Ronald McDonald House at Stanford

Financial Statements

December 31, 2016
(With Comparative Totals for 2015)

armanino

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Ronald McDonald House at Stanford
Palo Alto, California

We have audited the accompanying financial statements of Ronald McDonald House at Stanford (a nonprofit corporation) (the "House"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (the "U.S."); 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House at Stanford as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the U.S.

Report on Summarized Comparative Information

We have previously audited Ronald McDonald House at Stanford's 2015 financial statements, and our report dated June 22, 2016 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP

Armanino[LLP]
San Jose, California

July 20, 2017

Ronald McDonald House at Stanford
Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Cash and cash equivalents	$ 4,617,735	$ 10,960,895
Certificates of deposit	-	1,249,327
Contributions and other receivables, net	4,774,984	7,595,922
Beneficial use of land	22,216,758	22,366,842
Prepaid expenses	163,393	366,361
Investments	17,955,773	16,985,092
Construction in progress	3,929,560	22,873,654
Property and equipment, net	38,316,260	11,328,916
Total assets	$ 91,974,463	$ 93,727,009
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 798,866	$ 2,736,378
Accrued expenses	654,329	2,093,339
Notes payable, net of discount	4,227,000	7,473,000
Total liabilities	5,680,195	12,302,717
Net assets		
Unrestricted	41,299,716	33,993,210
Temporarily restricted	35,714,394	38,193,208
Permanently restricted	9,280,158	9,237,874
Total net assets	86,294,268	81,424,292
Total liabilities and net assets	$ 91,974,463	$ 93,727,009

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

Ronald McDonald House at Stanford
Statement of Activities
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Revenues, gains (losses) and other support					
Contributions	$ 2,405,458	$ 5,724,482	$ 42,284	$ 8,172,224	$ 9,588,855
Special events revenue, net					
Sponsorships and participants	1,713,200	10,000	-	1,723,200	1,393,429
Donated goods and services	28,274	-	-	28,274	11,938
Less: direct benefit costs	(406,751)	-	-	(406,751)	(363,070)
Total special events revenue, net	1,334,723	10,000	-	1,344,723	1,042,297
Other income (loss)					
Donated goods and services	363,764	1,783,920	-	2,147,684	2,609,979
Room donations	51,305	-	-	51,305	53,773
Program service revenue	84,325	-	-	84,325	66,645
Other income (loss)	(17,248)	-	-	(17,248)	11,813
Total other income (loss)	482,146	1,783,920	-	2,266,066	2,742,210
Net assets released from restriction	11,302,450	(11,302,450)	-	-	-
Total revenues, gains (losses) and other support	15,524,777	(3,784,048)	42,284	11,783,013	13,373,362
Functional expenses					
Program services	6,416,040	-	-	6,416,040	5,060,873
Fundraising	1,367,920	-	-	1,367,920	1,172,156
Management and administrative	365,444	-	-	365,444	505,600
Total functional expenses	8,149,404	-	-	8,149,404	6,738,629
Change in net assets from operations	7,375,373	(3,784,048)	42,284	3,633,609	6,634,733
Investment income					
Net realized and unrealized gain (loss) on investments, net of fees	(76,306)	906,955	-	830,649	(979,258)
Interest and dividends	7,439	398,279	-	405,718	502,583
Total investment income	(68,867)	1,305,234	-	1,236,367	(476,675)
Change in net assets	7,306,506	(2,478,814)	42,284	4,869,976	6,158,058
Net assets, beginning of year	33,993,210	38,193,208	9,237,874	81,424,292	75,266,234
Net assets, end of year	$ 41,299,716	$ 35,714,394	$ 9,280,158	$ 86,294,268	$ 81,424,292

