



Phoenix, Arizona

FINANCIAL STATEMENTS

Years Ended December 31, 2016 and 2015

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ronald McDonald House Charities of Phoenix, Inc.
Phoenix, Arizona

We have audited the accompanying financial statements of Ronald McDonald House Charities of Phoenix, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Phoenix, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the December 31, 2015 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Henry + Home, LLP

Tempe, Arizona
April 25, 2017

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 962,020	\$ 583,751
Accounts receivable	59,131	10,165
Promises to give, current portion	431,545	272,526
Prepaid expenses	<u>27,803</u>	<u>23,164</u>
TOTAL CURRENT ASSETS	1,480,499	889,606
PROMISES TO GIVE, net of current portion	-	13,001
INVESTMENTS	3,920,584	3,850,991
DONATED LAND USE RIGHTS, net	202,085	198,159
PROPERTY AND EQUIPMENT, net	<u>8,273,342</u>	<u>8,274,268</u>
TOTAL ASSETS	<u>\$ 13,876,510</u>	<u>\$ 13,226,025</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 59,929	\$ 24,230
Accrued expenses	36,393	22,457
Deferred revenue	<u>14,278</u>	<u>14,085</u>
TOTAL CURRENT LIABILITIES	<u>110,600</u>	<u>60,772</u>
TOTAL LIABILITIES	<u>110,600</u>	<u>60,772</u>
NET ASSETS		
Unrestricted:		
Undesignated	11,618,181	10,897,579
Board designated	<u>1,011,599</u>	<u>1,001,462</u>
Total unrestricted	12,629,780	11,899,041
Temporarily restricted	646,505	776,587
Permanently restricted	<u>489,625</u>	<u>489,625</u>
TOTAL NET ASSETS	<u>13,765,910</u>	<u>13,165,253</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,876,510</u>	<u>\$ 13,226,025</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 Years Ended December 31, 2016 and 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Contributions	\$ 1,968,594	\$ 331,684	\$ -	\$ 2,300,278
Donated materials and services	494,144	-	-	494,144
Program service revenues	439,306	-	-	439,306
Net assets released from restrictions	466,722	(466,722)	-	-
	<u>3,368,766</u>	<u>(135,038)</u>	<u>-</u>	<u>3,233,728</u>
Special events:				
Event contributions	246,020	-	-	246,020
Event income	418,412	-	-	418,412
Less direct donor benefits	(153,480)	-	-	(153,480)
	<u>510,952</u>	<u>-</u>	<u>-</u>	<u>510,952</u>
TOTAL SUPPORT AND REVENUE	<u>3,879,718</u>	<u>(135,038)</u>	<u>-</u>	<u>3,744,680</u>
EXPENSES				
Program services	2,307,668	-	-	2,307,668
Management and general	147,084	-	-	147,084
Fundraising	660,706	-	-	660,706
TOTAL EXPENSES	<u>3,115,458</u>	<u>-</u>	<u>-</u>	<u>3,115,458</u>
Unallocated payments to RMHC Global	<u>97,285</u>	<u>-</u>	<u>-</u>	<u>97,285</u>
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	<u>666,975</u>	<u>(135,038)</u>	<u>-</u>	<u>531,937</u>
NONOPERATING ACTIVITIES				
Investment income (loss)	161,178	4,956	-	166,134
Loss on disposal of assets	(97,414)	-	-	(97,414)
TOTAL NONOPERATING ACTIVITIES	<u>63,764</u>	<u>4,956</u>	<u>-</u>	<u>68,720</u>
CHANGE IN NET ASSETS	<u>730,739</u>	<u>(130,082)</u>	<u>-</u>	<u>600,657</u>
NET ASSETS, BEGINNING OF YEAR	<u>11,899,041</u>	<u>776,587</u>	<u>489,625</u>	<u>13,165,253</u>
NET ASSETS, END OF YEAR	<u>\$ 12,629,780</u>	<u>\$ 646,505</u>	<u>\$ 489,625</u>	<u>\$ 13,765,910</u>

*Reclassified to conform to current year presentation.

