



RMHC[®]
Central & Northern
Arizona

Phoenix, Arizona

FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ronald McDonald House Charities of Central and Northern Arizona
Phoenix, Arizona

We have audited the accompanying financial statements of Ronald McDonald House Charities of Central and Northern Arizona (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, 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 Central and Northern Arizona as of December 31, 2017 and 2016, 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 13 to the financial statements, the December 31, 2016 financial statements have been restated. Our opinion is not modified with respect to this matter.

Henry + Home, LLP

Tempe, Arizona
July 18, 2018

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2017 and 2016(Restated)

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 872,440	\$ 962,020
Accounts receivable	31,036	59,131
Promises to give, current portion	389,214	431,545
Prepaid expenses	<u>6,493</u>	<u>27,803</u>
TOTAL CURRENT ASSETS	1,299,183	1,480,499
PROMISES TO GIVE, net of current portion	25,000	-
INVESTMENTS	5,427,153	3,920,584
DONATED LAND USE RIGHTS, net	206,057	202,085
PROPERTY AND EQUIPMENT, net	<u>8,054,337</u>	<u>8,273,342</u>
TOTAL ASSETS	<u>\$ 15,011,730</u>	<u>\$ 13,876,510</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 31,733	\$ 59,929
Accrued expenses	-	36,393
Deferred revenue	<u>14,895</u>	<u>14,278</u>
TOTAL CURRENT LIABILITIES	<u>46,628</u>	<u>110,600</u>
TOTAL LIABILITIES	<u>46,628</u>	<u>110,600</u>
NET ASSETS		
Unrestricted:		
Undesignated	12,793,211	11,725,312
Board designated	<u>1,098,583</u>	<u>1,011,599</u>
Total unrestricted	13,891,794	12,736,911
Temporarily restricted	583,683	539,374
Permanently restricted	<u>489,625</u>	<u>489,625</u>
TOTAL NET ASSETS	<u>14,965,102</u>	<u>13,765,910</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,011,730</u>	<u>\$ 13,876,510</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 Years Ended December 31, 2017 and 2016(Restated)

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Contributions	\$ 2,249,907	\$ 302,108	\$ -	\$ 2,552,015	\$ 1,968,594	\$ 331,684	\$ -	\$ 2,300,278
Donated materials and services	387,171	-	-	387,171	494,144	-	-	494,144
Program service revenues	571,772	-	-	571,772	439,306	-	-	439,306
Net assets released from restrictions	300,327	(300,327)	-	-	466,722	(466,722)	-	-
	<u>3,509,177</u>	<u>1,781</u>	<u>-</u>	<u>3,510,958</u>	<u>3,368,766</u>	<u>(135,038)</u>	<u>-</u>	<u>3,233,728</u>
Special events:								
Event contributions	378,281	-	-	378,281	246,020	-	-	246,020
Event income	389,964	-	-	389,964	418,412	-	-	418,412
Less direct donor benefits	(161,131)	-	-	(161,131)	(153,480)	-	-	(153,480)
	<u>607,114</u>	<u>-</u>	<u>-</u>	<u>607,114</u>	<u>510,952</u>	<u>-</u>	<u>-</u>	<u>510,952</u>
TOTAL SUPPORT AND REVENUE	<u>4,116,291</u>	<u>1,781</u>	<u>-</u>	<u>4,118,072</u>	<u>3,879,718</u>	<u>(135,038)</u>	<u>-</u>	<u>3,744,680</u>
EXPENSES								
Program services	2,380,492	-	-	2,380,492	2,307,668	-	-	2,307,668
Management and general	160,434	-	-	160,434	147,084	-	-	147,084
Fundraising	729,092	-	-	729,092	660,706	-	-	660,706
TOTAL EXPENSES	<u>3,270,018</u>	<u>-</u>	<u>-</u>	<u>3,270,018</u>	<u>3,115,458</u>	<u>-</u>	<u>-</u>	<u>3,115,458</u>
Unallocated payments to RMHC Global	71,173	-	-	71,173	97,285	-	-	97,285
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	<u>775,100</u>	<u>1,781</u>	<u>-</u>	<u>776,881</u>	<u>666,975</u>	<u>(135,038)</u>	<u>-</u>	<u>531,937</u>
NONOPERATING ACTIVITIES								
Investment income	379,783	42,528	-	422,311	161,178	4,956	-	166,134
Loss on disposal of assets	-	-	-	-	(97,414)	-	-	(97,414)
TOTAL NONOPERATING ACTIVITIES	<u>379,783</u>	<u>42,528</u>	<u>-</u>	<u>422,311</u>	<u>63,764</u>	<u>4,956</u>	<u>-</u>	<u>68,720</u>
CHANGE IN NET ASSETS	<u>1,154,883</u>	<u>44,309</u>	<u>-</u>	<u>1,199,192</u>	<u>730,739</u>	<u>(130,082)</u>	<u>-</u>	<u>600,657</u>
NET ASSETS, BEGINNING OF YEAR, RESTATED	<u>12,736,911</u>	<u>539,374</u>	<u>489,625</u>	<u>13,765,910</u>	<u>12,006,172</u>	<u>669,456</u>	<u>489,625</u>	<u>13,165,253</u>
NET ASSETS, END OF YEAR	<u>\$ 13,891,794</u>	<u>\$ 583,683</u>	<u>\$ 489,625</u>	<u>\$ 14,965,102</u>	<u>\$ 12,736,911</u>	<u>\$ 539,374</u>	<u>\$ 489,625</u>	<u>\$ 13,765,910</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF FUNCTIONAL EXPENSES
 Years Ended December 31, 2017 and 2016