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

Ronald McDonald House at Stanford
Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Program Services	Fundraising	Management and Administrative	2016 Total	2015 Total
Salaries, payroll taxes, and benefits					
Salaries	$ 1,290,998	$ 439,776	$ 149,524	$ 1,880,298	$ 1,701,331
Payroll taxes and benefits	292,346	99,587	33,860	425,793	385,294
Total salaries, payroll taxes, and benefits	1,583,344	539,363	183,384	2,306,091	2,086,625
Depreciation	938,855	9,408	20,696	968,959	441,509
Imputed rent	1,873,916	18,778	41,310	1,934,004	1,934,008
Special events - auction and gift items	-	79,530	-	79,530	70,751
Special events - all other costs	-	213,122	-	213,122	268,426
Donor engagement and acquisition	-	81,866	-	81,866	43,562
Cleaning service and supplies	143,263	1,188	2,614	147,065	149,746
Insurance	59,013	591	1,301	60,905	37,623
Interest expense	174,608	1,750	3,849	180,207	-
Supplies - expansion	641,264	12,068	15,113	668,445	383,075
Supplies - other	438,545	91,574	5,382	535,501	450,480
Utilities	126,220	1,265	2,783	130,268	166,219
Professional fees - expansion	-	151,251	-	151,251	89,425
Professional fees - other	-	48,966	49,844	98,810	86,138
Repairs and maintenance	83,395	815	1,792	86,002	92,814
Public relations and newsletter	48,223	15,815	5,377	69,415	65,241
Telephone and office expense	51,060	7,995	3,248	62,303	34,474
Outside contractors	207,548	73,559	19,511	300,618	250,208
Meetings and training	10,509	3,580	1,217	15,306	26,862
Other	36,277	15,436	8,023	59,736	61,713
	$ 6,416,040	$ 1,367,920	$ 365,444	$ 8,149,404	$ 6,738,899

Ronald McDonald House at Stanford
Statement of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	$ 4,869,976	$ 6,158,058
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	968,959	441,509
Realized and unrealized (gain) loss on investments	(830,649)	979,258
Donated stocks	(43,331)	(109,097)
Proceeds from immediate sale of donated marketable securities	43,425	109,097
Donated services for property and equipment	(48,930)	-
Contributions restricted for capital campaign	(9,112,764)	(4,002,297)
Additions to permanently restricted funds	(42,284)	(53,337)
Loss on disposal of property and equipment	31,454	-
Amortization of discount on notes payable	153,000	-
Below market interest contribution	-	(277,000)
Changes in operating assets and liabilities		
Contribution and other receivables	3,430,011	(4,075,226)
Beneficial use of land	150,084	138,583
Prepaid expenses	202,968	(259,615)
Accounts payable and accrued expenses	172,182	(1,008,517)
Net cash used in operating activities	(55,899)	(1,958,584)
Cash flows from investing activities		
Maturities of certificates of deposit	1,249,327	8,416,084
Purchases of investments	(2,117,532)	(2,719,774)
Proceeds from the sale of investments	1,368,333	2,067,199
Purchases of property and equipment	(52,247)	(57,007)
Payments for construction in progress	(12,491,190)	(12,738,885)
Net cash used in investing activities	(12,043,309)	(5,032,383)
Cash flows from financing activities		
Capital campaign contributions	9,112,764	4,002,297
Proceeds from issuance of notes payable	-	8,410,000
Payments on notes payable	(3,399,000)	(660,000)
Additions to permanently restricted net assets	42,284	53,337
Net cash provided by financing activities	5,756,048	11,805,634
Net increase (decrease) in cash and cash equivalents	(6,343,160)	4,814,667
Cash and cash equivalents, beginning of year	10,960,895	6,146,228
Cash and cash equivalents, end of year	$ 4,617,735	$ 10,960,895

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

Ronald McDonald House at Stanford
Statement of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Supplemental disclosure of cash flow information		
Cash paid during the year interest	$ 27,207	$ -
Supplemental schedule of noncash investing and financing activities		
Donated securities fulfilling capital campaign pledges	$ 609,073	$ 407,385
Construction in progress included in accounts payable and accruals	$ 1,009,626	$ 4,558,330

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

1. NATURE OF OPERATIONS

Ronald McDonald House at Stanford (the "House") was organized in 1978 for the purpose of providing low-cost temporary housing for children with life-threatening illnesses and their families who live in other communities but are receiving specialized medical treatment at nearby hospitals. The House previously operated under the name Children's Hospital at Stanford Family Center. In September 1996, the Board of Directors amended the articles of incorporation, changing the name to Ronald McDonald House at Stanford. Since the House opened in 1979, the donation requested from the families has remained at a modest $10 per night and no family is ever turned away due to inability to pay. The House is located in Palo Alto, California.