2015*			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,455,504	\$ 324,370	\$ -	\$ 1,779,874
405,760	-	-	405,760
89,405	-	-	89,405
460,409	(460,409)	-	-
2,411,078	(136,039)	-	2,275,039
178,569	-	-	178,569
384,184	-	-	384,184
(142,183)	-	-	(142,183)
420,570	-	-	420,570
2,831,648	(136,039)	-	2,695,609
2,230,942	-	-	2,230,942
170,724	-	-	170,724
617,505	-	-	617,505
3,019,171	-	-	3,019,171
94,263	-	-	94,263
(281,786)	(136,039)	-	(417,825)
(73,227)	-	-	(73,227)
-	-	-	-
(73,227)	-	-	(73,227)
(355,013)	(136,039)	-	(491,052)
12,254,054	912,626	489,625	13,656,305
<u>\$ 11,899,041</u>	<u>\$ 776,587</u>	<u>\$ 489,625</u>	<u>\$ 13,165,253</u>

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
 STATEMENTS OF FUNCTIONAL EXPENSES
 Years Ended December 31, 2016 and 2015

	2016				
	Program Services	Management and General	Fundraising Activities	Direct Donor Benefits	Total
Personnel costs					
Salaries and wages	\$ 645,370	\$ 98,446	\$ 350,031	\$ -	\$ 1,093,847
Employee benefits	83,738	12,774	45,417	-	141,929
Payroll taxes	47,115	7,187	25,554	-	79,856
Total personnel costs	776,223	118,407	421,002	-	1,315,632
In-kind donations for families:					
Donated repairs and cleaning services	154,088	-	-	-	154,088
Donated meals and supplies	225,895	-	-	-	225,895
Donated utilities	25,000	-	-	-	25,000
Scholarships	242,757	-	-	-	242,757
Occupancy	52,148	538	1,075	-	53,760
Maintenance	274,956	5,401	15,079	-	295,436
Telephone	20,508	211	423	-	21,142
Canister expenses	-	-	76,695	-	76,695
Other fundraising expenses	-	-	34,790	-	34,790
Volunteer expenses	-	-	162	-	162
House supplies and expenses	15,491	-	-	-	15,491
Professional services	-	15,076	-	-	15,076
Printing and publications	12,730	131	262	-	13,123
Insurance	21,555	221	444	-	22,220
Office supplies	16,350	170	337	-	16,857
Transportation, travel and meetings	11,382	1,736	6,173	-	19,291
Bank and credit card fees	18,802	193	388	-	19,383
Bad debt expense	1,758	-	-	-	1,758
Special event - professional fees	-	-	22,297	-	22,297
Special event - audio and miscellaneous	-	-	35,879	-	35,879
Golf tournament - services and miscellaneous	-	-	34,836	-	34,836
Cost of meals	-	-	-	115,339	115,339
Entertainment	-	-	-	38,141	38,141
Depreciation	401,320	4,136	8,275	-	413,731
Other expenses	36,705	865	2,590	-	40,160
Total expenses	2,307,668	147,084	660,706	153,480	3,268,938
Less expenses included with support and revenue in statements of activities	-	-	-	(153,480)	(153,480)
	<u>\$ 2,307,668</u>	<u>\$ 147,084</u>	<u>\$ 660,706</u>	<u>\$ -</u>	<u>\$ 3,115,458</u>

*Reclassified to conform to current year presentation.

2015*				
Program Services	Management and General	Fundraising Activities	Direct Donor Benefits	Total
\$ 590,662	\$ 90,101	\$ 320,359	\$ -	\$ 1,001,122
72,699	11,090	39,430	-	123,219
50,271	7,668	27,266	-	85,205
713,632	108,859	387,055	-	1,209,546
141,746	-	-	-	141,746
239,014	-	-	-	239,014
25,000	-	-	-	25,000
204,467	-	-	-	204,467
50,733	522	1,046	-	52,301
257,580	6,707	20,171	-	284,458
22,433	231	463	-	23,127
-	-	77,963	-	77,963
-	-	31,451	-	31,451
-	-	202	-	202
16,907	-	-	-	16,907
-	15,125	-	-	15,125
13,870	143	286	-	14,299
20,735	213	428	-	21,376
13,329	138	275	-	13,742
9,158	1,397	4,967	-	15,522
8,128	83	168	-	8,379
4,000	-	-	-	4,000
-	-	16,948	-	16,948
-	-	36,629	-	36,629
-	-	28,195	-	28,195
-	-	-	107,426	107,426
-	-	-	34,757	34,757
462,063	4,763	9,527	-	476,353
28,147	32,543	1,731	-	62,421
2,230,942	170,724	617,505	142,183	3,161,354
-	-	-	(142,183)	(142,183)
<u>\$ 2,230,942</u>	<u>\$ 170,724</u>	<u>\$ 617,505</u>	<u>\$ -</u>	<u>\$ 3,019,171</u>

