

RONALD MCDONALD HOUSE CHARITIES, INC.
Oak Brook, Illinois

FINANCIAL STATEMENTS
December 31, 2017 and 2016

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
 FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses.....	5
Statements of Cash Flows	6
 Notes to Financial Statements	 7



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ronald McDonald House Charities, Inc.
Oak Brook, Illinois

We have audited the accompanying financial statements of Ronald McDonald House Charities, Inc. (RMHC) 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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.

Board of Trustees
Ronald McDonald House Charities, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RMHC at 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Oak Brook, Illinois
May 3, 2018

RONALD MCDONALD HOUSE CHARITIES, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 8,769	\$ 5,835
Contributions receivable	11,370	13,003
Other assets	1,699	2,449
Investments	<u>119,568</u>	<u>101,719</u>
 TOTAL ASSETS	 <u>\$ 141,406</u>	 <u>\$ 123,006</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 1,252	\$ 773
Grants payable, net	7,598	5,568
Other liabilities	<u>265</u>	<u>29</u>
Total liabilities	<u>9,115</u>	<u>6,370</u>

NET ASSETS

Unrestricted	<u>130,953</u>	<u>113,361</u>
Temporarily restricted:		
Time restricted	1,213	3,193
Local RMHC program support	<u>125</u>	<u>82</u>
Total temporarily restricted	<u>1,338</u>	<u>3,275</u>
Total net assets	<u>132,291</u>	<u>116,636</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 141,406</u>	<u>\$ 123,006</u>
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The accompanying notes are an integral part of the financial statements.

RONALD MCDONALD HOUSE CHARITIES, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2017 and 2016

	<u>2017</u>			<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
	<i>(In Thousands)</i>					
REVENUES						
Contributions	\$ 39,264	\$ 331	\$ 39,595	\$ 28,191	\$ 940	\$ 29,131
Special events revenue	6,061	-	6,061	6,607	-	6,607
Less direct benefit costs	(813)	-	(813)	(1,080)	-	(1,080)
Net revenue from special events	5,248	-	5,248	5,527	-	5,527
Program service revenue	67	-	67	166	-	166
Other revenue	365	-	365	261	-	261
Net assets released from restrictions	2,269	(2,269)	-	2,106	(2,106)	-
Total revenues	47,213	(1,938)	45,275	36,251	(1,166)	35,085
EXPENSES						
Program services	36,826	-	36,826	37,959	-	37,959
Supporting services:						
Management and general administration	2,954	-	2,954	2,433	-	2,433
Fundraising	4,830	-	4,830	5,549	-	5,549
Total supporting services	7,784	-	7,784	7,982	-	7,982
Total expenses	44,610	-	44,610	45,941	-	45,941
CHANGE IN NET ASSETS FROM OPERATIONS	2,603	(1,938)	665	(9,690)	(1,166)	(10,856)
INVESTMENT INCOME						
Net realized and unrealized gains on investments	12,354	-	12,354	3,595	-	3,595
Interest and dividends	2,635	1	2,636	2,149	1	2,150
Total investment income	14,989	1	14,990	5,744	1	5,745
CHANGE IN NET ASSETS	17,592	(1,937)	15,655	(3,946)	(1,165)	(5,111)
NET ASSETS, BEGINNING OF YEAR	113,361	3,275	116,636	117,307	4,440	121,747
NET ASSETS, END OF YEAR	\$ 130,953	\$ 1,338	\$ 132,291	\$ 113,361	\$ 3,275	\$ 116,636

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

RONALD MCDONALD HOUSE CHARITIES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2017 and 2016

<u>Year Ended December 31, 2017</u>	<u>Ronald McDonald House</u>	<u>Ronald McDonald Family Room</u>	<u>Ronald McDonald Care Mobile</u>	<u>RMHC Local Chapter Grants and Support</u>	<u>Total Support of RMHC Local Chapters</u>	<u>Other Programs</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	<u>Total</u>
<i>(In Thousands)</i>											
Grants	\$ 2,095	\$ 1,353	\$ 1,222	\$ 20,550	\$ 25,220	\$ 3,517	\$ 28,737	\$ -	\$ -	\$ -	\$ 28,737
Professional fees	-	-	261	2,522	2,783	66	2,849	532	1,479	2,011	4,860
Donated services and occupancy	-	-	-	1,829	1,829	-	1,829	1,791	979	2,770	4,599
Travel, meetings, and conferences	-	-	4	1,104	1,108	5	1,113	139	554	693	1,806
Advertising	-	-	-	296	296	-	296	-	834	834	1,130
Other	-	-	35	1,967	2,002	-	2,002	492	984	1,476	3,478
TOTAL EXPENSES	\$ 2,095	\$ 1,353	\$ 1,522	\$ 28,268	\$ 33,238	\$ 3,588	\$ 36,826	\$ 2,954	\$ 4,830	\$ 7,784	\$ 44,610

