

Ronald McDonald House at Stanford

Financial Statements

December 31, 2015
(With Comparative Totals for 2014)



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 20



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 (the "House"), which comprise the statement of financial position as of December 31, 2015, 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.

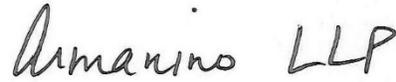
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015, 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.

Report on Summarized Comparative Information

We have previously audited the Ronald McDonald House at Stanford's 2014 financial statements, and our report dated June 26, 2015, 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Ramon, California

June 22, 2016

RONALD MCDONALD HOUSE AT STANFORD
Statement of Financial Position
December 31, 2015
(With Comparative Totals for December 31, 2014)

ASSETS

	2015	2014
Cash and cash equivalents	\$ 10,960,895	\$ 6,146,228
Certificates of deposit	1,249,327	9,665,411
Contributions and other receivables, net	7,595,922	3,113,312
Beneficial use of land	22,366,842	22,505,424
Prepaid expenses	366,361	106,746
Investments	16,985,092	17,719,161
Construction in progress	22,873,654	5,576,439
Property and equipment, net	11,328,916	11,713,417
Total assets	\$ 93,727,009	\$ 76,546,138

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 2,736,378	\$ 641,816
Accrued expenses	2,093,339	638,088
Note payable	7,473,000	-
Total liabilities	12,302,717	1,279,904
Net assets		
Unrestricted		
Operating	33,993,210	23,858,918
Board designated	-	1,745,739
Total unrestricted	33,993,210	25,604,657
Temporarily restricted	38,193,208	40,477,040
Permanently restricted	9,237,874	9,184,537
Total net assets	81,424,292	75,266,234
Total liabilities and net assets	\$ 93,727,009	\$ 76,546,138

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, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

	2015			Total 2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and other support				
Contributions	\$ 3,562,071	\$ 5,973,447	\$ 53,337	\$ 9,588,855
Special events revenue, net				
Sponsorships and participants	1,343,429	50,000	-	1,393,429
Donated goods and services	11,938	-	-	11,938
Less: direct benefit costs	(363,070)	-	-	(363,070)
Total special events revenue, net	992,297	50,000	-	1,042,297
Interest and dividends	19,293	483,290	-	502,583
Donated goods and services	814,554	1,795,425	-	2,609,979
Room donations	53,773	-	-	53,773
Program service revenue	66,645	-	-	66,645
Other income	11,813	-	-	11,813
Net assets released from restrictions	9,680,245	(9,680,245)	-	-
Total revenues, gains and other support	15,200,691	(1,378,083)	53,337	13,875,945
Expenses				
Program services	5,060,873	-	-	5,060,873
Fundraising	1,172,156	-	-	1,172,156
Management and administrative	505,600	-	-	505,600
Total expenses	6,738,629	-	-	6,738,629
Change in net assets before net realized and unrealized gain (loss) on investments	8,462,062	(1,378,083)	53,337	7,137,316
Net realized and unrealized gain (loss) on investments, net of fees	(73,509)	(905,749)	-	(979,258)
Change in net assets	8,388,553	(2,283,832)	53,337	6,158,058
Net assets, beginning of year	25,604,657	40,477,040	9,184,537	75,266,234
Net assets, end of year	\$ 33,993,210	\$ 38,193,208	\$ 9,237,874	\$ 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, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

	2015				Total 2014
	Program Services	Fundraising	Management and Administrative	Total	
Salaries	\$ 1,088,852	\$ 374,293	\$ 238,186	\$ 1,701,331	\$ 1,425,320
Payroll taxes and benefits	246,588	84,765	53,941	385,294	300,858
Total salaries, payroll taxes and benefits	1,335,440	459,058	292,127	2,086,625	1,726,178
Depreciation	428,484	4,342	8,683	441,509	430,480
Rent	1,875,988	19,340	38,680	1,934,008	939,352
Special events - auction and gift items	-	70,751	-	70,751	39,930
Special events - all other costs	-	268,426	-	268,426	277,365
Donor engagement and acquisition	-	43,562	-	43,562	48,077
Cleaning service and supplies	145,927	1,273	2,546	149,746	209,689
Insurance	36,495	376	752	37,623	34,647
Printing and supplies	650,162	172,299	11,094	833,555	609,715
Utilities	161,233	1,662	3,324	166,219	144,612
Professional fees - expansion	57,162	19,759	12,504	89,425	229,794
Professional fees - other	-	3,862	82,276	86,138	98,751
Repairs and maintenance	90,149	888	1,777	92,814	109,031
Public relations and newsletter	38,497	18,976	7,768	65,241	90,197
Telephone	18,535	191	382	19,108	5,951
Outside contractors	163,558	61,346	25,304	250,208	245,319
Hotel accommodations	4,876	-	-	4,876	4,485
Meetings and training	17,123	5,886	3,853	26,862	23,487
Equipment rentals	6,066	2,085	1,327	9,478	9,909
Postage	3,760	1,306	822	5,888	5,493
Taxes and fees	8,503	534	301	9,338	8,174
Other	18,915	16,234	12,080	47,229	57,467
Total	<u>\$ 5,060,873</u>	<u>\$ 1,172,156</u>	<u>\$ 505,600</u>	<u>\$ 6,738,629</u>	<u>\$ 5,348,103</u>

