

**Ronald McDonald House
Charities of the Bay Area, Inc.**

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

December 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Ronald McDonald House Charities of the Bay Area, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Ronald McDonald House Charities of the Bay Area, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The management of Ronald McDonald House Charities of the Bay Area, Inc. 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.

INDEPENDENT AUDITORS' REPORT (continued)

Basis for Qualified Opinion

No accounting controls were exercised over canister cash contributions prior to the initial entry of such cash contributions to the accounting records. We were unable to obtain sufficient appropriate audit evidence about the amounts recognized for the canister cash contributions collected by Ronald McDonald House Charities of the Bay Area, Inc. for the years ended December 31, 2015 and 2014, because there were no accounting controls. Total canister cash collections for years ended December 31, 2015 and 2014 were \$407,778 and \$399,970, respectively. Consequently, we were unable to determine whether any adjustments to those amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of the Bay Area, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DZH Phillips LLP

Oakland, California
August 30, 2016

Ronald McDonald House Charities of the Bay Area, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 3)	\$ 482,600	\$ 532,362
Investments (Note 4)	924,346	892,506
Other receivables	33,434	49,858
Prepays	<u>-</u>	<u>1,909</u>
 TOTAL CURRENT ASSETS AND TOTAL ASSETS	 <u>\$ 1,440,380</u>	 <u>\$ 1,476,635</u>
 LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 60,177	\$ 65,774
Deferred support	<u>-</u>	<u>24,250</u>
 TOTAL CURRENT LIABILITIES AND TOTAL LIABILITIES	 <u>60,177</u>	 <u>90,024</u>
 NET ASSETS		
Unrestricted:		
Available for operations	1,354,980	1,335,046
Designated for scholarships	<u>25,223</u>	<u>22,946</u>
 Total unrestricted	 1,380,203	 1,357,992
Temporarily restricted for scholarships	<u>-</u>	<u>28,619</u>
 TOTAL NET ASSETS	 <u>1,380,203</u>	 <u>1,386,611</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,440,380</u>	 <u>\$ 1,476,635</u>

The accompanying notes are an integral part of these statements.

Ronald McDonald House Charities of the Bay Area, Inc.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2015 and 2014

	December 31, 2015			December 31, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Grants	\$ -	\$ 161,000	\$ 161,000	\$ -	\$ 76,750	\$ 76,750
Contributions	599,694	88,386	688,080	670,942	93,084	764,026
In-kind contributions	44,832	-	44,832	2,781	-	2,781
Interest and dividends	25,689	-	25,689	30,633	-	30,633
Net gains (losses) from investments	(49,287)	-	(49,287)	(4,235)	-	(4,235)
Net assets released from restrictions:						
Purpose accomplished or time restriction met	278,005	(278,005)	-	176,648	(176,648)	-
TOTAL SUPPORT AND REVENUE	898,933	(28,619)	870,314	876,769	(6,814)	869,955
EXPENSES						
Program Services:						
Scholarships	229,017	-	229,017	176,648	-	176,648
Grant-making	319,328	-	319,328	301,731	-	301,731
Supporting services:						
Administration	114,392	-	114,392	105,735	-	105,735
Fundraising	213,985	-	213,985	178,401	-	178,401
TOTAL EXPENSES	876,722	-	876,722	762,515	-	762,515
Change in net assets	22,211	(28,619)	(6,408)	114,254	(6,814)	107,440
Net Assets at beginning of year	1,357,992	28,619	1,386,611	1,243,738	35,433	1,279,171
Net Assets at end of year	<u>\$ 1,380,203</u>	<u>\$ -</u>	<u>\$ 1,380,203</u>	<u>\$ 1,357,992</u>	<u>\$ 28,619</u>	<u>\$ 1,386,611</u>

The accompanying notes are an integral part of these statements.

Ronald McDonald House Charities of the Bay Area, Inc.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (6,408)	\$ 107,440
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net (gains) losses from investments	49,287	4,235
(Increase) decrease in operating assets:		
Receivables	16,424	(21,385)
Prepays	1,909	(1,909)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(5,597)	29,766
Deferred support	(24,250)	(750)
Net cash provided by operating activities	<u>31,365</u>	<u>117,397</u>
Cash flows from investing activities:		
Purchase of securities	(446,107)	(384,441)
Proceeds from sale of securities	<u>364,980</u>	<u>100,046</u>
Net cash used by investing activities	<u>(81,127)</u>	<u>(284,395)</u>
Net increase (decrease) in cash and cash equivalents	(49,762)	(166,998)
Cash and cash equivalents - beginning of the year	<u>532,362</u>	<u>699,360</u>
Cash and cash equivalents - end of the year	<u>\$ 482,600</u>	<u>\$ 532,362</u>

The accompanying notes are an integral part of these statements.

