	3,702,337	5,571,711	5,441,550
Cash and cash equivalents	124,349	-	-	124,349	150,047
Separately managed accounts:					
Equity - large cap domestic (h)	3,238,339	-	-	3,238,339	2,937,718
Equity - small-mid cap domestic (i)	532,978	-	-	532,978	230,634
Money market funds:	-	724,242	-	724,242	778,161
	18,667,654	724,242	3,702,337	23,094,233	22,049,312
Interest in land trust	-	-	1,211,000	1,211,000	1,200,000
Interest in limited liability company	-	-	314,500	314,500	630,000
	-	-	1,525,500	1,525,500	1,830,000
	<u>\$ 18,667,654</u>	<u>\$ 724,242</u>	<u>\$ 5,227,837</u>	<u>\$ 24,619,733</u>	<u>\$ 23,879,312</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

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 2016 and 2015.

- (a) Equity – large cap domestic - Comprised of mutual funds investing primarily in common stocks of U.S. companies with market capitalizations similar to companies in the Russell 3000 Index. The funds may invest up to 35% of assets in common stocks of non-U.S. companies with similar market capitalizations.
- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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.
- (f) 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.
- (g) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

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.

- (h) 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.
- (i) 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, 2016 and 2015. 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 \$3,702,337, and \$3,703,502 at December 31, 2016 and 2015, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 4 – INVESTMENTS – Continued

The 2016 and 2015 activity in alternative investments was as follows:

	2016	2015
Balance at the beginning of the year	\$ 3,703,502	\$ 1,564,726
Realized gains (losses)	-	-
Investment income, net	72,521	106,722
Unrealized gains (losses)	(65,191)	(314,640)
Additions (withdrawals)	(8,495)	2,346,694
Balance at the end of the year	<u>\$ 3,702,337</u>	<u>\$ 3,703,502</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 \$1,211,000 and \$1,200,000 at December 31, 2016 and 2015, 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, 2016, the capitalization rate is 5.86% and sinking fund rate is 1.96%, resulting in an Overall Rate (OAR) of 30.16%. At December 31, 2015, the capitalization rate is 7.83% and sinking fund rate is 1.7%, resulting in an Overall Rate (OAR) of 27.13%. Using these comparables and rates, the fair market value of the interest in the land trust was estimated to be \$314,500 and \$630,000 at December 31, 2016 and 2015, respectively.

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 4 – INVESTMENTS - Continued

The 2016 and 2015 activity in the land trust was as follows:

	2016	2015
Balance at the beginning of the year	\$ 1,200,000	\$ 1,068,000
Adjustment to fair value	11,000	132,000
Balance at the end of the year	<u>\$ 1,211,000</u>	<u>\$ 1,200,000</u>

The 2016 and 2015 activity in the limited liability company was as follows:

	2016	2015
Balance at the beginning of the year	\$ 630,000	\$ 537,000
Adjustment to fair value	(315,500)	93,000
Balance at the end of the year	<u>\$ 314,500</u>	<u>\$ 630,000</u>

Investment income (losses) and expenses consisted of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Interest and dividend income	\$ 393,614	\$ 527,654
(Loss) gain on sales of investments	(126,753)	302,087
Investment broker fees	(118,697)	(135,555)
Unrealized gains (losses) on investments	926,910	(1,769,638)
Unrealized (losses) gains on land trust and limited liability company	(304,500)	225,000
Total realized and unrealized investment gains (losses), net	<u>\$ 770,574</u>	<u>\$ (850,452)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

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, 2016 and 2015:

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
December 31, 2015			
	Fair value	Redemption frequency	Redemption notice period
Mutual funds / exchange traded funds:			
Absolute return	<u>\$ 3,703,502</u>	Daily	Daily
Money market funds	<u>\$ 778,161</u>	Daily	Daily

The Level 3 investments are not redeemable until they are sold.