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, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ 6,158,058	\$ 26,766,681
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	441,509	430,480
Realized and unrealized (gain) loss on investments	979,258	(397,735)
Donated stocks	109,097	(78,691)
Proceeds from immediate sale of donated marketable securities	(109,097)	78,093
Contributions restricted for capital campaign	(8,070,232)	(5,750,646)
Donated services for property and equipment	-	(51,123)
Additions to permanently restricted funds	(53,337)	(35,929)
Rent expense in-kind	1,934,008	939,352
Donated lease contribution	-	(20,645,250)
Amortization of discount on lease contribution receivable	(1,795,425)	(838,785)
Below market interest contribution	(277,000)	-
Changes in operating assets and liabilities		
Contribution and other receivables, other than capital campaign	(7,291)	117,453
Prepaid expenses	(259,615)	(73,940)
Accounts payable and accrued expenses	(1,008,517)	772,461
Net cash provided by (used in) operating activities	(1,958,584)	1,232,421
Cash flows from investing activities		
Maturities of certificates of deposit	8,416,084	1,168,286
Purchases of investments	(2,719,774)	(5,222,936)
Proceeds from the sale of investments	2,067,199	6,040,828
Purchases of property and equipment	(57,007)	(27,681)
Payments for construction in progress	(12,738,885)	(4,934,964)
Net cash used in investing activities	(5,032,383)	(2,976,467)
Cash flows from financing activities		
Capital campaign contributions	4,002,297	3,699,430
Proceeds from issuance of note payable	8,410,000	-
Payments on note payable	(660,000)	-
Additions to permanently restricted net assets	53,337	35,929
Net cash provided by financing activities	11,805,634	3,735,359
Increase in cash and cash equivalents	4,814,667	1,991,313
Cash and cash equivalents, beginning of year	6,146,228	4,154,915
Cash and cash equivalents, end of year	\$ 10,960,895	\$ 6,146,228
<u>Supplemental noncash investing and financing activities</u>		
Donated securities fulfilling capital campaign pledges	\$ 407,385	\$ 328,780
Construction in progress included in accounts payable and accruals	\$ 4,558,330	\$ 1,048,719

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

RONALD MCDONALD HOUSE AT STANFORD

Notes to Financial Statements

December 31, 2015

1. Organization

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 including solid organ transplants (heart, liver, kidney, lung, etc.), cancer treatments, including bone marrow and stem cell transplants; and neurological surgery. Of the families who stayed at the House in 2015, 70% came from California, 28% traveled from other states, and 2% 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 opened a new facility in 2016 directly adjacent to the existing House. With the addition of nine new guest rooms to the current house, the full campus increases 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. In addition to the family guest rooms, the House features a children's activity room, toddler play area, teen lounge, computer center, and fitness center. Shared areas such as a large kitchen and dining room, TV rooms on each floor and a multi-purpose "great room" create a sense of community among the families. Additional benefits offered through the House help families with everyday tasks that could otherwise be daunting: shuttles to and from the hospital, free laundry facilities, group shopping trips, continental breakfast provided seven days a week, and donated meals prepared by corporate and community groups up to 10 times a week.

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.

RONALD MCDONALD HOUSE AT STANFORD

Notes to Financial Statements

December 31, 2015

1. Organization (continued)

The Day Pass Program served 762 individuals in 2015 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 Meals for Munchkins program. The Day Pass Program is available every day of the week from 9 am to 9 pm.

"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 2015, the Happy Wheels cart served over 11,000 individuals at the hospital, providing them the comfort of Ronald McDonald House within the hospital environment.

2. Summary of Significant Accounting Policies

Basis of presentation

The financial statements have been prepared on the accrual basis of accounting. Net assets and changes therein are classified as follows:

Permanently Restricted Net Assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the House.

