

RONALD McDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2017
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

RONALD McDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ronald McDonald House Charities of Rochester, NY, Inc.:

We have audited the accompanying financial statements of Ronald McDonald House Charities of Rochester, NY, Inc., which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and change in net assets, 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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, 2017, 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.

2016 Financial Statements

The financial statements of Ronald McDonald House Charities of Rochester, NY, Inc. as of and for the year ended December 31, 2016 were audited by other auditors whose report dated May 9, 2017, expressed an unmodified audit opinion on those statements. The summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

DeJoy, Knauf & Blood, LLP

May 2, 2018.

**DEJOY, KNAUF
& BLOOD LLP**

certified public accountants

RONALD McDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(with comparative totals as of December 31, 2016)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 373,792	\$ 405,816
Accounts and grants receivable	14,485	40,585
Current portion of contributions receivable	5,000	61,183
Prepaid expenses and other assets	39,492	71,054
Total current assets	432,769	578,638
Investments	8,692,100	8,064,267
Property and equipment, net	2,445,279	2,561,017
Long-term portion of contributions receivable	3,000	16,000
Total other assets	11,140,379	10,641,284
TOTAL ASSETS	\$ 11,573,148	\$ 11,219,922
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 135,742	\$ 170,331
Accrued expenses	35,684	31,774
Deferred revenue	4,602	28,747
Due to RMHC Global	5,345	6,315
Total current liabilities	181,373	237,167
NET ASSETS:		
Unrestricted	9,348,622	9,050,699
Temporarily restricted	1,090,468	979,371
Permanently restricted	952,685	952,685
Total net assets	11,391,775	10,982,755
TOTAL LIABILITIES AND NET ASSETS	\$ 11,573,148	\$ 11,219,922

The accompanying notes to financial statements
are an integral part of this statement.

RONALD McDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
(with comparative totals for the year ended December 31, 2016)

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
SUPPORT AND REVENUE:					
Public support from special events	\$ 1,211,567	\$ 2,000	\$ -	\$ 1,213,567	\$ 1,379,560
Less - direct expenses for special events	(338,844)	-	-	(338,844)	(433,474)
Individual contributions	294,798	-	-	294,798	260,424
Foundation and business contributions	313,655	-	-	313,655	346,258
McDonald's Corporation support	130,563	-	-	130,563	120,875
United Way contributions	80,647	-	-	80,647	83,285
In-kind donations	25,683	-	-	25,683	98,457
Family donation	12,300	-	-	12,300	24,320
Other income	2,288	-	-	2,288	1,691
Total support and revenue	<u>1,732,657</u>	<u>2,000</u>	<u>-</u>	<u>1,734,657</u>	<u>1,881,396</u>
Net assets released from restriction	103,355	(103,355)	-	-	-
Transfer of investment income	57,044	(57,044)	-	-	-
	<u>160,399</u>	<u>(160,399)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue after releases and transfers	<u>1,893,056</u>	<u>(158,399)</u>	<u>-</u>	<u>1,734,657</u>	<u>1,881,396</u>
EXPENSES:					
Program services	<u>1,872,174</u>			<u>1,872,174</u>	<u>1,730,731</u>
Supporting services:					
General and administrative	382,471			382,471	192,807
Fundraising	197,996			197,996	154,460
Total supporting services	<u>580,467</u>			<u>580,467</u>	<u>347,267</u>
Total expenses	<u>2,452,641</u>			<u>2,452,641</u>	<u>2,077,998</u>
DEFICIT OF SUPPORT AND REVENUE OVER EXPENSES FROM OPERATIONS	<u>(559,585)</u>	<u>(158,399)</u>	<u>-</u>	<u>(717,984)</u>	<u>(196,602)</u>
INVESTMENT INCOME:					
Interest and dividend income, net	106,312	30,117	-	136,429	138,727
Net realized and unrealized gain on investments	751,196	239,379	-	990,575	257,789
Total investment income	<u>857,508</u>	<u>269,496</u>	<u>-</u>	<u>1,127,004</u>	<u>396,516</u>
CHANGE IN NET ASSETS	297,923	111,097	-	409,020	199,914
NET ASSETS, beginning of year	<u>9,050,699</u>	<u>979,371</u>	<u>952,685</u>	<u>10,982,755</u>	<u>10,782,841</u>
NET ASSETS, end of year	<u>\$ 9,348,622</u>	<u>\$ 1,090,468</u>	<u>\$ 952,685</u>	<u>\$ 11,391,775</u>	<u>\$ 10,982,755</u>

