

FINANCIAL STATEMENTS

**RONALD McDONALD HOUSE
CHARITIES OF NORTHWEST
FLORIDA, INC.**

DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ronald McDonald House Charities
of Northwest Florida, Inc.
Pensacola, Florida

We have audited the accompanying financial statements of Ronald McDonald House Charities of Northwest Florida, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Northwest Florida, Inc. 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.

*Brown Thornton Paetec
& Company PA*

Pensacola, Florida
September 4, 2018

STATEMENTS OF FINANCIAL POSITION

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

December 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 622,017	\$ 573,557
Contribution receivables, net	-	8,388
Prepaid expenses	14,985	21,355
Unconditional promises to give, net	274,959	260,800
Cash surrender value of life insurance policy	15,134	15,073
Investments	2,410,417	2,051,497
Property and equipment, net	3,594,449	3,543,368
Construction in progress	6,877	8,403
Deposits	<u>2,000</u>	<u>2,000</u>
 Total assets	 <u>\$ 6,940,838</u>	 <u>\$ 6,484,441</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 5,574	\$ 18,140
Accrued payroll	66,420	16,870
Accrued compensated absences	<u>31,451</u>	<u>23,339</u>
 Total liabilities	 <u>103,445</u>	 <u>58,349</u>
 NET ASSETS		
Unrestricted	4,404,212	4,170,481
Unrestricted board designated	1,284,009	1,135,977
Temporarily restricted	99,883	74,228
Permanently restricted	<u>1,049,289</u>	<u>1,045,406</u>
 Total net assets	 <u>6,837,393</u>	 <u>6,426,092</u>
 Total liabilities and net assets	 <u>\$ 6,940,838</u>	 <u>\$ 6,484,441</u>

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

STATEMENT OF ACTIVITIES

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Change in net assets				
Public support and revenue				
Contributions	\$ 1,039,942	\$ 108,764	\$ 3,883	\$ 1,152,589
In-kind contributions	414,659	-	-	414,659
Special events revenue	158,203	-	-	158,203
Less direct benefits costs	<u>(48,738)</u>	<u>-</u>	<u>-</u>	<u>(48,738)</u>
Net revenue from special events	109,465	-	-	109,465
RMH room donations and fees	40,240	-	-	40,240
Loss on disposal of equipment	(955)	-	-	(955)
Net assets released from restriction	<u>91,892</u>	<u>(91,892)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	1,695,243	16,872	3,883	1,715,998
Expenses				
Program services	1,284,864	-	-	1,284,864
Supporting services:				
General and administrative	73,565	-	-	73,565
Fundraising	192,897	-	-	192,897
Unallocated payments to RMHC Global	<u>37,929</u>	<u>-</u>	<u>-</u>	<u>37,929</u>
Total expenses	<u>1,589,255</u>	<u>-</u>	<u>-</u>	<u>1,589,255</u>
Change in net assets from operations	105,988	16,872	3,883	126,743
Investment income, net	<u>275,775</u>	<u>8,783</u>	<u>-</u>	<u>284,558</u>
Change in net assets	381,763	25,655	3,883	411,301
Net assets, beginning of year	<u>5,306,458</u>	<u>74,228</u>	<u>1,045,406</u>	<u>6,426,092</u>
Net assets, end of year	<u>\$ 5,688,221</u>	<u>\$ 99,883</u>	<u>\$ 1,049,289</u>	<u>\$ 6,837,393</u>

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

STATEMENT OF ACTIVITIES

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Change in net assets				
Public support and revenue				
Contributions	\$ 689,805	\$ 66,846	\$ 5,768	\$ 762,419
In-kind contributions	398,382	-	-	398,382
Special events revenue	142,380	-	-	142,380
Less direct benefits costs	<u>(41,131)</u>	<u>-</u>	<u>-</u>	<u>(41,131)</u>
Net revenue from special events	101,249	-	-	101,249
RMH room donations and fees	50,631	-	-	50,631
Loss on disposal of equipment	(2,484)	-	-	(2,484)
Net assets released from restriction	<u>88,208</u>	<u>(88,208)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	1,325,791	(21,362)	5,768	1,310,197
Expenses				
Program services	1,183,256	-	-	1,183,256
Supporting services:				
General and administrative	59,952	-	-	59,952
Fundraising	177,514	-	-	177,514
Unallocated payments to RMHC Global	<u>37,268</u>	<u>-</u>	<u>-</u>	<u>37,268</u>
Total expenses	<u>1,457,990</u>	<u>-</u>	<u>-</u>	<u>1,457,990</u>
Change in net assets from operations	<u>(132,199)</u>	<u>(21,362)</u>	<u>5,768</u>	<u>(147,793)</u>
Investment income (loss), net	<u>145,261</u>	<u>(4,635)</u>	<u>-</u>	<u>140,626</u>
Change in net assets	13,062	(25,997)	5,768	(7,167)
Net assets, beginning of year	<u>5,293,396</u>	<u>100,225</u>	<u>1,039,638</u>	<u>6,433,259</u>
Net assets, end of year	<u>\$ 5,306,458</u>	<u>\$ 74,228</u>	<u>\$ 1,045,406</u>	<u>\$ 6,426,092</u>