Children coming for treatment have a variety of life-threatening conditions that often require intensive invasive procedures, cancer treatments, and neurological surgery. Of the families who stayed at the House in 2016, 80% came from California, 19% traveled from other states, and 1% are from other countries around the world. The House is the only organization offering specially-designed, communal housing to families with children being treated at Lucile Packard Children's Hospital Stanford (the "Hospital").

As a result of increased demand for its services, the House embarked on a multi-year expansion to more than double its size. Construction began in July 2014 and culminated with the opening of a new 52,000 square foot facility in 2016 and the expansion of the current facility in June 2017. The full campus increased the number of guest rooms from 47 to over 120 allowing the House to serve even more children with life-threatening illnesses, and their families. Contributions to this expansion have been recognized as received over the life of the project including $6,326,642 and $7,150,522 in 2016 and 2015, respectively, and are included in contributions in the accompanying Statement of Activities.

Programs offered at the House provide the families, patients, and siblings the opportunity to enjoy activities that they would likely do in their own home. Many of these activities are led by volunteers and include Bingo Night, birthday celebrations, Furry Friends pet-assisted therapy, movie nights, gardening, scrap-booking, and arts and crafts. Relaxation and healing opportunities are provided through weekly massages and haircuts. Additionally, the Family Support Services program provides support to families in a therapeutic environment through activities, welcome meetings, and trainings.

The Day Pass Program served 1,232 individuals in 2016 and is available to families whose children are being treated at the Hospital but who are not staying at the House due to capacity constraints or geographical restrictions. The Day Pass Program allows families to enjoy the comfort and amenities of the House where they can take advantage of the community kitchen, TV rooms, library, laundry facilities, showers, computers and Wi-Fi, children's activity room, family activities, and the megaBITES meal program. The Day Pass Program is available every day of the week from 9 am to 9 pm.

1. NATURE OF OPERATIONS (continued)

"Happy Wheels" is a hospitality cart that circulates the Hospital through the common areas and on some units serving patients, siblings and family members on morning and evening shifts during the week. Happy Wheels provides hot beverages, snack service, and hygiene kits while keeping children entertained with books, fun activities, and toys. In 2016, the Happy Wheels cart served over 10,000 individuals at the hospital, providing them the comfort of Ronald McDonald House within the hospital environment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Net assets and changes therein are classified as follows:

- *Unrestricted net assets* - net assets not subject to donor-imposed stipulations. These net assets are intended for use by management and the Board of Directors for general operations.
- *Temporarily restricted net assets* - net assets subject to donor-imposed stipulations that may or will be met by actions of the House and/or passage of time. Temporarily restricted net assets also include the portion of donor-restricted endowment funds not classified as permanently restricted until such funds are appropriated for expenditure.
- *Permanently restricted net assets* - net assets subject to donor-imposed stipulations that they be maintained permanently by the House. The income from these net assets is available to support activities of the House as designated by the donors.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. The House recognizes support from temporarily restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as unrestricted support.

Use of estimates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents consist of short-term, highly liquid investments with original maturity dates of three months or less and exclude temporary cash held in managed investment accounts.

Certificates of deposit

The House, as part of its cash management policy, maintains a portfolio of certificates of deposit with maturities from 6 to 24 months.

Contributions receivable

Unconditional promises to give are recorded at their net realizable value. If such promises to give are due in more than one year, they are discounted to the present value of their estimated future cash flows using a discount rate commensurate with the risks involved. Reserves for potential uncollectable contributions receivable are maintained based on historical credit losses and management's expectations.

Beneficial use of land

The House and its facilities are located on a leased parcel of land for which the rental payments are below market rates (see Note 4). The arrangement was recognized as a contribution at inception, and the difference between fair rental value and the stated lease payments is recognized as a lease contribution receivable on the Statement of Financial Position. The receivable has been discounted to its net present value and is being amortized to in-kind rent expense. The discount is amortized to donated goods and services revenue over the term of the lease.

