

**RONALD MCDONALD HOUSE CHARITIES
OF ROCHESTER NY, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2016

INDEPENDENT AUDITORS' REPORT

Board of Directors
Ronald McDonald House Charities of Rochester NY, Inc.
Rochester, New York

We have audited the accompanying financial statements of Ronald McDonald House Charities of Rochester NY, Inc. (a nonprofit corporation), which comprise the balance sheet as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Rochester NY, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Ronald McDonald House Charities of Rochester NY, Inc's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

EFPR Group, CPAs, PLLC

EFPR Group, CPAs, PLLC
Rochester, New York
May 9, 2017

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.

Balance Sheets

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 405,816	\$ 313,333
Accounts receivable	27,560	46,401
Pledges and contributions receivable - current portion	74,208	62,338
Prepaid expenses and other assets	66,649	37,064
Total current assets	574,233	459,136
Property and Equipment - Net	2,561,017	2,468,309
Other Assets		
Long-term investments	8,064,267	7,984,196
Long-term prepaid expenses	4,405	13,560
Pledges and contributions receivable - net of current portion	16,000	24,000
Total other assets	8,084,672	8,021,756
Total Assets	\$ 11,219,922	\$ 10,949,201
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 202,105	\$ 118,050
Deferred revenue	28,747	41,673
Due to RMHC (Global Office)	6,315	6,637
Total current liabilities	237,167	166,360
Total Liabilities	237,167	166,360
Net Assets		
Unrestricted	9,050,699	8,877,251
Temporarily restricted	979,371	952,905
Permanently restricted	952,685	952,685
Total net assets	10,982,755	10,782,841
Total Liabilities and Net Assets	\$ 11,219,922	\$ 10,949,201

The accompanying notes are an integral part of these financial statements.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.
Statement of Activities
For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Support and Revenue					
Support					
Public support from special events	\$ 1,379,560	\$ -	\$ -	\$ 1,379,560	\$ 1,127,828
Less - direct expenses for special events	(76,588)	-	-	(76,588)	(57,861)
Individual contributions	244,064	16,360	-	260,424	332,731
Foundation and business contributions	290,448	55,810	-	346,258	429,830
McDonald's support	120,875	-	-	120,875	137,047
United Way contributions	-	83,285	-	83,285	80,048
In-kind donations	98,457	-	-	98,457	86,210
Net assets released from restriction	230,481	(230,481)	-	-	-
Investment income available for operations	233,404	79,596	-	313,000	300,000
Revenue					
Room rental	24,320	-	-	24,320	9,415
Interest and dividend income	11,242	-	-	11,242	14,872
Other income	1,691	-	-	1,691	3,164
Total support and revenue	<u>2,557,954</u>	<u>4,570</u>	<u>-</u>	<u>2,562,524</u>	<u>2,463,284</u>
Expenses					
Program services	1,848,378	-	-	1,848,378	1,787,968
Supporting services					
General and administrative	193,873	-	-	193,873	106,500
Fundraising	392,633	-	-	392,633	315,625
Total expenses	<u>2,434,884</u>	<u>-</u>	<u>-</u>	<u>2,434,884</u>	<u>2,210,093</u>
Excess of Revenues Over Expenses from Operations					
	<u>123,070</u>	<u>4,570</u>	<u>-</u>	<u>127,640</u>	<u>253,191</u>
Other Income, (Expenses) , Gains and (Losses)					
Interest and dividend income	140,107	50,108	-	190,215	210,854
Investment expenses	(46,205)	(16,525)	-	(62,730)	(66,443)
Net gain (loss) on investments	189,880	67,909	-	257,789	(223,022)
Investment income available for operations	(233,404)	(79,596)	-	(313,000)	(300,000)
Total other income, expenses, gains and (losses)	<u>50,378</u>	<u>21,896</u>	<u>-</u>	<u>72,274</u>	<u>(378,611)</u>
Change in Net Assets					
	173,448	26,466	-	199,914	(125,420)
Net Assets - Beginning					
	<u>8,877,251</u>	<u>952,905</u>	<u>952,685</u>	<u>10,782,841</u>	<u>10,908,261</u>
Net Assets - Ending					
	<u>\$ 9,050,699</u>	<u>\$ 979,371</u>	<u>\$ 952,685</u>	<u>\$ 10,982,755</u>	<u>\$ 10,782,841</u>