	2017					2016				
	Program Services	Management and General	Fundraising Activities	Direct Donor Benefits	Total	Program Services	Management and General	Fundraising Activities	Direct Donor Benefits	Total
Personnel costs										
Salaries and wages	\$ 705,458	\$ 107,612	\$ 382,621	\$ -	\$ 1,195,691	\$ 645,370	\$ 98,446	\$ 350,031	\$ -	\$ 1,093,847
Employee benefits	85,453	13,035	46,347	-	144,835	83,738	12,774	45,417	-	141,929
Payroll taxes	53,913	8,224	29,241	-	91,378	47,115	7,187	25,554	-	79,856
Total personnel costs	844,824	128,871	458,209	-	1,431,904	776,223	118,407	421,002	-	1,315,632
In-kind donations for families:										
Repairs and cleaning services	68,325	-	-	-	68,325	154,088	-	-	-	154,088
Meals and supplies	244,029	-	-	-	244,029	225,895	-	-	-	225,895
Utilities	25,200	-	-	-	25,200	25,000	-	-	-	25,000
Scholarships	232,876	-	-	-	232,876	242,757	-	-	-	242,757
Occupancy	55,241	570	1,139	-	56,950	52,148	537	1,075	-	53,760
Maintenance	279,406	6,570	19,352	-	305,328	274,956	5,401	15,079	-	295,436
Telephone	20,059	207	414	-	20,680	20,508	211	423	-	21,142
Canister expenses	-	-	56,588	-	56,588	-	-	76,695	-	76,695
Other fundraising expenses	-	-	46,251	-	46,251	-	-	34,789	-	34,789
Volunteer expenses	-	-	3,203	-	3,203	-	-	162	-	162
House supplies and expenses	16,291	-	-	-	16,291	15,491	-	-	-	15,491
Professional services	2,737	15,603	56	-	18,396	-	15,076	-	-	15,076
Printing and publications	16,126	166	332	-	16,624	12,730	131	262	-	13,123
Insurance	26,087	268	538	-	26,893	21,555	221	444	-	22,220
Office supplies	12,160	126	251	-	12,537	16,350	170	337	-	16,857
Transportation, travel and meetings	4,481	684	2,430	-	7,595	11,382	1,736	6,173	-	19,291
Bank and credit card fees	30,983	319	639	-	31,941	18,802	193	388	-	19,383
Bad debt expense	-	-	-	-	-	1,758	-	-	-	1,758
Special event - professional fees	-	-	14,588	-	14,588	-	-	22,297	-	22,297
Special event - audio and miscellaneous	-	-	76,201	-	76,201	-	-	35,879	-	35,879
Golf tournament - services and miscellaneous	-	-	31,650	-	31,650	-	-	34,836	-	34,836
Cost of meals	-	-	-	121,262	121,262	-	-	-	115,339	115,339
Entertainment	-	-	-	39,869	39,869	-	-	-	38,141	38,141
Depreciation	460,777	4,750	9,501	-	475,028	401,320	4,136	8,275	-	413,731
Other expenses	40,890	2,300	7,750	-	50,940	36,705	865	2,590	-	40,160
Total expenses	2,380,492	160,434	729,092	161,131	3,431,149	2,307,668	147,084	660,706	153,480	3,268,938
Less expenses included with support and revenue in statements of activities	-	-	-	(161,131)	(161,131)	-	-	-	(153,480)	(153,480)
	<u>\$ 2,380,492</u>	<u>\$ 160,434</u>	<u>\$ 729,092</u>	<u>\$ -</u>	<u>\$ 3,270,018</u>	<u>\$ 2,307,668</u>	<u>\$ 147,084</u>	<u>\$ 660,706</u>	<u>\$ -</u>	<u>\$ 3,115,458</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,199,192	\$ 600,657
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	475,028	413,731
Bad debt expense	-	1,758
Loss on disposal of assets	-	97,414
Donation of furniture, equipment and building improvements	(49,617)	(89,161)
Net realized/unrealized (gain) loss on investments	(303,137)	(131,457)
Change in value of donated land use rights	(3,972)	(3,926)
Decrease (increase) in:		
Accounts receivable	28,095	(50,724)
Promises to give	17,331	(146,018)
Prepaid expenses	21,310	(4,639)
Increase (decrease) in:		
Accounts payable	(28,196)	35,699
Accrued expenses	(36,393)	13,936
Deferred revenue	617	193
	<u>1,320,258</u>	<u>737,463</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,269,133)	(2,388,160)
Proceeds from sales of investments	65,700	2,450,024
Purchases of property and equipment	<u>(206,405)</u>	<u>(421,058)</u>
	<u>(1,409,838)</u>	<u>(359,194)</u>
NET CASH USED IN INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(89,580)</u>	<u>378,269</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>962,020</u>	<u>583,751</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 872,440</u>	<u>\$ 962,020</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Operations

