

RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2017 AND 2016

RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

June 20, 2018

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, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Jacobson Jarvis & Co, PLLC*

Jacobson Jarvis & Co, PLLC

RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b><u>ASSETS</u></b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,546,877	\$ 2,050,557
Investments	13,025,779	10,907,959
Promises to give	370,521	527,015
Other receivables	87,846	90,081
Prepays	24,809	42,408
Total Current Assets	17,055,832	13,618,020
<b>Investments - long-term</b>	3,643,852	3,573,511
<b>Promises to Give - long-term</b>	4,000	8,000
<b>Property and Equipment, net</b>	10,723,726	11,080,769
	<b>\$ 31,427,410</b>	<b>\$ 28,280,300</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 275,851	\$ 222,394
Unearned revenue	18,478	-
Capital lease obligation, current	1,657	1,573
Total Current Liabilities	295,986	223,967
<b>Capital Lease Obligation, less current portion above</b>	4,863	6,520
Total Liabilities	300,849	230,487
<b>Net Assets</b>		
Unrestricted		
Invested in property and equipment	7,767,781	8,124,824
Board designated	19,669,773	16,168,021
Total Unrestricted Net Assets	27,437,554	24,292,845
Temporarily restricted	3,212,757	3,280,718
Permanently restricted	476,250	476,250
Total Net Assets	31,126,561	28,049,813
	<b>\$ 31,427,410</b>	<b>\$ 28,280,300</b>

See notes to financial statements.

RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF UNRESTRICTED ACTIVITY

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Unrestricted Public Support and Revenue</b>		
Unrestricted public support		
Special events	\$ 573,983	\$ 555,420
less direct cost of benefits provided to participants	<u>(116,831)</u>	<u>(110,361)</u>
Special events, net	457,152	445,059
Annual giving	1,734,845	1,242,847
Planned giving	677,255	66,502
McDonald's support	1,002,772	728,969
In-kind contributions	<u>107,657</u>	<u>71,333</u>
Total Unrestricted Public Support	<u>3,979,681</u>	<u>2,554,710</u>
<b>Revenues, Gains and Losses</b>		
Room receipts	571,213	596,398
Interest and dividends, net	353,886	342,151
Realized and unrealized gains on investments	1,761,870	688,422
Other revenue	<u>1,700</u>	<u>1,691</u>
Total Revenues, Gains and Losses	<u>2,688,669</u>	<u>1,628,662</u>
Total Unrestricted Public Support and Revenue	6,668,350	4,183,372
<b>Net Assets Released from Restrictions</b>		
Satisfaction of purpose restrictions	<u>724,456</u>	<u>1,374,618</u>
Total Unrestricted Public Support, Revenue, and Other Support	<u>7,392,806</u>	<u>5,557,990</u>
<b>Expenses</b>		
Program services	3,261,476	3,389,464
Management and general	247,670	240,446
Fundraising	623,131	583,236
Remittance to Global	<u>115,820</u>	<u>113,538</u>
Total Expenses and Remittance to Global	<u>4,248,097</u>	<u>4,326,684</u>
Change in Unrestricted Net Assets	<u>\$ 3,144,709</u>	<u>\$ 1,231,306</u>

RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Public Support, Revenue and Other Support</b>								
Unrestricted public support and revenue	\$ 6,668,350			\$ 6,668,350	\$ 4,183,372			\$ 4,183,372
Restricted public support								
Annual giving		\$ 182,995	\$ -	182,995	\$ 974,740	\$ -		974,740
Special events		395,743		395,743	382,875			382,875
McDonald's support		-		-	195,386			195,386
Interest and dividends, net		8,773		8,773	9,539			9,539
Realized and unrealized losses on investments		68,984		68,984	33,654			33,654
Net Assets Released from Restrictions	724,456	(724,456)		-	1,374,618	(1,374,618)		-
Total Public Support, Revenue and Other Support	7,392,806	(67,961)	-	7,324,845	5,557,990	221,576	-	5,779,566
<b>Total Expenses and Remittance to Global</b>	(4,248,097)			(4,248,097)	(4,326,684)			(4,326,684)
Change in Net Assets	3,144,709	(67,961)	-	3,076,748	1,231,306	221,576	-	1,452,882
Net Assets - beginning of year	24,292,845	3,280,718	476,250	28,049,813	23,061,539	3,059,142	476,250	26,596,931
Net Assets - end of year	\$ 27,437,554	\$ 3,212,757	\$ 476,250	\$ 31,126,561	\$ 24,292,845	\$ 3,280,718	\$ 476,250	\$ 28,049,813

RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 1,035,942	\$ 164,350	\$ 305,499	\$ 1,505,791	\$ 997,434	\$ 152,062	\$ 280,228	\$ 1,429,724
Payroll taxes	94,294	12,515	23,264	130,073	86,480	12,957	23,879	123,316
Employee benefits	190,385	25,269	46,971	262,625	166,287	24,915	45,915	237,117
Total Salaries and Related Expenses	1,320,621	202,134	375,734	1,898,489	1,250,201	189,934	350,022	1,790,157
Occupancy	875,248	-	-	875,248	893,953	-	403	894,356
Depreciation	537,793	8,316	8,316	554,425	552,492	8,544	8,544	569,580
Alaska House support	407,811	-	-	407,811	542,549	-	-	542,549
Administrative and operating	41,505	10,384	46,537	98,426	44,665	16,564	41,519	102,748
Special events expenses	-	-	93,711	93,711	-	-	98,881	98,881
Armored car expenses	-	-	70,942	70,942	-	-	61,837	61,837
Insurance	51,538	6,117	-	57,655	51,874	5,764	-	57,638
In-kind expense	17,859	-	26,748	44,607	46,271	-	20,880	67,151
Professional services	-	19,337	-	19,337	-	19,080	-	19,080
Miscellaneous	9,101	1,382	1,143	11,626	7,459	560	1,150	9,169
Total Expenses	<u>\$ 3,261,476</u>	<u>\$ 247,670</u>	<u>\$ 623,131</u>	4,132,277	<u>\$ 3,389,464</u>	<u>\$ 240,446</u>	<u>\$ 583,236</u>	4,213,146
Remittance to Global				115,820				113,538
Total Expenses and Remittance to Global				<u>\$ 4,248,097</u>				<u>\$ 4,326,684</u>



RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 3,076,748	\$ 1,452,882
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	554,425	569,580
Reinvested investment earnings	(351,119)	(351,564)
Realized and unrealized gains on investments	(1,830,854)	(722,076)
Donated property and equipment	(63,050)	(3,998)
Change in:		
Promises to give	160,494	(334,663)
Other receivables	2,235	(17,821)
Prepays	17,599	1,002
Accounts payable and accrued expenses	53,457	1,297
Unearned revenue	18,478	-
	<u>1,638,413</u>	<u>594,639</u>
Net Cash Provided by Operating Activities		
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(134,332)	(109,501)
Purchases of investments	(6,867,063)	(1,012,976)
Proceeds from sale of investments	<u>6,860,875</u>	<u>1,020,699</u>
	<u>(140,520)</u>	<u>(101,778)</u>
Net Cash Used by Investing Activities		
<b>Cash Flows Used by Financing Activities</b>		
Payment on capital lease obligation	<u>(1,573)</u>	<u>(2,420)</u>
	<u>1,496,320</u>	<u>490,441</u>
Change in Cash and Cash Equivalents		
Cash and Cash Equivalents - beginning of year	<u>2,050,557</u>	<u>1,560,116</u>
Cash and Cash Equivalents - end of year	<u>\$ 3,546,877</u>	<u>\$ 2,050,557</u>
<b>Non-cash investing and financing activities</b>		
Equipment purchased through issuance of capital lease obligation	<u>\$ -</u>	<u>\$ 8,620</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF  
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Ronald McDonald House Charities of Western Washington & Alaska (RMHC) owns and operates the Seattle Ronald McDonald House. 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 2017, 429 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 operates a House in Anchorage, Alaska, in partnership with the Alaska Native Medical Center (ANMC). The 34-room House is within the patient housing building and serves expectant mothers with high risk pregnancies as well as families of pediatric patients at the Alaska Native Medical Center. In 2017, the first year of operation for the House at ANMC, 1,200 families were served.

