



RONALD MCDONALD HOUSE CHARITIES  
OF PHOENIX, INC.

Phoenix, Arizona

FINANCIAL STATEMENTS  
Years Ended December 31, 2015 and 2014







HENRY & HORNE, LLP  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

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, 2015 and 2014, and the related statements of activities, 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.

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## 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, 2015 and 2014, 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.

Henry + Home, LLP

Tempe, Arizona  
May 6, 2016

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 583,751	\$ 757,005
Accounts receivable	10,165	7,186
Promises to give, current portion	272,526	420,085
Prepaid expenses	<u>23,164</u>	<u>10,831</u>
TOTAL CURRENT ASSETS	889,606	1,195,107
PROMISES TO GIVE, net of current portion	13,001	33,116
INVESTMENTS	3,850,991	3,806,705
DONATED LAND USE RIGHTS, net	198,159	194,287
PROPERTY AND EQUIPMENT, net	<u>8,274,268</u>	<u>8,637,930</u>
TOTAL ASSETS	<u>\$ 13,226,025</u>	<u>\$ 13,867,145</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 24,230	\$ 176,641
Accrued expenses	22,457	23,585
Deferred revenue	<u>14,085</u>	<u>10,614</u>
TOTAL CURRENT LIABILITIES	<u>60,772</u>	<u>210,840</u>
TOTAL LIABILITIES	<u>60,772</u>	<u>210,840</u>
NET ASSETS		
Unrestricted:		
Undesignated	10,645,568	10,953,168
Board designated	<u>1,001,462</u>	<u>1,110,002</u>
Total unrestricted	11,647,030	12,063,170
Temporarily restricted	1,028,598	1,103,510
Permanently restricted	<u>489,625</u>	<u>489,625</u>
TOTAL NET ASSETS	<u>13,165,253</u>	<u>13,656,305</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,226,025</u>	<u>\$ 13,867,145</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.  
STATEMENTS OF ACTIVITIES  
Years Ended December 31, 2015 and 2014

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 1,203,493	\$ 576,381	\$ -	\$ 1,779,874
Donated materials and services	405,760	-	-	405,760
Program service revenues	89,405	-	-	89,405
Investment income (loss)	(73,227)	-	-	(73,227)
Net assets released from restrictions	651,293	(651,293)	-	-
	<u>2,276,724</u>	<u>(74,912)</u>	<u>-</u>	<u>2,201,812</u>
Special events:				
Event contributions	266,069	-	-	266,069
Event income	296,684	-	-	296,684
Less direct donor benefits	(142,183)	-	-	(142,183)
	<u>420,570</u>	<u>-</u>	<u>-</u>	<u>420,570</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>2,697,294</u>	<u>(74,912)</u>	<u>-</u>	<u>2,622,382</u>
<b>EXPENSES</b>				
Program services	2,259,137	-	-	2,259,137
Management and general	170,724	-	-	170,724
Fundraising	589,310	-	-	589,310
<b>TOTAL EXPENSES</b>	<u>3,019,171</u>	<u>-</u>	<u>-</u>	<u>3,019,171</u>
Unallocated payments to RMHC Global	94,263	-	-	94,263
<b>CHANGE IN NET ASSETS</b>	(416,140)	(74,912)	-	(491,052)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>12,063,170</u>	<u>1,103,510</u>	<u>489,625</u>	<u>13,656,305</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 11,647,030</u>	<u>\$ 1,028,598</u>	<u>\$ 489,625</u>	<u>\$ 13,165,253</u>

\*Reclassified to conform to current year presentation.

## 2014\*

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,097,539	\$ 991,512	\$ -	\$ 2,089,051
621,793	-	-	621,793
53,327	-	-	53,327
149,004	-	-	149,004
<u>2,114,626</u>	<u>(2,114,626)</u>	<u>-</u>	<u>-</u>
<u>4,036,289</u>	<u>(1,123,114)</u>	<u>-</u>	<u>2,913,175</u>
247,085	-	-	247,085
171,859	-	-	171,859
<u>(113,875)</u>	<u>-</u>	<u>-</u>	<u>(113,875)</u>
<u>305,069</u>	<u>-</u>	<u>-</u>	<u>305,069</u>
<u>4,341,358</u>	<u>(1,123,114)</u>	<u>-</u>	<u>3,218,244</u>
1,826,482	-	-	1,826,482
115,502	-	-	115,502
<u>560,786</u>	<u>-</u>	<u>-</u>	<u>560,786</u>
<u>2,502,770</u>	<u>-</u>	<u>-</u>	<u>2,502,770</u>
<u>93,451</u>	<u>-</u>	<u>-</u>	<u>93,451</u>
1,745,137	(1,123,114)	-	622,023
<u>10,318,033</u>	<u>2,226,624</u>	<u>489,625</u>	<u>13,034,282</u>
<u>\$ 12,063,170</u>	<u>\$ 1,103,510</u>	<u>\$ 489,625</u>	<u>\$ 13,656,305</u>

