



RONALD MCDONALD HOUSE
OF PROVIDENCE, INC.

Financial Statements

December 31, 2017 and 2016

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RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

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December 31, 2017 and 2016

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors
Ronald McDonald House of Providence, Inc.
Providence, Rhode Island

We have audited the accompanying financial statements of Ronald McDonald House of Providence, Inc. (a non-profit 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.

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.

Opinion

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

Caliri, Mancini & Barbieri, PC

Exeter, Rhode Island
June 14, 2018

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Statements of Financial Position

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash - Operations	\$ 188,590	\$ 79,286
Investments to be Converted to Cash	7,588	-
Contributions Receivable	251,495	44,598
Unconditional Promises to Give, Current Portions	439,438	500,753
Prepaid Expenses and Other Assets	28,443	21,755
Inventory of Promotional Items	8,448	13,784
Total Current Assets	<u>924,002</u>	<u>660,176</u>
Other Assets:		
Cash - Held for Debt Repayment or		
Investment in Property and Equipment	298,552	407,538
Unconditional Promises to Give, Long-term, Net	343,306	699,835
Investments - Quasi-Endowment Fund	1,937,992	1,697,304
Investments - Endowment and Quasi-Endowment Fund	1,032,324	940,449
Deferred Financing Costs, Net of Accumulated		
Amortization of \$10,215 and \$5,312, respectively	38,815	43,718
Property and Equipment, Net	6,845,770	7,049,505
Total Other Assets	<u>10,496,759</u>	<u>10,838,349</u>
Total Assets	\$ <u>11,420,761</u>	\$ <u>11,498,525</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 60,732	\$ 21,068
Accrued Payroll and Related Taxes	14,278	12,697
Accrued Construction Costs	-	57,893
Accrued Expenses	29,864	50,121
Line-of-Credit with Term Loan Conversion Feature	69,176	69,176
Total Current Liabilities	174,050	210,955
Long-Term Liabilities:		
Term Loan	1,175,926	1,314,337
Total Liabilities	<u>1,349,976</u>	<u>1,525,292</u>
Net Assets:		
Unrestricted - General Operations	6,310,326	6,126,571
Unrestricted - Board Designated Investments	2,017,159	1,769,424
Total Unrestricted	<u>8,327,485</u>	<u>7,895,995</u>
Temporarily Restricted	1,247,050	1,580,988
Permanently Restricted	496,250	496,250
Total Net Assets	<u>10,070,785</u>	<u>9,973,233</u>
Total Liabilities and Net Assets	\$ <u>11,420,761</u>	\$ <u>11,498,525</u>

See independent auditors' report and accompanying notes to financial statements.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Statement of Activities
Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Public Support and Revenue:				
Public Support:				
Special Events Gross Revenue	\$ 197,340	\$ -	\$ -	\$ 197,340
Special Events Direct Benefits to Donors	(72,976)	-	-	(72,976)
Net Revenue from Special Events	<u>124,364</u>	<u>-</u>	<u>-</u>	<u>124,364</u>
Contributions	1,034,220	55,842	-	1,090,062
Guest Contributions	19,987	-	-	19,987
In-kind Contributions	73,749	-	-	73,749
Total Public Support	<u>1,252,320</u>	<u>55,842</u>	<u>-</u>	<u>1,308,162</u>
Revenue:				
Interest and Dividend Income	41,798	18,518	-	60,316
Net Unrealized Gains on Investments	92,306	47,258	-	139,564
Net Realized Gains on Investments	138,568	68,667	-	207,235
Loss on Disposition of Equipment	(688)	-	-	(688)
Total Revenue	<u>271,984</u>	<u>134,443</u>	<u>-</u>	<u>406,427</u>
Net Assets Released from Restriction	<u>524,223</u>	<u>(524,223)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>2,048,527</u>	<u>(333,938)</u>	<u>-</u>	<u>1,714,589</u>
Program Expenses:				
Program Services	<u>866,031</u>	<u>-</u>	<u>-</u>	<u>866,031</u>
Supporting Service Expenses:				
Management and General Expenses	314,937	-	-	314,937
Fundraising Expenses	436,069	-	-	436,069
Total Supporting Service Expenses	<u>751,006</u>	<u>-</u>	<u>-</u>	<u>751,006</u>
Total Expenses	<u>1,617,037</u>	<u>-</u>	<u>-</u>	<u>1,617,037</u>
Changes in Net Assets	431,490	(333,938)	-	97,552
Net Assets, Beginning of Year	<u>7,895,995</u>	<u>1,580,988</u>	<u>496,250</u>	<u>9,973,233</u>
Net Assets, End of Year	<u>\$ 8,327,485</u>	<u>\$ 1,247,050</u>	<u>\$ 496,250</u>	<u>\$ 10,070,785</u>

