

RONALD MCDONALD HOUSE
CHARITIES OF OREGON AND
SOUTHWEST WASHINGTON

Audited Financial Statements

For the Years Ended
December 31, 2017 and 2016



MCDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Ronald McDonald House Charities
of Oregon and Southwest Washington

We have audited the accompanying financial statements of Ronald McDonald House Charities of Oregon and Southwest Washington (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditor's 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 organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Oregon and Southwest Washington as of December 31, 2017 and 2016, and 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.

McDonald Jacobson, P.C.

Portland, Oregon
April 11, 2018

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,529,220	\$ 1,410,687
Accounts receivable	40,735	71,073
Pledges receivable	198,336	122,715
Prepaid expenses	57,209	77,415
Note receivable - current portion	15,203	14,635
Short-term investments	2,172,954	2,616,461
Total current assets	4,013,657	4,312,986
Investments	8,218,438	6,173,089
Pledges receivable, less current portion	33,333	40,000
Note receivable, less current portion	22,507	39,332
Bargain land lease contributions receivable, net	223,363	249,474
Property and equipment, net	3,946,959	4,002,210
TOTAL ASSETS	\$ 16,458,257	\$ 14,817,091
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 24,057	\$ 96,999
Accrued expenses	111,635	127,205
Deferred revenue	11,950	-
Total current liabilities	147,642	224,204
Net assets:		
Unrestricted	12,630,354	11,305,117
Temporarily restricted	1,972,109	1,579,618
Permanently restricted	1,708,152	1,708,152
Total net assets	16,310,615	14,592,887
TOTAL LIABILITIES AND NET ASSETS	\$ 16,458,257	\$ 14,817,091

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON

STATEMENT OF ACTIVITIES
For the year ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support:				
Gross revenue from special events	\$ 1,133,602	\$ -	\$ -	\$ 1,133,602
Less direct benefit costs	<u>(343,895)</u>	<u>-</u>	<u>-</u>	<u>(343,895)</u>
Special events, net	789,707	-	-	789,707
Donations and grants	1,071,744	85,674	-	1,157,418
Promotions and third party	806,429	-	-	806,429
Bargain land lease contributions	-	41,253	-	41,253
Contributions in-kind	1,726,654	-	-	1,726,654
Net assets released from restrictions	<u>690,156</u>	<u>(690,156)</u>	<u>-</u>	<u>-</u>
Total public support	5,084,690	(563,229)	-	4,521,461
Revenues and other income:				
Program service revenue	130,320	-	-	130,320
Investment income, net	83,376	33,805	-	117,181
Realized/unrealized gain on investments	631,372	285,173	-	916,545
Other income	<u>27,608</u>	<u>-</u>	<u>-</u>	<u>27,608</u>
Total support and revenue	<u>5,957,366</u>	<u>(244,251)</u>	<u>-</u>	<u>5,713,115</u>
Expenses:				
Program services	3,764,251	-	-	3,764,251
Management and general	193,262	-	-	193,262
Fundraising	835,866	-	-	835,866
Unallocated payments to RMHC Global	<u>60,465</u>	<u>-</u>	<u>-</u>	<u>60,465</u>
Total expenses	<u>4,853,844</u>	<u>-</u>	<u>-</u>	<u>4,853,844</u>
Change in net assets from operations	1,103,522	(244,251)	-	859,271
Non-operating activities:				
Capital campaign - contributions	<u>221,715</u>	<u>636,742</u>	<u>-</u>	<u>858,457</u>
Change in net assets	1,325,237	392,491	-	1,717,728
Net assets:				
Beginning of year	<u>11,305,117</u>	<u>1,579,618</u>	<u>1,708,152</u>	<u>14,592,887</u>
End of year	<u>\$ 12,630,354</u>	<u>\$ 1,972,109</u>	<u>\$ 1,708,152</u>	<u>\$ 16,310,615</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON

STATEMENT OF ACTIVITIES
For the year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support:				
Gross revenue from special events	\$ 962,665	\$ -	\$ -	\$ 962,665
Less direct benefit costs	<u>(346,355)</u>	<u>-</u>	<u>-</u>	<u>(346,355)</u>
Special events, net	616,310	-	-	616,310
Donations and grants	849,311	300,370	-	1,149,681
Promotions and third party	811,104	-	-	811,104
Bargain land lease contributions	-	38,648	-	38,648
Contributions in-kind	1,778,318	-	-	1,778,318
Net assets released from restrictions	<u>415,643</u>	<u>(415,643)</u>	<u>-</u>	<u>-</u>
Total public support	4,470,686	(76,625)	-	4,394,061
Revenues and other income:				
Program service revenue	140,760	-	-	140,760
Investment earnings, net	83,562	54,433	-	137,995
Realized/unrealized gain on investments	142,537	102,049	-	244,586
Other income	<u>17,150</u>	<u>-</u>	<u>-</u>	<u>17,150</u>
Total support and revenue	<u>4,854,695</u>	<u>79,857</u>	<u>-</u>	<u>4,934,552</u>
Expenses:				
Program services	3,375,885	-	-	3,375,885
Management and general	190,571	-	-	190,571
Fundraising	646,643	-	-	646,643
Unallocated payments to RMHC Global	<u>71,856</u>	<u>-</u>	<u>-</u>	<u>71,856</u>
Total expenses	<u>4,284,955</u>	<u>-</u>	<u>-</u>	<u>4,284,955</u>
Change in net assets from operations	569,740	79,857	-	649,597
Non-operating activities:				
Assets received in merger (Note 18)	1,297,636	275,222	43,778	1,616,636
Capital campaign - net assets released from restrictions	<u>23,327</u>	<u>(23,327)</u>	<u>-</u>	<u>-</u>
Change in net assets	1,890,703	331,752	43,778	2,266,233
Net assets:				
Beginning of year	<u>9,414,414</u>	<u>1,247,866</u>	<u>1,664,374</u>	<u>12,326,654</u>
End of year	<u>\$ 11,305,117</u>	<u>\$ 1,579,618</u>	<u>\$ 1,708,152</u>	<u>\$ 14,592,887</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	<u>Total</u>
Salaries, taxes and benefits	\$ 1,294,270	\$ 123,725	\$ 411,406	\$ 535,131	\$ 1,829,401
Professional services	36,939	41,572	193,794	235,366	272,305
Donation box collection and maintenance	-	-	57,530	57,530	57,530
In-kind use of facility	1,215,661	-	-	-	1,215,661
House services and supplies	496,278	-	-	-	496,278
Land lease	67,365	-	-	-	67,365
Utilities	120,513	1,451	5,175	6,626	127,139
Depreciation and amortization	293,970	6,473	36,795	43,268	337,238
Repairs and maintenance	94,545	-	-	-	94,545
Insurance	30,162	2,119	6,230	8,349	38,511
Office and IT expenses	67,208	5,367	91,144	96,511	163,719
Travel, conferences and meetings	17,162	2,992	17,188	20,180	37,342
Volunteer recruitment and management	12,686	9,069	11,975	21,044	33,730
Other operating expenses	<u>17,492</u>	<u>494</u>	<u>4,629</u>	<u>5,123</u>	<u>22,615</u>
					4,793,379