The accompanying notes are an integral part of these financial statements.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	<u>Program Services</u>			<u>Supporting Services</u>		<u>Totals</u>	
	<u>Operations</u>	<u>Grant-Making</u>	<u>Total</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>2016</u>	<u>2015</u>
Salaries and wages	\$ 643,300	\$ 15,407	\$ 658,707	\$ 63,992	\$ 90,475	\$ 813,174	\$ 758,794
Employee benefits and payroll taxes	167,293	4,007	171,300	16,642	23,529	211,471	208,249
Total personnel costs	<u>810,593</u>	<u>19,414</u>	<u>830,007</u>	<u>80,634</u>	<u>114,004</u>	<u>1,024,645</u>	<u>967,043</u>
Advertising and marketing	75,616	-	75,616	-	-	75,616	131,726
Bad debt expense	41,940	-	41,940	-	-	41,940	2,070
Depreciation	241,560	-	241,560	-	-	241,560	225,136
Development	14,959	-	14,959	12,986	-	27,945	20,559
Facilities	121,972	-	121,972	-	-	121,972	112,365
Family and guest	141,666	-	141,666	-	-	141,666	113,087
Fundraising	117,647	-	117,647	1,066	238,173	356,886	257,710
Grant making	-	140,042	140,042	-	-	140,042	162,601
Insurance	19,871	-	19,871	5,546	-	25,417	32,265
Miscellaneous	884	-	884	6,448	156	7,488	7,437
Office expense	43,112	184	43,296	21,311	25,292	89,899	73,023
Postage and printing	25,669	-	25,669	3,477	14,045	43,191	36,926
Professional fees	16,124	-	16,124	56,248	-	72,372	44,062
Travel and seminars	538	-	538	6,157	963	7,658	8,843
Volunteer	16,587	-	16,587	-	-	16,587	15,240
Total expenses	<u>\$ 1,688,738</u>	<u>\$ 159,640</u>	<u>\$ 1,848,378</u>	<u>\$ 193,873</u>	<u>\$ 392,633</u>	<u>\$ 2,434,884</u>	<u>\$ 2,210,093</u>

The accompanying notes are an integral part of these financial statements.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 199,914	\$ (125,420)
Adjustments		
Bad debt expense	41,940	2,070
Depreciation	241,560	225,136
Net (gain) loss on investments	(257,789)	223,022
Changes in assets and liabilities		
Accounts receivable	(23,099)	(10,204)
Pledge and contributions receivable	(3,870)	55,547
Prepaid expenses and other assets	(20,430)	1,128
Accounts payable and accrued expenses	84,055	(18,900)
Deferred revenue	(12,926)	1,280
Due to RMHC (Global Office)	(322)	1,314
Net cash flows from operating activities	<u>249,033</u>	<u>354,973</u>
Cash Flows from Investing Activities		
Sale of investments	2,229,302	2,023,037
Purchase of investments	(2,051,584)	(1,867,487)
Purchase of property and equipment	(334,268)	(621,989)
Net cash flows from investing activities	<u>(156,550)</u>	<u>(466,439)</u>
Cash Flows from Financing Activities		
Payments of capital lease obligation	<u>-</u>	<u>(4,024)</u>
Net Change in Cash and Cash Equivalents	92,483	(115,490)
Cash and Cash Equivalents - Beginning	<u>313,333</u>	<u>428,823</u>
Cash and Cash Equivalents - Ending	<u>\$ 405,816</u>	<u>\$ 313,333</u>

The accompanying notes are an integral part of these financial statements.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies and Nature of the Organization