<u>Year Ended December 31, 2016</u>	<u>Ronald McDonald House</u>	<u>Ronald McDonald Family Room</u>	<u>Ronald McDonald Care Mobile</u>	<u>RMHC Local Chapter Grants and Support</u>	<u>Total Support of RMHC Local Chapters</u>	<u>Other Programs</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	<u>Total</u>
<i>(In Thousands)</i>											
Grants	\$ 3,968	\$ 1,112	\$ 1,897	\$ 22,321	\$ 29,298	\$ 1,486	\$ 30,784	\$ -	\$ -	\$ -	\$ 30,784
Professional fees	-	-	39	2,580	2,619	77	2,696	626	1,762	2,388	5,084
Donated services and occupancy	-	-	-	1,627	1,627	-	1,627	1,483	1,056	2,539	4,166
Travel, meetings, and conferences	-	-	1	1,343	1,344	4	1,348	180	601	781	2,129
Advertising	-	-	-	-	-	-	-	-	1,154	1,154	1,154
Other	-	-	32	1,451	1,483	21	1,504	144	976	1,120	2,624
TOTAL EXPENSES	\$ 3,968	\$ 1,112	\$ 1,969	\$ 29,322	\$ 36,371	\$ 1,588	\$ 37,959	\$ 2,433	\$ 5,549	\$ 7,982	\$ 45,941

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

RONALD MCDONALD HOUSE CHARITIES, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 15,655	\$ (5,111)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized gains on investments	(12,354)	(3,595)
Distributions of common stock	-	(178)
Bad debt	260	14
Amortization	67	165
Effects of changes in operating assets and liabilities:		
Contributions receivable	1,373	(2,067)
Other assets	751	(381)
Accounts payable	479	(122)
Grants payable	2,030	1,228
Other liabilities	236	(452)
	8,497	(10,499)
Net cash provided by (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(48,034)	(2,267)
Proceeds from sale of investments	42,539	16,006
Purchases of software	(68)	(161)
	(5,563)	13,578
Net cash provided by (used in) investing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,934	3,079
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,835	2,756
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 8,769	\$ 5,835
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ -	\$ -
Noncash investing and financing activities	\$ -	\$ -

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

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ronald McDonald House Charities, Inc. (RMHC) is an Illinois nonprofit charitable corporation formed on September 7, 1977. The mission of RMHC is to create, find, and support programs that directly improve the health and well-being of children. RMHC fulfills its mission by creating programs that address targeted needs and by supporting these programs and other activities conducted by its RMHC Local Chapters (Chapters) worldwide. In addition, RMHC awards grants to other organizations that positively impact the health and well-being of children.

Ronald McDonald House Charities is a system of independent, separately registered public benefit organizations, referred to as “Chapters” by RMHC. Each Chapter is licensed by McDonald’s Corporation and RMHC 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. 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.

RMHC ensures delivery of the mission across the globe. As a center of excellence, RMHC 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. Following are the program activities operated by RMHC:

Support of RMHC Local Chapters:

- *Ronald McDonald House*
 - RMHC provides grants for new and expanding Ronald McDonald House programs. The Ronald McDonald House provides comfort, support and resources for families with sick children.
- *Ronald McDonald Family Room*
 - RMHC provides grants for new Ronald McDonald Family Room programs, which offer a home-like environment within the walls of the hospital. Ronald McDonald Family Rooms provide families of hospitalized children with a place to refresh and relax while remaining near their child’s bedside.
- *Ronald McDonald Care Mobile*
 - RMHC developed and continues to support mobile pediatric health care services to children in underserved areas of the world by funding the capital build for all new Ronald McDonald Care Mobiles. In addition to primary and specialty medical care, health education, and oral health services, the program links children to other community and social service resources.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support of RMHC Local Chapters: (continued)