The accompanying notes to financial statements
are an integral part of this statement.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(with comparative totals for the year ended December 31, 2016)

	Program Services			Supporting Services			Total 2017	Total 2016
	Operations	Grant-Making	Total	General and Administrative	Fundraising	Total		
SALARIES AND RELATED EXPENSES:								
Salaries and wages	\$ 645,228	\$ 16,390	\$ 661,618	\$ 133,191	\$ 113,886	\$ 247,077	\$ 908,695	\$ 813,174
Employee benefits and payroll taxes	118,956	3,018	121,974	63,528	20,973	84,501	206,475	211,471
Total salaries and related expenses	764,184	19,408	783,592	196,719	134,859	331,578	1,115,170	1,024,645
OTHER EXPENSES:								
Grants	80,000	173,402	253,402	-	-	-	253,402	140,042
Professional fees	42,902	-	42,902	135,765	28,938	164,703	207,605	72,372
Family and guest	167,399	-	167,399	-	-	-	167,399	141,666
Facilities	132,660	-	132,660	-	-	-	132,660	121,972
Office expense	50,519	382	50,901	24,276	17,339	41,615	92,516	89,899
Bad debt expense	83,695	-	83,695	-	-	-	83,695	41,940
Advertising and marketing	59,531	-	59,531	458	7,043	7,501	67,032	75,616
Insurance	26,362	-	26,362	3,839	-	3,839	30,201	25,417
Postage and printing	7,223	-	7,223	2,313	7,507	9,820	17,043	43,191
Development	9,017	-	9,017	6,867	-	6,867	15,884	27,945
Volunteer recognition	11,373	-	11,373	-	-	-	11,373	16,587
Travel and seminars	484	-	484	5,470	1,899	7,369	7,853	7,658
Miscellaneous	422	-	422	6,764	411	7,175	7,597	7,488
Total other expenses before depreciation	671,587	173,784	845,371	185,752	63,137	248,889	1,094,260	811,793
Depreciation	243,211	-	243,211	-	-	-	243,211	241,560
Total expenses	\$ 1,678,982	\$ 193,192	\$ 1,872,174	\$ 382,471	\$ 197,996	\$ 580,467	\$ 2,452,641	\$ 2,077,998

The accompanying notes to financial statements
are an integral part of this statement.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(with comparative totals for the year ended December 31, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 409,020	\$ 199,914
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	243,211	241,560
Net realized and unrealized gain on investments	(990,575)	(257,789)
Decrease in accounts and grants receivable	26,100	18,841
Decrease (increase) in contributions receivable, net	69,183	(3,870)
Decrease (increase) in prepaid expenses and other assets	31,562	(20,430)
(Decrease) increase in accounts payable	(34,589)	53,441
Increase in accrued expenses	3,910	30,614
Decrease in deferred revenue	(24,145)	(12,926)
Decrease in due to RMHC Global	(970)	(322)
Total adjustments	(676,313)	49,119
Net cash (used in) provided by operating activities	(267,293)	249,033
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments, net	362,742	177,718
Purchase of property and equipment	(127,473)	(334,268)
Net cash provided by (used in) investing activities	235,269	(156,550)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(32,024)	92,483
CASH AND CASH EQUIVALENTS, beginning of year	405,816	313,333
CASH AND CASH EQUIVALENTS, end of year	\$ 373,792	\$ 405,816

The accompanying notes to financial statements
are an integral part of this statement.