Nature of the Organization - Ronald McDonald House Charities of Rochester NY, Inc. (the "Organization") reaches out to the community to promote the health and well-being of children and their families by providing a home-away-from-home for families whose children are receiving medical treatment and by supporting other programs that help children. The Ronald McDonald House (the "House") is a 24-bedroom facility that provides temporary lodging to families of seriously ill children which is the cornerstone program of the Organization. The organization also operates a seven-bedroom "House Within the Hospital", at the Golisano Children's Hospital at the University of Rochester Medical Center, for families of critically ill or injured children receiving treatment at the hospital. In July of 2015, the organization opened a 1,000 square foot Ronald McDonald Family Room on the first floor of the new Golisano Children's Hospital to provide brief respite to families whose children are receiving care at the hospital. To its broader mission of creating, finding and supporting programs that directly improve the health and well-being of children, the Organization also makes grants to organizations that improve the physical and behavioral health of children in the Greater Rochester community. Funds for these grants come from donations, including special promotions held by local McDonald's franchises, special designed fundraising activities, matching grants from the National Chapter of the Ronald McDonald House and investment activities. The Organization manages its funds to support its grants and programs at the House and the House Within the Hospital, at times accumulating funds from year to year for large grants whereby the Board of Directors considers it prudent to do so.

Method of Accounting - The Organization's financial statements are prepared on the accrual basis of accounting. Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. The Organization uses the following classifications of net assets:

Unrestricted Net Assets - Unrestricted net assets represent resources that are generally available for support of the Organization's activities. Unrestricted net assets include resources that the Board of Directors may choose to use for designated purposes, and resources whose use is limited by agreement between the Organization and an outside party other than a donor or grantor.

Temporarily Restricted Net Assets - Temporarily restricted net assets are those whose use has been restricted by donors to a specific time period or purpose including investment earnings on permanently restricted net assets. When a donor 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 statements of operations as net assets released from restrictions. This amount also includes the unexpired portion of the land lease where the House's facility is constructed.

Permanently Restricted Net Assets - Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity. Income derived from endowment investments is utilized in accordance with donor restrictions and the New York Prudent Management of Institutional Funds Act (NYPMIFA).

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and 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 include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. For the purposes of the statements of cash flows, cash and cash equivalents exclude amounts maintained in investment portfolios. The Organization maintains cash and cash equivalents at financial institutions which periodically may exceed federally insured limits.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.
Notes to Financial Statements

Accounts Receivable - Accounts receivables are amounts uncollected as of year end. Management has determined that amounts are expected to be collected and therefore no allowance for doubtful accounts is deemed necessary.

Investments - Investments include assets set aside by the Board of Directors for the general use and purposes of the Organization and assets to be held by the Organization in perpetuity.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the change in unrestricted net assets, unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis. The fair value of substantially all securities is determined by quoted market prices.

The Organization's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statements of financial position are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the statements of financial position could change materially in the near term.

Property and Equipment - Property and equipment are recorded at costs if purchased or at fair market value if donated. Major additions with a cost over \$1,000 and an estimated useful life of more than 1 year are capitalized by the Organization while expenditures for repairs and maintenance of a relatively minor nature are expensed. Property and equipment are depreciated using the straight-line method over their estimated useful lives. Upon retirement or disposal of an asset, cost and related accumulated depreciation are eliminated and any gain or loss is included in operations. Depreciation terms are as follows:

Building and improvements	5 - 30 Years
Furniture and equipment	5 - 20 Years
Vehicles	5 Years

Revenue Recognition - Revenue is recorded when earned or due. Contributions are recorded when received or when an unconditional promise to give has been established. Deferred revenues are amounts collected prior to being earned and are recorded as deferred revenues and recognized when earned.

Advertising - Advertising costs are expensed as incurred.

Functional Expenses - The cost of providing the various programs and other activities have been summarized on the functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services provided.

Income Taxes - The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose may be subject to taxation as unrelated business income.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.
Notes to Financial Statements

In accordance with ASC 740-10-50, the Organization recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Management believes that the Organization is currently operating in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no liability for unrecognized tax benefits has been included on the Organization's financial statements. The exempt Organization's informational returns are subject to audit by various taxing authorities.