Ronald McDonald House Charities of Central and Northern Arizona (RMHC), formerly known as Ronald McDonald House Charities of Phoenix, 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 78 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.

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 CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016 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, 2017 and 2016 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 CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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 in equities and securities 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 CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

Investments (Continued)

The Organization invests all of the endowments in an investment pool which is managed by Arizona Community Foundation (ACF). Investments held at ACF have been valued, as a practical expedient, at the fair value of the Organization's share of ACF's investment pool as of the measurement date, which is also known as net asset value. Changes in the value of the investments held at ACF is included in investment income on the statements of activities. There are no unfunded commitments or redemption provisions associated with these investments held at ACF.

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 may 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.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

Endowment Funds

RMHC's endowments consist of one board designated fund and one donor restricted fund. These endowment funds are held and managed by ACF, which is holding the assets as an endowed component und (Fund) for the benefit of RMHC. 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 the 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.

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. The Fund is subject to ACF's investment and spending policies which currently results in a distribution to RMHC of 4.5 percent of the average quarterly value over the previous 12 quarters. The primary objective of ACF's investment program is to achieve long-term returns net of investment expenses sufficient to meet or exceed annual spending and inflation. RMHC has funds in ACF's long-term investment pool, which seeks capital appreciation with the ability to reduce public volatility and enhance returns through diversifying strategies and private market investments.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

Revenue Recognition for Program Services

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

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 CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 July 18, 2018, 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. RMHC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

Gross promises to give at December 31, 2017 include amounts from three donors which make up 58% of total gross promises to give. Gross promises to give at December 31, 2016 include amounts from one donor which make up 14% 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.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 3 PROMISES TO GIVE

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

	<u>2017</u>	<u>2016</u>
Capital campaign promises to give due in less than one year	\$ -	\$ 5,800
Other promises to give due in less than one year	389,214	425,745
Other promises to give due in two to five years	<u>25,000</u>	<u>-</u>
Total promises to give	<u>\$ 414,214</u>	<u>\$ 431,545</u>

NOTE 4 INVESTMENTS AND FAIR VALUE MEASUREMENTS

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 at the net asset value of the underlying assets held by ACF and RMHC's percentage interest in ACF's investments.

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

	<u>2017</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Cash and short term investments	\$ 615,907	\$ -	\$ -	\$ 615,907
Equity securities	1,878,800	-	-	1,878,800
Fixed income securities	<u>1,296,754</u>	<u>-</u>	<u>-</u>	<u>1,296,754</u>
	<u>\$ 3,791,461</u>	<u>\$ -</u>	<u>\$ -</u>	3,791,461
Investments valued at net asset value				
Investments held at ACF				<u>1,635,692</u>
Total investments				<u>\$ 5,427,153</u>

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 4 INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

	2016			Total
	Level 1	Level 2	Level 3	
Cash and short term investments	\$ 226,549	\$ -	\$ -	\$ 226,549
Equity securities	613,918	-	-	613,918
Fixed income securities	1,573,937	-	-	1,573,937
	<u>\$ 2,414,404</u>	<u>\$ -</u>	<u>\$ -</u>	2,414,404
Investments valued at net asset value				
Investments held at ACF				<u>1,506,180</u>
Total investments				<u>\$ 3,920,584</u>

Investment return is summarized as follows for the year ended December 31:

	2017	2016
Interest and dividends	\$ 141,383	\$ 54,897
Realized gain (loss)	72,405	270,484
Unrealized gain (loss)	230,732	(139,027)
Investment fees	<u>(22,209)</u>	<u>(20,220)</u>
Investment return	<u>\$ 422,311</u>	<u>\$ 166,134</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 CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Donated land and building use rights	\$ 3,302,998	\$ 3,339,250
Unamortized discount	<u>(3,096,941)</u>	<u>(3,137,165)</u>
	<u>\$ 206,057</u>	<u>\$ 202,085</u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 636,182	\$ 636,182
Buildings and improvements	11,598,039	11,357,694
Furniture and equipment	708,200	691,508
Vehicles	<u>31,730</u>	<u>31,730</u>
	12,974,151	12,717,114
Accumulated depreciation	<u>(4,919,814)</u>	<u>(4,444,787)</u>
	8,054,337	8,272,327
Construction in progress	<u>-</u>	<u>1,015</u>
	<u>\$ 8,054,337</u>	<u>\$ 8,273,342</u>