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.

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.

Board-designated net assets - net assets designated by the Board of Directors to be reserved for the capital campaign.

RONALD MCDONALD HOUSE AT STANFORD
Notes to Financial Statements
December 31, 2015

2. Summary of Significant Accounting Policies (continued)

Basis of 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 accounting principles generally accepted in the United States of America 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.

Contributions and revenue

Contributions, including unconditional promises to give, are recognized as revenue in the period the promise is received at fair value. 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 clear title is established and the proceeds are measurable. As of December 31, 2015, no bequests receivable have been recorded.

RONALD MCDONALD HOUSE AT STANFORD
Notes to Financial Statements
December 31, 2015

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 cash held in managed investment accounts or certificates of deposit.

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 3). The arrangement was recognized as a contributions 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 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.

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 39 years for the renovated and new buildings, respectively.

RONALD MCDONALD HOUSE AT STANFORD
Notes to Financial Statements
December 31, 2015

2. Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

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 that 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.

Donated goods and services

Donated goods and services are reflected at the fair value of the contribution received. The contributions of 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, 2015, the House benefited from approximately 20,000 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 administration and fundraising functional expenses based upon time and other cost studies performed by the House.

Income taxes

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, 2015, the House does not have any significant uncertain tax positions for which a reserve would be necessary.

RONALD MCDONALD HOUSE AT STANFORD
Notes to Financial Statements
December 31, 2015

2. Summary of Significant Accounting Policies (continued)

Fair value of financial instruments

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 that the most observable inputs be used when available. Observable inputs are inputs that 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 that 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 up on the lowest level of input that is significant to the fair value measurement.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the House's financial statements for the year ended December 31, 2014 from which the summarized information was derived.

RONALD MCDONALD HOUSE AT STANFORD
Notes to Financial Statements
December 31, 2015

3. 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. The contribution receivable as of December 31, 2015 is as follows:

Noncurrent portion of contribution receivable	\$61,007,986
Less: discount to net present value	<u>(40,575,144)</u>
Noncurrent portion of contribution receivable, net	20,432,842
Current portion of contribution receivable	<u>1,934,000</u>
	<u>\$22,366,842</u>

4. Contributions and Other Receivables

Contributions and other receivables consist of the following at December 31, 2015:

Capital campaign	\$7,880,897
Unrestricted purposes	<u>380,609</u>
Total receivables	8,261,506
Less: allowance for doubtful accounts	(342,840)
Less: discount to net present value	<u>(322,744)</u>
Total net receivables	<u>\$7,595,922</u>

Net receivables are anticipated to be collected as follows:

Within 1 year	\$4,540,896
Within 1 to 5 years	<u>3,055,026</u>
Total net receivables	<u>\$7,595,922</u>

RONALD MCDONALD HOUSE AT STANFORD
Notes to Financial Statements
December 31, 2015

5. Investments

Investments are comprised of the following at December 31, 2015:

	<u>Fair Value</u>	<u>Cost</u>	<u>Life-to-Date Unrealized Gains (Losses)</u>
Money market funds	\$ 801,191	\$ 801,191	\$ -
Debt securities	4,164,205	4,345,834	(181,629)
Equity securities	<u>12,019,696</u>	<u>10,814,310</u>	<u>1,205,386</u>
Total investments	<u>\$16,985,092</u>	<u>\$15,961,335</u>	<u>\$1,023,757</u>

The following tables summarize the valuation of the House's certificates of deposit and investments measured on a recurring basis at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$1,249,327	\$ -	\$ 1,249,327
Investments				
Money market funds	801,191	-	-	801,191
Debt securities	4,164,205	-	-	4,164,205
Equity securities	<u>12,019,696</u>	<u>-</u>	<u>-</u>	<u>12,019,696</u>
Total investments	<u>16,985,092</u>	<u>-</u>	<u>-</u>	<u>16,985,092</u>
Total	<u>\$16,985,092</u>	<u>\$1,249,327</u>	<u>\$ -</u>	<u>\$18,234,419</u>

Management fees paid to external investment advisors in 2015 of \$81,949 are included in the net unrealized and realized gain on investments in the Statement of Activities.

6. Property and Equipment

Property and equipment consists of the following at December 31, 2015:

Non depreciable assets	
Artwork	\$ 46,953
Depreciable assets	
Building	17,184,762
Furniture and equipment	<u>326,581</u>
	17,558,296
Less accumulated depreciation	<u>(6,229,380)</u>
	<u>\$11,328,916</u>

RONALD MCDONALD HOUSE AT STANFORD
Notes to Financial Statements
December 31, 2015

6. Property and Equipment (continued)

In addition, in 2014 the House commenced construction of an adjacent facility as part of its expansion project to provide long-term housing needs. As of December 31, 2015, the House had construction in progress of \$22,873,654 related to this expansion project.