Subsequent Events - Management has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

Note 2. Fair Value Measurements

The Organization measures its investments and beneficial interests in trusts at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value:

Mutual funds, common stocks, real estate investment trusts, and American depository receipts: Valued at closing price reported on the active market on which the individual securities are traded (level 1).

U.S. government obligations, U.S. treasuries, corporate bonds, municipal bonds, and international bonds: Valued based on quoted prices for identical securities in an active market (level 1 & 2).

Federal agency mortgage backed securities and asset backed securities: Valued based on quoted prices for similar securities (level 2).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.
Notes to Financial Statements

Investments consisted of the following at December 31:

	<u>Total 2016</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 520,404	\$ 520,404	\$ -
Mutual funds	574,620	574,620	-
Common stocks	3,767,076	3,767,076	-
Real estate investment trusts	103,208	103,208	-
American depository receipt (ADR)	801,934	801,934	-
U.S. Government obligations	172,075	172,075	-
U.S. Treasuries	585,354	585,354	-
Corporate bonds	802,150	-	802,150
Municipal bonds	103,844	-	103,844
Federal agency mortgage backed securities	533,971	-	533,971
International bonds	24,026	-	24,026
CMO / asset backed securities	75,605	-	75,605
Total	<u>\$ 8,064,267</u>	<u>\$ 6,524,671</u>	<u>\$ 1,539,596</u>

	<u>Total 2015</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 213,352	\$ 213,352	\$ -
Mutual funds	544,026	544,026	-
Common stocks	3,734,904	3,734,904	-
Real estate investment trusts	110,477	110,477	-
American depository receipt (ADR)	836,882	836,882	-
U.S. Government obligations	204,337	204,337	-
U.S. Treasuries	439,694	439,694	-
Corporate bonds	988,491	-	988,491
Municipal bonds	104,710	-	104,710
Federal agency mortgage backed securities	680,645	-	680,645
International bonds	24,020	-	24,020
CMO / asset backed securities	102,658	-	102,658
Total	<u>\$ 7,984,196</u>	<u>\$ 6,083,672</u>	<u>\$ 1,900,524</u>

Earnings on investments consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 201,457	\$ 225,727
Unrealized gains (losses)	97,051	(421,397)
Realized gains	160,737	198,374
Total investment return	459,245	2,704
Less: operating interest and dividend income	(11,242)	(14,872)
Nonoperating investment return	<u>\$ 448,003</u>	<u>\$ (12,168)</u>

Operating interest and dividend income includes dividends on certain McDonald's Corporation common stock that was originally received as a donation from the Kroc family (Note 7). The terms of this donation require the dividends to be used for operations. Non-operating investment return is subject to the Organization's investment spending policy (Note 3).

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.
Notes to Financial Statements

Note 3. Endowment

The Organization's investment assets consist of both donor-restricted and board designated funds. As required by generally accepted accounting principles, net assets associated with funds that are donor-restricted against expenditure on a current basis are classified and reported as endowment funds.

Interpretation of Relevant Law - The Board of Directors of the Organization has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) 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 classified as permanently restricted net assets (a) permanent endowments, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. Absent explicit donor stipulations to the contrary, 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 NYPMIFA.

In accordance with NYPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund,
2. The purposes of the Organization and the fund,
3. General economic conditions,
4. The possible effect of inflation and deflation,
5. The expected total return from income and the appreciation of investments in the fund,
6. Other resources of the Organization,
7. Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the fund, giving due consideration to the effect that such alternatives may have on the Organization, and
8. The investment policies of the Organization.

The Organization has adopted additional investment and spending policies that apply to both endowment and board-designated investment funds.