RONALD McDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. ORGANIZATION

Ronald McDonald House Charities of Rochester, NY, Inc. (“RMHCR”) provides a supportive “home-away-from-home” for families of children receiving healthcare in the Greater Rochester New York community and supports related efforts that improve the health and well-being of children.

The Ronald McDonald House (the “House”) is a 24-bedroom facility that provides temporary lodging to families of seriously ill children and is the cornerstone program of RMHCR. The organization also operates a seven-bedroom House Within the Hospital at the Golisano Children’s Hospital of the University of Rochester Medical Center (“URMC”). In 2015, RMHCR opened the Ronald McDonald Family Room on the first floor of the Golisano Children’s Hospital of URMC to provide a respite for pediatric patients and their families looking for a break from the traditional hospital setting. In December 2017, the Pediatric Family Lounge was opened at Rochester General Hospital adjacent to the Special Care Nursery to provide families a space to rest and recharge during hospital visits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting -

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Use of estimates -

The preparation of financial statements in conformity with GAAP 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 revenue and expenses during the reporting periods. Significant estimates include, but are not limited to, the fair value of investments, contributions receivable, the depreciable lives of property and equipment and the allocation of functional expenses. Accordingly, actual results may differ from these estimates.

Cash and cash equivalents -

Cash and cash equivalents include demand deposits with banks or financial institutions and other types of accounts that have the general characteristics of demand deposits as well as deposits with original maturities of three months or less.

RMHCR maintains bank balances that, at times, may exceed the federally insured limits. RMHCR has not experienced losses relating to these deposits and management does not believe that RMHCR is exposed to any significant credit risk with respect to these amounts.

Accounts and grants receivable and allowance for doubtful accounts -

RMHCR may extend credit to third-party payers and individuals in the normal course of business. In addition, accounts receivable include donations generated from the Annual Appeal and Radiothon which are expected to be received within one year. Management periodically reviews the sufficiency of the allowance for doubtful accounts, taking into consideration its historical losses and existing economic conditions, and makes adjustments to the allowance as it considers necessary. Accounts and grants receivable are written off in the period in which management determines the receivable is uncollectible. At December 31, 2017, management has determined that no such allowance was deemed necessary.

Contributions receivable -

Contributions are recognized as revenue when the gift is made or when the donor makes an unconditional promise in writing to give a stipulated amount to RMHCR over a specified period of time. Contributions of cash and other assets are available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor are reported as temporarily or permanently restricted.

Management periodically reviews the sufficiency of the allowance for uncollectible contributions receivable, taking into consideration its historical losses and existing economic conditions, and makes adjustments to the allowance as it considers necessary. Contributions receivable are charged off against the allowance for doubtful accounts in the period in which the collection efforts are exhausted. At December 31, 2017, management has determined that no such allowance was deemed necessary.

Property and equipment -

Long-lived assets, including property and equipment, are generally stated at cost, or fair value if donated. However, RMHCR reviews long-lived assets to be held and used for possible impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. If such events or changes in circumstances are present, a loss is recognized to the extent the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. At December 31, 2017, there were no such impairments.

RMHCR's general policy is to capitalize property and equipment in excess of \$1,000 which has a useful life greater than one year. Expenditures for major repairs and improvements are capitalized while expenditures for routine repairs and maintenance costs are expensed when incurred.

Depreciation -

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which are as follows:

Building and building improvements	5 - 30 years
Furniture and equipment	5 - 20 years
Vehicles	5 years

Investments -

RMHCR invests in various types of investment securities that are reported at fair value in the accompanying statement of financial position. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the fair values of investment securities will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

Fair value measurements -

Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. RMHCR measures certain assets at their respective fair values and applies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology that are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Classification of net assets -

To ensure observance of limitations and restrictions placed on the use of resources available to RMHCR, the accounts are maintained in accordance with GAAP. Resources are classified for accounting and reporting purposes into groups of net assets established according to their nature and purpose. Accordingly, all financial transactions are recorded and reported by net asset groups.

RMHCR's activities and net assets are reported in the following net asset groups:

Unrestricted net assets - Net assets that include resources available for the support of RMHCR's operating activities and resources designated by the Board of Directors.