See independent auditors' report and accompanying notes to financial statements.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Statement of Activities
Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Public Support and Revenue:				
Public Support:				
Special Events Gross Revenue	\$ 169,293	\$ -	\$ -	\$ 169,293
Special Events Direct Benefits to Donors	(50,561)	-	-	(50,561)
Net Revenue from Special Events	<u>118,732</u>	<u>-</u>	<u>-</u>	<u>118,732</u>
Contributions	638,469	932,283	-	1,570,752
Guest Contributions	12,419	-	-	12,419
In-kind Contributions	117,481	-	-	117,481
Total Public Support	<u>887,101</u>	<u>932,283</u>	<u>-</u>	<u>1,819,384</u>
Revenue:				
Interest and Dividend Income	41,642	18,581	-	60,223
Net Unrealized Gains on Investments	58,921	28,721	-	87,642
Net Realized Gains on Investments	20,877	8,662	-	29,539
Loss on Disposition of Equipment	(3,399)	-	-	(3,399)
Total Revenue	<u>118,041</u>	<u>55,964</u>	<u>-</u>	<u>174,005</u>
Net Assets Released from Restriction	<u>2,388,702</u>	<u>(2,388,702)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>3,393,844</u>	<u>(1,400,455)</u>	<u>-</u>	<u>1,993,389</u>
Program Expenses:				
Program Services	<u>823,729</u>	<u>-</u>	<u>-</u>	<u>823,729</u>
Supporting Service Expenses:				
Management and General Expenses	288,744	-	-	288,744
Fundraising Expenses	405,768	-	-	405,768
Total Supporting Service Expenses	<u>694,512</u>	<u>-</u>	<u>-</u>	<u>694,512</u>
Total Expenses	<u>1,518,241</u>	<u>-</u>	<u>-</u>	<u>1,518,241</u>
Changes in Net Assets	1,875,603	(1,400,455)	-	475,148
Net Assets, Beginning of Year	<u>6,020,392</u>	<u>2,981,443</u>	<u>496,250</u>	<u>9,498,085</u>
Net Assets, End of Year	<u>\$ 7,895,995</u>	<u>\$ 1,580,988</u>	<u>\$ 496,250</u>	<u>\$ 9,973,233</u>

See independent auditors' report and accompanying notes to financial statements.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Statement of Functional Expenses

Year Ended December 31, 2017

	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Service Expenses</u>	<u>2017 Totals</u>
Salaries and Related Expenses:					
Salaries and Wages	\$ 316,200	\$ 132,807	\$ 150,365	\$ 283,172	\$ 599,372
Payroll Taxes	25,709	10,798	12,225	23,023	48,732
Employee Benefits	79,825	34,144	36,969	71,113	150,938
Total Salaries and Related Expenses	<u>421,734</u>	<u>177,749</u>	<u>199,559</u>	<u>377,308</u>	<u>799,042</u>
Operating Expenses:					
Audit and Accounting Fees	-	13,000	-	13,000	13,000
House Cleaning	19,597	1,089	1,089	2,178	21,775
Computer and Internet Expense	12,245	4,082	4,082	8,164	20,409
Conferences and Meetings	8,686	5,792	-	5,792	14,478
Consulting	-	10,075	-	10,075	10,075
Direct Mail	-	-	80,986	80,986	80,986
Family Groceries and Meals	43,804	-	-	-	43,804
Fundraising Expenses	-	-	95,697	95,697	95,697
Furniture, Fixtures and Equipment	7,252	-	-	-	7,252
House Supplies	3,841	-	-	-	3,841
Insurance	25,095	3,137	3,137	6,274	31,369
Interest Expense	38,258	4,782	4,782	9,564	47,822
Investment Fees	-	27,055	-	27,055	27,055
Maintenance and Repairs	18,934	2,367	2,367	4,734	23,668
Miscellaneous	4,125	2,828	542	3,370	7,495
Office Expenses	10,257	7,692	7,693	15,385	25,642
Payroll Service Fees	-	2,997	-	2,997	2,997
Postage	3,527	1,764	1,764	3,528	7,055
Public Relations	3,539	-	3,539	3,539	7,078
Travel	304	227	228	455	759
Utilities and Telephone	54,878	6,860	6,860	13,720	68,598
Volunteer Recognition and Training	-	19,697	-	19,697	19,697
Total Operating Expenses Before Depreciation and Amortization	<u>254,342</u>	<u>113,444</u>	<u>212,766</u>	<u>326,210</u>	<u>580,552</u>
Depreciation and Amortization	<u>189,955</u>	<u>23,744</u>	<u>23,744</u>	<u>47,488</u>	<u>237,443</u>
Total Functional Expenses	<u>\$ 866,031</u>	<u>\$ 314,937</u>	<u>\$ 436,069</u>	<u>\$ 751,006</u>	<u>\$ 1,617,037</u>

