

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2015 AND 2014

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITOR'S REPORT

June 22, 2016

Board of Directors
Ronald McDonald House Charities of Western Washington & Alaska
Seattle, Washington

We have audited the accompanying financial statements of Ronald McDonald House Charities of Western Washington & Alaska (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of unrestricted activity, 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 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 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 in the first paragraph of this letter present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Western Washington & Alaska 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.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,560,116	\$ 926,013
Investments	9,873,575	10,896,902
Promises to give	188,352	166,440
Other receivables	72,260	74,888
Prepays	43,410	56,111
Total Current Assets	11,737,713	12,120,354
Investments - long-term	3,541,978	3,609,359
Promises to Give - long-term	12,000	16,000
Property and Equipment, net	11,528,230	11,936,774
	\$ 26,819,921	\$ 27,682,487
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 221,097	\$ 191,707
Capital lease obligation, current	1,893	3,002
Total Current Liabilities	222,990	194,709
Capital Lease Obligation, less current portion above	-	1,893
Total Liabilities	222,990	196,602
Net Assets		
Unrestricted		
Invested in property and equipment	8,572,286	8,980,830
Board designated	14,489,253	14,887,667
Total Unrestricted Net Assets	23,061,539	23,868,497
Temporarily restricted	3,059,142	3,141,138
Permanently restricted	476,250	476,250
Total Net Assets	26,596,931	27,485,885
	\$ 26,819,921	\$ 27,682,487

See notes to financial statements.

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF UNRESTRICTED ACTIVITY

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Unrestricted Public Support and Revenue		
Unrestricted public support		
Special events	\$ 609,416	\$ 669,286
less direct cost of benefits provided to participants	<u>(107,917)</u>	<u>(117,395)</u>
Special events, net	501,499	551,891
Annual giving	773,042	916,167
Planned giving	45,657	-
McDonald's support	712,192	793,156
In-kind contributions	<u>157,182</u>	<u>81,830</u>
Total Unrestricted Public Support	<u>2,189,572</u>	<u>2,343,044</u>
Revenues, Gains and Losses		
Room receipts	590,571	576,408
Interest and dividends, net	487,172	518,263
Realized and unrealized losses on investments	(1,534,644)	(564,712)
Other revenue	<u>391,223</u>	<u>381,525</u>
Total Revenues, Gains and Losses	<u>(65,678)</u>	<u>911,484</u>
Total Unrestricted Public Support and Revenue	2,123,894	3,254,528
Net Assets Released from Restrictions		
Satisfaction of purpose restrictions	<u>1,018,488</u>	<u>976,659</u>
Total Unrestricted Public Support, Revenue, and Other Support	<u>3,142,382</u>	<u>4,231,187</u>
Expenses		
Program services	3,002,670	2,731,042
Management and general	243,985	233,061
Fundraising	583,328	543,685
Remittance to Global	<u>119,357</u>	<u>110,094</u>
Total Expenses and Remittance to Global	<u>3,949,340</u>	<u>3,617,882</u>
Change in Unrestricted Net Assets	<u>\$ (806,958)</u>	<u>\$ 613,305</u>

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support, Revenue and Other Support								
Unrestricted public support and revenue	\$ 2,123,894			\$ 2,123,894	\$ 3,254,528			\$ 3,254,528
Restricted public support								
Annual giving		\$ 336,480	\$ -	336,480	\$ 317,129	\$ -		317,129
Special events		385,761		385,761	391,900			391,900
McDonald's support		257,744		257,744	286,443			286,443
Interest and dividends, net		16,239		16,239	20,995			20,995
Realized and unrealized losses on investments		(59,732)		(59,732)	(7,112)			(7,112)
Net Assets Released from Restrictions	<u>1,018,488</u>	<u>(1,018,488)</u>		-	<u>976,659</u>	<u>(976,659)</u>		-
Total Public Support, Revenue and Other Support	3,142,382	(81,996)	-	3,060,386	4,231,187	32,696	-	4,263,883
Total Expenses and Remittance to Global	<u>(3,949,340)</u>			<u>(3,949,340)</u>	<u>(3,617,882)</u>			<u>(3,617,882)</u>
Change in Net Assets	(806,958)	(81,996)	-	(888,954)	613,305	32,696	-	646,001
Net Assets - beginning of year	<u>23,868,497</u>	<u>3,141,138</u>	<u>476,250</u>	<u>27,485,885</u>	<u>23,255,192</u>	<u>3,108,442</u>	<u>476,250</u>	<u>26,839,884</u>
Net Assets - end of year	<u>\$ 23,061,539</u>	<u>\$ 3,059,142</u>	<u>\$ 476,250</u>	<u>\$ 26,596,931</u>	<u>\$ 23,868,497</u>	<u>\$ 3,141,138</u>	<u>\$ 476,250</u>	<u>\$ 27,485,885</u>