- *RMHC Local Chapter Grants and Support*
 - *Capacity Building*
 - RMHC is committed to strengthening the global system of Chapters, by providing “capacity building” grants and programmatic support to help each Chapter achieve a high level of excellence in management and operations, and to help them effectively and efficiently fulfill their mission. Activities include, among others: resource development; sharing best practices to improve all aspects of the organization; strategic planning; technology upgrades; ongoing training and education of board, staff, and volunteers to encourage excellence in delivering programs, fundraising and administrative practices; investment in environmental sustainability activities such as energy audits, water and waste efficiency projects at Ronald McDonald House programs; facilitation of networking opportunities; and developing local fundraising capabilities to grow resources and meet new and expanding program needs.
 - *Scholarship Programs*
 - RMHC developed and supported four scholarship programs: RMHC/HACER, RMHC/ASIA, RMHC/Future Achievers, and RMHC Scholars that assisted graduating high school seniors with their first year of college or university education. RMHC also directly matched scholarships awarded by U.S. Chapters through these programs. RMHC discontinued its support of the scholarship programs at the end of 2017 in order to deepen its focus on building capacity of its local Chapters and supporting core programs around the world.
 - *General RMHC and Other Program Support*
 - RMHC provides expertise in all aspects of the three core program operations, other program development, and nonprofit management for its Chapters worldwide. Support also includes general program support grants.

Other Programs:

RMHC provides funding to other organizations to address the needs of children throughout the world. These efforts are directed in two areas: access to quality health care, with special focus on oral health in the U.S. and maternal/child health in Africa, South Asia and Latin America.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The financial statements of RMHC have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. When a 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. All other net assets, including board designated or appropriated amounts, are unrestricted and are reported as part of the unrestricted class.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of RMHC to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents include money market funds and all highly liquid investments with a maturity date of less than three months from the date of purchase. RMHC's cash balances that are maintained in bank accounts may exceed Federal Deposit Insurance Corporation limits from time-to-time. RMHC has not experienced any losses in such accounts and management believes that RMHC is not exposed to any significant credit risk on cash.

Contributions Receivable

Contributions receivable are unconditional promises to give. RMHC has received unconditional promises to give consisting of pledges, bequests, and split-interest agreements. 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 at the date of the gift using risk-free interest rates applicable to the years in which the promises are received. The discount rates used were 2.6% in 2017 and 1.005% to 1.8% in 2016. Amortization of the discounts is included in contribution revenue. Contributions receivable are written off when deemed uncollectible.

Contributions receivable also include the value of various split interest agreements. Split-interest agreements include three charitable remainder trusts from which RMHC will receive a percentage of the remaining assets upon the death of the initial beneficiaries, and an annuity from which RMHC receives annual payments during the donor's lifetime. A receivable has been recorded for the present value of the expected future cash flows using published life expectancy tables and a discount rate of 2.6% in 2017 and 1.8% in 2016. The fair value of the receivable is updated annually and the change in value and amortization of the present value discounts are included in contribution revenue.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable (continued)

RMHC 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.

Cash Surrender Value of Life Insurance

RMHC carries the value of contributed life insurance policies at cash surrender value, which approximates fair value in the statements of financial position.

Software

Software and web development are stated at cost and amortized when placed in service. Amortization is calculated using the straight-line method over the estimated useful lives of the assets, generally three years. RMHC capitalizes all acquisitions in excess of \$5,000. During the year ended December 31, 2017, RMHC increased its capitalization threshold to \$5,000 from \$1,000. Ongoing maintenance contracts are charged to expense when incurred. The balance in software as of December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Software and web enhancements	\$ 2,105	\$ 2,037
Accumulated amortization	<u>(1,947)</u>	<u>(1,880)</u>
Total	<u>\$ 158</u>	<u>\$ 157</u>

The net book value of software costs are reported in other assets on the statements of financial position.

Investments

RMHC records all investments in equity securities with readily determinable fair values and all investments in debt securities and commodities at fair value in the statements of financial position. Realized and unrealized investment gains and losses and income are included in the statements of activities.