Investments

Investments consist of money market funds, marketable equity securities, and debt securities, and are stated at fair values using quoted market prices. Unrealized and realized gains and losses include investment management fees and are reflected in the Statement of Activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the House uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. Observable inputs are inputs market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the House. Unobservable inputs are inputs that reflect the House's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of financial instruments:

- *Level 1* - Investments include quoted prices (unadjusted) in active markets for identical investments the House has the ability to access at the measurement date.
- *Level 2* - Investments include other significant observable inputs (including quoted prices for similar instruments, interest rates, prepayment terms, credit risk, etc.).
- *Level 3* - Investments include significant unobservable inputs (including the House's own assumptions in determining fair value instruments).

The category within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Property and equipment

Property and equipment are recorded at cost, if purchased, and at estimated fair value, if donated, provided there is an objective basis for determining the value. Depreciation is calculated on the straight-line basis using an estimated useful life of 5 to 7 years for furniture and equipment and 30 and 32 years for the renovated and new buildings, respectively.

Expenditures for major renewals and betterments are capitalized, while expenditures for maintenance and repairs, which do not improve assets or extend their useful lives, are charged to expense as incurred. When property is retired, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets' carrying value is adjusted to fair value.

Contributions and revenue

Contributions, including unconditional promises to give, are recognized as revenue at fair value in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Special event revenue is recognized when the event is held. Goods and services donated for the special events are recognized as in-kind revenue and expense at their estimated fair value on the date donated.

Donated stock, materials, and equipment are recorded as contributions at their estimated fair value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the House reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The House is the beneficiary under various wills and trust agreements. Such amounts are recognized in the House's financial statements as bequests receivable and planned gifts when they become unconditional, clear title is established, and the proceeds are measurable. As of December 31, 2016, no bequests receivable have been recorded.

Donated goods and services

Donated goods and services are reflected at the fair value of the contribution received. The contributions of good and services are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Volunteer services

For the year ended December 31, 2016, the House benefited from approximately 23,000 hours of volunteer assistance. The value of this contributed time is not reflected in these financial statements because the criteria for recognition have not been met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expense allocation

Costs of providing the House's programs and other activities have been allocated between program services, management and administration, and fundraising functional expenses based upon time and other cost studies performed by the House.

Income tax status

The House has been granted tax-exempt status under Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code. In addition, the House has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. However, the House is subject to taxes on income, if any, that is unrelated to its exempt purpose. The House evaluated its current tax positions and has concluded that as of December 31, 2016, the House does not have any significant uncertain tax positions for which a reserve would be necessary.

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the House's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

3. CONTRIBUTIONS AND OTHER RECEIVABLES

Contributions and other receivables consist of the following:

Capital campaign	$ 4,853,900
Unrestricted purposes	350,826
	5,204,726
Allowance for doubtful accounts	(257,529)
Discount to net present value	(172,213)
	$ 4,774,984

Net receivables are anticipated to be collected as follows:

Within 1 year	$ 3,465,532
From 1 to 5 years	1,309,452
	$ 4,774,984

4. BENEFICIAL USE OF LAND

The House and its facilities are located on a leased parcel of land in Palo Alto, California. The terms of the lease require an annual rental payment of $1 through the year 2048. In 2014, the House recognized as revenue and a contribution receivable the difference between the fair rental value of the property and the present value of the stated amount of the lease payments at the date of contribution.

Beneficial use of land consists of the following:

Noncurrent portion of beneficial use of land	$ 59,073,982
Less: discount to net present value	(38,791,224)
Current portion of beneficial use of land	1,934,000
	$ 22,216,758

5. INVESTMENTS

Investments consist of the following:

	Fair Value	Cost	Unrealized Gains (Losses)
Money market funds	$ 353,378	$ 353,378	$ -
Debt securities	4,356,438	4,520,834	(164,396)
Equity securities	13,245,957	11,016,647	2,229,310
	$ 17,955,773	$ 15,890,859	$ 2,064,914

The following table summarizes the valuation of the House's investments measured on a recurring basis:

	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 353,378	$ -	$ -	$ 353,378
Debt securities	4,356,438	-	-	4,356,438
Equity securities	13,245,957	-	-	13,245,957
	$ 17,955,773	$ -	$ -	$ 17,955,773

Management fees paid to external investment advisors were $76,467 and are included in the net realized and unrealized gain on investments in the Statement of Activities.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Non depreciable assets	
Artwork	$ 143,177
Depreciable assets	
Building	44,668,555
Furniture and equipment	634,623
	45,446,355
Accumulated depreciation	(7,130,095)
	$ 38,316,260

In 2016, the House completed construction on a new 52,000 square foot facility directly adjacent to the existing building. Construction costs of $27,483,793 were recorded as a depreciable asset when the building was placed in service in May 2016.