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

STATEMENT OF FUNCTIONAL EXPENSES

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

Year Ended December 31, 2017

	Supporting Services				Total Expenses
	Program Services	General and Administrative	Fund-Raising	Total Supporting Services	
Personnel costs:					
Salaries	\$ 399,483	\$ 36,494	\$ 119,369	\$ 155,863	\$ 555,346
Fringe benefits and taxes	76,452	6,240	26,573	32,813	109,265
Total personnel costs	475,935	42,734	145,942	188,676	664,611
Non-personnel costs:					
Audit and professional services	14,332	18,624	15,150	33,774	48,106
Bank charges	3,042	-	-	-	3,042
Campaign marketing	107	-	-	-	107
Depreciation	119,893	-	-	-	119,893
Direct mail	5,535	-	16,605	16,605	22,140
Equipment leasing	6,264	-	-	-	6,264
Family services	3,063	-	-	-	3,063
Grant writing	-	-	12,480	12,480	12,480
House maintenance	55,710	-	-	-	55,710
House supplies	33,054	-	-	-	33,054
In-kind supplies	400,307	-	-	-	400,307
Insurance	21,050	7,017	-	7,017	28,067
Marketing and promotions	3,898	-	1,670	1,670	5,568
Office	12,219	-	-	-	12,219
Office supplies	2,547	1,089	-	1,089	3,636
Postage	2,572	1,102	-	1,102	3,674
Printing	4,546	1,949	-	1,949	6,495
Provision for uncollectable accounts	142	-	-	-	142
Technology	18,892	1,050	1,050	2,100	20,992
Training	10,396	-	-	-	10,396
Travel - conference	7,788	-	-	-	7,788
Travel	3,357	-	-	-	3,357
Utilities	80,215	-	-	-	80,215
Total non-personnel costs	808,929	30,831	46,955	77,786	886,715
	<u>\$ 1,284,864</u>	<u>\$ 73,565</u>	<u>\$ 192,897</u>	<u>\$ 266,462</u>	1,551,326
Unallocated payments to RMHC Global					<u>37,929</u>
Total expenses					<u>\$ 1,589,255</u>

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

STATEMENT OF FUNCTIONAL EXPENSES

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

Year Ended December 31, 2016

	Supporting Services				Total Expenses
	Program Services	General and Administrative	Fund- Raising	Total Supporting Services	
Personnel costs:					
Salaries	\$ 332,821	\$ 33,307	\$ 112,525	\$ 145,832	\$ 478,653
Fringe benefits and taxes	68,369	4,945	24,173	29,118	97,487
Total personnel costs	401,190	38,252	136,698	174,950	576,140
Non-personnel costs:					
Audit and professional services	-	9,440	10,044	19,484	19,484
Bank charges	3,692	-	-	-	3,692
Campaign marketing	118	-	-	-	118
Depreciation	129,452	-	-	-	129,452
Direct mail	5,361	-	16,442	16,442	21,803
Equipment leasing	6,315	-	-	-	6,315
Family services	4,021	-	-	-	4,021
Grant writing	-	-	12,480	12,480	12,480
House maintenance	60,566	-	-	-	60,566
House supplies	27,122	-	-	-	27,122
In-kind supplies	395,386	-	-	-	395,386
Insurance	21,646	7,215	-	7,215	28,861
Marketing and promotions	2,663	-	1,142	1,142	3,805
Office	5,271	-	-	-	5,271
Office supplies	2,607	1,117	-	1,117	3,724
Postage	3,689	1,581	-	1,581	5,270
Printing	3,824	1,639	-	1,639	5,463
Provision for uncollectable accounts	881	-	-	-	881
Technology	12,734	708	708	1,416	14,150
Training	7,288	-	-	-	7,288
Travel - conference	3,131	-	-	-	3,131
Utilities	86,299	-	-	-	86,299
Total non-personnel costs	782,066	21,700	40,816	62,516	844,582
	<u>\$ 1,183,256</u>	<u>\$ 59,952</u>	<u>\$ 177,514</u>	<u>\$ 237,466</u>	1,420,722
Unallocated payments to RMHC Global					37,268
Total expenses					<u>\$ 1,457,990</u>