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2016 and 2015 consist of the following amounts:

	2016	2015
Contributions due to Bakersfield House	\$ -	\$ 5,000
Capital campaign contributions due to Camp	199,162	340,083
Capital campaign contributions due to Long Beach House	144,595	91,095
Capital campaign contributions due to Inland Empire House	378,598	403,715
Capital campaign contributions due to Community Grants	375,000	750,000
Board		
Contributions receivable before adjustment to fair value	1,097,355	1,589,893
Less: adjustments to record contributions receivable at fair value		
Discount to present value	(10,302)	(21,868)
Allowance for uncollectible pledges	(27,440)	(43,380)
Total contributions receivable, net	<u>\$ 1,059,613</u>	<u>\$ 1,524,645</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 5 – CONTRIBUTIONS RECEIVABLE – Continued

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

Due in one year or less	\$ 797,789
Due in two to five years	297,066
Due thereafter	2,500
	<u>\$ 1,097,355</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, 2016 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, 2016 of approximately \$144,595 is scheduled to be received between 2017 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, 2016 the campaign has raised approximately \$7.9 million. The balance of pledges receivable at December 31, 2016 of approximately \$199,162 is scheduled to be received in 2017 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, 2016, the campaign has raised approximately \$4.9 million. The balance of pledges receivable at December 31, 2016 of approximately \$378,598 is scheduled to be received in between 2016 and 2023.

Over the years, the McDonald's Operators' Association of Southern California has contributed to the Organization's capital campaigns. As of December 2016, \$375,000 was recorded as a pledge receivable for future capital campaigns to be allocated as directed by the RMHCSC Board of Directors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 7 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment was comprised of the following at December 31, 2016 and 2015:

	2016	2015
Construction projects in progress	\$ 11,051,951	\$ 1,969,770
Land	5,205,554	5,205,554
Buildings and improvements	38,229,770	37,806,024
Furniture and fixtures	4,679,297	4,602,636
Transportation equipment	217,759	191,063
Less: accumulated depreciation	(18,615,216)	(17,128,431)
	<u>\$ 40,769,115</u>	<u>\$ 32,646,616</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$1,486,785 and \$1,395,094, 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 \$11,641 and \$10,442 for the years ended December 31, 2016 and 2015, respectively, and is included in in-kind contributions.

The Organization exercised its option to renew the lease from Loma Linda University. The option extends the lease for a five-year term which expired in May 2015 and was renewed for an additional five year term. The annual lease payment is \$1 per year. The fair market value of the rent was \$11,814 and \$16,712 for the years ended December 31, 2016 and 2015, respectively. The in-kind rent receivable was \$40,474 and \$52,288 at December 31, 2016 and 2015, respectively, and is recorded in in-kind and other receivables. The use of this property was no longer needed by the organization 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 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, 2016 and 2015. The in-kind rent receivable was \$1,155,375 and \$1,196,033 at December 31, 2016 and 2015, respectively, and is recorded in in-kind and other receivables.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

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 \$9,574 for the years ended December 31, 2016 and 2015. The in-kind lease receivable was \$4,541 and \$14,115 at December 31, 2016 and 2015, 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 2017 and 2019. Future minimum obligations are due as follows:

	<u>Operating Leases</u>
Due in 2017	\$ 20,452
Due in 2018	17,695
Due in 2019	3,127
	<u>\$ 41,274</u>

NOTE 9 – PROVISION FOR INCOME TAXES

The income tax provisions for the ESBT for the year ended December 31, 2016 were \$39,000 and \$9,000 for federal and state, respectively. For the year ended December 31, 2015, income tax provisions were \$25,000 and \$11,000 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 \$132,987 and \$109,957 in 2016 and 2015, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 11 – NET ASSETS

TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 and 2015 temporarily restricted net assets are available for the following purposes:

	2016	2015
Bakersfield operations	\$ 758,902	\$ 755,087
Los Angeles operations	-	100,000
Camp operations	12,018	6,994
Camp capital	555,977	350,000
Orange County operations	928,224	960,749
Inland Empire operations	506,737	1,010,993
Inland Empire capital	4,887,900	2,955,824
Pasadena operations	1,453,672	1,501,433
Pasadena emergency fund	27,221	27,221
Long Beach operations	1,544,892	1,290,502
Central Office – Couples Against Leukemia	598,947	531,493
Central Office – Capital	21,239	21,239
Grants Board – Operations	1,236,428	1,409,633
Grants Board – HACER	436,752	529,858
Grants Board – ASIA	113,725	87,725
Grants Board – Future Achievers	21,518	23,518
Grants Board capital	365,625	723,897
Total temporarily restricted net assets	<u>\$ 13,469,777</u>	<u>\$ 12,286,166</u>