Unallocated payments to RMHC Global					<u>60,465</u>
Total expenses	<u>\$ 3,764,251</u>	<u>\$ 193,262</u>	<u>\$ 835,866</u>	<u>\$ 1,029,128</u>	<u>\$ 4,853,844</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	<u>Total</u>
Salaries, taxes and benefits	\$ 1,103,031	\$ 120,173	\$ 292,274	\$ 412,447	\$ 1,515,478
Professional services	44,801	37,859	168,929	206,788	251,589
Donation box collection and maintenance	-	-	51,163	51,163	51,163
In-kind use of facility	1,145,169	-	-	-	1,145,169
House services and supplies	498,707	-	-	-	498,707
Land lease	58,998	-	-	-	58,998
Utilities	105,638	1,847	5,175	7,022	112,660
Depreciation and amortization	253,123	7,079	34,044	41,123	294,246
Repairs and maintenance	49,638	-	-	-	49,638
Insurance	27,044	1,931	5,406	7,337	34,381
Office and IT expenses	50,138	4,285	68,358	72,643	122,781
Travel, conferences and meetings	17,028	5,716	12,467	18,183	35,211
Volunteer recruitment and management	5,494	1,092	3,980	5,072	10,566
Other operating expenses	<u>17,076</u>	<u>10,589</u>	<u>4,847</u>	<u>15,436</u>	<u>32,512</u>
					4,213,099
Unallocated payments to RMHC Global					<u>71,856</u>
Total expenses	<u>\$ 3,375,885</u>	<u>\$ 190,571</u>	<u>\$ 646,643</u>	<u>\$ 837,214</u>	<u>\$ 4,284,955</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 1,717,728	\$ 2,266,233
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cash from contributions restricted for capital improvements	(636,742)	-
Net realized and unrealized gain on investments	(916,545)	(244,586)
Donated construction materials and services	(34,890)	(48,550)
Donated assets received in merger	-	(1,568,097)
Depreciation and amortization	337,238	294,246
(Increase) decrease in:		
Accounts and pledges receivable	(38,616)	19,322
Prepaid expenses	20,206	(35,945)
Bargain land lease contributions receivable	26,111	21,900
Increase (decrease) in:		
Accounts payable and accrued expenses	(88,512)	82,765
Deferred revenue	11,950	-
Net cash provided by operating activities	397,928	787,288
Cash flows from investing activities:		
Purchase of property and equipment	(247,097)	(339,050)
Purchase of investments	(8,846,166)	(871,749)
Payments received on notes receivable	16,257	4,064
Proceeds from the sale of investments	8,160,869	890,816
Net cash used in investing activities	(916,137)	(315,919)
Cash flows from financing activities:		
Cash from contributions restricted for capital improvements	636,742	-
Net cash provided by financing activities	636,742	-
Net increase in cash and cash equivalents	118,533	471,369
Cash and cash equivalents - beginning of year	1,410,687	939,318
Cash and cash equivalents - end of year	\$ 1,529,220	\$ 1,410,687