Ronald McDonald House Charities of the Bay Area, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

	Program Services			Supporting Services		
	Scholarships	Grant-making	Total Program	Administration	Fundraising	Total
Scholarships and grants to others	\$ 198,000	\$ 319,328	\$ 517,328	\$ -	\$ -	\$ 517,328
Professional fees	6,160	-	6,160	28,867	74,371	109,398
Payments to national affiliate	-	-	-	-	83,352	83,352
Salaries	13,159	-	13,159	46,182	-	59,341
Canister expense	-	-	-	-	45,873	45,873
Advertising	-	-	-	-	10,389	10,389
Scholarship event expenses	10,346	-	10,346	-	-	10,346
Investment management fees	-	-	-	9,500	-	9,500
Office and administrative expenses	224	-	224	8,087	-	8,311
Employee benefits	-	-	-	7,853	-	7,853
Payroll taxes	1,122	-	1,122	4,330	-	5,452
Insurance	-	-	-	5,413	-	5,413
Conference and meetings	-	-	-	3,927	-	3,927
Bank fees and charges	6	-	6	229	-	235
Miscellaneous	-	-	-	4	-	4
Total Expenses	\$ 229,017	\$ 319,328	\$ 548,345	\$ 114,392	\$ 213,985	\$ 876,722

The accompanying notes are an integral part of these statements.

Ronald McDonald House Charities of the Bay Area, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2014

	Program Services			Supporting Services		
	Scholarships	Grant-making	Total Program	Administration	Fundraising	Total
Scholarships and grants to others	\$ 151,500	\$ 301,731	\$ 453,231	\$ -	\$ -	\$ 453,231
Professional fees	-	-	-	19,816	76,876	96,692
Payments to national affiliate	-	-	-	-	80,774	80,774
Salaries	16,801	-	16,801	48,019	-	64,820
Canister expense	-	-	-	-	20,751	20,751
Office and administrative expenses	7	-	7	14,702	-	14,709
Employee benefits	-	-	-	11,192	-	11,192
Insurance	-	-	-	7,056	-	7,056
Scholarship event expenses	6,674	-	6,674	-	-	6,674
Payroll taxes	1,527	-	1,527	3,591	-	5,118
Investment management fees	-	-	-	1,226	-	1,226
Bank fees and charges	139	-	139	133	-	272
Total Expenses	\$ 176,648	\$ 301,731	\$ 478,379	\$ 105,735	\$ 178,401	\$ 762,515

The accompanying notes are an integral part of these statements.

Ronald McDonald House Charities of the Bay Area, Inc.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2015 and 2014

Note 1 – Organization

Ronald McDonald House Charities of the Bay Area, Inc., (the Chapter) is a California nonprofit corporation and a chapter of Ronald McDonald House Charities, Inc. (RMHC). The Chapter's specific purpose is to make contributions and grants to organizations which engage in educating children, or providing for the essential needs of children or carrying on research as to diseases and other disorders of children, or the diagnosis, prevention, and treatment thereof. The Chapter supports the Ronald McDonald Houses in Palo Alto and San Francisco as well as other children's charities. The Chapter also provides scholarships to individuals.

The Chapter's activities are supported through grants and contributions from its National organization and other private sources. The Chapter's programs include:

Grant-making

Through grants to the Ronald McDonald Houses, the Chapter helps in providing a comfortable, supportive alternative for the families of seriously ill children receiving treatment at nearby hospitals. Ronald McDonald Houses serve as a temporary residence near the medical facility where family members can sleep, eat, relax and find support from other families in similar situations.

The Chapter also provides grants to Ronald McDonald Care Mobiles in Contra Costa and Santa Clara counties. The Ronald McDonald Care Mobiles provide immunizations and health screenings, oral health services, diagnosis and treatment of chronic disease and health education to children who would otherwise go without dental care.

Scholarships

Local Chapters of RMHC, with support from RMHC Global offer scholarships to students from communities who face limited access to educational and career opportunities. These scholarships are part of RMHC's ongoing commitment to education. The RMHC National Scholarship Program is designed to provide financial assistance to eligible graduating high school seniors who face limited access to educational and career opportunities. Students are selected and awards are distributed based on demonstrated academic achievement, financial need and community involvement. Additional selection criteria may be specified by the respective participating local RMHC Chapter based on strategic goals and community needs.