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 971,478	\$ 148,016	\$ 273,488	\$ 1,392,982	\$ 936,189	\$ 143,522	\$ 259,242	\$ 1,338,953
Payroll taxes	84,965	12,946	23,919	121,830	82,143	12,594	22,746	117,483
Employee benefits	215,767	32,875	60,742	309,384	185,550	28,445	51,381	265,376
Total Salaries and Related Expenses	1,272,210	193,837	358,149	1,824,196	1,203,882	184,561	333,369	1,721,812
Occupancy	931,302	2,365	403	934,070	738,924	1,417	380	740,721
Depreciation	590,684	9,134	9,134	608,952	617,769	9,553	9,553	636,875
In-kind expense	102,518	-	20,705	123,223	67,080	-	14,750	81,830
Administrative and operating	43,657	11,204	45,531	100,392	40,266	12,887	48,199	101,352
Special events expenses	-	-	88,995	88,995	-	-	80,513	80,513
Insurance	51,613	5,735	-	57,348	49,430	5,492	-	54,922
Armored car expenses	-	-	57,336	57,336	-	-	55,460	55,460
Professional services	2,000	19,199	-	21,199	-	18,387	-	18,387
Miscellaneous	8,686	2,511	3,075	14,272	13,691	764	1,461	15,916
Total Expenses	<u>\$ 3,002,670</u>	<u>\$ 243,985</u>	<u>\$ 583,328</u>	3,829,983	<u>\$ 2,731,042</u>	<u>\$ 233,061</u>	<u>\$ 543,685</u>	3,507,788
Remittance to Global				119,357				110,094
Total Expenses and Remittance to Global				<u>\$ 3,949,340</u>				<u>\$ 3,617,882</u>

RONALD McDONALD HOUSE CHARITIES
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (888,954)	\$ 646,001
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	608,952	636,875
Reinvested investment earnings	(503,855)	(440,682)
Realized and unrealized losses on investments	1,594,376	571,824
Donated property and equipment	(33,959)	-
Change in:		
Promises to give	(17,912)	1,356
Other receivables	2,628	3,444
Prepays	12,701	1,003
Accounts payable and accrued expenses	<u>29,390</u>	<u>20,539</u>
Net Cash Provided by Operating Activities	<u>803,367</u>	<u>1,440,360</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(166,449)	(76,131)
Purchases of investments	(13,704,781)	(4,907,763)
Proceeds from sale of investments	<u>13,704,968</u>	<u>3,797,682</u>
Net Cash Used by Investing Activities	<u>(166,262)</u>	<u>(1,186,212)</u>
Cash Flows Used by Financing Activities		
Payment on capital lease obligation	<u>(3,002)</u>	<u>(2,721)</u>
Change in Cash and Cash Equivalents	634,103	251,427
Cash and Cash Equivalents - beginning of year	<u>926,013</u>	<u>674,586</u>
Cash and Cash Equivalents - end of year	<u>\$ 1,560,116</u>	<u>\$ 926,013</u>

RONALD MCDONALD HOUSE CHARITIES OF
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Ronald McDonald House Charities of Western Washington & Alaska (RMHC) owns and operates the Seattle Ronald McDonald House, which is one of the largest in the world. With 80 rooms, the Seattle House provides supportive, temporary lodging to families of seriously ill children who must leave their own community to have their children treated at Seattle Children's Hospital (Children's). In 2015, 448 families stayed at the Seattle House. By providing a "home-away-from-home," RMHC helps keep families together during a very difficult time in their lives.

RMHC also provides van service in Anchorage to transport families who are in Anchorage while their children receive medical care.