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Ronald McDonald House Charities of Oregon and Southwest Washington (RMHC or the Organization) is a non-profit corporation, incorporated in 1982 under the laws of the State of Oregon. RMHC's House Program, its cornerstone program, provides temporary lodging, comfort, family based activities and general support for families of seriously ill and injured children who are being treated at medical facilities in the communities of Portland and Bend, Oregon.

RMHC operates three residential facilities, in Portland and Bend, as part of the House Program. A 25-room East House, located on the campus of Legacy Emanuel Medical Center in Northeast Portland, is owned by the Organization on leased land. A 25-room West House Waterfront, located on the fifth floor of the Marriott Residence Inn RiverPlace, is under a management agreement with Oregon Health and Science University. RMHC also operates a 6-room Bend House located on the campus of St. Charles Hospital, which is owned by the Organization on leased land.

In 2017, these three houses supported over 1,800 families, and 2,200 children.

In 2017, RMHC launched the Hospitality Cart Program at Randall Children's Hospital. This in-hospital program supports children and families by providing free food, refreshments, and comfort care items on a fully stocked cart that travels between the hospital's neonatal ICU, pediatric ICU, and acute-care floors. This program is staffed 100% by volunteers.

The principal sources of revenue for RMHC are donations from individuals, businesses and organizations. McDonald's Corporation, together with its local franchisees, contributes to RMHC through national and local promotions, and facilitates donations from their customers through the donation box program and other initiatives. Additionally, state insurance programs are billed if insurance coverage is available; however, insurance is not required.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017 and 2016

1. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Presentation

The Organization reports information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions in to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.
- Permanently restricted net assets represent net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents included with investments are considered investments.

Accounts Receivable

Accounts receivable from insurance billings and hospital partners are reported at the amount management expects to collect on balances outstanding at year-end. Management provides for potentially uncollectible amounts through a valuation allowance based on its assessment of the current status of individual accounts. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial.

Pledges Receivable

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Organization is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017 and 2016

1. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Short-Term Investments

Short-term investments are comprised of money market funds and certificates of deposit, which are classified as held-to-maturity and are carried at their fair value based on the quoted market prices. Net realized and unrealized gains and losses on short-term investments are recorded in the statement of activities. For purpose of determining realized gains and losses, the cost of securities sold is based on specific identification.

Investments

All investments are recorded at fair value, based on quoted market prices. Any unrealized gain or loss related to holding investments is recorded in the statement of activities. Gains and losses on investments are reported as increases and decreases on unrestricted net assets unless their use is restricted by donor stipulation or by law. Interest and dividend income is accrued as earned and reported net of investment advisory fees.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment purchased are recorded at cost. Projects that were started, but not completed at the end of each year are included in construction in progress. Donated assets are reflected as contributions at their estimated values on the date received. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, generally 39 years for buildings, 10 to 30 years for building improvements, and 3 to 10 years for furniture, equipment and vehicles. Repairs and maintenance are charged to expense when incurred.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate 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 undiscounted 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 carrying amount, or fair value less costs to sell.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017 and 2016

1. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions In-Kind

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would be purchased if not provided by donation. These donated services are recognized at fair value. Donations of property, equipment, materials and other assets, including donated facility usage, are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

During the years ended December 31, 2017 and 2016, the Organization recorded the following in-kind contributions:

	2017	2016
Programs	\$ 352,912	\$ 406,883
Special events	123,191	177,716
Property and equipment	34,890	48,550
Donated facility *	1,215,661	1,145,169
Total contributions in-kind	<u>\$ 1,726,654</u>	<u>\$ 1,778,318</u>

*The Organization received donated facility usage for the West House Waterfront residential location.

In addition, in 2017 and 2016, the Organization received over 20,000 and 18,000 hours, respectively, of volunteer service from volunteers who assist in various capacities, including house operations, family centered programming, fundraising and management oversight by the Board of Trustees. No amounts have been reflected in the financial statements related to these donated services as they do not meet the criteria cited above.

Donations of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about the duration these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017 and 2016

1. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income Tax Status

Ronald McDonald House Charities is a nonprofit corporation exempt from income tax under section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is made in the accompanying financial statements, as the Organization has no activities subject to unrelated business income tax. The Organization is not a private foundation.

The Organization follows the provisions of FASB ASC *Topic Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising expenditures are expensed when incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

The Organization has evaluated all subsequent events through April 11, 2018, the date the financial statements were available to be issued.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017 and 2016

2. ACCOUNTS AND PLEDGES RECEIVABLE

Accounts and pledges receivable are unsecured and consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Insurance billing and hospital partners	\$ 15,935	\$ 36,655
Other receivables	24,800	34,418
Total accounts receivable	40,735	71,073
Pledges receivable - due within one year	198,336	122,715
Pledges receivable - due in two to five years	33,333	40,000
Total accounts and pledges receivables	<u>\$ 272,404</u>	<u>\$ 233,788</u>

3. NOTE RECEIVABLE

The Central Oregon chapter entered into a property sale agreement with an original amount of \$138,375. The agreement transferred to the Organization as part of the merger in 2016. Under the terms of the agreement, the Organization will receive monthly payments in the amount of \$1,355 including interest at 3.29% through June 2020. Future principal payments are as follow:

Current portion	\$ 15,203
Long-term portion	22,507
	<u>\$ 37,710</u>

4. SHORT-TERM INVESTMENTS

Short-term investments at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Certificates of deposit	\$ 2,163,453	\$ 280,133
Money market funds	9,501	1,901,826
Fixed income securities	-	102,253
Equity securities	-	332,249
Total short-term investments	<u>\$ 2,172,954</u>	<u>\$ 2,616,461</u>

Certificates of deposit are recorded at the value reported by the bank, which approximates market value. Interest earned on the certificates ranges from 1.25% to 1.9% at December 31, 2017 and .15% to .9% at December 31, 2016. The certificates mature at various dates through March 2020 and are expected to be held to maturity. Money market funds are expected to be held for over ninety days and are considered to be short-term investments.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017 and 2016

5. INVESTMENTS

Long-term investments are summarized as follows at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Endowment:		
Money market funds	\$ 278,286	\$ 101,623
Fixed income	2,484,016	1,645,773
Mutual funds and other investments	5,175,550	4,176,717
Beneficial interest in assets held	<u>280,586</u>	<u>248,976</u>
Total long-term investments	<u>\$ 8,218,438</u>	<u>\$ 6,173,089</u>
Investment income consists of:		
Interest and dividends, net fees of \$35,682 for 2017 and \$40,028 for 2016	\$ 117,181	\$ 137,995
Net realized/unrealized gain	<u>916,545</u>	<u>244,586</u>
Total investment income	<u>\$ 1,033,726</u>	<u>\$ 382,581</u>

Long-term investments consist of the endowment funds (see Note 11) and other investments with maturities greater than one year. Such investments are carried at fair value.

In 2016, the Organization received, as part of the merger (Note 18), a fund with Oregon Community Foundation (OCF) under OCF's Endowment Partners Program. The Organization's fund is pooled with other assets managed by OCF and is invested in debt, equity and other securities which are reflected at fair value. Under the terms of the agreement, variance power has been granted to OCF; however, the Organization is the beneficiary of the fund and the transfer is reciprocal in nature. Accordingly, OCF recognizes the fund as a liability on its statement of financial position. Also under the terms of the agreement, OCF shall distribute not less than annually, a percentage of the fair value of the fund as determined by the board of directors of OCF. However, in no event will the percentage be less than a reasonable rate of return. OCF may make additional distributions from the fund to the Organization upon a majority vote of all of the directors of the Organization, if, in the sole judgment of the board of OCF, the requested distribution is consistent with the objectives and purposes of the Organization. The beneficial interest in assets and are included in endowment net assets (Note 11).

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6. BARGAIN LAND LEASES

Commencing on June 1, 1995, RMHC was given a significant lease concession by Legacy Emanuel Hospital and Health Center for the approximately 1.5 acres of land that the East House occupies. The agreement stipulates land lease costs will be \$1 per year through 2025. RMHC may extend the term of the lease for ten additional years under the same terms. RMHC intends to exercise this option. The agreement also stipulates that the terms of the bargain lease apply as long as the property is used for the stated charitable purpose. Should the property be used for any other purpose, the yearly lease amount would be equal to 10% of the current fair market value of the property.

The lessor entered into the lease in continued recognition of their partnership and therefore, the value of the benefit is recognized on the financial statements. Accounting principles generally accepted in the United States of America (GAAP) require that the present value of the estimated future lease payments which will not be paid be recorded as a contribution in the year received. Additionally, GAAP requires that the fair value of each year's land lease be recorded as an expense, that the initial contribution be amortized over its term, and that an additional contribution be recorded annually which represents the approximate interest increase in the initial contribution.

An appraisal established a market value of \$355,000 for the property, as of June 1, 1995. The estimated inflation rate, which the property is subject to during the period June 1, 1995 through May 31, 2035, is 2.5%. The future estimated lease payments are discounted at the one-year Treasury Bill discount rate at the June 22, 1995 auction, of 5.22%. The present value of the estimated future lease payments of \$847,340 was recorded on the statement of financial position as bargain land lease contribution receivable.