Ronald McDonald House Charities of the Bay Area, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2015 and 2014

Note 2 - Summary of Significant Accounting Policies

Significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

- a. **Method of Accounting** – The financial statements of the Chapter have been prepared using the accrual method of accounting, which involves the recognition of revenues and gains when earned and expenses and losses when incurred.
- b. **Cash and Cash Equivalents** – For purposes of the statement of cash flows, the Chapter considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.
- c. **Investments** – Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted prices in active markets in the statement of financial position. Investment income, realized and unrealized gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by donors.
- d. **Contributions Receivable** – Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value using a discount rate that includes a risk free interest rate and a risk premium. The Chapter does not provide an allowance for estimated uncollectible contributions, as management believes that 100% of contributions receivable will be collected.
- e. **Deferred Support** – Deferred support includes funds received from RMHC for scholarships with matching conditions. Such conditional commitments are normally met subsequent to year end or returned to RMHC.
- f. **Grants and Scholarships** – Grants are reported as expense when they are unconditionally committed and approved by the Board of Directors of the Chapter. Scholarships are reported as expense when they have been accepted by the awardees.
- g. **Income Tax Status** – The Chapter is recognized as a public charity exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Internal Revenue Code and similar code sections of the California Revenue and Taxation Code, is subject to income tax. Every year management considers whether any material tax positions the Chapter has taken are more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Chapter has

Ronald McDonald House Charities of the Bay Area, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2015 and 2014

taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

- h. **Basis of Presentation** – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Chapter and changes therein are classified and reported as follows:

Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations. The Board of Directors of the Chapter has designated a portion of its unrestricted net assets. The designated net assets are reflected on the statement of financial position as such.

Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may be met either by actions of the Chapter and/or the passage of time.

- i. **Restricted Resources** – The Chapter reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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.

Gifts of property and equipment are recorded as unrestricted support unless explicit donor stipulations specify how the donated asset must be used. 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 Chapter reports expirations of donor restrictions when donated or acquired long-lived assets are placed in service.

- j. **Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions 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 may differ from those estimates.

- k. **Reclassifications** – Certain 2014 balances have been reclassified to conform to the current year's presentation.

Ronald McDonald House Charities of the Bay Area, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2015 and 2014

Note 3 – Concentrations

Financial instruments that potentially subject the Chapter to concentrations of credit risks consist primarily of cash and cash equivalents. Risk associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). The Chapter has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

For the years ended December 31, 2015 and 2014, 38% of grants and contributions were received from National Ronald McDonald House Charities.

Note 4 – Investments

The investments consist of:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Cash and money market funds	\$ 6,201	\$ 20,993
Mutual funds	854,912	811,962
Equities	<u>63,233</u>	<u>59,551</u>
	<u>\$ 924,346</u>	<u>\$ 892,506</u>

Note 5 – Fair Value Measurements

Fair values of assets measured on recurring basis are as follows:

	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Total</u>	<u>Level 1</u>	<u>Total</u>	<u>Level 1</u>
Cash and money market funds	\$ 6,201	\$ 6,201	\$ 20,993	\$ 20,993
Mutual funds	854,912	854,912	811,962	811,962
Equities	<u>63,233</u>	<u>63,233</u>	<u>59,551</u>	<u>59,551</u>
	<u>\$924,346</u>	<u>\$924,346</u>	<u>\$892,506</u>	<u>\$892,506</u>

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets.

Ronald McDonald House Charities of the Bay Area, Inc.

NOTES TO FINANCIAL STATEMENTS (continued)

Years Ended December 31, 2015 and 2014

Note 6 – Conditional Grants to Others

The Chapter has agreements to provide annual grants to the Ronald McDonald Care Mobiles operating in Contra Costa and Santa Clara in an amount equal to 20% of the Care Mobiles' total annual operating expenses. The grant payments are conditional upon the Chapter receiving sufficient support for the Care Mobiles' expenses. The Chapter had not received the support for expenses as of December 31, 2015 and therefore did not record these commitments as grant expense in the accompanying financial statements.

Note 7 – Subsequent Events

Subsequent to the statement of financial position date but before issuance of the audit report, and pursuant to agreements described in Note 6 above, the Chapter made unconditional commitments to Contra Costa and Santa Clara Care Mobiles in the amounts of \$42,699 and \$44,940, respectively.

Management has evaluated subsequent events through August 30, 2016, the date which the financial statements were available to be issued.