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

STATEMENTS OF CASH FLOWS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 411,301	\$ (7,167)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	119,893	129,452
Loss on sale of equipment	955	2,484
Net realized/unrealized (gains) losses on investments	(232,987)	(102,037)
In-kind contributions of property and equipment	(136,860)	(2,400)
Provision for uncollectable pledge	-	881
Cash surrender value of life insurance	(61)	-
In-kind donation of life insurance policy	-	(15,073)
(Increase) decrease in operating assets:		
Contributions receivable	8,388	(8,388)
Prepaid expenses	6,370	(4,681)
Unconditional promises to give	(14,159)	99,594
Increase (decrease) in operating liabilities:		
Accounts payable	(12,566)	7,584
Accrued payroll	49,550	(95)
Accrued compensated absences	8,112	5,491
Net cash provided by operating activities	207,936	105,645
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,332,308)	(803,767)
Proceeds from sale of investments	1,206,375	536,896
Acquisition of construction in progress	(10,738)	(8,274)
Acquisition of property and equipment	(22,805)	(14,506)
Net cash used in investing activities	(159,476)	(289,651)
NET INCREASE (DECREASE) IN CASH	48,460	(184,006)
Cash, beginning of year	573,557	757,563
Cash, end of year	\$ 622,017	\$ 573,557

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

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE A - ORGANIZATION

Ronald McDonald House Charities of Northwest Florida, Inc. (the Organization) is a Florida nonprofit charitable corporation formed in 1981 under the name Gulf Coast Children's Medical Foundation, Inc. The mission of Ronald McDonald House Charities (RMHC) is to create, find, and support programs that directly improve the health and well-being of children. Collectively, RMHC and the network of local Chapters ascribe to five core values: we are focused on the critical needs of children, we lead with compassion, we celebrate the diversity of our people and our programs, we value our heritage, and we operate with accountability and transparency.

The Organization fulfills its mission through operation of sustainable programs that enable family-centered care, bridge access to quality health care, are a vital part of the health care continuum, and strengthen families during difficult times. The following program, operated by the Organization, represents the core functions of Ronald McDonald House Charities of Northwest Florida, Inc.:

Ronald McDonald House

When children must travel long distances to access top medical care, accommodations and support for families can be expensive or not readily available. The Organization helps families stay close to their ill or injured child through the Ronald McDonald House program located in Pensacola, Florida, which provides temporary lodging, meals, and other support to children and their families. The program provides families with emotional and physical comfort and increases the caregivers' ability to spend more time with their child, to interact with their clinical care team, and to participate in critical medical care decisions.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting - The Organization prepares its financial statements on the accrual basis of accounting. Thus, revenues are recognized when services have been performed, and expenses are recognized when a liability has been incurred.
2. Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Basis of Presentation - The Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets - not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - subject to donor-imposed stipulations which will be met by activity or passage of time.

Permanently Restricted Net Assets - subject to donor-imposed restrictions that the principal be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for unrestricted purposes.

4. Cash and Cash Equivalents - For the purposes of the statements of cash flows, management considers all highly liquid investment instruments with an original maturity when purchased of three months or less to be cash equivalents.
5. Contributions Receivable - Contributions receivable are unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Contributions receivable are written off when deemed uncollectible.

The Organization is the beneficiary under various wills and trust agreements of which the total realizable amount is not presently determinable. Such amounts are recorded when a will is declared valid by probate court and the proceeds are measurable.

6. Investments - The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Realized and unrealized gains and losses and income are included in the statements of activities.