The Bend location holds a bargain land lease agreement with St. Charles Medical Center, an unrelated nonprofit organization. Under terms of the agreement the Organization rents approximately 2.5 acres of land on which their building is located for \$100 per year through 2025. The present value of the estimated future lease payments of \$209,850 was recorded on the statement of financial position as bargain land lease contribution receivable at lease inception in 1995.

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6. BARGAIN LAND LEASES, Continued

The unamortized contributions receivable is as follows at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
East House:		
Bargain land lease contribution receivable	\$ 847,340	\$ 847,340
Less accumulated amortization	<u>679,939</u>	<u>660,823</u>
	<u>167,401</u>	<u>186,517</u>
Bend House:		
Bargain land lease contributions receivable	\$ 209,850	\$ 209,850
Less accumulated amortization	<u>153,888</u>	<u>146,893</u>
	<u>55,962</u>	<u>62,957</u>
Bargain land lease contribution receivable, net	<u>\$ 223,363</u>	<u>\$ 249,474</u>

The fair value of the land lease expense was \$67,365 and \$60,647 in 2017 and 2016, respectively. The contribution income from the bargain land leases recognized was \$41,253 and \$38,648 in 2017 and 2016, respectively. The amount of net assets released from restriction for the expiration of time was \$26,111 and \$20,150 in 2017 and 2016, respectively.

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 6,421,742	\$ 6,268,054
Construction in progress	59,696	8,643
Furniture and equipment	1,027,129	949,883
Collectibles	<u>32,160</u>	<u>32,160</u>
	7,540,727	7,258,740
Less accumulated depreciation	<u>3,593,768</u>	<u>3,256,530</u>
Property and equipment, net	<u>\$ 3,946,959</u>	<u>\$ 4,002,210</u>

Collectibles consist of twenty-four donated paintings that are capitalized at the average fair market value at the date the items were contributed.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED
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8. UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following at December 31, 2017 and 2016:

	2017	2016
Undesignated	\$ 1,522,403	\$ 3,553,165
Board designated - endowment (Note II)	5,605,792	3,451,688
Board designated - building fund	955,200	298,054
Board designated - special project	600,000	-
Property and equipment, net	3,946,959	4,002,210
Total unrestricted net assets	\$ 12,630,354	\$ 11,305,117

The Board of Trustees reviews significant major gifts and, when appropriate, designates them to the endowment fund. Board designated amounts are invested in marketable securities with the permanently restricted net assets (see Note II) and are tracked separately.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31, 2017 and 2016:

	2017	2016
Balance of bargain land leases	\$ 223,363	\$ 249,474
Construction of new West House	688,742	-
East House construction and upgrades	23,826	125,012
Endowment earnings (Note II)	904,494	1,013,249
Other	131,684	191,883
Total temporarily restricted net assets	\$ 1,972,109	\$ 1,579,618

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10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of donations to the endowment fund totaling \$1,708,152 as of December 31, 2017 and 2016, respectively. Investment earnings from the endowment support the work of RMHC (also see Note 11).

11. ENDOWMENT

RMHC's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of Ronald McDonald House Charities has interpreted Oregon's enacted Uniform Prudent Management of Institutional Funds Act (the Act or UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts, including subsequent gifts, donated to the permanent endowment and (b) 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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the Act.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED
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II. ENDOWMENT, Continued

Interpretation of Relevant Law, Continued

In accordance with UPMIFA, 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 Organization
- (2) The purposes of the Organization and the donor-restricted Organization
- (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) Other resources of the Organization
- (7) The investment policies of the Organization

The Organization classifies gift amounts received from donors that are restricted to the endowment fund as permanently restricted net assets. If the market value of a donor-restricted endowment fund exceeds the original gift as a result of investment earnings, then the excess amount is classified within temporarily restricted net assets, until all or a portion of the excess is appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Funds designated by the Board of Trustees to function as an endowment are classified as unrestricted net assets.