Endowment composition by type for the year ended December 31, 2016, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment fund	\$ -	\$ 870,016	\$ 952,685	\$ 1,822,701
Board-designated endowment fund	6,072,452	-	-	6,072,452
Total endowment net assets	<u>\$ 6,072,452</u>	<u>\$ 870,016</u>	<u>\$ 952,685</u>	<u>\$ 7,895,153</u>

Endowment composition by type for the year ended December 31, 2015, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment fund	\$ -	\$ 848,120	\$ 952,685	\$ 1,800,805
Board-designated endowment fund	6,029,502	-	-	6,029,502
Total endowment net assets	<u>\$ 6,029,502</u>	<u>\$ 848,120</u>	<u>\$ 952,685</u>	<u>\$ 7,830,307</u>

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.
Notes to Financial Statements

Endowment activity as of and for the year ended December 31, 2016, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning	\$ 6,029,502	\$ 848,120	\$ 952,685	\$ 7,830,307
Investment income - net	91,444	33,583	-	125,027
Net appreciation	184,910	67,909	-	252,819
Amounts appropriated for expenditure	(233,404)	(79,596)	-	(313,000)
Endowment net assets - ending	<u>\$ 6,072,452</u>	<u>\$ 870,016</u>	<u>\$ 952,685</u>	<u>\$ 7,895,153</u>

Endowment activity as of and for the year ended December 31, 2015, follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning	\$ 6,317,033	\$ 937,107	\$ 952,685	\$ 8,206,825
Investment income - net	101,756	38,805	-	140,561
Net depreciation	(157,149)	(59,930)	-	(217,079)
Amounts appropriated for expenditure	(232,138)	(67,862)	-	(300,000)
Endowment net assets - ending	<u>\$ 6,029,502</u>	<u>\$ 848,120</u>	<u>\$ 952,685</u>	<u>\$ 7,830,307</u>

Return Objectives and Risk Parameters - The Organization has adopted investment and spending policies, approved by its Board of Directors, for investment assets that attempt to provide a predictable stream of funding for programs supported by these investments while also maintaining the purchasing power of those assets over the long-term. Accordingly, the investment process seeks to achieve an after cost total real rate of return, including investment income as well as capital appreciation, which exceeds annual distributions with acceptable levels of risk. Specifically, the investment return objective is to earn an average annual total rate of return, net of fees, which meets or exceeds composite benchmarks over a trailing one-year, three-year, five-year and inception to date market period for each asset class in the portfolio. The composite benchmark is calculated as a weighted average of the individual benchmarks identified for each asset class, weighted in accordance with the target allocation to each class in the portfolio.

Investment assets are invested in a diversified asset mix, which includes equity securities and fixed income that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while producing accumulation in absolute terms and maintaining purchasing power against inflation over the long term. Investment risk is measured in term of the total investment fund. In establishing the targeted asset allocation for the various asset classes, historical and expected rates of return and correlation amount returns are analyzed to achieve a combination of classes designated to maximize returns while minimizing volatility.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Organization allows appropriation from its investment funds (both endowment and board-designated) in each year of 4% of a rolling 20-quarter average of their combined market values, with a floor of 3% of their current combined market values and ceiling of 5.5% of such values. The amount available to be appropriated is calculated annually as of September 30 each year, with 25% of this calculated annual amount considered available in each quarter during the following calendar year. However, this potential appropriation is actually taken for a given quarter only if (and to the extent that) operating cash and cash equivalent balances outside of the investment funds fall short of 25% of annual budgeted operating expenses for the quarter.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.
Notes to Financial Statements

Withdrawals will be made in this manner without regard to increases or decreases in the market value of endowment assets during the year or the amount of income generated by endowment funds during the year. Withdrawals may exceed income and appreciation on these endowment assets.

In the event that a donor restricted endowment fund is received with specific donor stipulations regarding the use of the income on those funds that are not consistent with the terms of this spending policy, the donor stipulations will prevail for those specific funds, and such funds will not be included in the withdrawal calculation above.