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.  
 STATEMENTS OF FUNCTIONAL EXPENSES  
 Years Ended December 31, 2015 and 2014

	2015			
	Program Services	Management and General	Fundraising Activities	Total
Personnel costs				
Salaries and wages	\$ 590,662	\$ 90,101	\$ 320,359	\$ 1,001,122
Employee benefits and payroll taxes	122,970	18,758	66,696	208,424
Total personnel costs	713,632	108,859	387,055	1,209,546
In-kind donations for families	405,760	-	-	405,760
Scholarships	204,467	-	-	204,467
Occupancy	50,733	522	1,046	52,301
Maintenance	257,580	6,707	20,171	284,458
Telephone	22,433	231	463	23,127
Canister expenses	-	-	77,963	77,963
Other fundraising expenses	-	-	31,451	31,451
Volunteer expenses	-	-	202	202
House supplies	14,426	-	-	14,426
Professional services	-	15,125	-	15,125
Printing and publications	13,870	143	286	14,299
Insurance	20,735	213	428	21,376
Office supplies	13,329	138	275	13,742
Transportation, travel and meetings	9,158	1,397	4,967	15,522
Bank and credit card fees	8,128	83	168	8,379
Banner house expenses	2,481	-	-	2,481
Bad debt expense	4,000	-	-	4,000
Special event - professional fees	-	-	16,948	16,948
Special event - audio and miscellaneous	-	-	36,629	36,629
Other expenses	56,342	32,543	1,731	90,616
Total functional expenses before depreciation	1,797,074	165,961	579,783	2,542,818
Depreciation	462,063	4,763	9,527	476,353
Total functional expenses	2,259,137	170,724	589,310	3,019,171
Direct benefit to donors	-	-	-	142,183
Payments to affiliates	-	-	-	94,263
TOTAL EXPENSES	<u>\$ 2,259,137</u>	<u>\$ 170,724</u>	<u>\$ 589,310</u>	<u>\$ 3,255,617</u>

\*Reclassified to conform to current year presentation.



2014\*

Program Services	Management and General	Fundraising Activities	Total
\$ 491,092	\$ 74,912	\$ 266,355	\$ 832,359
83,417	12,725	45,246	141,388
574,509	87,637	311,601	973,747
275,534	-	-	275,534
227,755	-	-	227,755
43,673	455	1,365	45,493
178,618	3,663	12,062	194,343
17,282	180	540	18,002
-	-	91,298	91,298
-	-	50,613	50,613
-	-	295	295
17,212	-	-	17,212
-	18,090	-	18,090
11,812	123	369	12,304
19,323	201	604	20,128
19,579	204	612	20,395
1,460	223	792	2,475
8,312	86	260	8,658
47,581	451	1,352	49,384
-	-	19,417	19,417
-	-	16,742	16,742
-	-	40,161	40,161
29,376	497	1,626	31,499
1,472,026	111,810	549,709	2,133,545
354,456	3,692	11,077	369,225
1,826,482	115,502	560,786	2,502,770
-	-	-	113,875
-	-	-	93,451
<u>\$ 1,826,482</u>	<u>\$ 115,502</u>	<u>\$ 560,786</u>	<u>\$ 2,710,096</u>

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (491,052)	\$ 622,023
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	476,353	369,225
Bad debt expense	4,000	19,417
Loss on disposal of assets	31,727	-
Donation of furniture, equipment and building improvements	-	(346,259)
Net realized/unrealized (gain) loss on investments	109,864	(107,191)
Change in value of donated land use rights	(3,872)	(104,084)
Decrease (increase) in:		
Accounts receivable	(2,979)	873
Promises to give	163,674	385,209
Prepaid expenses and other assets	(12,333)	9,658
Decrease (increase) in:		
Accounts payable	(152,411)	143,008
Accrued expenses	(1,128)	4,464
Deferred revenue	3,471	7,444
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>125,314</u>	<u>1,003,787</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(233,277)	(129,719)
Proceeds from sales of investments	79,127	288,596
Purchases of property and equipment	(144,418)	(2,137,156)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(298,568)</u>	<u>(1,978,279)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(173,254)	(974,492)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>757,005</u>	<u>1,731,497</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 583,751</u>	<u>\$ 757,005</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

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

The Organization 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, the Organization 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, 2015 and 2014

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, 2015 and 2014, 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, the Organization 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.