If the market value of an endowment is less than the original gift amount, the valuation difference is reflected in the financial statements as a reduction of unrestricted net assets.

Return Objectives and Risk Parameters

RMHC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various indexes while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 3% plus inflation, annually. Actual returns in any given year may vary from this amount.

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II. ENDOWMENT, Continued

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

RMHC has a policy of appropriating for distribution of 3% of the endowment fund's beginning of year corpus, after approval by the Board. Beginning in 2018, the policy has been updated to allow distribution of up to 3% of the fund balance. In establishing this policy, the Organization considers the long-term expected return on its endowment. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to grow at the average annual rate of inflation. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. In February 2017, the Board authorized a distribution of \$142,926 for 2016 which was recorded in 2017. In February 2016, the Board authorized distributions of \$142,927 for 2015 which was distributed during 2016.

Endowment net asset composition by type of fund is as follows at December 31, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2017				
Donor-restricted	\$ -	\$ 904,494	\$ 1,708,152	\$ 2,612,646
Board-designated	5,605,792	-	-	5,605,792
Total Funds	<u>\$ 5,605,792</u>	<u>\$ 904,494</u>	<u>\$ 1,708,152</u>	<u>\$ 8,218,438</u>
December 31, 2016				
Donor-restricted	\$ -	\$ 1,013,249	\$ 1,708,152	\$ 2,721,401
Board-designated	3,451,688	-	-	3,451,688
	<u>\$ 3,451,688</u>	<u>\$ 1,013,249</u>	<u>\$ 1,708,152</u>	<u>\$ 6,173,089</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED
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II. ENDOWMENT, Continued

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets -				
December 31, 2015	\$ 3,313,391	\$ 711,947	\$ 1,664,374	\$ 5,689,712
Contributions and transfers	-	203,421	43,778	247,199
Investment return:				
Investment income, net of fees	75,771	54,433	-	130,204
Net realized and unrealized appreciation	146,852	100,272	-	247,124
Change in beneficial interest	-	1,777	-	1,777
Appropriation of endowment assets for expenditure	<u>(84,326)</u>	<u>(58,601)</u>	<u>-</u>	<u>(142,927)</u>
Endowment net assets -				
December 31, 2016	3,451,688	1,013,249	1,708,152	6,173,089
Contributions and transfers	1,265,240	474	-	1,265,714
Investment return:				
Investment income, net of fees	73,560	33,805	-	107,365
Net realized and unrealized appreciation	530,023	253,563	-	783,586
Change in beneficial interest	-	31,610	-	31,610
Appropriation of endowment assets for expenditure	(92,995)	(49,931)	-	(142,926)
Other transfer	<u>378,276</u>	<u>(378,276)</u>	<u>-</u>	<u>-</u>
Endowment net assets -				
December 31, 2017	<u>\$ 5,605,792</u>	<u>\$ 904,494</u>	<u>\$ 1,708,152</u>	<u>\$ 8,218,438</u>

12. RELATED PARTY TRANSACTIONS

The Organization pays to Global Ronald McDonald House Charities (Global) 25% of net revenue from donation box collections (Note 15) at McDonald's restaurants. The total amount paid during the years ended December 31, 2017 and 2016 was \$60,465 and \$71,856 respectively. In addition, Global made contributions to the Organization in the amounts of \$240,000 in 2017 and \$35,000 in 2016. Additionally, the Organization receives in-kind space from OHSU where a board member is employed (Note 1).

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13. LEASE COMMITMENTS

The Organization leases equipment under various non-cancelable lease agreements which expire through 2021. Future minimum lease payments are as follows:

Year ending December 31, 2018	\$ 20,400
2019	18,000
2020	16,300
2021	15,900
2022	5,500
Thereafter	<u>2,600</u>
Total	<u>\$ 78,700</u>

14. CONCENTRATIONS OF CREDIT RISK

The Organization operates three residences in Oregon and receives a majority of its funding through fundraising initiatives in this geographic area. If fundraising activities were discontinued or compromised, it could have a significant adverse effect on the Organization.