Note 4. Pledges and Contributions Receivable

The Organization has pledges on which payment is to be received over the next several years. The pledges have not been discounted to their net present value as this adjustment is not material to the overall financial statements. Management has also determined that the amounts are fully collectible; therefore, no allowance for uncollectible pledges is considered necessary. Pledges and contributions receivable consisted of the following at December 31, 2016:

Receivable in 2017	\$ 74,208
Receivable in 2018	8,000
Receivable in 2019	8,000
Total	<u>\$ 90,208</u>

Note 5. Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 5,521,382	\$ 5,241,755
Furniture and equipment	790,883	736,242
Vehicles	13,423	13,423
Sub-total	<u>6,325,688</u>	<u>5,991,420</u>
Less, accumulated depreciation	(3,771,968)	(3,530,408)
Sub-total	<u>2,553,720</u>	<u>2,461,012</u>
Add, land	7,297	7,297
Property and equipment - net	<u>\$ 2,561,017</u>	<u>\$ 2,468,309</u>

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets are required by donors to be held for a specific purpose and consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Unappropriated endowment earnings	\$ 870,016	\$ 848,120
Other	68,451	65,738
Time restrictions	40,904	35,178
Land lease	-	3,869
Total	<u>\$ 979,371</u>	<u>\$ 952,905</u>

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.
Notes to Financial Statements

Note 7. Permanently Restricted Net Assets

Permanently restricted net assets are held to generate income for various purposes and consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Kroc endowment	\$ 504,225	\$ 504,225
Other endowment	448,460	448,460
Total	<u>\$ 952,685</u>	<u>\$ 952,685</u>

Note 8. In-Kind Donations

In-kind donations consist primarily of materials and supplies for operations of the House. These amounts are reflected in the accompanying financial statements at their fair values as contributions and expenses as of their date of receipt. Total in-kind donations were \$98,457, which are comprised of \$31,057 for general House operations and \$67,400 for special events activities for the year ended December 31, 2016. Total in-kind donations were \$86,210, which are comprised of \$42,935 for general House operations and \$43,275 for special events activities for the year ended December 31, 2015.

The Organization also receives donated services that do not meet the criteria for recording as revenue and expense under accounting principles generally accepted in the United States of America. Hundreds of individuals volunteer their time and services to help support the staff and guests of the Organization.

The volunteers provide housekeeping, office assistance, gardening, repair, maintenance and solicitation of in-kind goods for the House and the House Within the Hospital. These volunteers also assist with special events such as the Household Sale. Approximately 1,400 and 1,100 volunteers donated 103,000 and 89,000 hours for the years ended December 31, 2016 and 2015, respectively, which dramatically reduces the need to hire staff to complete the aforementioned activities. In accordance with accounting principles generally accepted in the United States of America, no amounts have been reflected in the accompanying statements for these donated (volunteer) services.

Note 9. Related Parties

Ronald McDonald House Charities, Inc. (Global) requires that 25% of all revenue that the Organization earns from national promotions held at area McDonald's Restaurants be remitted to them in support of national charitable programs. These remittances totaled \$23,246 and \$24,634 for the years ended December 31, 2016 and 2015, respectively. Amounts due to RMHC Global for the fourth quarter remittance were \$6,315 and \$6,637 for the years ended December 31, 2016 and 2015, respectively.

Note 10. Employee Retirement Plan

The Organization adopted a retirement plan (the "Plan") for the benefit of its employees during 2004. The Plan covers all employees who have three or more months of service. The Organization makes discretionary contributions to the Plan. Employer contributions were \$15,212 and \$18,315 for the years ended December 31, 2016 and 2015, respectively.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER NY, INC.
Notes to Financial Statements

Note 11. Commitments

The Organization leases the land underlying the House from a third-party. The lease agreement extended through April 30, 2017 and required annual lease payments of \$1. The ground lease requires that the premises be maintained to operate exclusively as a Ronald McDonald House. The lease agreement is currently being renegotiated. The Organization expects that the terms of the new lease will be similar to those of the lease that expired on April 30, 2017. In the interim, the land is under lease on a month-to-month basis.

Note 12. Reclassifications

Certain reclassifications have been made to the financial statements for the year ended December 31, 2015. These reclassifications are for comparative purposes only and have no effect on net income as originally reported.