See independent auditors' report and accompanying notes to financial statements.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Statement of Functional Expenses

Year Ended December 31, 2016

	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Service Expenses</u>	<u>2016 Totals</u>
Salaries and Related Expenses:					
Salaries and Wages	\$ 339,718	\$ 128,853	\$ 144,943	\$ 273,796	\$ 613,514
Payroll Taxes	27,489	10,426	11,729	22,155	49,644
Employee Benefits	71,953	27,081	31,604	58,685	130,638
Total Salaries and Related Expenses	<u>439,160</u>	<u>166,360</u>	<u>188,276</u>	<u>354,636</u>	<u>793,796</u>
Operating Expenses:					
Audit and Accounting Fees	-	12,500	-	12,500	12,500
House Cleaning	11,819	1,477	1,477	2,954	14,773
Computer and Internet Expense	12,802	6,401	6,401	12,802	25,604
Conferences and Meetings	4,055	2,027	2,027	4,054	8,109
Consulting	-	3,625	-	3,625	3,625
Direct Mail	-	-	99,249	99,249	99,249
Family Groceries and Meals	38,766	-	-	-	38,766
Fundraising Expenses	-	-	73,852	73,852	73,852
Furniture, Fixtures and Equipment	75,138	-	-	-	75,138
House Supplies	8,751	-	-	-	8,751
Insurance	25,578	3,197	3,197	6,394	31,972
Interest Expense	7,550	-	-	-	7,550
Investment Fees	-	25,537	-	25,537	25,537
Legal Fees	-	3,759	-	3,759	3,759
Maintenance and Repairs	14,371	1,797	1,796	3,593	17,964
Miscellaneous	-	12,846	-	12,846	12,846
Office Expenses	9,095	6,821	6,821	13,642	22,737
Payroll Service Fees	-	3,003	-	3,003	3,003
Postage	3,058	1,529	1,530	3,059	6,117
Public Relations	5,430	-	-	-	5,430
Travel	196	146	147	293	489
Utilities and Telephone	42,526	5,316	5,316	10,632	53,158
Volunteer Recognition and Training	-	16,724	-	16,724	16,724
Total Operating Expenses Before Depreciation and Amortization	<u>259,135</u>	<u>106,705</u>	<u>201,813</u>	<u>308,518</u>	<u>567,653</u>
Depreciation and Amortization	<u>125,434</u>	<u>15,679</u>	<u>15,679</u>	<u>31,358</u>	<u>156,792</u>
Total Functional Expenses	<u>\$ 823,729</u>	<u>\$ 288,744</u>	<u>\$ 405,768</u>	<u>\$ 694,512</u>	<u>\$ 1,518,241</u>

See independent auditors' report and accompanying notes to financial statements.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Increase in Net Assets	\$ 97,552	\$ 475,148
Adjustments to Reconcile Change in Net Assets to		
Net Cash Used in Operating Activities:		
Depreciation and Amortization	237,444	156,792
Net Realized and Unrealized Gains on Investments	(346,799)	(117,181)
Contributed Stock	(18,284)	(12,007)
Contributed Promotional Items	(5,130)	-
Contributions Restricted for Long-term Purposes	(142,658)	(932,283)
Discount on Long-term Promises to Give	-	6,203
Amortization of Discount on Promises to Give	(14,100)	(14,810)
Reserve for Uncollectible Promises to Give	-	5,811
Loss on Disposition of Assets	688	3,399
Changes In:		
Contributions Receivable	(206,897)	10,820
Prepaid Expenses and Other Assets	(6,688)	(529)
Inventory of Promotional Items	10,466	8,702
Accounts Payable	39,664	4,623
Accrued Payroll and Related Taxes	1,581	607
Accrued Construction Costs	(57,893)	(411,690)
Accrued Expenses	(20,257)	7,937
Total Adjustments	<u>(528,863)</u>	<u>(1,283,606)</u>
Net Cash Used in Operating Activities	<u>(431,311)</u>	<u>(808,458)</u>
Cash Flows from Investing Activities:		
Change in Cash Held for		
Investment in Property and Equipment	108,986	1,265,788
Acquisition of Property and Equipment	(29,494)	(3,058,356)
Proceeds from Sale of Securities	1,720,703	592,047
Purchase of Securities	<u>(1,695,771)</u>	<u>(490,292)</u>
Net Cash Provided by (Used in) Investing Activities	<u>104,424</u>	<u>(1,690,813)</u>
Cash Flows from Financing Activities:		
Net Proceeds from Line-of-Credit with		
Term Loan Conversion Feature	-	1,383,513
Contributions Restricted for Long-term Purposes	574,602	1,133,737
Principal Repayments of Note Payable	<u>(138,411)</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>436,191</u>	<u>2,517,250</u>
Net Increase in Cash - Operations	109,304	17,979
Cash - Operations, Beginning of Year	<u>79,286</u>	<u>61,307</u>
Cash - Operations, End of Year	<u>\$ 188,590</u>	<u>\$ 79,286</u>
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	<u>\$ 47,324</u>	<u>\$ 9,230</u>