The Organization maintains its cash balances in two financial institutions. Balances in each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. Balances in excess of insured limits were approximately \$977,600 and \$811,000 as of December 31, 2017 and 2016, respectively.

Investments, including short-term investments, are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

15. DONATION BOX COLLECTIONS

The Organization provides donation boxes which are placed in local McDonald's restaurants. For the years ended December 31, 2017 and 2016, donation box collections were \$322,475 and \$309,175, respectively.

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16. RETIREMENT PLAN

The Organization has a SIMPLE IRA retirement plan for its employees. All employees earning at least \$5,000 per year are eligible to participate after completing one month of employment. Eligible employees may make pre-tax contributions up to an amount defined by law. The Organization matches employee contributions up to a maximum of 3% of salary. For the years ended December 31, 2017 and 2016, RMHC contributed approximately \$38,000 and \$30,800, respectively.

17. FAIR VALUE MEASUREMENTS

Assets recorded at fair value in the statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

Fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2017				
Investments:				
Fixed income:				
Corporate obligations	\$ -	\$ 710,732	\$ -	\$ 710,732
Domestic mutual funds	1,385,236	-	-	1,385,236
International mutual funds	388,048	-	-	388,048
Equities and other:				
Domestic mutual funds	3,201,790	-	-	3,201,790
International mutual funds	1,440,868	-	-	1,440,868
Mutual funds	187,472	-	-	187,472
Real estate fund	345,420	-	-	345,420
Beneficial interest of assets held	-	-	280,586	280,586

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17. FAIR VALUE MEASUREMENTS, Continued

Fair values of assets measured on a recurring basis at December 31, 2016 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2016				
Investments:				
Fixed income:				
Corporate obligations	\$ -	\$ 1,216,993	\$ -	\$ 1,216,993
Domestic mutual funds	412,438	-	-	412,438
International mutual funds	118,595	-	-	118,595
Equities:				
Domestic mutual funds	2,485,780	-	-	2,485,780
International mutual funds	987,393	-	-	987,393
Mutual funds	450,174	-	-	450,174
Real estate fund	512,626	-	-	512,626
Stocks	72,993	-	-	72,993
Beneficial interest of assets held	-	-	248,976	248,976

The fair value equity securities is determined by reference to quoted market prices or other relevant market data as provided by the bank or broker.

The fair value for corporate debt securities are based on pricing models, quoted prices of securities with similar characteristics, yield curves, and other relevant economic measures.

Investments held at OCF in pooled funds are valued at the net asset value per unit as provided by OCF trustees. Net asset value is based on fair value of the underlying assets of the funds using quoted market prices when available determined using a market approach.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) include:

Beneficial interest in assets held by OCF:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 248,976	\$ -
Transfers in	-	247,199
Change in value	<u>31,610</u>	<u>1,777</u>
Ending balance	<u>\$ 280,586</u>	<u>\$ 248,976</u>

The change in value is included in investment income as temporarily restricted on the statements of activities.

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18. ACQUISITION OF RONALD MCDONALD HOUSE CHARITIES OF CENTRAL OREGON, INC.

Effective October 1, 2016, Ronald McDonald House Charities of Oregon and Southwest Washington assumed assets and liabilities of Ronald McDonald House of Central Oregon. The following assets and liabilities were assumed by the Organization:

Cash	\$ 48,539
Investments	890,816
Note receivable	58,031
Bargain land lease contribution receivable	64,706
Property and equipment, net	551,361
Other assets	4,808
Accounts payable and accrued expenses	<u>(1,625)</u>
Net assets received in acquisition	<u>\$ 1,616,636</u>