In addition, in 2016 the House commenced renovation construction of its original facility as part of its expansion project to provide long-term housing needs. As of December 31, 2016, the House had construction in progress of $3,929,560 related to this expansion project.

7. NOTES PAYABLE

In 2015, the House entered into a credit agreement with the David and Lucile Packard Foundation (the "Credit Agreement"). The Credit Agreement provides for a term loan of up to $10,000,000 to be used to bridge-finance pledge commitments secured by the House to pay costs for constructing the new 3-story, 52,000 square foot facility. Borrowings bear interest at one percent (1%) per year. In 2015, the House used a fair market interest rate of 3.5% to impute discounted interest and recognize a $277,000 contribution and resulting debt discount. The discount is being amortized to interest expense over the term of the note. During 2015, the House was advanced a total of $8,410,000. Principal payments are quantified based on the pledge commitments secured by the House with principal and interest due on November 1 and May 1 of each year. All unpaid accrued interest and principal are due on or before October 16, 2020. During 2016, the House repaid $3,399,000 of the funds previously advanced.

7. NOTES PAYABLE (continued)

On December 21, 2016 the House entered into a second credit agreement with the David and Lucile Packard Foundation (the "Second Credit Agreement"). The Second Credit Agreement provides for a term loan of up to $5,310,000 to be used to bridge-finance pledge commitments secured by the House to pay costs for renovating and expanding the House's original facility. Borrowings bear interest at one percent (1%) per year. The Second Credit Agreement required the House to maintain $2,000,000 restricted for paying construction costs or payments on borrowings. As of December 31, 2016, the House used all restricted funds to pay construction costs and the restricted account requirement lapsed. During 2016, the House was not advanced any funds on the Second Credit Agreement and has $5,310,000 available until January 31, 2018. Principal payments are quantified based on the pledge commitments secured by the House with principal and interest due on November 1 and May 1 of each year. All unpaid accrued interest and principal are due on or before the five year anniversary of the last principal advance (see Note 14).

Notes payable consist of the following:

Principal	$ 4,351,000
Unamortized discount	(124,000)
	$ 4,227,000

The future maturities of the notes payable are as follows:

Year Ending December 31,	
2017	$ 2,091,000
2018	1,699,000
2019	255,000
2020	182,000
	$ 4,227,000

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

Beneficial use of land, net	$ 22,216,758
Time or purpose restrictions	4,571,991
Earnings on endowment	8,925,645
	$ 35,714,394

8. TEMPORARILY RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets released from restriction during the year were as follows:

Beneficial use of land rent	$ 1,934,004
Purpose restrictions	416,543
Capital campaign	8,501,903
Appropriation of endowment earnings	450,000
	$ 11,302,450

9. ENDOWMENT

The House's endowment consists of three donor restricted funds established for the benefit of the House: the Kroc Fund, the Children's Legacy Fund, and the Program Endowment Fund. The Kroc Fund consists of a $500,000 gift from Joan B. Kroc. The Children's Legacy Fund (the "CLF") began as a gift from the David and Lucile Packard Foundation. The CLF requires that the initial funds be preserved and allows donors to stipulate a permanent restriction on all memorial and planned gifts. Contributions placed in this fund during the year ended December 31, 2016 totaled $42,284. The Program Endowment Fund consists of contributions to a prior capital campaign that donors gave permission to be transferred to a permanent endowment fund.

Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. All endowment gifts stipulate that the principal remain intact and that investment earnings be expended on House operations.