See independent auditors' report and accompanying notes to financial statements.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

1. Nature of Operations and Summary of Significant Accounting Policies:

Nature of Operations

Ronald McDonald House of Providence, Inc. (“the Organization”) maintains and operates a twenty-eight guest-room facility located in Providence, RI, near several hospitals, to improve the health and well-being of hospitalized children and their families. The Organization’s program allows families to spend additional time with sick children, helps ease financial burdens, provides a sense of normalcy, and keeps families together during times of medical crisis.

Summary of Significant Accounting Policies

A. Basis of Accounting:

The financial statements of the Organization are prepared using the accrual basis of accounting.

B. Basis of Financial Statement Presentation:

Net assets and activities that increase or decrease net assets are classified as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and nature of any donor restrictions:

Unrestricted net assets are those without donor-imposed restriction as to their use and are available for the general operations of the Organization.

Temporarily restricted net assets are those whose use has been restricted by donors to a specific time period or purpose.

Permanently restricted net assets are those restricted by donors to be maintained in perpetuity. Income from the related investments may be used to fund operations or may be restricted by donor stipulations.

C. Contributions, Net Assets Released from Restrictions, and Promises to Give:

All 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, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization has adopted a policy to report donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

1. Nature of Operations and Summary of Significant Accounting Policies: (Continued)

Summary of Significant Accounting Policies (Continued)

**C. Contributions and Net Assets Released from Restrictions, and Promises to Give:
(Continued)**

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Organization reports unconditional promises to give as contribution revenue. Receipts of unconditional promises to give with payments due in future periods are reported as temporarily restricted net assets unless explicit donor stipulations or circumstances make clear that the donor intended the promise to be used to support activities of the current period. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. If the contribution is made in assets other than cash, the amount of the contribution is measured at the fair value of the asset contributed at the date of the contribution.

D. Revenue and Support Recognition:

The Organization's primary sources of revenue consist of contributions relating to specific events and donations. The Organization also receives support from Ronald McDonald House Charities of Eastern New England, Inc. ("RMHCENE"), an affiliated not-for-profit organization, located in New Hampshire, organized to support local chapters and programs.

Any fees received in advance of an event are recognized as deferred income until the period in which the event takes place.

E. Contributed Services:

Contributions of services are recognized at fair value if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Many individuals and companies volunteer time and perform a variety of tasks that assist the Organization in accomplishing its purposes, but those services do not meet the criteria for recognition as contributed services. The fair values, when ascertainable, of contributed services and materials are reflected in the financial statements. For the years ended December 31, 2017 or 2016, there were no contributed services recognized in the statements of activities.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

1. Nature of Operations and Summary of Significant Accounting Policies: (Continued)

Summary of Significant Accounting Policies (Continued)

F. *Contributed Assets:*

Contributions of securities and other assets are recorded at fair values on the dates of the contributions.

G. *Investments:*

Investments in marketable debt and equity securities with readily determinable fair values are reported at their fair values, as determined by quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Donated securities are reflected as contributions at their fair values at the dates of receipt. See Note 2 for discussion of fair value measurements.

Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either by the passage of time or by use) in the reporting period in which the income and gains are recognized.

H. *Deferred Financing Costs:*

During 2015, the Organization incurred financing costs totaling \$49,030 in connection with obtaining a line of credit with a term loan conversion feature, with the funding to be used to complete the facilities expansion project. The deferred financing costs are currently being amortized over a 10 year period, starting December of 2015.