Temporarily restricted net assets - Net assets that include resources resulting from contributions or other inflows of assets whose use by RMHCR is limited by donor-imposed restrictions that either expire by the passage of time or will be fulfilled and removed by future actions of RMHCR pursuant to those restrictions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restriction. When donor-imposed restrictions are satisfied in the reporting period in which the related contribution is recorded, revenue is reported as unrestricted.

Permanently restricted net assets - Net assets that include resources resulting from contributions or other inflows of assets whose use by RMHCR is limited by donor-imposed restrictions which neither expire by passage of time nor can be fulfilled or removed by actions of RMHCR. Included in permanently restricted net assets is the endowment of RMHCR. Investment earnings and losses on permanently restricted endowments are reported in the respective net asset group based on the nature of the restriction.

Income taxes -

RMHCR is an exempt organization under Internal Revenue Code Section 501(c)(3). RMHCR has also been classified as an entity that is not a private foundation.

Management has determined that RMHCR has no uncertain tax positions, including the tax-exempt status of RMHCR as of December 31, 2017.

Advertising -

Expenditures for advertising are charged to operations as incurred. Advertising expenses amounted to \$67,032 and \$75,616 for the years ended December 31, 2017 and 2016, respectively.

Donated services and items -

Volunteers have donated significant time in support of the activities of RMHCR. However, the value of these services is not reflected in the accompanying financial statements for the years ended December 31, 2017 and 2016, as these services do not meet the criteria for recognition in accordance with GAAP. In addition, RMHCR receives donated items which are sold at the Household sale. These items are not recognized in the accompanying financial statements due to the nominal amount of individual items and limited inventory maintained as of December 31, 2017 until sold.

Functional allocation of expenses -

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

Taxes collected and remitted to governmental authorities -

RMHCR records sales tax collected from retail sales at certain fundraising activities on a net basis and does not include such taxes in revenue.

Prior year comparative information -

The financial statements include certain prior year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with RMHCR's financial statements as of and for the year ended December 31, 2016, from which the summarized information was derived.

Prior period reclassifications -

Certain reclassifications have been made to the prior year comparative information to conform to the current year presentation.

Recent accounting pronouncements -

For the year ending December 31, 2018, RMHCR will adopt Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Under this new guidance, the existing categories of unrestricted net assets, temporarily and permanently restricted net assets will be modified into two categories: 1) *with* donor restrictions and 2) *without donor* restrictions. The existence and purpose of any board designated amounts within net assets without donor restrictions will be presented. Additional disclosures will be required to present the liquidity of financial assets available for the general expenditures of RMHCR within one year including any available assets and lines of credit.

The reporting of expenses by function and natural classification will include a description of those expenses that are allocated between programs and supporting services and the specific methods used for those allocations (e.g. square footage, time studies, usage, etc.). Investment returns will be reported net of any related expenses and the disclosure of investment expenses will no longer be required. RMHCR is currently evaluating the impact the adoption of this guidance will have on its financial statements.

ASU 2016-02, Leases, is effective for the year ending December 31, 2020. This guidance impacts the presentation of an entity's leasing activities and will require the recognition of lease (right-of-use) assets and related lease liabilities on the statement of financial position and disclosure of key information about leasing arrangements. RMHCR is currently evaluating the impact the adoption of this guidance will have on its financial statements.

3. CONTRIBUTIONS RECEIVABLE

Estimated future collections from contributions receivable are as follows:

2018	\$5,000
2019	<u>3,000</u>
	<u>\$8,000</u>

Contributions receivable beyond twelve months have not been discounted to their net present value as this adjustment is not material to the accompanying financial statements.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Building and building improvements	\$ 5,542,828	\$ 5,521,382
Furniture and equipment	815,108	790,883
Vehicles	13,423	13,423
Land	7,297	7,297
Construction in progress	<u>81,802</u>	<u>-</u>
	6,460,458	6,332,985
Accumulated depreciation	<u>(4,015,179)</u>	<u>(3,771,968)</u>
Property and equipment, net	<u>\$ 2,445,279</u>	<u>\$ 2,561,017</u>