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
 STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 600,657	\$ (491,052)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	413,731	476,353
Bad debt expense	1,758	4,000
Loss on disposal of assets	97,414	31,727
Donation of furniture, equipment and building improvements	(89,161)	-
Net realized/unrealized (gain) loss on investments	(131,457)	109,864
Change in value of donated land use rights	(3,926)	(3,872)
Decrease (increase) in:		
Accounts receivable	(50,724)	(2,979)
Promises to give	(146,018)	163,674
Prepaid expenses	(4,639)	(12,333)
Decrease (increase) in:		
Accounts payable	35,699	(152,411)
Accrued expenses	13,936	(1,128)
Deferred revenue	193	3,471
	<u>737,463</u>	<u>125,314</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
	<u>737,463</u>	<u>125,314</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,388,160)	(233,277)
Proceeds from sales of investments	2,450,024	79,127
Purchases of property and equipment	(421,058)	(144,418)
	<u>(359,194)</u>	<u>(298,568)</u>
NET CASH USED IN INVESTING ACTIVITIES		
	<u>(359,194)</u>	<u>(298,568)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	378,269	(173,254)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>583,751</u>	<u>757,005</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 962,020</u>	<u>\$ 583,751</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Operations

Ronald McDonald House Charities of Phoenix (RMHC) is a welcoming home away from home for families with children facing medical challenges, providing an atmosphere of comfort, hope and courage. Since 1985, the Ronald McDonald House has been providing a loving “home away from home” for families. Managed by a volunteer community board and over 50 house volunteers, the house is a peaceful respite for families from the noise, machines, confusion, and stress of the hospital. The families will find private bedrooms, an outdoor playground and indoor playroom, and a large kitchen with dining room and laundry facilities. In addition to providing housing, another benefit of staying at Ronald McDonald House is being able to interact with the other families who are going through the same experiences. Ronald McDonald House is the cornerstone program of RMHC, and is able to provide assistance to 79 families every night.

In addition to providing a home away from home, RMHC, with support from Global Ronald McDonald House Charities, McDonald’s and McDonald’s restaurants, also offers scholarships to students from the local area who face limited access to educational and career opportunities. These scholarships are part of RMHC’s ongoing commitment to education.

Basis of Presentation

RMHC reports information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions.

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, RMHC considers all highly liquid debt instruments with an original maturity of three months or less at date of acquisition to be cash equivalents. Cash and money market funds held in investment accounts are included as investments instead of cash as they are considered to be part of the investment pool.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Accounts Receivable

Accounts receivable from program services are stated at the amount management expects to collect from outstanding balances. Accounts receivable are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. Management evaluates the collectability of its accounts receivable based on a combination of factors, including an assessment of the current status of individual balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Management considers accounts receivable at December 31, 2016 and 2015 to be fully collectible and, accordingly, an allowance has not been recorded.

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contributions. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, RMHC records a specific reserve to reduce the amounts recorded to what it believes will be collected. Promises are charged off against the allowance when they are deemed to be uncollectible. Management considers promises to give at December 31, 2016 and 2015 to be fully collectible and, accordingly, an allowance has not been recorded.

Fair Value Measurements

Accounting Standards establish a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Fair Value Measurements (Continued)

The three levels of the fair value hierarchy are as follows:

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

Level 2 Inputs to the valuation methodology include:

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

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

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect RMHC's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments

Investments are measured at fair value in the statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) are recognized in the statements of activities and changes in net assets.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Risks and Uncertainty

RMHC invests in various types of investments which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amount reported in the statements of financial position.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

RMHC reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

Endowment Funds

RMHC's endowments consist of one board designated fund and one donor restricted fund. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Income from the endowment fund assets can be used to support general activities of RMHC.

RMHC follows Arizona's Management of Charitable Funds Act (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds when a donor's intent is not expressed. MCFA directs RMHC to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the fund continues in perpetuity.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Endowment Funds (Continued)

RMHC classifies in permanently restricted funds (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by RMHC's Board.

In accordance with MCFA, RMHC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) RMHC's other resources, and (7) RMHC's investment policies.

Return Objectives, Risk Parameters and Spending Policy. RMHC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowments while also maintaining the purchasing power of those endowment assets over the long term. The endowment assets are invested in a manner that is intended to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility is tolerated in as much as it is consistent with the volatility of a comparable market index.