I. *Property and Equipment:*

Property and equipment is carried at cost, when purchased, and at fair value, when donated, and depreciated using the straight-line method over estimated useful lives as follows:

Buildings and Improvements	20 - 40 years
Furniture and Fixtures	3 - 10 years
Appliances	5 - 10 years
Office Equipment	5 years
Computer Equipment and Software	5 years

It is the Organization's policy to capitalize assets with individual item costs or fair values that equal or exceed \$2,500. Expenditures or fair values for donated capital assets under that amount are expensed. Expenditures for maintenance and repair are expensed as incurred.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

1. Nature of Operations and Summary of Significant Accounting Policies: (Continued)

Summary of Significant Accounting Policies (Continued)

J. *Impairment of Long-Lived Assets:*

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. If, 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.

K. *Income Tax Status:*

The Internal Revenue Service has determined the Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code, and it has been classified as a non-private foundation under section 509(a)(2).

The Organization evaluates all significant tax positions as required by accounting principles generally accepted in the United States. The Organization 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. The Organization's federal returns for 2017, 2016 and 2015 are subject to examination by the Internal Revenue Service, generally for three years after the dates filed.

L. *Monetary Risk:*

The Organization maintains its cash balances in three financial institutions located in Rhode Island. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The uninsured cash balances at December 31, 2017 approximated \$204,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash deposits.

M. *Financial Instruments:*

U.S. generally accepted accounting principles requires disclosure of fair value of certain financial instruments. Management believes all financial instruments have been recorded at amounts that approximate their fair values.

N. *Public Relations/Advertising Costs:*

The Organization expenses public relations/advertising costs as incurred. These costs were \$7,078 and \$5,430 for the years ended December 31, 2017 and 2016, respectively.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

1. Nature of Operations and Summary of Significant Accounting Policies: (Continued)

Summary of Significant Accounting Policies (Continued)

O. Allocation of Expenses:

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, management has allocated certain costs among the various programs and supporting services benefited. Personnel and other costs have been allocated based upon estimated time spent or usage.

P. Subsequent Events Evaluation:

The Organization has evaluated subsequent events through June 14, 2018, the date the financial statements were available to be issued.

Q. Use of Estimates:

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Fair Value Measurement and Investments:

The Financial Accounting Standards Board Accounting Standards Codification (ASC 820) establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approaches, as specified by ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 – Valuations based on quoted prices for identical assets or liabilities in active markets.

Level 2 – Valuations based on quoted prices for similar assets or liabilities or for 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.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

2. Fair Value Measurement and Investments: (Continued)

Fair values of investment assets, all Level 1, measured on a recurring basis are as follows at December 31:

	<u>2017</u>	<u>2016</u>
<i>Cash and Cash Equivalents:</i>	\$ <u>34,677</u>	\$ <u>3,465</u>
<i>Mutual Funds:</i>		
Bond/Income Funds	832,028	635,754
Developed International Funds	316,355	220,368
Equity Funds	522,658	502,469
Pooled	55,637	28,745
Emerging Markets	182,033	89,450
Equity Reits	<u>43,787</u>	<u>55,743</u>
<i>Total Mutual Funds</i>	<u>1,952,498</u>	<u>1,532,529</u>
<i>Common Stocks:</i>		
Information Technology	251,340	181,388
Healthcare	129,394	136,759
Energy	75,363	49,281
Materials	32,541	25,308
Consumer Discretionary	122,819	97,781
Consumer Staples	85,224	100,902
Utilities	9,064	16,643
Financials	140,115	139,034
Industrial	101,682	75,829
Telecommunications	21,929	41,798
Real Estate	<u>13,669</u>	<u>-</u>
<i>Total Common Stocks</i>	<u>983,142</u>	<u>864,723</u>
<i>Municipal Notes/Bonds:</i>		
Aaa	-	76,644
Aa1	-	53,726
Not Rated	<u>-</u>	<u>26,504</u>
<i>Total Municipal Notes/Bonds</i>	<u>-</u>	<u>156,874</u>
<i>U.S. Corporate Bonds and Notes:</i>		
A3	<u>-</u>	<u>26,555</u>
<i>Total U.S. Corporate Bonds and Notes</i>	<u>-</u>	<u>26,555</u>
<i>Foreign Corporate Bonds:</i>	<u>-</u>	<u>53,607</u>
 Total Investments at Fair Value	 <u>\$2,970,316</u>	 <u>\$2,637,753</u>

