

*Ronald McDonald House Charities
of Norfolk, Virginia, Inc.*

*Financial Statements
December 31, 2016 and 2015*

Ronald McDonald House Charities of Norfolk, Virginia, Inc.

*Financial Statements
December 31, 2016 and 2015*

Table of Contents

<i>Independent Auditor's Report</i>	<i>1-2</i>
<i>Financial Statements:</i>	
<i>Statements of Financial Position</i>	<i>3</i>
<i>Statements of Activities and Net Assets</i>	<i>4-5</i>
<i>Statements of Functional Expenses</i>	<i>6-7</i>
<i>Statements of Cash Flows</i>	<i>8</i>
<i>Notes to Financial Statements</i>	<i>9-14</i>



Independent Auditors' Report

The Board of Directors
Ronald McDonald House Charities of Norfolk, Virginia, Inc.
Norfolk, Virginia

We have audited the accompanying financial statements of *Ronald McDonald House Charities of Norfolk, Virginia, Inc.* (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 assessing the risk 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 involves evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation.

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 Charities of Norfolk Virginia, Inc.* as of December 31, 2016 and 2015, 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.

Barnes, Brock, Cornwell & Painter, PLLC

July 25, 2017

Virginia Beach, VA

Ronald McDonald House Charities of Norfolk, Virginia, Inc.

Statements of Financial Position
December 31, 2016

	2016	2015
Assets		
Cash and cash equivalents	\$ 16,853	\$ 34,257
Accounts receivable	6,984	-
Short-term investments	437,712	437,131
Property and equipment, net	816,617	853,357
Investments	<u>3,041,676</u>	<u>2,868,107</u>
Total Assets	<u>\$ 4,319,842</u>	<u>\$ 4,192,852</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	<u>\$ 14,367</u>	<u>\$ 6,559</u>
Total Liabilities	<u>14,367</u>	<u>6,559</u>
Net Assets		
Unrestricted	3,740,946	3,667,200
Temporarily restricted	50,779	5,343
Permanently restricted	<u>513,750</u>	<u>513,750</u>
Total Net Assets	<u>4,305,475</u>	<u>4,186,293</u>
Total Liabilities and Net Assets	<u>\$ 4,319,842</u>	<u>\$ 4,192,852</u>

See Accompanying Notes to Financial Statements

Ronald McDonald House Charities of Norfolk, Virginia, Inc.

*Statement of Activities and Net Assets
For the Year Ended December 31, 2016*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and other revenue				
Special events	\$ 145,185	\$ -	\$ -	\$ 145,185
Less: cost of direct benefits to donors	36,923	-	-	36,923
Net revenue from special events	108,262	-	-	108,262
Contributions	170,400	-	-	170,400
Net realized and unrealized gains (losses) on investments	110,659	-	-	110,659
Investment income	63,774	-	36,100	99,874
Fundraising	167,892	-	-	167,892
Registration	17,841	-	-	17,841
Miscellaneous	-	-	-	-
Vending machines	217	-	-	217
Net assets released from restriction	(9,336)	45,436	(36,100)	-
Total public support and other revenue	629,709	45,436	-	675,145
Expenses				
Program expense	490,774	-	-	490,774
Supporting services				
Management and general services	22,469	-	-	22,469
Fundraising expense	65,415	-	-	65,415
Unallocated payments - RMHC Global	22,741	-	-	22,741
Total expenses	601,399	-	-	601,399
Change in net assets	28,310	45,436	-	73,746
Net assets, beginning of year	3,667,200	5,343	513,750	4,186,293
Reserve for replacements	45,436	-	-	45,436
Net assets, end of year	\$ 3,740,946	\$ 50,779	\$ 513,750	\$ 4,305,475

See Accompanying Notes to Financial Statements

Ronald McDonald House Charities of Norfolk, Virginia, Inc.