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at December 31, 2016 and 2015 are held in perpetuity for the various locations:

	2016	2015
Los Angeles House	\$ 1,324,259	\$ 1,324,259
Camp Ronald McDonald for Good Times	441,566	439,116
Orange County House	2,161,645	2,161,645
Inland Empire House	12,400	12,400
Total permanently restricted net assets	<u>\$ 3,939,870</u>	<u>\$ 3,937,420</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

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, 2016, 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, 2016 and 2015 are as follows:

	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	-	(195,434)	-	(195,434)
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,939,870</u>	<u>\$ 3,969,870</u>

Ronald McDonald House Charities of Southern California

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 12 – ENDOWMENTS - Continued

	December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at December 31, 2014	\$ -	\$ -	\$ 3,915,023	\$ 3,915,023
Contributions	-	-	22,397	22,397
Investment income	-	86,813	-	86,813
Investment broker fees	-	(23,515)	-	(23,515)
Net realized and unrealized gains	-	(63,298)	-	(63,298)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,937,420</u>	<u>\$ 3,937,420</u>

All endowments at December 31, 2016 and 2015 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 1.72% to 2.94% in 2016, and was 2.02% as of December 31, 2016. The balance of the PLA was \$6,467,044 and \$2,928,494 at December 31, 2016 and 2015, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 14 – IN-KIND CONTRIBUTIONS AND EXPENSES

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

	2016	2015
Expenses for operations		
Advertising and promotion	\$ -	\$ 5,000
Automobile costs	-	8,283
Cleaning, gardening, housekeeping	19,020	18,835
Special event site fees	8,419	6,237
Equipment rental	-	4,768
Rent	19,721	69,613
Professional fees	128,579	100,520
Supplies	51,758	57,335
	<u>227,497</u>	<u>270,591</u>
Capital improvements		
Construction in progress	8,000	-
	<u>8,000</u>	<u>-</u>
Total in-kind contributions	<u>\$ 235,497</u>	<u>\$ 270,591</u>

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 2016 and 2015, the contribution from McDonald’s Corporation was \$785,070 and \$714,241, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 16 – SUBSEQUENT EVENTS

On July 13, 2017, the Organization entered into a seven-year interest rate swap agreement with Morgan Stanley Smith Barney in order to reduce exposure to floating interest rates on variable rate debt. The agreements have the effect of fixing the rate of interest on borrowings at approximately 3.33% for \$3,004,434 of the notes payable.

The Organization evaluated its December 31, 2016 financial statements for subsequent events through October 24, 2017, 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, 2016

	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	\$ -	\$ 282,334	\$ 59,299	\$ 267,405	-	\$ 799,077	\$ 328,894	\$ 546,075	\$ 532,986	\$ 2,816,070
Investments	5,132,716	591,194	1,884,598	6,582,263	4,738,107	991,791	1,192,001	1,791,664	1,715,399	24,619,733
Contributions receivable (net)	-	-	193,370	-	361,891	-	138,727	-	365,625	1,059,613
In-kind and other receivables	25,815	29,989	10,212	57,870	48,466	5,318	1,200,301	166,038	579,355	2,123,364
Prepaid expenses and other assets	43,715	3,635	41,795	21,909	17,155	15,093	18,707	46,348	-	208,357
Land, buildings and equipment (net)	12,893,344	20,629	10,318,559	1,575,285	12,423,710	33,357	3,450,169	54,062	-	40,769,115
Total assets	\$18,095,590	\$ 927,781	\$12,507,833	\$ 8,504,732	17,589,329	\$ 1,844,636	\$ 6,328,799	\$ 2,604,187	\$ 3,193,365	\$71,596,252
Liabilities										
Accounts payable and accrued expenses	\$ 147,773	\$ 38,718	\$ 92,041	\$ 79,574	1,075,179	\$ 58,410	\$ 61,612	\$ 280,715	\$ 12,224	\$ 1,846,246
Notes payables	2,977,456	-	-	-	3,489,588	-	-	-	-	6,467,044
Inter-entity payables (receivables)	88,154	(2,210)	97,582	(87,416)	747,015	(32,039)	(85,925)	(1,100,161)	375,000	-
	3,213,383	36,508	189,623	(7,842)	5,311,782	26,371	(24,313)	(819,446)	387,224	8,313,290
Net assets										
Unrestricted	13,557,948	132,372	11,308,649	5,422,705	6,870,510	337,372	4,808,220	2,803,446	632,093	45,873,315
Temporarily restricted	-	758,901	567,995	928,224	5,394,637	1,480,893	1,544,892	620,187	2,174,048	13,469,777
Permanently restricted	1,324,259	-	441,566	2,161,645	12,400	-	-	-	-	3,939,870
	14,882,207	891,273	12,318,210	8,512,574	12,277,547	1,818,265	6,353,112	3,423,633	2,806,141	63,282,962
Total liabilities and net assets	\$18,095,590	\$ 927,781	\$12,507,833	\$ 8,504,732	\$17,589,329	\$ 1,844,636	\$ 6,328,799	\$ 2,604,187	\$ 3,193,365	\$71,596,252