The Organization maintains master investment accounts for its donor-restricted and board-designated endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of each endowment to the total fair value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Fair Value of Financial Investments - Investments are measured at fair value by the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 consists of unadjusted quoted prices in active markets for identical assets and has the highest priority; Level 2 consists of observable inputs other than quoted prices for identical assets; and Level 3 consists of significant unobservable inputs and has the lowest priority. The Organization measures fair value using Level 1 inputs.

Changes in the value of re-measurement are recorded in the period re-measured.

8. Property and Equipment - Property and equipment are stated at cost, if purchased, or estimated fair value, if donated, at the date of donation. Additions of \$1,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	7 - 40 years
Furniture and fixtures	3 - 10 years
Equipment	3 - 7 years

9. Contributions - Contributions are recorded depending on the existence and/or nature of any donor-imposed stipulations and/or restrictions. Contributions are recognized when the donor makes an unconditional promise to give. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization did not receive any permanently restricted support during the years ended December 31, 2017 and 2016. When restrictions are met in the same period as the contribution is received, the Organization records the contribution revenue as unrestricted.

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. In-Kind Contributions - Donated marketable securities, property and equipment, and other noncash donations are recorded as contributions at their fair values at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization also receives donated services from other contributors and volunteers that are not measurable, and therefore, are excluded from the financial statements.

In-kind contributions received for the years ended December 31, 2017 and 2016 were \$414,659 and \$398,382, respectively. This includes donated services totaling \$10,543 and \$8,283 for the years ended December 31, 2017 and 2016, respectively.

11. Allocation of Functional Expenses - Costs are charged to program services and management and generally based on direct expenditures incurred. Expenses not directly chargeable to these functional categories are allocated based on management estimates.

12. Income Taxes - Ronald McDonald House Charities of Northwest Florida, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. Therefore, no provision for income taxes is recorded.

The Organization believes that any tax positions it has taken or expects to take that are more-likely-than-not sustainable, as described in the Codification, would not be material to the financial statements taken as a whole. Accordingly, no liability has been provided for unrecognized tax benefits, nor has any interest or penalty been accrued.

The Organization's information and tax returns for the years ended December 31, 2014 through 2017 are subject to examination by the Internal Revenue Service and state authorities, generally for three years after they were filed.

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. Comparative Financial Information - Certain accounts and activities in the prior year information have been reclassified to conform to the presentation in the current year financial statements.
14. Events Occurring After the Reporting Date - The Organization has evaluated events and transactions that occurred between December 31, 2017 and September 4, 2018, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE C - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at December 31, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 214,706	\$ 151,862
One to five years	66,809	116,306
More than five years	<u>-</u>	<u>-</u>
Total	281,515	268,168
Unamortized discount	(6,556)	(7,368)
Allowance for uncollectables	<u>-</u>	<u>-</u>
Net contributions receivable	<u>\$ 274,959</u>	<u>\$ 260,800</u>

Long-term promises to give are recognized at fair value, using present value techniques and discount rates ranging from 1.5% to 2.0% for the years ended December 31, 2017 and 2016.

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE D - FAIR VALUE MEASUREMENTS

The Organization's investments are reported at fair value in the accompanying statement of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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.

FASB Standards Codification 820, *Fair Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels; Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs consist of significant unobservable inputs and have the lowest priority. When available, the Organization measures fair value using Level 1 inputs, because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. There were no Level 3 inputs during the years ended December 31, 2017 and 2016.

Investments in debt securities and certain equity securities are measured at fair value based on the quoted market price using Level 1 inputs. Gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by the donor, and dividends, interest, and other investment income is reported in the period earned as increases in unrestricted net assets, unless donor-imposed restrictions apply.

The fair value of the cash surrender value of life insurance is the amount that may be realized upon the discontinuance and surrender of the contract before maturity and are classified as Level 2.

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE D - FAIR VALUE MEASUREMENTS (Continued)

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at December 31, 2017 and 2016, are as follows:

	<u>Fair Value</u>	<u>Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Fair Value Measurement Using Significant Other Observable Inputs (Level 2)</u>
December 31, 2017:			
Investments:			
Common stock and equity mutual funds	\$ 740,194	\$ 740,194	\$ -
Bond and fixed income mutual funds	779,748	779,748	-
Alternative asset mutual funds	890,475	890,475	-
Cash surrender value of life insurance	<u>15,134</u>	<u>-</u>	<u>15,134</u>
	<u>\$ 2,425,551</u>	<u>\$ 2,410,417</u>	<u>\$ 15,134</u>
December 31, 2016:			
Investments:			
Common stock and equity mutual funds	\$ 1,097,798	\$ 1,097,798	\$ -
Bond and fixed income mutual funds	462,676	462,676	-
Alternative asset mutual funds	491,023	491,023	-
Cash surrender value of life insurance	<u>15,073</u>	<u>-</u>	<u>15,073</u>
	<u>\$ 2,066,570</u>	<u>\$ 2,051,497</u>	<u>\$ 15,073</u>