Spending Policy. RMHC has a policy of annually appropriating for distribution 5% of its endowment funds average fair value of the 12 month period ending the previous September 30. However, RMHC's policy is to limit spending from the donor restricted endowment as to not cause the fund to fall below the original permanently restricted contribution amount. In establishing this policy, RMHC considered the long-term expected return on its investments, the nature and duration of the individual endowment funds, and the possible effects of inflation. RMHC expects the current spending policy to allow its endowment funds to grow over time.

Revenue Recognition for Program Services

RMHC recognizes program service fees from contracts, primarily with health insurance providers, when services are rendered.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Contributions

Contributions and grants, including promises to give, are received and recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. If a restriction is released in the same period in which the contribution is received, the amount is reported as unrestricted.

Donated Services and Materials

Donated materials and other non-cash assets are recorded at fair value in the period received. Donated services are recorded at their estimated fair value if they enhance RMHC's nonfinancial assets or require specialized skills that RMHC would normally purchase if not provided by donation. No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under the generally accepted accounting principle guidelines; however, a substantial number of volunteers have donated significant amounts of their time to RMHC's program services and fund-raising campaigns.

Functional Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The costs are generally based on personnel activity or square footage.

Income Tax Status

RMHC qualifies as a tax exempt organization under Section 501(c)(3) of Internal Revenue Code (the Code), and accordingly, there is no provision for corporate income taxes in the accompanying financial statements. In addition, RMHC qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Income Tax Status (Continued)

RMHC recognizes uncertain tax positions in the financial statements when it is more-likely-than-not the positions will not be sustained upon examination by the tax authorities. At December 31, 2016 and 2015, RMHC had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

RMHC recognizes interest and penalties associated with income taxes in operating expenses. During the years ended December 31, 2016 and 2015, RMHC did not have any income tax related interest or penalty expense.

Management's Use of Estimates

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

Date of Management's Review

In preparing these financial statements, RMHC has evaluated events and transactions for potential recognition or disclosure through April 25, 2017, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATION OF CREDIT RISK

Financial instruments that subject RMHC to potential concentrations of credit risk consist principally of cash and cash equivalents and promises to give. RMHC maintains its cash in bank accounts with financial institutions which at times may exceed federally insured limits. At December 31, 2016 and 2015, RMHC's bank balances exceeded federally insured limits by approximately \$721,000 and \$410,000, respectively. RMHC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016 and 2015

NOTE 2 CONCENTRATION OF CREDIT RISK (Continued)

Gross promises to give at December 31, 2016 include amounts from one donor which make up 14% of total gross promises to give. Gross promises to give at December 31, 2015 include amounts from two donors which make up 27% of total gross promises to give. Concentrations of credit risk with respect to these promises to give are limited due to the collection history and relationships with these donors.

NOTE 3 PROMISES TO GIVE

Promises to give consist of the following unconditional promises to give at December 31:

	<u>2016</u>	<u>2015</u>
Capital campaign promises to give due in less than one year	\$ 5,800	\$ 30,515
Other promises to give due in less than one year	425,745	242,011
Capital campaign promises to give due in two to five years	-	3,001
Other promises to give due in two to five years	<u>-</u>	<u>10,000</u>
Total promises to give	<u>\$ 431,545</u>	<u>\$ 285,527</u>

NOTE 4 INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Cash and short term investments	\$ 226,549	\$ 205,635
Equity securities	613,918	823,060
Fixed income securities	1,573,937	1,297,834
Commodities	-	33,375
Funds held with ACF	<u>1,506,180</u>	<u>1,491,087</u>
Total investments	<u>\$ 3,920,584</u>	<u>\$ 3,850,991</u>

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 4 INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Investment return includes income/losses on the endowment funds (Note 8) as well as income/losses on other unrestricted investments. Investment return is summarized as follows for the year ended December 31:

	2016	2015
Interest and dividends	\$ 54,645	\$ 64,509
Realized gain	270,484	78,835
Unrealized loss	(139,027)	(188,699)
Investment fees	(19,968)	(27,872)
Investment return	<u>\$ 166,134</u>	<u>\$ (73,227)</u>

The following table presents assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of December 31:

	2016			
	Level 1	Level 2	Level 3	Total
Cash and short term investments	\$ 226,549	\$ -	\$ -	\$ 226,549
Equity securities	613,918	-	-	613,918
Fixed income securities	1,573,937	-	-	1,573,937
Funds held with ACF	-	-	1,506,180	1,506,180
	<u>\$ 2,414,404</u>	<u>\$ -</u>	<u>\$ 1,506,180</u>	<u>\$ 3,920,584</u>
	2015			
	Level 1	Level 2	Level 3	Total
Cash and short term investments	\$ 205,635	\$ -	\$ -	\$ 205,635
Equity securities	823,060	-	-	823,060
Fixed income securities	1,297,834	-	-	1,297,834
Commodities	33,375	-	-	33,375
Funds held with ACF	-	-	1,491,087	1,491,087
	<u>\$ 2,359,904</u>	<u>\$ -</u>	<u>\$ 1,491,087</u>	<u>\$ 3,850,991</u>

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
 NOTES TO FINANCIAL STATEMENTS
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NOTE 4 INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Investments with readily determinable fair values are measured at fair value in the statements of financial position as determined by quoted market prices in active markets (Level 1). Investments in funds held with Arizona Community Foundation (ACF) are valued based on the fair value of the underlying assets held by ACF and RMHC's percentage interest in ACF's investments (Level 3).

The following is a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended December 31, 2016 and 2015.

Balance, December 31, 2014	\$ 1,599,627
Realized and unrealized losses	(30,563)
Interest and dividends	15,308
Investment fees	(14,158)
Distribution from fund	<u>(79,127)</u>
Balance, December 31, 2015	1,491,087
Realized and unrealized gains	93,039
Interest and dividends	14,143
Investment fees	(13,989)
Distribution from fund	<u>(78,100)</u>
Balance, December 31, 2016	<u>\$ 1,506,180</u>

NOTE 5 DONATED LAND USE RIGHTS

In March 2007, RMHC received a donation of a right to the use of land for 99 years. This donated right to the use of land was donated to RMHC for the purpose of constructing and operating a housing unit on the campus of Phoenix Children's Hospital. During the year ended December 31, 2014, RMHC received another donation of a right to use of land and building space for 99 years. The donated right to use of land and building space was donated for the purpose of constructing and operating a housing unit on the Banner Desert Hospital campus. These donated land use rights assets are recorded at the net present value of estimated future benefits to be received at a discount rate of 3%.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016 and 2015

NOTE 5 DONATED LAND USE RIGHTS (Continued)

The annual lease expense recognized in relation to these two donations is approximately \$36,000. The annual amortization expense of the discounts is approximately \$40,000. The promise to give of donated land use rights as of December 31, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Donated land and building use rights	\$ 3,339,250	\$ 3,375,500
Unamortized discount	<u>(3,137,165)</u>	<u>(3,177,341)</u>
	<u>\$ 202,085</u>	<u>\$ 198,159</u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 636,182	\$ 636,182
Buildings and improvements	11,357,694	11,081,621
Furniture and equipment	691,508	665,864
Vehicles	<u>31,730</u>	<u>31,730</u>
	12,717,114	12,415,397
Accumulated depreciation	<u>(4,444,787)</u>	<u>(4,144,468)</u>
	8,272,327	8,270,929
Construction in progress	<u>1,015</u>	<u>3,339</u>
	<u>\$ 8,273,342</u>	<u>\$ 8,274,268</u>

Depreciation expense was \$413,731 and \$476,353 for the years ended December 31, 2016 and 2015, respectively.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Time and purpose restricted:		
Donated land use rights	\$ 202,085	\$ 198,159
Promises to give		
Capital campaign pledges	5,800	33,516
Scholarships	11,800	-
Time restricted:		
Investment income on perpetual endowment funds subject to a time restriction under MCFA	4,956	-
Purpose restricted:		
Scholarships	421,864	394,912
Cardon House operating expenses for 2015	-	150,000
	<u>\$ 646,505</u>	<u>\$ 776,587</u>

NOTE 8 ENDOWMENT FUNDS

Endowments consist of one fund restricted in perpetuity by a donor and a board designated fund. Endowment net asset composition by type of fund at December 31, 2016 and 2015 are as follows:

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 4,956	\$ 489,625	\$ 494,581
Board-designated	<u>1,011,599</u>	<u>-</u>	<u>-</u>	<u>1,011,599</u>
	<u>\$ 1,011,599</u>	<u>\$ 4,956</u>	<u>\$ 489,625</u>	<u>\$ 1,506,180</u>

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016 and 2015

NOTE 8 ENDOWMENT FUNDS (Continued)