RMHC also has investments of less than 1% in two limited partnerships which are reported at cost. Capital calls to cover management fees are expensed as incurred.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Assets, Software, and Services

Donated marketable securities, software, 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, RMHC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. RMHC 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 RMHC. RMHC also receives donated services from other contributors and volunteers that are not measurable, and therefore, are excluded from the financial statements.

Grants Payable

Grants payable represent all unconditional grants that have been authorized prior to year-end, but remain unpaid as of the statement of financial position date. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied.

Net Assets

RMHC's net assets and changes therein are classified and reported as follows:

Unrestricted

Net assets that are not subject to donor-imposed restrictions or law.

Temporarily Restricted

Net assets subject to restrictions imposed by donor or law that may be met either by actions of RMHC or the passage of time.

Permanently Restricted

Net assets subject to donor-imposed stipulations that they may be maintained permanently by RMHC.

RMHC does not have permanently restricted net assets as of December 31, 2017 and 2016.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Unconditional promises to give are recognized as revenue in the period the promise was made. Conditional promises are recorded as revenue when the conditions are substantially met. Contributions, grants, and bequests are recognized as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Expense Allocation

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

Income Tax Status

RMHC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income, if any, from certain activities not directly related to RMHC's tax-exempt purpose is subject to taxation as unrelated business income. In addition, RMHC qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

RMHC believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Income taxes for unrelated business income were less than \$2,000 for the years ended December 31, 2017 and 2016.

Reclassifications

Certain amounts have been reclassified for the year ended December 31, 2016 to conform with the presentation for the year ended December 31, 2017. These reclassifications had no effect on the change in net assets for the year ended December 31, 2016.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consists primarily of pledges, bequests, and split-interest agreements, as of the years ended December 31:

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Amounts due in:		
Less than one year	\$ 10,790	\$ 11,288
One to five years	648	1,795
More than five years	141	190
Total	11,579	13,273
Unamortized discount	(128)	(189)
Allowance for uncollectibles	(81)	(81)
Net contributions receivable	<u>\$ 11,370</u>	<u>\$ 13,003</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

In determining fair value, RMHC uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Levels within the hierarchy are based on the reliability of inputs as follows:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of Level 3 split-interest agreements is determined by calculating the present value of future distributions expected to be received using published life expectancy tables and a discount rate of 2.6% in 2017 and 1.8% in 2016. Split-interest agreements are included in contributions receivable on the statements of financial position. There has been no change in valuation techniques from the prior year.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

	<u>Cost</u>	<u>Fair Value/ Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
			<i>(In Thousands)</i>		
Investments					
Investments recorded at fair value:					
Mutual bond fund	\$ 3,246	\$ 3,221	\$ 3,221	\$ -	\$ -
Common stock:					
McDonald's Corporation	1,780	10,809	10,809	-	-
Global balanced asset funds	97,117	98,093	98,093	-	-
Mutual commodity fund	<u>7,441</u>	<u>7,124</u>	<u>7,124</u>	<u>-</u>	<u>-</u>
Total investments recorded at fair value			<u>\$ 119,247</u>	<u>\$ -</u>	<u>\$ -</u>
Investments at cost:					
Private equity	<u>321</u>	<u>321</u>			
Total investments	<u>\$ 109,905</u>	<u>\$ 119,568</u>			
Other assets recorded at fair value:					
Split-interest agreements		<u>\$ 358</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 358</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Balance, beginning of year	\$ 409
Payments received	(48)
Change in value	<u>(3)</u>
Balance, end of year	<u>\$ 358</u>

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis at December 31, 2016 are as follows:

	<u>Cost</u>	<u>Fair Value/ Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
			<i>(In Thousands)</i>		
Investments					
Investments recorded at fair value:					
Mutual bond fund	\$ 3,193	\$ 3,183	\$ 3,183	\$ -	\$ -
Common stock:					
McDonald's Corporation	2,182	10,529	10,529	-	-
Global balanced asset funds	83,680	80,760	80,760	-	-
Mutual commodity fund	<u>7,112</u>	<u>6,305</u>	<u>6,305</u>	<u>-</u>	<u>-</u>
Total investments recorded at fair value	96,167	100,777	<u>\$ 100,777</u>	<u>\$ -</u>	<u>\$ -</u>
Investments at cost:					
Private equity	<u>942</u>	<u>942</u>			
Total investments	<u>\$ 97,109</u>	<u>\$ 101,719</u>			
Other assets recorded at fair value:					
Split-interest agreements		<u>\$ 409</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 409</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Balance, beginning of year	\$ 404
Payments received	(48)
Change in value	<u>53</u>
Balance, end of year	<u>\$ 409</u>