Fair Value Measurements

A framework for measuring fair value has been established by the Accounting Standards Codification and 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, 2015 and 2014

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 the Organization 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 or 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 the Organization'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, 2015 and 2014

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

Risks and Uncertainty

The Organization 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

The Organization 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

The Organization'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 the Organization.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

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

Endowment Funds (Continued)

The Organization 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 the Organization 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.

The Organization 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 the Organization's Board.

In accordance with MCFA, the Organization 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) the Organization's other resources, and (7) the Organization's investment policies.

*Return Objectives, Risk Parameters and Spending Policy.* The Organization 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.* The Organization has a policy of annually appropriating for distribution each year 5% of its endowment funds average fair value of the 12 month period ending the previous September 30. In establishing this policy, the Organization considered the long-term expected return on its investments, the nature and duration of the individual endowment funds, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow over time.

Revenue Recognition for Program Services

RMHC recognizes revenue related to room rentals in the period earned.

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

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 statement of activities as net assets released from restrictions.

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 the Organization's nonfinancial assets or require specialized skills that the Organization 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 the Organization'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. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The costs are generally based on personnel activity.

Income Tax Status

Ronald McDonald House Charities of Phoenix, Inc. 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, 2015 and 2014

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

Income Tax Status (Continued)

The Organization 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, 2015 and 2014, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Federal income tax returns generally remain open for three years after they are filed and state income tax returns generally remain open for four years after they are filed, and both are subject to examination by taxing authorities.

The Organization recognizes interest and penalties associated with income taxes in operating expenses. During the years ended December 31, 2015 and 2014, the Organization did not have any income tax related interest and 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, the Organization has evaluated events and transactions for potential recognition or disclosure through May 6, 2016, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATION OF CREDIT RISK

Financial instruments that subject the Organization to potential concentrations of credit risk consist principally of cash and cash equivalents and promises to give. The Organization maintains its cash in bank accounts with financial institutions which at times may exceed federally insured limits. At December 31, 2015 and 2014, the Organization's bank balances exceeded federally insured limits by approximately \$410,000 and \$507,000, respectively. The Organization 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, 2015 and 2014

NOTE 2 CONCENTRATION OF CREDIT RISK (Continued)

Gross promises to give at December 31, 2015 include amounts from two donors which make up 27% of total gross promises to give. Gross promises to give at December 31, 2014 include amounts from one donor which make up 33% 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>2015</u>	<u>2014</u>
Capital campaign promises to give due in less than one year	\$ 30,515	\$ 70,092
Other promises to give due in less than one year	242,012	349,993
Capital campaign promises to give due in two to five years	3,000	33,116
Other promises to give due in two to five years	<u>10,000</u>	<u>-</u>
Total promises to give	<u>\$ 285,527</u>	<u>\$ 453,201</u>

NOTE 4 INVESTMENTS

Investments consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Cash and short term investments	\$ 205,635	\$ 48,071
Equity securities	823,060	792,959
Fixed income securities	1,297,834	1,334,571
Commodities	33,375	31,476
Funds held with ACF	<u>1,491,087</u>	<u>1,599,628</u>
Total investments	<u>\$ 3,850,991</u>	<u>\$ 3,806,705</u>

RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.  
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NOTE 4 INVESTMENTS (continued)

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 64,509	\$ 69,962
Realized gain	78,835	234,512
Unrealized (loss)	(188,699)	(127,321)
Investment fees	<u>(27,872)</u>	<u>(28,149)</u>
Investment return	<u>\$ (73,227)</u>	<u>\$ 149,004</u>

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NOTE 5 FAIR VALUE MEASUREMENTS

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

	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>
	2014			
	Level 1	Level 2	Level 3	Total
Cash and short term investments	\$ 48,071	\$ -	\$ -	\$ 48,071
Equity securities	792,959	-	-	792,959
Fixed income securities	1,334,571	-	-	1,334,571
Commodities	31,476	-	-	31,476
Funds held with ACF	-	-	1,599,628	1,599,628
	<u>\$ 2,207,077</u>	<u>\$ -</u>	<u>\$ 1,599,628</u>	<u>\$ 3,806,705</u>

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 the Organization's percentage interest in ACF's investments (Level 3).