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

2. Fair Value Measurement and Investments: (Continued)

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

The following is a summary of investment earnings for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Dividends and Interest on Investments	\$ 59,177	\$ 58,543
Interest on Commercial Checking Account	<u>1,139</u>	<u>1,680</u>
Total Interest and Dividend Income	<u>60,316</u>	<u>60,223</u>
Net Realized Gains	207,235	29,539
Net Unrealized Gains	<u>139,564</u>	<u>87,642</u>
Total Net Appreciation	<u>346,799</u>	<u>117,181</u>
Total Investment Income	<u>\$407,115</u>	<u>\$177,404</u>

3. Contributions Receivable and Unconditional Promises to Give, Net:

Contributions receivable and unconditional promises to give consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Unrestricted Contributions Receivable	\$ 251,495	\$ 44,598
Restricted for Facilities / Expansion Debt Payments	794,308	1,223,252
Restricted for Other Purposes	<u>6,000</u>	<u>9,000</u>
	1,051,803	1,276,850
Less: Unamortized Discounts	(10,614)	(24,714)
Reserve for Uncollectible Promises	<u>(6,950)</u>	<u>(6,950)</u>
Contributions Receivable and Unconditional Promises to Give, Net	<u>\$1,034,239</u>	<u>\$1,245,186</u>
Amounts Due in:		
Less Than One Year	\$ 690,933	\$ 545,351
One to Five Years	<u>343,306</u>	<u>699,835</u>
	<u>\$1,034,239</u>	<u>\$1,245,186</u>

The unconditional promises to give due in more than one year will be used for facilities expansion and are recognized at net present value using present value techniques and discount rates ranging from 1.07% to 1.93%. As of December 31, 2017 and 2016, approximately 44% and 53% of the gross amounts receivable, respectively, were due from one donor, Ronald McDonald House Charities of Eastern New England.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

3. Contributions Receivable and Unconditional Promises to Give, Net: (Continued)

Unconditional promises to give that were receivable from Board members and employees at December 31, 2017 and 2016 was approximately \$55,000 and \$101,000, respectively.

4. Property and Equipment, Net:

Property and equipment, net, consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land, Buildings and Improvements	\$8,857,562	\$8,836,058
Furniture and Fixtures	212,628	204,639
Appliances	20,806	21,976
Office Equipment	30,262	30,261
Computer Equipment and Software	<u>22,748</u>	<u>24,624</u>
	9,144,006	9,117,558
Less: Accumulated Depreciation	<u>(2,298,236)</u>	<u>(2,068,053)</u>
Property and Equipment, Net	<u>\$6,845,770</u>	<u>\$7,049,505</u>

Depreciation expense was \$232,541 and \$151,889 for the years ended December 31, 2017 and 2016, respectively.

In 2014, the Organization began its "Always Room at the House" capital campaign to raise funds, with a goal of \$5 million, for facilities expansion to increase capacity from 18 rooms to 28 rooms at the House. All construction in progress costs were reclassified to buildings and improvements when construction and renovations were completed and the addition was placed in service in 2016.

Additionally, \$5,268 of interest costs incurred through the date the project was completed and the assets were placed in service were capitalized. The related accumulated depreciation on the capitalized interest was \$165 and \$33 at December 31, 2017 and 2016, respectively.

5. Line of Credit with a Term Loan Conversion Feature:

On May 13, 2015, the Organization entered into a line of credit agreement that could be converted to a term loan, up to 9 years from the conversion date, based on a 20-year amortization schedule. Effective in 2017, the Organization chose the option to utilize a variable rate option at an interest rate per annum equal to the 30-day LIBOR plus 245 basis points based on a 20-year amortization schedule. Under the terms of the agreement, interest only could be paid for up to 12 months from the closing date.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

5. Line of Credit with a Term Loan Conversion Feature: (Continued)

The Organization was able to borrow up to \$2,500,000 to partially finance the facilities expansion project and the debt is secured by a first mortgage position on the real estate. During the year ended December 31, 2016, \$1,383,513 was borrowed.

Interest only was paid through January 2017 until the conversion to a term loan with monthly principal payments of \$5,765 plus variable interest using a twenty year amortization schedule, with the final payment due in nine years (on January 1, 2026). Total interest charged for the years ended December 31, 2017 and 2016 was \$47,822 and \$12,818 [of which \$5,268 was capitalized to buildings and improvements in 2016 (see Note 4)], respectively.

The interest rates at December 31, 2017 and 2016, respectively, were 3.811% and 3.067%.