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments measured at fair value on a recurring basis at December 31 are as follows:

	2017		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 340,793	\$ -	\$ 340,793
McDonald's Corporation common stock	688,480	-	688,480
Common stocks - U.S.	3,541,306	-	3,541,306
Common stocks - international	1,116,394	-	1,116,394
Real estate trusts	66,064	-	66,064
Exchange traded funds - international	649,232	-	649,232
U.S. Treasuries	583,551	-	583,551
U.S. government obligations	171,490	-	171,490
Corporate bonds	-	925,241	925,241
Federal agency mortgage backed securities	-	428,015	428,015
Municipal bonds	-	104,915	104,915
CMO / asset backed securities	-	52,601	52,601
International bonds	-	24,018	24,018
Total	<u>\$ 7,157,310</u>	<u>\$ 1,534,790</u>	<u>\$ 8,692,100</u>

	2016		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 520,404	\$ -	\$ 520,404
McDonald's Corporation common stock	486,880	-	486,880
Common stocks - U.S.	3,190,786	-	3,190,786
Common stocks - international	908,503	-	908,503
Real estate trusts	86,049	-	86,049
Exchange traded funds - international	574,620	-	574,620
U.S. Treasuries	585,354	-	585,354
U.S. government obligations	172,075	-	172,075
Corporate bonds	-	802,150	802,150
Federal agency mortgage backed securities	-	533,971	533,971
Municipal bonds	-	103,844	103,844
CMO / asset backed securities	-	75,605	75,605
International bonds	-	24,026	24,026
Total	<u>\$ 6,524,671</u>	<u>\$ 1,539,596</u>	<u>\$ 8,064,267</u>

Fair value measurements are obtained using quoted prices (Level 1) for the McDonald's Corporation common stock and other common stocks traded in active markets. Real estate trusts and exchange traded funds are valued using the Level 1 inputs from the related net asset values at the measurement dates. U.S. treasuries and government obligations are valued using Level 1 inputs from quoted prices on active exchanges. Other fixed income securities are valued based on quoted prices for nearly identical or similar securities as provided by the custodian and are reported as Level 2 inputs. There were no changes in fair value measurement techniques used during the year ended December 31, 2017.

Investment activity is as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 203,114	\$201,457
Investment management fees	(66,685)	(62,730)
Unrealized gains, net	736,233	97,052
Realized gains, net	254,342	160,737
Total investment return, net	<u>\$1,127,004</u>	<u>\$396,516</u>

6. ENDOWMENT

RMHCR's investments consist of both donor permanently restricted and board designated funds (the "Endowment"). Permanently restricted funds include shares of McDonald's Corporation common stock that were originally received as a gift from the Kroc family as a permanently restricted donation and other such restricted gifts.

Interpretation of relevant law -

The New York Prudent Management of Institutional Funds Act ("NYPMIFA") governs the management and investment of funds held by not-for-profit corporations and other institutions.

RMHCR has interpreted NYPMIFA as allowing RMHCR to appropriate for expenditure or accumulate so much of a permanently restricted endowment fund as RMHCR determines is prudent to the uses, benefits, purposes and duration for which the permanently restricted fund is established, subject to the intent of the donor as expressed in the gift instrument.

RMHCR's Board of Directors has determined it is prudent to preserve the value of the original gift as of the gift date of the donation absent explicit donor stipulation to the contrary. As a result of this interpretation, RMHCR classifies as permanently restricted funds (a) the original value of the gift, (b) the original value of subsequent gifts, and (c) accumulations made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is made to the permanently restricted fund. The remaining portion of the donor restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by RMHCR in a manner consistent with the standards of prudence prescribed by NYPMIFA and the spending policy of RMHCR, as described below.