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>2017</u>	<u>2016</u>
House operations	\$ 16,669,773	\$ 13,168,021
Capital improvements	<u>3,000,000</u>	<u>3,000,000</u>
	<u>\$ 19,669,773</u>	<u>\$ 16,168,021</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>2017</u>	<u>2016</u>
Promised land use	\$ 2,955,944	\$ 2,955,944
Accumulated endowment earnings	167,602	97,261
AK Equipment & Supply Grants	3,075	190,964
Capital improvements	500	744
RMHC house operations	<u>85,636</u>	<u>35,805</u>
	<u>\$ 3,212,757</u>	<u>\$ 3,280,718</u>

RONALD MCDONALD HOUSE CHARITIES OF  
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NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2017, 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. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period. 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  
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NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017 and 2016 were \$78,624 and \$69,567, respectively. Certain investments are being held for the following long-term purposes as of December 31:

	<u>2017</u>	<u>2016</u>
Capital improvements	\$ 3,000,000	\$ 3,000,000
Endowment	<u>643,852</u>	<u>573,511</u>
	<u>\$ 3,643,852</u>	<u>\$ 3,573,511</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, 2017, RMHC had no conditional promises to give.

Unconditional promises to give at December 31, 2017 and 2016 are \$374,521 and \$535,015, 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, 2017 and 2016 are \$82,930 and \$86,901, respectively, and are included in other receivables.

RONALD MCDONALD HOUSE CHARITIES OF  
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016

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>2017</u>	<u>2016</u>
Land		\$ 2,955,944	\$ 2,955,944
Building and improvements	15-40 years	13,672,501	13,672,501
Furniture and fixtures	5-7 years	2,222,184	2,208,131
Vehicles	5 years	111,901	56,901
Construction in progress		<u>132,529</u>	<u>4,200</u>
		19,095,059	18,897,677
Accumulated depreciation		<u>(8,371,333)</u>	<u>(7,816,908)</u>
		<u>\$ 10,723,726</u>	<u>\$ 11,080,769</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  
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NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017 or 2016.

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>2017</u>	<u>2016</u>
Donated goods	\$ 76,314	\$ 50,269
Donated services	<u>31,343</u>	<u>20,880</u>
Total in-kind contributions	107,657	71,149
Less amount capitalized	<u>63,050</u>	<u>3,998</u>
Total in-kind expense	<u>\$ 44,607</u>	<u>\$ 67,151</u>

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NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, management estimates that RMHC received approximately 43,150 and 42,363 hours with estimated values of \$1,065,374 and \$1,022,643, 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.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the total net assets or total change in net assets as of or for the year ended December 31, 2016.

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, 2017 and 2016, RMHC incurred obligations of \$115,820 and \$113,538, respectively, to the national group, of which \$26,920 and \$26,389, respectively, was included in accounts payable at December 31, 2017 and 2016.

NOTE C - PENSION PLAN

RMHC Sponsors a 401(k) defined contribution plan (the Plan). The Plan covers all employees from date of hire. RMHC's contributions to the Plan are at the discretion of the Board of Directors. Currently, RMHC will make a 4% 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, 2017 and 2016 totaled \$69,372 and \$49,366, respectively.