Future principal payments are due as follows:

2018	\$ 69,176
2019	69,176
2020	69,176
2021	69,176
2022	69,176
Thereafter	<u>899,224</u>
	1,245,102
Less Current Portion	<u>69,176</u>
Long-Term Portion	<u>\$1,175,926</u>

6. Temporarily Restricted Net Assets Released from Donor Restrictions:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors as follows during the years ended December 31:

	<u>2017</u>	<u>2016</u>
Current Period Operations	\$ 49,617	\$ 49,536
Facilities Expansion	465,761	2,335,166
Time Restriction for Women's Classic	3,000	3,000
Miscellaneous	<u>5,845</u>	<u>1,000</u>
Net Assets Released from Restriction	<u>\$ 524,223</u>	<u>\$2,388,702</u>

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

7. Temporarily Restricted Net Assets:

Temporarily restricted net assets consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Available from Endowment Fund to Support Operations	\$ 456,907	\$ 372,079
Time Restriction and Facilities Expansion	784,143	1,199,909
Time Restriction for Women's Classic	<u>6,000</u>	<u>9,000</u>
Temporarily Restricted Net Assets	<u>\$1,247,050</u>	<u>\$1,580,988</u>

8. Permanently Restricted Net Assets and Endowment Funds:

On February 14, 1993, a gift of 10,000 shares of McDonald's Corporation common stock with a fair value of \$496,250 was received. The gift was given to create an endowment to be held in perpetuity for the benefit of the operations of the Organization. The investment earnings from this endowment are temporarily restricted until appropriated for expenditure for operating expenses, excluding capital expenditures.

Endowment Statement of Purpose

The Endowment's role is to (1) provide liquidity to the Organization in the event of an emergency, (2) contribute funds to the Organization's annual budget currently based on 4.5% of endowment principal (using a 12-quarter rolling average), (3) permit the Board of Directors to segregate assets so they are available for Organizational expansion needs or other Board-approved priorities, and (4) generate a rate of return, after fees and inflation, superior to the identified benchmarks and diversified assets in pursuit of the foregoing with an acceptable level of risk.

Interpretation of Relevant Law

The Board of the Organization has adopted the State of Rhode Island's Uniform Prudent Management of Institutional Funds Act (UPMIFA), and has interpreted these laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable gift instrument at the time the accumulation is added to the fund, if applicable. The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

8. Permanently Restricted Net Assets and Endowment Funds: (Continued)

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

- (1) The duration and preservation of the fund;
- (2) The purposes of the Organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and appreciation of investments;
- (6) Other available resources of the Organization;
- (7) The investment policies of the Organization.

Endowment and Quasi-Endowment Net Asset Composition by Type of Fund as of December 31, 2017

Changes in endowment and quasi-endowment (funds being treated as endowment) net assets for the year ended December 31, 2017 are as follows:

	Board-Designated <u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$1,769,424	\$372,079	\$496,250	\$2,637,753
Contributions	75,003	-	-	75,003
Investment Return:				
Investment Income (Loss)	40,659	18,518	-	59,177
Net Appreciation (Depreciation) (Relized and Unrealized)	<u>230,529</u>	<u>115,925</u>	<u>-</u>	<u>346,454</u>
Net Investment Income (Loss)	271,188	134,443	-	405,631
Appropriation of Assets for Expenditure	(80,172)	(40,845)	-	(121,017)
Investment Management Fees	<u>(18,284)</u>	<u>(8,770)</u>	<u>-</u>	<u>(27,054)</u>
Endowment Net Assets, End of Year	<u>\$2,017,159</u>	<u>\$456,907</u>	<u>\$496,250</u>	<u>\$2,970,316</u>

Endowment and Quasi-Endowment Net Asset Composition by Type of Fund as of December 31, 2016

Changes in endowment and quasi-endowment (funds being treated as endowment) net assets for the year ended December 31, 2016 are as follows:

	Board-Designated <u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$1,748,419	\$365,651	\$496,250	\$2,610,320
Investment Return:				
Investment Income (Loss)	39,962	18,581	-	58,543
Net Appreciation (Depreciation) (Relized and Unrealized)	<u>79,790</u>	<u>37,383</u>	<u>-</u>	<u>117,173</u>
Net Investment Income (Loss)	119,752	55,964	-	175,716
Appropriation of Assets for Expenditure	(81,509)	(41,237)	-	(122,746)
Investment Management Fees	<u>(17,238)</u>	<u>(8,299)</u>	<u>-</u>	<u>(25,537)</u>
Endowment Net Assets, End of Year	<u>\$1,769,424</u>	<u>\$372,079</u>	<u>\$496,250</u>	<u>\$2,637,753</u>

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

8. Permanently Restricted Net Assets and Endowment Funds: (Continued)

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity for a donor-specified purpose. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the identified benchmarks while assuming a moderate level of investment risk.