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE D - FAIR VALUE MEASUREMENTS (Continued)

Cost, fair value, and unrealized gains (losses) from acquisition until December 31, 2017 and 2016 for assets held as investments are summarized as follows:

	Cost	Fair Value	Unrealized Gains (Losses)
December 31, 2017:			
Investments:			
Common stock and equity mutual funds	\$ 664,452	\$ 740,194	\$ 75,742
Bond and fixed income mutual funds	739,341	779,748	40,407
Alternative asset mutual funds	829,076	890,475	61,399
Cash surrender value of life insurance	15,134	15,134	-
	\$ 2,248,003	\$ 2,425,551	\$ 177,548
December 31, 2016:			
Investments:			
Common stock and equity mutual funds	\$ 1,043,984	\$ 1,097,798	\$ 53,814
Bond and fixed income mutual funds	423,991	462,676	38,685
Alternative asset mutual funds	519,750	491,023	(28,727)
Cash surrender value of life insurance	15,073	15,073	-
	\$ 2,002,798	\$ 2,066,570	\$ 63,772

The Organization recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels in the years ended December 31, 2017 and 2016.

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE D - FAIR VALUE MEASUREMENTS (Continued)

The return on investments for the years ended December 31, 2017 and 2016 was as follows:

	Unrestricted	Temporarily Restricted	Total
December 31, 2017:			
Dividends and interest	\$ 40,035	\$ 27,897	\$ 67,932
Realized gains (losses)	132,989	(12,501)	120,488
Net unrealized gains (losses)	112,499	-	112,499
Investment fees	(9,748)	(6,613)	(16,361)
	\$ 275,775	\$ 8,783	\$ 284,558
December 31, 2016:			
Dividends and interest	\$ 31,497	\$ 20,939	\$ 52,436
Realized gains (losses)	(17,121)	(20,019)	(37,140)
Net unrealized gains (losses)	139,354	-	139,354
Investment fees	(8,469)	(5,555)	(14,024)
	\$ 145,261	\$ (4,635)	\$ 140,626

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 860,725	\$ 767,725
Buildings and improvements	3,321,680	3,305,491
Furniture and fixtures	326,306	292,317
Equipment	<u>168,439</u>	<u>143,812</u>
	4,677,150	4,509,345
Less accumulated depreciation	<u>(1,082,701)</u>	<u>(965,977)</u>
	<u>\$ 3,594,449</u>	<u>\$ 3,543,368</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$119,893 and \$129,452, respectively.

The Organization evaluates its long-lived assets for any events or changes in circumstances which indicate that the carrying amount of such assets may not be fully recoverable. The Organization evaluates the recoverability of long-lived assets by measuring the carrying amount of such assets against the estimated undiscounted future cash flows associated with them. At the time, such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. As of December 31, 2017, none of the Organization's long-lived assets were considered to be materially impaired.

During the year ended December 31, 2017, the Organization received donated land with a value of \$93,000. The Organization placed the land for sale subsequent to year end and has a contract for the sale of the property for \$175,000.

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Endowment and H2H campaign	\$ 99,883	\$ 49,228
Miscellaneous donor restricted contributions	<u>-</u>	<u>25,000</u>
	<u>\$ 99,883</u>	<u>\$ 74,228</u>

NOTE G - PERMANENTLY RESTRICTED NET ASSETS

The Organization received a gift in 1993 to create an endowment to be held in perpetuity for the benefit of Ronald McDonald House Charities of Northwest Florida, Inc. The gift instrument restricts the income to be used for operating expenses of the Organization.

The Organization received a \$25,000 gift in 2007 to create an endowment to be held in perpetuity and the income therefrom to fund interns and volunteer training through the Lisa Shawyer Memorial Internship and Volunteer Program.