Depreciation expense was \$475,028 and \$413,731 for the years ended December 31, 2017 and 2016, respectively.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Time and purpose restricted:		
Donated land use rights	\$ 206,057	\$ 202,085
Promises to give		
Capital campaign pledges	-	5,800
Scholarships	-	11,800
Time restricted:		
Investment income on perpetual endowment funds subject to a time restriction under MCFA	47,484	4,956
Promises to give	50,000	-
Purpose restricted:		
Scholarships	<u>280,142</u>	<u>314,733</u>
	<u>\$ 583,683</u>	<u>\$ 539,374</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, 2017 and 2016 are as follows:

	<u>2017</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 47,484	\$ 489,625	\$ 537,109
Board-designated	<u>1,098,583</u>	<u>-</u>	<u>-</u>	<u>1,098,583</u>
	<u>\$ 1,098,583</u>	<u>\$ 47,484</u>	<u>\$ 489,625</u>	<u>\$ 1,635,692</u>

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 8 ENDOWMENT FUNDS (Continued)

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	1,011,599	4,956	489,625	1,506,180
Interest and dividends	19,255	9,415	-	28,670
Net realized and unrealized gains	121,978	59,636	-	181,614
Investment fees	(10,123)	(4,949)	-	(15,072)
Amounts appropriated for expenditure	(44,126)	(21,574)	-	(65,700)
Balance at December 31, 2017	<u>\$ 1,098,583</u>	<u>\$ 47,484</u>	<u>\$ 489,625</u>	<u>\$ 1,635,692</u>

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017 and 2016

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 \$34,472 and \$35,304 during the years ended December 31, 2017 and 2016, respectively.

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, 2017 and 2016, RMHC remitted a total of \$71,173 and \$97,285 to Global, respectively.

NOTE 11 DONATED MATERIALS AND SERVICES

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

	2017	2016
Equipment and supplies	\$ 78,011	\$ 66,741
House and room improvements	775	27,300
Meals for families	137,288	123,449
Entertainment and airline tickets for families	28,731	35,705
Professional services	67,549	126,788
Utilities	25,200	25,000
Capitalized house improvements	49,617	89,161
Total donated materials and services	\$ 387,171	\$ 494,144

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

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017 and 2016

NOTE 12 OPERATING LEASES

RMHC entered into lease agreements for a postage machine and copiers in the current year, expiring at various terms through December 2022. Minimum future lease payments under these non-cancelable operating leases are as follows:

<u>Years Ending December 31,</u>	
2018	\$ 9,282
2019	9,282
2020	8,567
2021	702
2022	702
	<hr/>
	<u>\$ 28,535</u>

Lease expense was \$890 for the year ended December 31, 2017.

NOTE 13 RESTATEMENT

During the year ended December 31, 2017 management discovered that beginning temporarily restricted net assets for the year ended December 31, 2016 were overstated and unrestricted net assets were understated in the amount of \$107,131 for scholarship expenses that were not released from restriction. As a result, the net asset balances for the years ended December 31, 2016 and 2015 have been restated on the accompanying financial statements. This restatement has no impact on the change in net assets for the years ended December 31, 2017 and 2016.

The effect of this restatement on the December 31, 2016 and 2015 balances are as follows:

	<u>As previously reported</u>	<u>Restated</u>	<u>Difference</u>
December 31, 2015:			
Unrestricted net assets	\$ 11,899,041	\$ 12,006,172	\$ (107,131)
Temporarily restricted net assets	\$ 776,587	\$ 669,456	\$ 107,131
December 31, 2016:			
Unrestricted net assets	\$ 12,629,780	\$ 12,736,911	\$ (107,131)
Temporarily restricted net assets	\$ 646,505	\$ 539,374	\$ 107,131

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 14 NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2016-14, *Not-For-Profit Entities: Presentation of Financial Statements of Not-For-Profit Entities*. This Standard is effective for years beginning after December 15, 2017. The Standard requires several changes to how not-for-profit entities report certain financial statement information including net asset classification, cash flows, underwater endowment funds, investment expenses, and other areas. In addition, the new guidance requires disclosures on the entity’s liquidity policy and quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the Statement of Financial Position date. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. For nonpublic companies, this standard must be adopted for annual reporting periods beginning after December 15, 2018. The standard’s core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard’s core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.