*Statement of Activities and Net Assets
For the Year Ended December 31, 2015*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and other revenue				
Special events	\$ 125,218	\$ -	\$ -	\$ 125,218
Less: cost of direct benefits to donors	33,776	-	-	33,776
Net revenue from special events	91,442	-	-	91,442
Contributions	265,463			265,463
Net realized and unrealized gains (losses) on investments	159,707	-	-	159,707
Investment income	77,661	-	34,400	112,061
Fundraising	135,918	-	-	135,918
Registration	19,903	-	-	19,903
Miscellaneous	2,684	-	-	2,684
Vending machines	1,508	-	-	1,508
Net assets released from restriction	29,057	5,343	(34,400)	-
Total public support other and revenue	783,343	5,343	-	788,686
Expenses				
Program expense	599,116	-	-	599,116
Supporting services				
Management and general services	25,293	-	-	25,293
Fundraising expense	55,921	-	-	55,921
Unallocated payments - RMHC Global	22,856	-	-	22,856
Total expenses	703,186	-	-	703,186
Change in net assets	80,157	5,343	-	85,500
Net assets, beginning of year	3,531,043	-	513,750	4,044,793
Reserve for replacements	56,000	-	-	56,000
Net assets, end of year	\$ 3,667,200	\$ 5,343	\$ 513,750	\$ 4,186,293

See Accompanying Notes to Financial Statements

Ronald McDonald House Charities of Norfolk, Virginia, Inc.

Statement of Functional Expenses

For the Year Ended December 31, 2016

	Program Services	Management & General Services	Fundraising	2016 Total
Salaries and wages	\$ 143,961	\$ 7,998	\$ 7,998	\$ 159,957
Depreciation	45,890	2,415	-	48,305
Replacements	43,164	2,272	-	45,436
Security	43,098	-	-	43,098
Contract labor	43,750	-	-	43,750
Canister expense	-	-	33,284	33,284
Utilities and telephone	27,645	1,455	-	29,100
Insurance	28,108	-	-	28,108
Supplies	25,055	-	-	25,055
Service contracts	25,007	-	-	25,007
Fundraising	-	-	22,872	22,872
Promotions and gift	17,359	-	-	17,359
Repairs and maintenance	13,020	685	-	13,705
Taxes and license	11,446	616	616	12,678
Office expense	5,641	627	-	6,268
Retirement plan	8,982	473	-	9,455
Accounting and legal	-	5,500	-	5,500
Miscellaneous	4,995	-	-	4,995
Bank charges	1,949	-	217	2,166
Postage	1,147	-	-	1,147
Travel	46	428	428	902
Investment expense	281	-	-	281
Dues	150	-	-	150
Conference and education	80	-	-	80
Total expenses	\$ 490,774	\$ 22,469	\$ 65,415	\$ 578,658

See Accompanying Notes to Financial Statements

Ronald McDonald House Charities of Norfolk, Virginia, Inc.

Statement of Functional Expenses

For the Year Ended December 31, 2015

	Program Services	Management & General Services	Fundraising	2015 Total
Salaries and wages	\$ 134,333	\$ 7,463	\$ 7,463	\$ 149,259
Repairs and maintenance	57,999	3,053	-	61,052
Replacements	53,200	2,800	-	56,000
Depreciation	50,240	2,646	-	52,886
Grants and scholarships	44,560	-	-	44,560
Security	44,405	-	-	44,405
Contract labor	43,344	-	-	43,344
Canister expense	-	-	42,929	42,929
Insurance	33,315	-	-	33,315
Supplies	28,477	-	-	28,477
Utilities and telephone	25,260	1,330	-	26,590
Service contracts	23,604	-	-	23,604
Promotions and gift	18,088	-	-	18,088
Taxes and license	11,862	635	635	13,132
Office expense	10,369	1,152	-	11,521
Retirement plan	9,082	478	-	9,560
Miscellaneous	6,064	-	-	6,064
Accounting and legal	-	5,500	-	5,500
Fundraising	-	-	4,507	4,507
Conference and education	2,228	-	-	2,228
Bank charges	1,361	-	151	1,512
Postage	1,032	-	-	1,032
Travel	42	236	236	514
Dues	150	-	-	150
Outside guest lodging	101	-	-	101
Total expenses	\$ 599,116	\$ 25,293	\$ 55,921	\$ 680,330

See Accompanying Notes to Financial Statements

Ronald McDonald House Charities of Norfolk, Virginia, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2016