Ronald McDonald House Charities of Southern California

COMBINING SCHEDULE OF ACTIVITIES BY LOCATION

For the Year Ended December 31, 2016

	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	\$ 523,479	\$ 167,624	\$ 806,341	\$ 704,062	\$ 529,025	\$ 147,289	\$ 501,384	\$ 2,099,403	\$ 938,095	\$ 6,416,702
Capital campaign	-	-	205,977	-	1,932,076	-	-	-	-	2,138,053
In-kind contributions	16,622	11,641	119,242	29,454	15,498	5,087	29,953	-	-	227,497
Special event revenues	780,363	319,351	689,171	890,112	481,327	454,689	1,181,815	289,399	137,205	5,223,432
Special event expenses	(222,821)	(115,937)	(116,231)	(247,517)	(91,562)	(154,394)	(276,172)	(71,209)	(103,885)	(1,399,728)
	<u>557,542</u>	<u>203,414</u>	<u>572,940</u>	<u>642,595</u>	<u>389,765</u>	<u>300,295</u>	<u>905,643</u>	<u>218,190</u>	<u>33,320</u>	<u>3,823,704</u>
Realized investment gains, net	13,546	2,653	10,912	34,432	27,221	11,945	3,733	16,803	26,918	148,163
Unrealized investment gains	(152,275)	25,958	74,009	273,620	185,254	25,445	47,230	77,741	65,429	622,411
Program fees	82,412	2,014	-	26,970	67,819	10,589	32,263	-	-	222,067
Rental and other income	282,880	979	197,737	9,756	19,245	3,197	5,913	1,601	-	521,308
Inter-entity	<u>205,840</u>	<u>16,677</u>	<u>55,380</u>	<u>93,813</u>	<u>436,757</u>	<u>27,683</u>	<u>55,605</u>	<u>4,520</u>	<u>(896,275)</u>	<u>-</u>
Total revenues and support	<u>1,530,046</u>	<u>430,960</u>	<u>2,042,538</u>	<u>1,814,702</u>	<u>3,602,660</u>	<u>531,530</u>	<u>1,581,724</u>	<u>2,418,258</u>	<u>167,487</u>	<u>14,119,905</u>
Expenses										
Program expenses	2,131,568	308,842	1,753,429	859,169	1,221,252	434,559	900,126	865,423	310,403	8,784,771
Management and general	293,664	20,556	135,541	370,173	92,850	35,880	112,732	237,182	6,864	1,305,442
Fundraising	<u>309,382</u>	<u>51,480</u>	<u>295,897</u>	<u>206,265</u>	<u>184,263</u>	<u>40,582</u>	<u>193,573</u>	<u>727,941</u>	<u>186</u>	<u>2,009,569</u>
Total expenses	<u>2,734,614</u>	<u>380,878</u>	<u>2,184,867</u>	<u>1,435,607</u>	<u>1,498,365</u>	<u>511,021</u>	<u>1,206,431</u>	<u>1,830,546</u>	<u>317,453</u>	<u>12,099,782</u>
Change in net assets	(1,204,568)	50,082	(142,329)	379,095	2,104,295	20,509	375,293	587,712	(149,966)	2,020,123
Net assets - beginning	<u>16,086,775</u>	<u>841,191</u>	<u>12,460,539</u>	<u>8,133,479</u>	<u>10,173,252</u>	<u>1,797,756</u>	<u>5,977,819</u>	<u>2,835,921</u>	<u>2,956,107</u>	<u>61,262,839</u>
Net assets - ending	<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>