The Finance Committee and Investment Committee policies state that the Committees shall each generally review the Endowment Statement of Purpose and Investment Policy at least annually, preferably in the first quarter after year-end results are available and ensuing and the ensuing year's budget has been adopted, to determine if (i) the foregoing *Endowment Statement of Purpose* is being achieved, and/or (ii) the investment profile of the Organization's endowment set forth below merits adjustment.

Strategies Employed for Achieving Objectives

The Organization's endowment is invested as follows to serve the roles set forth in clauses (1) through (4) under the *Endowment Statement of Purpose* above. Any changes to the following shall be reported to the Board. The Investment Committee is permitted to delegate investment authority for the endowment to an investment manager, who shall be held to the Endowment Statement of Purpose and Investment Policy.

Emergency Investment Profile – to meet clause (1) of the *Endowment Statement of Purpose* (above), a target of 40% of the overall endowment shall be invested in cash, cash equivalents, or high quality bonds or bond funds. The primary intent of this provision is to insure that approximately 100% of the Organization's annual operating budget will be ready available in the event of an emergency. Any necessary transition will be managed by the Investment Committee in consultation with its investment manager.

General Investment Profile – to meet clause (4) of the *Endowment Statement of Purpose* (above), a target of 60% of the overall endowment shall be invested in diversified stocks and equity mutual funds in a manner designed to meet or exceed a benchmark rate of return identified by the Investment Committee.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

December 31, 2017 and 2016

8. Permanently Restricted Net Assets and Endowment Funds: (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

To meet clause (2) of the *Endowment Statement of Purpose* (above), 4.5% of the endowment and quasi-endowment funds (based on a 12-quarter rolling average to the end of the previous year), \$121,017, or approximately \$10,085 per month for the year ended December 31, 2017 and \$123,468, or \$10,289 per month for the year ended December 31, 2016.

The Finance Committee annually reviews the prior year's final operating account balances to determine if there exists excess funds available for transfer to the quasi-endowment.

9. Board-Designated Net Assets:

The fair value of investments in excess of those funds required to satisfy temporary and permanent restrictions of donors are considered Board-designated net assets since Board approval of withdrawal or transfer and decision of purpose is required.

10. In-Kind Contributions:

The values of donated land, materials and services included as in-kind contributions in the financial statements, and the corresponding expenses, are as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Furniture, Furnishings and Office Equipment	\$ 775	\$ 54,471
Fundraising Direct Event Expenses	23,314	20,030
Program Groceries and Kitchen Items	40,770	36,840
Brochures and Banners	-	1,000
Bricks and Pavers	980	1,140
Miscellaneous	<u>7,910</u>	<u>4,000</u>
	\$ <u>73,749</u>	\$ <u>117,481</u>

11. Defined Contribution Plan:

Through the year-end December 31, 2016, the Organization had a retirement plan covering substantially all eligible employees (those that had met an age and service requirement) whereby Plan contributions were made at the discretion of the Organization. Expense was \$26,629 for the year ended December 31, 2016.

Effective January 1, 2017, the Organization adopted the ForUs 401(k) Plan whereby eligible employees may elect to defer up to 92% of pre-tax compensation on a pre-tax basis up to the Internal Revenue Service annual limits. Additionally, the Organization may, at its discretion, make matching contributions and profit sharing contributions in amounts to be determined by the Organization. Expense was \$23,326 for the year ended December 31, 2017.

RONALD MCDONALD HOUSE OF PROVIDENCE, INC.

Notes to Financial Statements

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12. Affiliations:

Effective April 1, 1996, the Ronald McDonald Houses in Providence, RI and Boston, MA became affiliated with the Ronald McDonald Charities of Eastern New England, Inc. (RMHCENE) in order to coordinate and promote the charitable and fund-raising activities of each other. Under the original agreement, the two Organizations in Providence and Boston shared equally 25% of all funds raised locally by RMHCENE, such percentage to be reviewed annually. As of September 18, 2009, and then March 29, 2012, new agreements were signed that stated that the two Organizations would share equally 20% of all funds raised locally by RMHCENE, after expenses. Funds amounted to \$90,478 and \$109,108 in 2017 and 2016, respectively. All funds received must be used to fund the operating activities and any designated special projects for the year in which the funds are received. At December 31, 2017 and 2016, contributions receivable included \$15,904 and \$24,773, respectively, from the agreement mentioned above.