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NOTE 5 FAIR VALUE MEASUREMENTS (Continued)

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, 2015 and 2014.

Balance, December 31, 2013	\$ -
Purchase of investment fund with ACF	1,637,399
Realized and unrealized gains	38,300
Interest and dividends	13,652
Investment fees	(11,128)
Distribution from fund	<u>(78,596)</u>
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	<u><u>\$ 1,491,087</u></u>

NOTE 6 DONATED LAND USE RIGHTS

In March 2007, the Organization 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 the Organization 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, the Organization 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%.

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NOTE 6 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, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Donated land and building use rights	\$ 3,375,500	\$ 3,411,750
Unamortized discount	<u>(3,177,341)</u>	<u>(3,217,463)</u>
	<u>\$ 198,159</u>	<u>\$ 194,287</u>

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Land	\$ 636,182	\$ 636,182
Buildings and improvements	11,081,621	11,041,058
Furniture and equipment	665,864	666,871
Vehicles	<u>31,730</u>	<u>31,730</u>
	12,415,397	12,375,841
Accumulated depreciation	<u>(4,144,468)</u>	<u>(3,737,911)</u>
	8,270,929	8,637,930
Construction in progress	<u>3,339</u>	<u>-</u>
	<u>\$ 8,274,268</u>	<u>\$ 8,637,930</u>

Depreciation expense was \$476,353 and \$369,225 for the years ended December 31, 2015 and 2014, respectively.

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NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Time and purpose restricted:		
Donated land use rights	\$ 198,159	\$ 194,287
Cardon House operating expenses for 2015	-	150,000
Promises to give:		
Cardon House operating expenses for 2016	-	150,000
Scholarships	-	9,110
Capital campaign pledges and other promises to give	285,527	294,091
Purpose restricted:		
Scholarships	394,912	306,022
Cardon House operating expenses for 2016	<u>150,000</u>	<u>-</u>
	<u>\$ 1,028,598</u>	<u>\$ 1,103,510</u>

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NOTE 9 ENDOWMENT FUNDS

Endowments consist of funds restricted in perpetuity by donors and board designated endowment funds. Endowment net asset composition by type of fund at December 31, 2015 and 2014 are as follows:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>
	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ -	\$ 489,625	\$ 489,625
Board-designated	1,110,002	-	-	1,110,002
	<u>\$ 1,110,002</u>	<u>\$ -</u>	<u>\$ 489,625</u>	<u>\$ 1,599,627</u>



RONALD MCDONALD HOUSE CHARITIES OF PHOENIX, INC.  
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NOTE 9 ENDOWMENT FUNDS (Continued)

Changes in endowment funds for the years ended December 31, 2015 and 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at December 31, 2013	\$ 827,711	\$ -	\$ 489,625	\$ 1,317,336
Contributions	314,462	-	-	314,462
Interest and dividends		17,077	-	17,077
Net realized and unrealized gains	-	44,496	-	44,496
Investment fees	-	(15,148)	-	(15,148)
Amounts appropriated for expenditure	(32,171)	(46,425)	-	(78,596)
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	<u>\$ 1,001,462</u>	<u>\$ -</u>	<u>\$ 489,625</u>	<u>\$ 1,491,087</u>

NOTE 10 RETIREMENT PLAN

The Organization participates in a Simple IRA (tax deferred annuity) on behalf of employees. Employees can contribute to the plan, up to the maximum allowed. The Organization will match employee contributions up to 3% of each eligible employee's salary upon employment. Contribution expense under the plan was \$29,485 and \$11,152 during the years ended December 31, 2015 and 2014, respectively.

NOTE 11 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, 2015 and 2014, the Organization remitted a total of \$94,263 and \$93,451 to Global, respectively.

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NOTE 12 DONATED MATERIALS AND SERVICES

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

	<u>2015</u>	<u>2014</u>
Equipment and supplies	\$ 58,371	\$ 55,246
House and room improvements	28,197	39,546
Meals for families	108,287	103,960
Entertainment and airline tickets for families	72,356	23,454
Professional services	113,549	53,328
Utilities	25,000	-
Fixed assets	<u>-</u>	<u>346,259</u>
Total donated materials and services	<u>\$ 405,760</u>	<u>\$ 621,793</u>

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