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ 73,746	\$ 85,500
Adjustments to reconcile change in net assets to cash provided in (used) operating activities-		
Depreciation and related reserve	93,741	52,850
Unrealized (gains) losses on investments	(110,502)	(159,834)
Realized (gains) losses on investments	(155)	127
(Increase) decrease in assets-		
(Increase) decrease in accounts receivable	(6,984)	-
(Increase) decrease in deposits	-	3,400
Increase (decrease) in liabilities-		
Increase (decrease) in accounts payable	7,806	(5,878)
Net cash flows provided (used) by operating activities	57,652	(23,835)
Cash Flows from Investing Activities		
Purchase of investments	(68,622)	(99,521)
Sale of investments	5,130	76,998
Purchase of equipment	(11,564)	(49,089)
Net cash flows provided (used) by investing activities	(75,056)	(72,089)
Increase (decrease) in cash and cash equivalents	(17,404)	(95,924)
Cash and cash equivalents, beginning of year	34,257	130,181
Cash and cash equivalents, end of year	\$ 16,853	\$ 34,257

See Accompanying Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

Nature of activities

The Ronald McDonald House Charities on Norfolk, Virginia, is a nonprofit organization that provides temporary housing and other assistance for critically and seriously ill children and their families during periods when the children are undergoing treatment at Children's Hospital of the King's Daughters, Norfolk, Virginia. The Organization also raises funds to provide grants to other organizations.

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and as such, recognize income when earned and expenses when incurred.

Basis of presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (ASC) No. 958-605 *Financial Statement of Not-for-Profit Organizations*. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Recognition of restrictions on assets

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Contributions

All contributions are considered to be available for unrestricted use in the period received unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support depending on the nature of the restrictions.

Accounts receivable

Accounts receivable are written off using the direct write-off method in the year in which the account is determined to be uncollectible. If the allowance method of accounting for uncollectible accounts were used, it would not have a material effect on the financial statements.

Cash and cash equivalents

The Organization considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

(continued)

Organization and Significant Accounting Policies (continued)

Investments and fair value measurement

The Organization follows a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest level priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under generally accepted accounting principles are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical instruments in an active market that the entity has the ability to access. Level 2 inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted market prices for similar or identical assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means; if the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumption that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and equipment

Property and equipment are recorded at cost and depreciation is calculated using the Modified Accelerated Cost Recovery System and straight-line methods based over the following useful lives ranging from 5 to 39 years. Additions or betterments of \$500 or more are capitalized, while repairs and maintenance that do not improve or extend the useful lives of the respective assets are expensed currently.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset. For the years ended December 31, 2016 and 2015, management determined that no impairment loss needs to be recognized.

(continued)

Organization and Significant Accounting Policies (concluded)

Future major repairs and replacements

The Corporation is accumulating funds in the reserve for replacements based on estimates of future needs for repairs and replacements of property. The funding for such repairs and replacements is over the estimated useful lives based on current placement costs. Actual expenditures, however, may vary from the estimated amounts and variations may be material. The funds are temporarily restricted and amounted to \$50,779 and \$5,343 for the years ended December 31, 2016 and 2015.

Income taxes

The Corporation is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from activities not directly related to the Corporation's tax-exempt purpose will be subject to taxation as unrelated business income.

The Corporation follows the statutory requirements for its income tax and accounting and generally avoids risks associated with tax positions that may be challenged upon examination. Management believes any liability resulting from taxing authorities imposing additional income taxes from activities deemed to be unrelated to the Corporation's tax-exempt status would not have a material effect on the financial statements. Generally, the organizations tax returns remain open for federal income tax examination for three years from the date of filing.

Financial instruments and credit risk

The carrying amounts approximate fair value based on quoted market prices or discounted cash flows analysis for cash equivalents and other financial instruments. The Corporation is subject to some credit risk through short term cash investments which are placed with high quality financial institutions. The balances in excess of federally insured or other insured limits were \$204,267 and \$221,090 at December 31, 2016 and 2015.

Functional allocation of expenses

The costs of providing various programs and activities have been summarized on a functional basis in the Statement of Activities and Net Assets and Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Note 2. Short-Term Investments

Short term investments consist of certificates of deposits earning interest at rates of .01% to .20% with varying maturity dates.