RONALD MCDONALD HOUSE CHARITIES OF  
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NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE D - OPERATING AGREEMENT

RMHC and Seattle Children's Hospital have a Memorandum of Understanding which is negotiated and renewed annually. RMHC provides rooms exclusively for families of patients at Children's and Children's provides annual financial support. For the years ended December 31, 2017 and 2016, \$431,400 and \$410,760, respectively, was paid. For the year ending December 31, 2018, \$452,862 will be paid.

NOTE E - COMMITMENTS

RMHC leases certain office equipment under a non-cancelable capital lease. The previous capital lease expired during 2016. In September 2016, RMHC entered into a new non-cancelable capital lease for certain office equipment with a cost of \$8,620. Accumulated depreciation totaled \$2,682 as of December 31, 2017. Depreciation expense reported in the statements of activities includes \$1,724 for the equipment under capital lease. Monthly payments are \$227 including taxes, service fees and interest at 5.2% per annum. Scheduled lease payments for the years ending December 31 are as follows:

2018	\$	1,957
2019		1,957
2020		1,957
2021		<u>1,305</u>
		7,176
Less amounts representing interest		<u>(656)</u>
		6,520
Less current portion		<u>(1,657)</u>
	\$	<u><u>4,863</u></u>

NOTE F - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis as of December 31, 2017 and 2016 is as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of December 31, 2017:				
Cash and money market funds	\$ 2,324,727	\$ -	\$ -	\$ 2,324,727
Equity funds	8,513,219	-	-	8,513,219
Fixed income funds	4,685,174	87,899	-	4,773,073
Alternative investment funds	<u>1,058,612</u>	<u>-</u>	<u>-</u>	<u>1,058,612</u>
Total Assets shown at Fair Value	<u>\$ 16,581,732</u>	<u>\$ 87,899</u>	<u>\$ -</u>	<u>\$ 16,669,631</u>



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NOTE F - FAIR VALUE MEASUREMENTS (Continued)

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	<u>Total</u>
As of December 31, 2016:				
Cash and money market funds	\$ 325,928	\$ -	\$ -	\$ 325,928
Equity funds	10,243,574	-	-	10,243,574
Fixed income funds	2,500,682	318,632	-	2,819,314
Alternative investment funds	<u>1,092,654</u>	<u>-</u>	<u>-</u>	<u>1,092,654</u>
Total Assets shown at Fair Value	<u>\$ 14,162,838</u>	<u>\$ 318,632</u>	<u>\$ -</u>	<u>\$ 14,481,470</u>

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.

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NOTES TO FINANCIAL STATEMENTS  
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NOTE G - ENDOWMENT (Continued)

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.

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, 2017 is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment, beginning of year	\$ -	\$ 97,261	\$ 476,250	\$ 573,511
Investment return:				
Investment income	-	8,773	-	8,773
Net gains/(losses)	-	68,984	-	68,984
Total investment return	-	77,757	-	77,757
Appropriated for expenditure	-	(7,416)	-	(7,416)
Donor-restricted endowment, end of year	<u>\$ -</u>	<u>\$ 167,602</u>	<u>\$ 476,250</u>	<u>\$ 643,852</u>

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NOTES TO FINANCIAL STATEMENTS  
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NOTE G - ENDOWMENT (Continued)

Change in endowment net assets for the year ended December 31, 2016 is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment, beginning of year	\$ -	\$ 65,728	\$ 476,250	<u>541,978</u>
Investment return:				
Investment income	-	9,539	-	9,539
Net gains/(losses)	<u>-</u>	<u>33,654</u>	<u>-</u>	<u>33,654</u>
Total investment return	-	43,193	-	43,193
Appropriated for expenditure	<u>-</u>	<u>(11,660)</u>	<u>-</u>	<u>(11,660)</u>
Donor-restricted endowment, end of year	<u>\$ -</u>	<u>\$ 97,261</u>	<u>\$ 476,250</u>	<u>\$ 573,511</u>

NOTE H- SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2017 through June 20, 2018, 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, 2017, including the estimates inherent in the processing of financial statements.