Ronald McDonald House at Stanford

Financial Statements

December 31, 2017
(With Comparative Totals for 2016)

armanino

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Ronald McDonald House Charities Bay Area
Palo Alto, California

We have audited the accompanying financial statements of Ronald McDonald House at Stanford (a California nonprofit corporation) (the "House"), which comprise the statement of financial position as of December 31, 2017, 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; 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 United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the House entered into a merger agreement, effective January 1, 2018, with Ronald McDonald House of San Francisco, Inc. and Ronald McDonald House Charities of the Bay Area, Inc. The combined entity be known as Ronald McDonald House Charities Bay Area. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Ronald McDonald House at Stanford's 2016 financial statements, and our report dated July 20, 2017 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP

Armanino LLP
San Jose, California

June 25, 2018

Ronald McDonald House at Stanford
Statement of Financial Position
December 31, 2017
(With Comparative Totals for 2016)

	2017	2016
ASSETS		
Cash and cash equivalents	$ 6,593,949	$ 4,617,735
Certificates of deposit	499,290	-
Contributions and other receivables, net	2,843,521	4,774,984
Beneficial use of land	22,054,254	22,216,758
Prepaid expenses	85,099	163,393
Investments	19,661,563	17,955,773
Construction in progress	-	3,929,560
Property and equipment, net	42,879,682	38,316,260
Total assets	$ 94,617,358	$ 91,974,463
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 108,912	$ 798,866
Accrued expenses	430,411	654,329
Notes payable, net of discount	3,243,000	4,227,000
Total liabilities	3,782,323	5,680,195
Net assets		
Unrestricted	45,678,509	41,299,716
Temporarily restricted	35,837,920	35,714,394
Permanently restricted	9,318,606	9,280,158
Total net assets	90,835,035	86,294,268
Total liabilities and net assets	$ 94,617,358	$ 91,974,463

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, 2017
(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Revenues, gains (losses) and other support					
Contributions	$ 2,168,369	$ 4,849,356	$ 38,448	$ 7,056,173	$ 8,172,224
Special events revenue, net					
Sponsorships and participants	1,381,155	23,000	-	1,404,155	1,723,200
Donated goods and services	9,398	-	-	9,398	28,274
Less: direct benefit costs	(330,515)	-	-	(330,515)	(406,751)
Total special events revenue, net	1,060,038	23,000	-	1,083,038	1,344,723
Other income (loss)					
Donated goods and services	555,351	1,771,500	-	2,326,851	2,147,684
Room donations	87,526	-	-	87,526	51,305
Program service revenue	162,209	-	-	162,209	84,325
Other income (loss)	218,636	-	-	218,636	(17,248)
Total other income (loss)	1,023,722	1,771,500	-	2,795,222	2,266,066
Net assets released from restriction	9,240,062	(9,240,062)	-	-	-
Total revenues, gains (losses) and other support	13,492,191	(2,596,206)	38,448	10,934,433	11,783,013
Functional expenses					
Program services	7,358,933	-	-	7,358,933	6,416,040
Fundraising	1,285,245	-	-	1,285,245	1,367,920
Management and administrative	406,591	-	-	406,591	365,444
Total functional expenses	9,050,769	-	-	9,050,769	8,149,404
Change in net assets from operations	4,441,422	(2,596,206)	38,448	1,883,664	3,633,609
Net investment income	(62,629)	2,719,732	-	2,657,103	1,236,367
Change in net assets	4,378,793	123,526	38,448	4,540,767	4,869,976
Net assets, beginning of year	41,299,716	35,714,394	9,280,158	86,294,268	81,424,292
Net assets, end of year	$ 45,678,509	$ 35,837,920	$ 9,318,606	$ 90,835,035	$ 86,294,268

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, 2017
(With Comparative Totals for 2016)