Endowment investment and spending policies -

The Board of RMHCR has adopted an Investment Policy Statement (“IPS”) for the Endowment. The IPS documents a prudent process that provides diversification with the appropriate level of assumed risk and return necessary to achieve the stated objectives which include the following:

- To provide income and appreciation of investment sufficient to support the services and programs provided by RMHCR.
- To maximize return within reasonable and prudent levels of risk.
- To maintain an appropriate asset allocation based on total return needs compatible with the spending policy.

The IPS establishes target asset allocation levels for the Endowment as follows:

U.S. large cap stock	26 to 31%
U.S. mid cap stock	7 to 13%
U.S. small cap stock	4 to 8%
International developed countries stock	11 to 17%
International emerging markets stock	2 to 6%
U.S. and international fixed income	30 to 42%

Due to the restrictions on this gift, the McDonald’s Corporation common stock is not considered to be a component of the above asset allocation targets of the IPS.

In developing its spending policy, RMHCR considers the following factors:

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

The IPS provides for an annual appropriation from total Endowment investments of 4% of a rolling 20-quarter average of the market value, with a floor of 3% and a ceiling of 5.5% of the current market value of such investments. The amount available to be appropriated is calculated annually at September 30th each year, with 25% of this calculated annual amount considered available in each quarter during the following calendar year, subject to certain restrictions.

Withdrawals will be made in this manner without regard to increases or decreases in the market value of investment assets during the year or in 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.

During the year ended December 31, 2017, the Board of Directors authorized additional appropriations of \$160,000, in excess of normal spending policy to fund new programs (see Note 13).

From time to time, the fair value of assets associated with the permanently restricted investments may fall below the level that RMHCR must maintain as a fund of perpetual duration. At December 31, 2017 and 2016, no such deficiencies existed.

Composition of the Endowment by type as of December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -	\$1,082,468	\$952,685	\$2,035,153
Board-designated	6,473,816	-	-	6,473,816
Total endowment	<u>\$6,473,816</u>	<u>\$1,082,468</u>	<u>\$952,685</u>	<u>\$8,508,969</u>

Composition of the Endowment by type for the year ended December 31, 2016 is as follows:

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

Endowment activity for the year ended December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment, beginning	\$6,072,452	\$ 870,016	\$952,685	\$7,895,153
Investment income, net	91,897	30,117	-	122,014
Net appreciation	730,423	239,379	-	969,802
Amounts appropriated for expenditure per spending policy	(260,956)	(57,044)	-	(318,000)
Additional appropriations	(160,000)	-	-	(160,000)
Endowment, ending	<u>\$6,473,816</u>	<u>\$1,082,468</u>	<u>\$952,685</u>	<u>\$8,508,969</u>

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment, 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 per spending policy	<u>(233,404)</u>	<u>(79,596)</u>	<u>-</u>	<u>(313,000)</u>
Endowment, ending	<u>\$6,072,452</u>	<u>\$870,016</u>	<u>\$952,685</u>	<u>\$7,895,153</u>

7. REVOLVING DEMAND NOTE

RMHCR has a revolving demand note with M&T Bank (the “Bank”) which provides for maximum borrowings of \$200,000, with no maturity date. The note is secured by all of RMCHR’s cash and cash equivalents held by the Bank. Interest is payable monthly at 2% plus the prime rate, which was 4.5% at December 31, 2017. There were no outstanding borrowings on the revolving demand note at either December 31, 2017 and 2016.

8. IN-KIND DONATIONS

In-kind donations consist primarily of materials and supplies for operations for 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. For the year ended December 31, 2017, total in-kind donations were \$25,683, which are comprised of \$14,883 for general House operations and \$10,800 for special events activities. For the year ended December 31, 2016, total in-kind donations were \$98,457, which are comprised of \$31,057 for general House operations and \$67,400 for special events activities.

Volunteers provide housekeeping, office assistance, gardening, repairs and maintenance services as well as the solicitation of in-kind goods for the House and the House Within the Hospital. These volunteers also assist with special events including the Household Sale. Approximately 1,200 and 1,400 volunteers donated 93,000 and 103,000 hours during the years ended December 31, 2017 and 2016, respectively, which dramatically reduces the need to hire staff to complete the aforementioned activities. In accordance with GAAP, no amounts have been reflected in the accompanying financial statements for these donated (volunteer) services.

9. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows at December 31:

	<u>2017</u>	<u>2016</u>
Unappropriated endowment earnings	\$1,082,468	\$870,016
Time restrictions	8,000	40,904
Other restrictions	-	68,451
	<u>\$1,090,468</u>	<u>\$979,371</u>

Permanently restricted net assets are as follows at December 31:

	<u>2017</u>	<u>2016</u>
Kroc endowment	\$504,225	\$504,225
Other endowment	448,460	448,460
	<u>\$952,685</u>	<u>\$952,685</u>

10. RETIREMENT PLAN

RMHCR has a retirement plan (the “Plan”) for the benefit of its employees which covers all employees who have three or more months of service. The Plan is subject to provisions of the Employee Retirement Income Security Act of 1974, as amended. Participants may elect to defer a percentage of their compensation under the Plan which may not exceed the dollar limit set by law and may select from a variety of investment options. RMHCR contributes a 50% matching contribution up to 3% of the employee’s deferrals to the Plan. Employer contributions were \$15,232 and \$15,212 for the years ended December 31, 2017 and 2016, respectively.

11. RONALD McDONALD HOUSE CHARITIES, INC.

Ronald McDonald House Charities, Inc. (“RMHC Global”) is a separately registered nonprofit organization which oversees a system of independent, separately registered public benefit organizations (“Chapters”) within the global organization. RMHCR is an independent operating Chapter. Each Chapter is licensed by McDonald’s Corporation and RMHC Global to use RMHC Global related trademarks in conjunction with fundraising activities and the operation of its programs. The associated license agreement also sets standards of operations for programs, governance, finance, branding and reporting.

RMHC Global requires that 25% of all revenue that RMHCR earns from canister collections held at area McDonald’s restaurants be remitted to them in support of national charitable programs. These remittances totaled \$22,746 and \$23,246 for the years ended December 31, 2017 and 2016, respectively. Amounts due to RMHC Global for the fourth quarter remittance were \$5,345 and \$6,315 as of December 31, 2017 and 2016, respectively.

12. OPERATING LEASES

RMHCR leases operating space and equipment under the terms of operating lease agreements which expire at various dates through August 2023.

Estimated future minimum lease payments, including operating lease commitments signed in March 2018, are as follows:

Year ending December 31,	
2018	\$ 71,943
2019	213,453
2020	213,453
2021	223,164
2022	242,588
Thereafter	161,725
	<u>\$1,126,326</u>

In conjunction with certain lease agreements, RMHCR may be required to pay nominal on-going maintenance fees. In addition, upon termination of these leases, RMHCR may be required to pay for certain costs of returning the space to its pre-lease condition. The amount of such payments is not currently estimable. Some lease arrangements also include the option to renew for up to 15 additional years. The costs of optional renewal periods that have not been expressly agreed to are not included in the future minimum payments above.

Certain lease terms require that RMHCR utilize the space exclusively for the operation of specific programmatic activities, including the Ronald McDonald House, the House Within the Hospital, the Family Room at Golisano Children's Hospital, and the Family Lounge at Rochester General Hospital.

RMHCR has committed to expend approximately \$242,000 related to leasehold improvements before September 1, 2018. This expenditure was specifically approved by RMHCR's Board of Directors.

During the years ended December 31, 2017 and 2016, RMHCR incurred rent expenses totaling approximately \$109,000 and \$103,000, respectively, under the various rental agreements.

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 2, 2018, which is the date the financial statements were available to be issued.

In October 2017, the Board of Directors authorized an appropriation of \$80,000 in anticipation of an agreement to establish a family lounge at URMC near the Department of Psychiatry. RMHCR anticipates the finalized agreement will require appropriate staffing, volunteers, accommodations, and food to those families with children undergoing critical psychiatric care at URMC. RMHCR anticipates that the facility will be completed and that services will begin during the year ending December 31, 2018.