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

RMHC's portfolio includes investments in entities that calculate market value using net asset value per share. RMHC has the following investments at December 31:

<u>Private Equity Funds</u>	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Capital commitment	\$ 6,000	\$ 6,000
Unfunded commitments	\$ 653	\$ 653
Fair value	\$ 385	\$ 1,213
Redemption frequency (if currently eligible)		Ineligible
Redemption notice period		N/A

Private Equity Funds

RMHC invests in two private equity funds that seek long-term capital appreciation by making mainly equity and equity-related investments in conjunction with privately negotiated transactions. The investment strategies include management buyout, growth-equity transactions, special equity situations, and investments acquired in the secondary market. Redemptions are not permitted during the life of the fund. However, interests may be transferred with the written consent of the general partner if certain conditions are met. The invested funds were committed for a period of 10 years, originally set to expire in July 2016. To maximize the remaining value of the partnership assets, both funds were extended, one until July 2018 and the other until April 2019. Distributions are generally made when the funds receive income, but are at the discretion of the general partner. The fair values of the investments in these funds are based on the net asset values reported by the general partners of the portfolio funds.

NOTE 4 - GRANTS PAYABLE

Grants payable of \$7,598,000 and \$5,568,000 as of December 31, 2017 and 2016, respectively, are all due in less than one year.

There were \$5,110,000 and \$9,659,000 in contingent grants at December 31, 2017 and 2016, respectively. Contingent grants represent grants that have been approved by the board, but which will only be paid once certain criteria have been met.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 5 - DONATED GOODS AND SERVICES

RMHC received total donated goods and services of \$5,088,000 and \$4,899,000, for the years ended December 31, 2017 and 2016, respectively. Most of these donated goods and services are included in contribution revenue, with the rest included in special events revenue as they relate to specific events. Donated goods and services include support from McDonald's Corporation consisting of the free use of its facilities, equipment, materials, and employee services which totaled \$4,688,000 and \$4,293,000, for the years ended December 31, 2017 and 2016, respectively.

NOTE 6 - RELATED PARTY TRANSACTIONS

RMHC provides ongoing program grants to all of its Chapters around the world. These program grants are pre-authorized by the board of RMHC for the benefit of all Chapters. The grants are available to all Chapters that meet the program parameters; as such, the individual grants do not require any additional board action. Grants totaling \$1,907,000 and \$2,725,000, during the years ended December 31, 2017 and 2016, respectively, were provided to Chapters where certain members of the RMHC board also serve as officers and/or directors of the Chapter.

NOTE 7 - CONCENTRATIONS

McDonald's Corporation provides support to RMHC through donated goods and services (see Note 5), direct contributions, and facilitation of fundraisers at its company-owned and franchised restaurants, of which the proceeds collected are remitted to RMHC. Contributions from these efforts totaled \$27,426,000 and \$20,753,000, during the years ended December 31, 2017 and 2016, respectively. This represents 61% and 59% of total revenues, of which \$7,375,000 and \$6,233,000 are included in contributions receivable as of December 31, 2017 and 2016, respectively.

NOTE 8 - SUBSEQUENT EVENT DISCLOSURES

Management evaluated subsequent events through May 3, 2018, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the financial statements.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 9 - RECENT ACCOUNTING PRONOUNCEMENTS

Financial Statements of Nonprofit Entities

In August 2016, the Financial Accounting Standards Board (FASB) issued amended guidance to improve the current net asset classification requirements and the information presented in financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. The main provisions of the update impact the classification and presentation of net asset balances, enhance disclosures regarding the liquidity of the entity's assets, and the nature and functional classification of expenses. The amendments should be applied on a retrospective basis in the year that the pronouncement is first applied. The standard will be effective for RMHC for the year ending December 31, 2018. Management is evaluating the impact of this standard on its financial statements.

This information is an integral part of the accompanying financial statements.



Investment advisory services are offered through CliftonLarsonAllen
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