	Program Services	Fundraising	Management and Administrative	2017 Total	2016 Total
Salaries, payroll taxes, and benefits					
Salaries	$ 1,467,602	$ 499,937	$ 169,979	$ 2,137,518	$ 1,880,298
Payroll taxes	135,979	46,321	15,749	198,049	157,531
Employee benefits	202,312	68,917	23,432	294,661	268,262
Total salaries, payroll taxes, and benefits	1,805,893	615,175	209,160	2,630,228	2,306,091
Advertising	32,905	11,209	3,811	47,925	69,415
Automobile	3,152	-	-	3,152	2,086
Cleaning service	168,450	1,688	3,713	173,851	122,396
Depreciation	1,412,588	14,155	31,140	1,457,883	968,959
Donor acquisition	-	89,660	-	89,660	82,486
Donor recognition	-	55,400	-	55,400	95,705
Donor special events	-	163,362	-	163,362	292,651
House supplies - other	759,636	870	1,912	762,418	416,078
House supplies - expansion	524,036	5,251	11,553	540,840	653,283
Insurance	56,335	564	1,242	58,141	60,906
Interest expense	51,106	512	1,127	52,745	180,207
Linens and laundry	44,616	-	-	44,616	24,670
Meetings and trainings	17,660	6,017	2,045	25,722	32,190
Office supplies	7,823	2,666	906	11,395	12,206
Outside contractors	148,615	42,600	17,394	208,609	237,849
Postage	3,461	1,179	401	5,041	4,029
Professional fees - expansion	-	169,271	-	169,271	151,251
Professional fees - other	9,915	40,341	57,773	108,029	95,231
Printing	2,750	936	318	4,004	1,077
Rent, imputed	1,873,917	18,777	41,310	1,934,004	1,934,004
Repairs and maintenance	88,093	883	1,942	90,918	83,916
Technology	80,763	27,364	7,497	115,624	91,324
Telephone	35,745	358	788	36,891	29,339
Travel, meals and entertainment	2,300	784	266	3,350	9,573
Utilities	185,855	1,862	4,097	191,814	130,268
Volunteer	4,168	-	-	4,168	2,582
Other	39,151	14,361	8,196	61,708	59,632
	$ 7,358,933	$ 1,285,245	$ 406,591	$ 9,050,769	$ 8,149,404

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, 2017
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 4,540,767	$ 4,869,976
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	1,457,883	968,959
Realized and unrealized gain on investments	(2,239,794)	(830,649)
Donated stocks	238,354	(43,331)
Proceeds from immediate sale of donated marketable securities	(238,354)	43,425
Donated services for property and equipment	-	(48,930)
Contributions restricted for capital campaign	(4,656,356)	(9,112,764)
Additions to permanently restricted funds	(38,448)	(42,284)
Loss on disposal of property and equipment	-	31,454
Amortization of discount on notes payable	15,000	153,000
Below market interest contribution	(148,000)	-
Changes in operating assets and liabilities		
Contribution and other receivables, net	3,941,200	3,430,011
Beneficial use of land	162,504	150,084
Prepaid expenses	78,294	202,968
Accounts payable	(689,954)	(2,947,138)
Accrued expenses	(223,918)	3,119,320
Net cash provided by (used in) operating activities	2,199,178	(55,899)
Cash flows from investing activities		
Maturities of certificates of deposit	-	1,249,327
Purchases of certificates of deposit	(499,290)	-
Purchases of investments	(6,560,899)	(2,117,532)
Proceeds from the sale of investments	5,085,166	1,368,333
Purchases of property and equipment	(2,091,745)	(52,247)
Payments for construction in progress	-	(12,491,190)
Net cash used in investing activities	(4,066,768)	(12,043,309)
Cash flows from financing activities		
Capital campaign contributions	4,656,356	9,112,764
Proceeds from issuance of notes payable	1,245,000	-
Payments on notes payable	(2,096,000)	(3,399,000)
Additions to permanently restricted net assets	38,448	42,284
Net cash provided by financing activities	3,843,804	5,756,048
Net increase (decrease) in cash and cash equivalents	1,976,214	(6,343,160)
Cash and cash equivalents, beginning of year	4,617,735	10,960,895
Cash and cash equivalents, end of year	$ 6,593,949	$ 4,617,735