Permanently restricted net assets consist of the following:

Kroc Endowment Fund	$ 500,000
Children's Legacy Fund	6,530,143
Program Endowment Fund	2,250,015
	$ 9,280,158

9. ENDOWMENT (continued)

Interpretation of relevant law

The Board of Directors of the House has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair market 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 House 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 donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the House 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 House 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 the appreciation of investments

(6) Other resources of the House

(7) The investment policies of the House

Return objectives and risk parameters

The House has adopted investment and spending policies for endowment assets with the philosophy that the House is to exist in perpetuity, and therefore, should provide for spending in perpetuity. To attain this goal, the overriding objective of the House is to maintain purchasing power while preserving the endowment corpus. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to grow the aggregate portfolio value at the rate of the Bay Area Consumer Price Index plus 4.5% over the House's investment horizon while assuming a moderate level of investment risk. The House expects its endowment funds, over time, to provide an average rate of return of approximately 7.5% annually. Actual returns in any given year may vary from this amount.

9. ENDOWMENT (continued)

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the House relies on a total return strategy in which investment returns are achieved through both capital and appreciation (realized and unrealized) and current yield (interest and dividends).

Spending policy and how the investment objectives relate to the spending policy

The House has a policy that provides the Board of Directors the discretion to spend up to 4.5% of the three year rolling average of the actual fund's value. In establishing this policy, the House considered the long-term expected return on its endowment. Accordingly, over the long term, the House expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the House's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return. Additionally, the Board of Directors also considers the guidance of UPMIFA in determining the annual spending allocation which provides a prudent spending allocation of up to 7% of the prior three year average. During 2016, the Board of Directors appropriated $450,000, representing 2.7% of the prior three year average, for expenditure on operations.

Endowment composition

Changes in endowment net assets for the fiscal year ended December 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, December 31, 2015	$ -	$ 8,070,411	$ 9,237,874	$17,308,285
Investment return				
Investment income	-	398,279	-	398,279
Net realized/unrealized gain on investment	-	906,955	-	906,955
Total investment return	-	1,305,234	-	1,305,234
Contributions	-	-	42,284	42,284
Amounts appropriated for expenditure	-	(450,000)	-	(450,000)
	-	855,234	42,284	897,518
Balance, December 31, 2016	$ -	$ 8,925,645	$ 9,280,158	$18,205,803

10. RETIREMENT PLAN

The House maintains a tax deferred 403(b) plan for all eligible employees. After 12 months of service, the House generally contributes 5% of eligible full time employees' compensation beginning with their respective plan entry date. The House made contributions of $70,474 to the plan for the year ended December 31, 2016. The House paid $2,131 for the plan's administration costs during the year ended December 31, 2016.

11. CONCENTRATIONS OF RISK

The House has defined its financial instruments which are potentially subject to credit risk as cash, receivables, certificates of deposit and investments.

At December 31, 2016, the House had cash deposits in excess of federally insured limits. Investments are subject to a formal investment policy. The House attempts to limit its credit risk associated with cash equivalents, certificates of deposit and marketable securities by utilizing outside advisors and managers to place its investments with highly rated corporate and financial institutions.

The majority of the House's revenue is derived from public and private donations, along with several fundraising events scheduled throughout the year. The success of these events could vary from year to year. Contributions receivable are due from various individuals which mitigate the risk associated therein.

The House had four donors that accounted for approximately 74% of contributions receivable as of December 31, 2016, and two donors that accounted for approximately 45% of contribution revenue for the year then ended.

12. RELATED PARTY

Approximately $1,967,000 of net contributions receivable are due from Board members and staff at December 31, 2016. The House received approximately $525,000 in donations from Board members and staff during 2016.

13. IN-KIND EXPENSES

Donated goods and services consisted of the following:

Beneficial use of land	$ 1,934,004
Event/auction and gift items	28,274
Cleaning services and supplies	191,607
Professional services and other	32,357
Toys and games	36,950
Furniture and decor	107,305
	$ 2,330,497

14. SUBSEQUENT EVENTS

The House evaluated subsequent events through July 20, 2017, the date these financial statements were available to be issued.

In January 2017, the Board of Directors appropriated $750,000 of endowment earnings for use in operations in accordance with the spending policy outlined in Note 9.

In January 2017, the House was advanced $1,245,000 under the terms of the Second Credit Agreement (Note 7).