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. The net assets of RMHC are classified as follows:

Unrestricted net assets are available without restriction for support of RMHC's operations. The Board of Directors has designated otherwise unrestricted net assets as follows as of December 31:

	<u>2015</u>	<u>2014</u>
House operations	\$ 11,489,253	\$ 11,887,667
Capital improvements	<u>3,000,000</u>	<u>3,000,000</u>
	<u>\$ 14,489,253</u>	<u>\$ 14,887,667</u>

Temporarily restricted net assets are restricted by the donors to be used for certain purposes or future periods. Temporarily restricted net assets are available as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Promised land use	\$ 2,955,944	\$ 2,955,944
Accumulated endowment earnings	65,728	133,109
Capital improvements	724	29,378
RMHC house operations	<u>36,746</u>	<u>22,707</u>
	<u>\$ 3,059,142</u>	<u>\$ 3,141,138</u>

Permanently restricted net assets are endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations.

RONALD MCDONALD HOUSE CHARITIES OF
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

The Internal Revenue Service has recognized Ronald McDonald House Charities of Western Washington & Alaska as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation. RMHC follows the provisions of authoritative guidance related to accounting for uncertain tax positions. As of December 31, 2015, RMHC did not have any uncertain tax positions requiring accrual.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Cash and cash equivalents

Cash and cash equivalents consist of general checking and savings accounts and money market accounts. RMHC maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. RMHC has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

RONALD MCDONALD HOUSE CHARITIES OF
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Investments

Investments are reported at their fair values in the statements of financial position. Market risk could occur and is dependent on the future changes in market prices of the various investments held. Gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation. Interest and dividend revenues are reflected net of investment expenses. Advisory fees for the years ended December 31, 2015 and 2014 were \$70,909 and \$72,916, respectively. Certain investments are being held for the following long-term purposes as of December 31:

	<u>2015</u>	<u>2014</u>
Capital improvements	\$ 3,000,000	\$ 3,000,000
Endowment	<u>541,978</u>	<u>609,359</u>
	<u>\$ 3,541,978</u>	<u>\$ 3,609,359</u>

Promises to give

In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period 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. As of December 31, 2015, RMHC had no conditional promises to give.

Unconditional promises to give at December 31, 2015 and 2014 are \$200,352 and \$182,440, respectively, which are considered fully collectible by management. Long-term promises to give are due in one to five years.

Medicaid receivables

In accordance with financial accounting standards, room receipts from Medicaid are recognized as revenue in the period earned and recorded as receivables if not paid by year end. Amounts receivable from Medicaid at December 31, 2015 and 2014 are \$69,375 and \$72,353, respectively, and are included in other receivables.

RONALD MCDONALD HOUSE CHARITIES OF
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Expenditures for the acquisition of equipment are capitalized at cost. The fair value of donated property, including long-term land leases, and equipment is capitalized on the date of donation. RMHC capitalizes all expenditures for property and equipment in excess of \$5,000. Depreciation is provided over the estimated useful lives of the assets on the straight-line method. RMHC uses the direct expensing method to account for planned maintenance activities.

Property and equipment consist of the following as of December 31:

	Estimated <u>Useful Lives</u>	<u>2015</u>	<u>2014</u>
Land		\$ 2,955,944	\$ 2,955,944
Building and improvements	15-40 years	13,670,129	13,836,958
Furniture and fixtures	5-7 years	2,108,755	1,926,347
Vehicles	5 years	<u>56,901</u>	<u>56,901</u>
		18,791,729	18,776,150
Accumulated depreciation		<u>(7,263,499)</u>	<u>(6,839,376)</u>
		<u>\$ 11,528,230</u>	<u>\$ 11,936,774</u>

Children's Health Care System (an affiliate of Children's) holds title to, and is the landlord for, all real estate (land) associated with grounds of the RMHC houses. The ground lease associated with the original house is for \$1 per year for a term of 99 years, from May 1983 through April 2082. The use of the land is restricted for the purposes of operating the House or a similar facility. The estimated fair value of the land in 1983, when its use was first donated, was \$829,544. The value of the land is included in temporarily restricted net assets.

The ground lease associated with the second house is for \$1 per year for a term of 99 years, from September 2002 through August 2101. The lease requires the lessor's prior written permission for changes in the agreed upon use of the second house, assignment, subletting, and significant changes related to the initial construction.

In addition, the lease prohibits use of the building as collateral except for a construction loan, and gives the lessor first right to purchase the buildings and equipment at the expiration of the lease term. The estimated fair value of the land in 2002, when its use was first donated, was \$2,126,400. The value of the land is included in temporarily restricted net assets.

RONALD MCDONALD HOUSE CHARITIES OF
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted cash flows. We measure the impairment loss based on the difference between the carrying amount and the estimated fair value. No impairment losses were recognized for the years ended December 31, 2015 or 2014.