During 2014, the Organization received a pledge in the amount of \$500,000 to create a permanent endowment fund. The pledge is to be paid over a five year period ending in January 2019. The pledge was originally recorded at the fair value of \$301,189 using the present value technique (see Note C). The Organization received \$59,826 and \$70,066 during the years ended December 31, 2017 and 2016, respectively, which is held in a separate investment account. The total increase in permanently restricted net assets for the endowment contribution is \$3,883 and \$5,768 for the years ended December 31, 2017 and 2016, respectively. The income therefrom is to be used for the Organization's charitable purposes.

The Organization has adopted investment policies for endowment assets. Under these policies, as approved by the Board of Directors, endowment assets are invested in a manner that is intended to produce long-term growth of capital without undue exposure to risk. The Organization has adopted spending policies that include appropriating investment income earned on endowment assets, excluding unrealized gains and losses, for expenditure.

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE G - PERMANENTLY RESTRICTED NET ASSETS (Continued)

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

	2017	2016
Permanently restricted net assets:		
Endowment net assets, beginning of year	\$ 1,045,406	\$ 1,039,638
Contributions	3,883	5,768
Investment income, net	8,983	(4,635)
Amounts appropriated	(8,983)	4,635
	\$ 1,049,289	\$ 1,045,406

NOTE H - OPERATING LEASES

In 2013, the Organization entered into an equipment lease under a thirty-nine month operating lease requiring annual rental payments of \$6,468. This lease expired during 2016.

In 2016, the Organization entered into an equipment lease under a thirty-nine month operating lease requiring annual rental payments of \$6,010.

Rent expense for the years ended December 31, 2017 and 2016 for the equipment was \$6,264 and \$6,315, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year are as follows:

Year Ending December 31,	Amounts
2018	\$ 6,012
2019	6,012
Thereafter	-
	\$ 12,024

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE I - SAVINGS INCENTIVE MATCH PLAN FOR EMPLOYEES

The Organization established a Savings Incentive Plan for Employees (SIMPLE IRA Plan) covering all employees of the Organization who have received at least \$5,000 in compensation during the preceding year and are expected to receive at least \$5,000 in compensation during the current year. Employees may elect to make voluntary contributions to the Plan. The Organization made a 3% matching contribution to each eligible participants' SIMPLE IRA account. For the year ended December 31, 2016, the Organization contributed \$8,072.

In 2017, the Organization established a 401(k) plan that replaced the SIMPLE IRA plan. The 401(k) plan covers all employees of the Organization who are at least age 21 and have worked at least 1,000 hours of service from the 12-month period from July 15 through the next following July 14. Employees may elect to make voluntary contributions to the Plan. The Organization made a 3% matching contribution to each eligible participants' 401(k) account. For the year ended December 31, 2017, the Organization contributed \$7,148.

NOTE J - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and trade accounts receivable. The Organization maintains its cash at several local financial institutions. Deposits are insured up to \$250,000 per depositor, by the Federal Deposit Insurance Corporation (FDIC). The Organization has a \$45,146 cash balance that is uninsured by the FDIC at December 31, 2017.

NOTE K - RELATED PARTY

Ronald McDonald House Charities (RMHC) is a system of independent, separately registered public benefit organizations, referred to as "Chapters" within the global organization. The Organization is an independent operating Chapter within the RMHC system. Each Chapter is licensed by McDonald's Corporation and Ronald McDonald House Charities, Inc. to use RMHC related trademarks in conjunction with fundraising activities and the operation of its programs; the License Agreement also sets standards of operations for programs, governance, finance, branding, and reporting.

NOTES TO FINANCIAL STATEMENTS

RONALD MCDONALD HOUSE CHARITIES OF NORTHWEST FLORIDA, INC.

NOTE K - RELATED PARTY (Continued)

Ronald McDonald House Charities, Inc. (RMHC Global), a separately registered nonprofit organization, ensures delivery of the mission across the globe. As a center of excellence, RMHC Global builds and sustains a robust infrastructure of support to the network of Chapters, including operations, licensing and compliance, finance, risk management, communications, marketing, and development. The Organization remits to RMHC Global 25% of its revenues from all national fundraising efforts facilitated by RMHC Global, as defined by the license agreement. During the years ended December 31, 2017 and 2016, the Organization received \$101,593 and \$103,384, respectively, from these revenue streams.

Payments to RMHC Global totaled \$37,929 and \$37,268 for the years ended December 31, 2017 and 2016, respectively.