Ronald McDonald House at Stanford
Statement of Cash Flows
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

		2017		2016
Supplemental disclosure of cash flow information				
Cash paid during the year for interest	$	43,237	$	27,207
Supplemental schedule of noncash investing and financing activities				
Donated securities fulfilling capital campaign pledges	$	2,009,737	$	609,073
Construction in progress included in accounts payable and accruals	$	-	$	1,009,626

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

Ronald McDonald House at Stanford
Notes to Financial Statements
December 31, 2017

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.

Our newly expanded House became fully operational in June 2017 and is now the largest and most program-rich of all 366 Ronald McDonald Houses across the globe; the two-building House includes the new 67-bedroom Arrillaga Family Center and renovated 56-bedroom Taube Family Center. This family housing community is the best place for parents, siblings, and caregivers to be during a child's medical crisis and treatment at Lucile Packard Children's Hospital (the "Hospital"), as the care, support, and sense of community we provide for our patients' support networks is unparalleled.

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.

Our target population continues to be families who must travel long distances (50 miles or more) to access critical pediatric care, as well as any family, regardless of distance, whose child is awaiting heart, lung, liver, kidney, stem cell, or bone marrow transplants at the Hospital. We also serve families from across the Western United States who need advanced, highly specialized levels of medicine that are not widely accessed in their home states. Of the families who stayed at the House in 2017, 85% came from California, 14% 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 the Hospital.

The impact of the House's comprehensive programming extends beyond those families who stay overnight. The Day Pass Program served 1,560 individuals in 2017 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 runs daily from 9am to 9pm and allows families to enjoy the comfort and amenities of the House, including the community kitchen, age-appropriate activity rooms, free laundry facilities, showers, restorative family activities, our free megaBITES meal program and food pantry, and more.

1. NATURE OF OPERATIONS (continued)

Our innovative Family Support Services (FSS) provides therapeutic support to families. Available 24-hours a day, FSS connects parents and children to supportive resources and helps them develop positive coping and communication skills through: new family welcome meetings; private individual and group support sessions; developmentally-appropriate Fun Club activities for patients, siblings and caregivers; staff and volunteer trainings to improve overall service delivery; parent workshops; and large-scale community events. Our grief and loss program provides support for families who have lost a child for up to two years after they return home to their communities.

"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 2017, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 investment income in the Statement of Activities.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 31 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.

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, 2017, no bequests receivable are outstanding.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017, the House benefited from approximately 24,000 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.

Functional expense allocation

Costs of providing the House's programs and other activities have been allocated between program services, management and administrative, 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, 2017, 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, 2016, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform with the current year presentation.

3. CONTRIBUTIONS AND OTHER RECEIVABLES

Contributions and other receivables consist of the following:

Capital campaign	$ 2,790,433
Unrestricted purposes	290,243
	3,080,676
Allowance for doubtful accounts	(123,537)
Discount to net present value	(113,618)
	$ 2,843,521

Net receivables are anticipated to be collected as follows:

Within 1 year	$ 2,014,583
From 1 to 5 years	828,938
	$ 2,843,521

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	$ 57,139,978
Less: discount to net present value	(37,019,724)
Current portion of beneficial use of land	1,934,000
	$ 22,054,254

5. INVESTMENTS

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

	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 499,290	$ -	$ 499,290
Investments				
Money market funds	$ 590,206	$ -	$ -	$ 590,206
Debt securities	4,296,405	-	-	4,296,405
Equity securities	14,774,952	-	-	14,774,952
Total investments	19,661,563	-	-	19,661,563
	$ 19,661,563	$ 499,290	$ -	$ 20,160,853

Management fees paid to external investment advisors were $81,587 and are included in net investment income 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	50,586,585
Furniture and equipment	737,899
	51,467,661
Accumulated depreciation	(8,587,979)
	$ 42,879,682

In 2017, the House completed renovation construction of its original facility as part of its expansion project to provide long-term housing needs. Construction costs of $5,907,162 were recorded as a depreciable asset when the renovations were completed in June 2017.