Restricted and unrestricted support

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (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 as net assets released from restrictions.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts 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 how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Donated goods and services

Non-cash donations are recorded as contributions at their estimated fair values at the date of donation. Donated assets, goods, and services were used for program and supporting services and were as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Donated goods	\$ 136,477	\$ 38,498
Donated services	<u>20,705</u>	<u>43,332</u>
Total in-kind contributions	157,182	81,830
Less amount capitalized	<u>33,959</u>	-
Total in-kind expense	<u>\$ 123,223</u>	<u>\$ 81,830</u>

RONALD MCDONALD HOUSE CHARITIES OF
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with financial accounting standards, the financial statements reflect only those donated services requiring specific expertise which RMHC would otherwise need to purchase. However, many individual volunteers donate significant amounts of time and perform a variety of tasks that assist RMHC. For the years ended December 31, 2015 and 2014, management estimates that RMHC received approximately 43,605 and 41,730 hours with estimated values of \$1,027,350 and \$962,750, respectively.

Functional allocation of expenses

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

NOTE B - RELATED PARTY TRANSACTIONS

Under the terms of its affiliation agreement with Ronald McDonald House Charities, Inc., RMHC is obligated to remit 25% of certain contributions, net of fundraising expenses, to that national group on a regular basis. For the years ended December 31, 2015 and 2014, RMHC incurred obligations of \$119,357 and \$110,094, respectively, to the national group, of which \$29,213 and \$29,308, respectively, was included in accounts payable at December 31, 2015 and 2014.

NOTE C - COMMITMENTS

RMHC leases certain office equipment under a non-cancelable capital lease, with a total recorded cost of \$13,182, and related accumulated depreciation at December 31, 2015 of \$11,424. Depreciation expense reported in the statements of activities includes \$2,636 for the equipment under capital lease. Total monthly payments are \$279 including interest of 9.9% per annum. Scheduled lease payments for the year ending December 31, 2016 are as follows:

Total payments	\$	1,956
Less amounts representing interest		<u>63</u>
Current portion	\$	<u>1,893</u>

NOTE D - PENSION PLAN

On January 1, 2007, RMHC switched from a SIMPLE IRA to a 401(k) defined contribution plan (the Plan). The Plan covers all employees who have completed 12 months of service and have attained the age of 21 years. RMHC's contributions to the Plan are at the discretion of the Board of Directors. Currently, RMHC will make a 3% contribution for all eligible employees, based on salary, and match an additional 1% of employee contributions. RMHC's contributions for the years ended December 31, 2015 and 2014 totaled \$47,492 and \$46,565, respectively.

RONALD MCDONALD HOUSE CHARITIES OF
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE E - OPERATING AGREEMENT

In 2002, RMHC entered into an operating agreement with Children's Health Care System to provide rooms in the current operating houses, exclusively for families of patients at Children's. The initial term was for 5 years, from September 2002 through August 2007. The original five-year agreement provided up to a maximum of \$80,300 per year if all 80 rooms were made available. Since the expiration of the written agreement, Seattle Children's Hospital has negotiated a verbal agreement with RMHC. For the years ended December 31, 2015 and 2014, \$391,200 and \$372,000 was paid, respectively. For the year ending December 31, 2016, \$410,760 will be paid.

NOTE F - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis as of December 31, 2015 and 2014 is as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of December 31, 2015:				
Cash and money market funds	\$ 172,326	\$ -	\$ -	\$ 172,326
Equity funds	9,264,503	-	-	9,264,503
Fixed income funds	2,905,461	-	-	2,905,461
Alternative investment funds	<u>1,073,263</u>	<u>-</u>	<u>-</u>	<u>1,073,263</u>
Total Assets shown at Fair Value	<u>\$ 13,415,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,415,553</u>

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of December 31, 2014:				
Cash and money market funds	\$ 280,515	\$ -	\$ -	\$ 280,515
Equity funds	5,805,117	-	-	5,805,117
Fixed income funds	3,286,717	-	-	3,286,717
Real asset/Real return funds	1,890,263	-	-	1,890,263
Alternative investment funds	<u>3,243,649</u>	<u>-</u>	<u>-</u>	<u>3,243,649</u>
Total Assets shown at Fair Value	<u>\$ 14,506,261</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,506,261</u>

RONALD MCDONALD HOUSE CHARITIES OF
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE F - FAIR VALUE MEASUREMENTS (Continued)

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input. RMHC also uses fair value concepts to test various long-lived assets for impairment.