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted	\$ -	\$ -	\$ 489,625	\$ 489,625
Board-designated	1,001,462	-	-	1,001,462
	<u>\$ 1,001,462</u>	<u>\$ -</u>	<u>\$ 489,625</u>	<u>\$ 1,491,087</u>

Changes in endowment funds for the years ended December 31, 2016 and 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at December 31, 2014	\$ 1,110,002	\$ -	\$ 489,625	\$ 1,599,627
Interest and dividends	-	15,308	-	15,308
Net realized and unrealized losses	(29,413)	(1,150)	-	(30,563)
Investment fees	-	(14,158)	-	(14,158)
Amounts appropriated for expenditure	(79,127)	-	-	(79,127)
Balance at December 31, 2015	1,001,462	-	489,625	1,491,087
Interest and dividends	9,499	4,644	-	14,143
Net realized and unrealized gains	62,488	30,551	-	93,039
Investment fees	(9,395)	(4,594)	-	(13,989)
Amounts appropriated for expenditure	(52,455)	(25,645)	-	(78,100)
Balance at December 31, 2016	<u>\$ 1,011,599</u>	<u>\$ 4,956</u>	<u>\$ 489,625</u>	<u>\$ 1,506,180</u>

NOTE 9 RETIREMENT PLAN

RMHC sponsors a 401(k) retirement plan ("the Plan") on behalf of employees. Employees are eligible to participate in the plan upon completion of 1,000 hours worked or one year of continuous employment, whichever comes first, and can contribute to the Plan up to the maximum allowed. RMHC will match employee contributions up to 4% of each eligible employee's salary upon eligibility. Contribution expense under the Plan was \$35,304 and \$29,485 during the years ended December 31, 2016 and 2015, respectively.

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 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016 and 2015

NOTE 10 PAYMENTS TO AFFILIATES

Certain fundraising promotions are subject to a 25% allocation to Ronald McDonald House Charities Global (Global). Reporting and remittance of amounts owed are due on a quarterly basis. During the years ended December 31, 2016 and 2015, RMHC remitted a total of \$97,285 and \$94,263 to Global, respectively.

NOTE 11 DONATED MATERIALS AND SERVICES

Donated materials and services consist of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Equipment and supplies	\$ 66,741	\$ 58,371
House and room improvements	27,300	28,197
Meals for families	123,449	108,287
Entertainment and airline tickets for families	35,705	72,356
Professional services	126,788	113,549
Utilities	25,000	25,000
House improvements	<u>89,161</u>	<u>-</u>
Total donated materials and services	<u>\$ 494,144</u>	<u>\$ 405,760</u>

Professional services include landscaping, pest control and various maintenance services provided for the housing facilities as well as services related to special events.

NOTE 12 RESTATEMENT

During the year ended December 31, 2016 management discovered that certain promises to give as of December 31, 2015 and 2014 that had no time or purpose restriction were misclassified as temporarily restricted net assets. As a result of this discovery, the December 31, 2015 net asset class balances have been restated and contributions for December 31, 2015 have been reclassified from temporarily restricted net assets to unrestricted net assets. Additionally, the net asset class balances for the year ended December 31, 2014 were also restated. There was no effect on the change in net assets for the years ended December 31, 2016 and 2015.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016 and 2015

NOTE 12 RESTATEMENT (Continued)

The effect of the restatement on the December 31, 2015 and 2014 balances are as follows:

	<u>As previously reported</u>	<u>Restated</u>	<u>Difference</u>
Contributions:			
Unrestricted	\$ 1,203,493	\$ 1,455,504	\$ 252,011
Temporarily Restricted	\$ 576,381	\$ 324,370	\$ (252,011)
Net assets released from restrictions:			
Unrestricted	\$ 651,293	\$ 460,409	\$ (190,884)
Temporarily Restricted	\$ (651,293)	\$ (460,409)	\$ 190,884
Change in net assets:			
Unrestricted	\$ (416,140)	\$ (355,013)	\$ 61,127
Temporarily Restricted	\$ (74,912)	\$ (136,039)	\$ (61,127)
Net assets at December 31, 2014:			
Unrestricted	\$ 12,063,170	\$ 12,254,054	\$ 190,884
Temporarily Restricted	\$ 1,103,510	\$ 912,626	\$ (190,884)
Net assets at December 31, 2015:			
Unrestricted	\$ 11,647,030	\$ 11,899,041	\$ 252,011
Temporarily Restricted	\$ 1,028,598	\$ 776,587	\$ (252,011)