7. Note Payable

In 2015, the House entered into a Credit Agreement with the David and Lucile Packard Foundation ("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 (Note 13). Borrowings bear interest at one percent (1%) per year. 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 and has an additional advance of \$1,590,000 available until June 12, 2016. 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.

The note payable consists of the following at December 31, 2015:

Principal	\$7,750,000
Less: unamortized discount	<u>(277,000)</u>
Note payable, net	<u>\$7,473,000</u>

Future maturities of the note payable are as follows as of December 31, 2015:

2016	\$3,399,000
2017	1,990,000
2018	1,658,000
2019	249,000
2020	<u>177,000</u>
	<u>\$7,473,000</u>

RONALD MCDONALD HOUSE AT STANFORD
Notes to Financial Statements
December 31, 2015

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted as follows at December 31, 2015:

Beneficial use of land, net	\$22,366,842
Time or purpose restrictions	7,755,955
Earnings on endowment	<u>8,070,411</u>
	<u>\$38,193,208</u>

Net assets released from restrictions during 2015 were for the following purposes:

Beneficial use of land rent	\$1,934,008
Purpose restrictions	95,250
Capital campaign	<u>7,650,987</u>
	<u>\$9,680,245</u>

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, 2015 amounted to \$53,337. 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.

The permanently restricted net assets of these funds consist of the following on December 31, 2015:

Kroc Endowment Fund	\$ 500,000
Children's Legacy Fund	6,487,859
Program Endowment Fund	<u>2,250,015</u>
	<u>\$9,237,874</u>

RONALD MCDONALD HOUSE AT STANFORD
Notes to Financial Statements
December 31, 2015

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 organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and 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

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).

RONALD MCDONALD HOUSE AT STANFORD
Notes to Financial Statements
December 31, 2015

9. Endowment (continued)

Spending policy and how the investment objectives relate to 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 organization'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. The House did not appropriate any earnings during the year ended December 31, 2015.

Changes in endowment net assets for the year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$8,492,870	\$9,184,537	\$17,677,407
Investment income	-	483,290	-	483,290
Net realized/unrealized loss on investment	<u>-</u>	<u>(905,749)</u>	<u>-</u>	<u>(905,749)</u>
Total investment return	-	(422,459)	-	(422,459)
Contributions, net	<u>-</u>	<u>-</u>	<u>53,337</u>	<u>53,337</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$8,070,411</u>	<u>\$9,237,874</u>	<u>\$17,308,285</u>

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 \$57,269 to the plan for the year ended December 31, 2015. The House paid \$1,811 for the plan's administration costs during the year ended December 31, 2015.

RONALD MCDONALD HOUSE AT STANFORD
Notes to Financial Statements
December 31, 2015

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, 2015, 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 three donors that accounted for approximately 61% of contributions receivable as of December 31, 2015 and 63% of contribution revenue for the year then ended.

12. Related Party

Approximately \$2,346,000 of net contributions receivable are due from Board members and staff at December 31, 2015. The House received approximately \$1,647,000 in donations from Board members and staff during 2015.

13. In-Kind Expenses

Donated goods and services were as follows for the year ended December 31, 2015:

Beneficial use of land	\$1,934,008
Event/auction and gift items	11,938
Cleaning services and supplies	126,807
Professional services and other	46,353
Toys and games	106,626
Furniture and décor	<u>534,768</u>
	<u>\$2,760,500</u>

RONALD MCDONALD HOUSE AT STANFORD
Notes to Financial Statements
December 31, 2015

14. Subsequent Events

The House evaluated subsequent events through June 22, 2016, the date these financial statements were available to be issued.

In January 2016, the Board of Directors appropriated \$450,000 of endowment earnings for use in operations in accordance with the spending policy outlined in Note 9.

In May 2016, the House substantially completed a three-story, 52,000 square foot, addition (the Arrillaga Family Center) built adjacent to the existing house. At such time, substantially all construction in progress was placed into service.

In May 2016, the Board of Directors approved the expenditure of \$6,000,000 for the renovation of the existing house (the Taube Family Center) to allow the two buildings to function as one cohesive campus. The renovations are anticipated to be completed by Spring 2017 and will allow the House to serve more than 120 families each night.

No other subsequent events have occurred that would have a material impact on the presentation of the House's financial statements.