NOTE G - ENDOWMENT

RMHC's endowment consists of one permanently restricted fund ("the Fund") established in 1993 by Mrs. Kroc to help with ongoing "operating expenses." As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There are no funds designated by the Board of Directors to function as endowments.

Interpretation of Relevant Law

Based on the Board of Directors' interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted in the State of Washington, the original amount of donor-restricted contributions to the endowment plus any required accumulations are not expendable.

Accordingly, RMHC classifies as permanently restricted net assets (a) the original value of donor-restricted contributions to the endowment, (b) the original value of subsequent donor-restricted contributions to the endowment, and (c) any accumulations to the endowment made in accordance with the terms of the contribution. Net assets without donor restrictions are classified as unrestricted.

Under UPMIFA, 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 standards of prudence prescribed by UPMIFA.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

One hundred percent of the endowment's earnings are available to be spent in the year earned on operating expenses. These earnings represent interest and dividends, exclusive of gains and losses. In establishing this policy, RMHC considered the long-term expected return on its endowment. Accordingly, over the long term, RMHC expects the current spending policy to allow its endowment to maintain purchasing power of the assets held in perpetuity as well as to provide additional real growth through new gifts and investment appreciation.

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NOTE G - ENDOWMENT (Continued)

Return Objectives and Risk Parameters

The investment policy includes a target allocation table that allows for diversity and performance measurement against the appropriate index. The long-term objective of the Fund is to provide income and achieve a target rate of return of CPI + 4% annualized over a full market cycle, defined as 5 to 7 years, with diversification employed to reduce risk.

The relative objectives of the policy are to generate a return in excess of the passive portfolio benchmark for each asset class, exceed the rate of inflation, assumed to be approximately 3% annually over a 5 to 10 year period, and exceed the 50th percentile return of a universe comprised of funds or managers with similar objectives and/or styles.

Change in endowment net assets for the year ended December 31, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment, beginning of year	\$ -	\$ 133,109	\$ 476,250	\$ 609,359
Investment return:				
Investment income	-	16,239	-	16,239
Net gains/(losses)	-	(59,732)	-	(59,732)
Total investment return	-	(43,493)	-	(43,493)
Appropriated for expenditure	-	(23,888)	-	(23,888)
Donor-restricted endowment, end of year	<u>\$ -</u>	<u>\$ 65,728</u>	<u>\$ 476,250</u>	<u>\$ 541,978</u>

Change in endowment net assets for the year ended December 31, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment, beginning of year	\$ 5,847	\$ 140,221	\$ 476,250	622,318
Investment return:				
Investment income	-	20,995	-	20,995
Net gains/(losses)	-	(7,112)	-	(7,112)
Total investment return	-	13,883	-	13,883
Appropriated for expenditure	(5,847)	(20,995)	-	(26,842)
Donor-restricted endowment, end of year	<u>\$ -</u>	<u>\$ 133,109</u>	<u>\$ 476,250</u>	<u>\$ 609,359</u>

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NOTE H - ALASKA NATIVE TRIBAL HEALTH CONSORTIUM

In October 2015, RMHC entered into an agreement with Alaska Native Tribal Health Consortium (ANTHC) to partner in a new maternal and family housing floor of a patient housing facility that is being constructed by ANTHC. The floor will be known as the Ronald McDonald House at ANMC and will be owned by ANTHC and operated by RMHC. ANTHC will pay for operational costs associated with maintenance of the patient housing facility and for all security, housekeeping, telecommunications, maintenance, and utilities. RMHC will provide quarterly funding to ANTHC sufficient to fund two full-time House Managers and one part-time Volunteer and Activities Coordinator.

NOTE I - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2015 through June 22, 2016, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2015, including the estimates inherent in the processing of financial statements.

In June 2016, RMHC entered into a non-cancelable capital lease for certain office equipment with a cost of \$9,430. Total monthly payments are \$227 including service fees and interest at 5.2% per annum. Scheduled lease payments for the years ending December 31, 2016 are as follows:

2016	\$	894
2017		2,146
2018		2,146
2019		2,146
2020		2,146
2021		<u>1,252</u>
		10,730
Less amounts representing interest		<u>(1,300)</u>
	\$	<u>9,430</u>