Ronald McDonald House Charities of Norfolk, Virginia, Inc.

Notes to Financial Statements

Note 3. Endowment Funds

The endowment consists of restricted assets of 10,000 shares of Ronald McDonald stock donated in 1993 by Mrs. Kroc and recorded at its fair value.

The Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, the Organization classifies permanently restricted net

- 1 The original value of gifts donated to the permanent endowment, and
- 2 The original value of subsequent gifts to the permanent endowment

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment new asset composition by type of fund as of December 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment \$	-	-	513,750	513,750

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, December 31, 2014 \$	\$	\$	513,750	\$ 513,750
Investment income	-	34,400	-	34,400
Appropriation of expenditure	-	(34,400)	-	(34,400)
Net assets, December 31, 2015	-	-	513,750	513,750
Investment income	-	36,100	-	36,100
Appropriation of expenditure	-	(36,100)	-	(36,100)
Net assets December 31, 2016 \$	-	-	513,750	\$ 513,750

(continued)

Ronald McDonald House Charities of Norfolk, Virginia, Inc.

Notes to Financial Statements

Note 3. Endowment Funds (concluded)

Return Objectives and Risk Parameters

The Organization has adopted a investment and spending policies for the endowment assets that attempt to provide stream of funding to the programs supported by the endowments. The endowment assets are in the form of the original stock donated to the organization. The investment return in the form of earning and dividends are unrestricted for use of the Ronald McDonald House operations.

Note 4. Investments

Investments are stated at fair value and are summarized as follows:

	Level 1	Level 2	Level 3
December 31, 2016:			
Ronald McDonald Stock	\$ 1,217,200	\$ -	\$ -
Cash and cash equivalents	87,817	-	-
Equity securities	84,040	-	-
Mutual Funds	1,638,815	-	-
Fixed Income	13,804	-	-
	<u>\$ 3,041,676</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2015:			
Ronald McDonald Stock	\$ 1,181,400	\$ -	\$ -
Cash and cash equivalents	79,791	-	-
Equity securities	76,069	-	-
Mutual Funds	1,511,390	-	-
Fixed Income	19,457	-	-
	<u>\$ 2,868,107</u>	<u>\$ -</u>	<u>\$ -</u>
		<u>2016</u>	<u>2015</u>
Gross unrealized holding gains (losses)		<u>\$ 1,408,912</u>	<u>\$ 1,298,407</u>

During the years ended December 31, 2016 and 2015 the Organization had an realized gain (loss) on the above investments in the amount of \$155 and \$(127) respectively.

Ronald McDonald House Charities of Norfolk, Virginia, Inc.

Notes to Financial Statements

Note 5. Property and Equipment

Property and equipment consist of:	2016	2015
Land	\$ 80,461	\$ 80,461
Buildings	1,256,501	1,256,501
Improvements	373,484	403,296
Furniture and fixtures	66,518	66,518
Canisters	141,832	141,832
Equipment	84,751	43,375
Parking lot	21,021	21,021
	<u>2,024,568</u>	<u>2,013,004</u>
Accumulated depreciation	(1,207,951)	(1,159,647)
	<u>\$ 816,617</u>	<u>\$ 853,357</u>

Depreciation expense totaled \$48,305 and \$52,886 for the years ending December 31, 2016 and 2015.

Note 6. Employee Benefit Plans

In 1993, the organization started a SAR-SEP plan covering substantially all employees. Under the plan, the Organization annually contributes seven percent of employees' gross pay. Plan expenses incurred were \$9,455 and \$9,560 for the years ending December 31, 2016 and 2015, respectively.

Note 7. In-Kind Donations

The Corporation records the fair value of donated supplies, assets, and certain services when these gifts are received.

Volunteers regularly donate their time at the house. No value for these volunteer hours has been recorded in the statement of activities because they do not meet the criteria for recognition under generally accepted accounting principles.

Note 8. Subsequent Event

Management has evaluated subsequent events through July 25, 2017, the date on which the financial statements were available to be issued. No events have occurred since the statement of financial position date that would have a material impact on the financial statements.