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 were scheduled 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 2017, the House repaid $2,091,000 of the funds previously advanced.

In 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. In 2017, the House used a fair market interest rate of 3.5% to impute discounted interest and recognize an $81,000 contribution and resulting debt discount. The discount is being amortized to interest expense over the term of the note. During 2017, the House was advanced a total of $1,245,000. Principal payments were scheduled 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 January 31, 2022. During 2017, the House repaid $5,000 of the funds previously advanced.

Notes payable consist of the following:

Principal	$ 3,500,000
Unamortized discount	(257,000)
	$ 3,243,000

The future maturities of the notes payable are as follows:

Year Ending December 31,	
2018	$ 1,893,000
2019	468,000
2020	293,000
2021	589,000
	$ 3,243,000

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

Beneficial use of land, net	$ 22,054,254
Time or purpose restrictions	2,888,289
Earnings on endowment	10,895,377
	$ 35,837,920

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

Beneficial use of land rent	$ 1,934,004
Purpose restrictions	28,817
Capital campaign	6,527,241
Appropriation of endowment earnings	750,000
	$ 9,240,062

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, 2017 totaled $38,448. 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	6,568,591
Program Endowment Fund	2,250,015
	$ 9,318,606

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.

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).

9. ENDOWMENT (continued)

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 2017, the Board of Directors appropriated $750,000, representing 4.3% of the prior three year average, for expenditure on operations.

Endowment composition

Changes in endowment net assets for the fiscal year ended December 31, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, December 31, 2016	$ -	$ 8,925,645	$ 9,280,158	$ 18,205,803
Investment return				
Investment income	-	413,632	-	413,632
Net realized/unrealized gain on investment	-	2,306,100	-	2,306,100
Total investment return	-	2,719,732	-	2,719,732
Contributions	-	-	38,448	38,448
Amounts appropriated for expenditure	-	(750,000)	-	(750,000)
	-	1,969,732	38,448	2,008,180
Balance, December 31, 2017	$ -	$ 10,895,377	$ 9,318,606	$ 20,213,983

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 $72,572 to the plan for the year ended December 31, 2017. The House paid $3,430 for the plan's administration costs during the year ended December 31, 2017.

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, 2017, 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 two donors that accounted for approximately 71% of contributions receivable as of December 31, 2017, and three donors that accounted for approximately 47% of contribution revenue for the year then ended.

12. RELATED PARTY TRANSACTIONS

Approximately $864,000 of net contributions receivable are due from Board members and staff at December 31, 2017. The House received approximately $439,000 in donations from Board members and staff during 2017.

13. IN-KIND EXPENSES

Donated goods and services consisted of the following:

Beneficial use of land	$ 1,934,004
Cleaning services and supplies	271,383
Professional services and other	24,372
Toys and games	249,393
	$ 2,479,152

14. SUBSEQUENT EVENTS

The House evaluated subsequent events through June 25, 2018, the date these financial statements were available to be issued.

14. SUBSEQUENT EVENTS (continued)

Effective January 1, 2018, the three local entities, Ronald McDonald House at Stanford, Ronald McDonald House of San Francisco, Inc., and Ronald McDonald House Charities of the Bay Area, Inc. merged into one organization to better support families with children receiving essential pediatric care at partner hospitals. The combined entity will be known as Ronald McDonald House Charities Bay Area ("RMHC Bay Area") and operate under the Ronald McDonald House at Stanford tax identification. As one entity, RMHC Bay Area will sustain core programs through two Ronald McDonald Houses and through two Ronald McDonald Care Mobiles. Additionally, as a combined entity, RMHC Bay Area will realize greater efficiencies overall and continue efforts to enhance programs and services that benefit families.

In January 2018, the Board of Directors appropriated $780,000 of endowment earnings for use in operations in accordance with the spending policy outlined in Note 9.