

**Ronald McDonald House Charities
of Kansas City, Inc.**

Independent Auditor's Report and Financial Statements
December 31, 2016 and 2015



**Ronald McDonald House Charities
of Kansas City, Inc.
December 31, 2016 and 2015**

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Independent Auditor's Report

Board of Directors
Ronald McDonald House Charities
of Kansas City, Inc.
Kansas City, Missouri

We have audited the accompanying financial statements of Ronald McDonald House Charities of Kansas City, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities 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 error.

Auditor's 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 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.

Board of Directors
Ronald McDonald House Charities
of Kansas City, Inc.
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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 Kansas City, 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 accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Kansas City, Missouri
April 25, 2017

Ronald McDonald House Charities of Kansas City, Inc.

Statements of Financial Position December 31, 2016 and 2015

Assets

	2016	2015
Cash and cash equivalents	\$ 456,943	\$ 626,875
Accounts receivables, net of allowance; 2016 – \$3,025, 2015 – \$149,868	30,981	62,355
Contributions receivable, net of allowance – general operations; 2016 – \$6,350, 2015 – \$3,742	375,140	319,541
Contributions receivable, net of allowance – Hope Grows Here Campaign; 2016 – \$5,000, 2015 – \$3,000	14,800	70,069
Beneficial interest in assets held by another not-for-profit organization	247,393	250,000
Investments	3,095,979	2,956,912
Property and equipment, net of accumulated depreciation; 2016 – \$6,810,158, 2015 – \$6,227,459	16,022,606	16,391,155
Other	100,404	69,980
Total assets	\$ 20,344,246	\$ 20,746,887

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 92,306	\$ 89,073
Deferred revenue	10,000	19,000
Lines of credit	202,666	402,666
Total liabilities	304,972	510,739

Net Assets

Unrestricted	18,040,977	18,449,856
Temporarily restricted	998,297	786,292
Permanently restricted	1,000,000	1,000,000
Total net assets	20,039,274	20,236,148
Total liabilities and net assets	\$ 20,344,246	\$ 20,746,887

Ronald McDonald House Charities of Kansas City, Inc.

Statement of Activities Year Ended December 31, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Contributions – general	\$ 1,196,221	\$ 491,430		\$ 1,687,651
Contributions – Hope Grows Here Campaign	-	73,059		73,059
Contributions – McDonald’s related fundraisers	418,781	57,000		475,781
Total contributions	<u>1,615,002</u>	<u>621,489</u>		<u>2,236,491</u>
Organization-sponsored fundraising events	602,230	297,947		900,177
Less direct benefit costs	<u>205,602</u>	<u>4,992</u>		<u>210,594</u>
Net revenue from special events	396,628	292,955		689,583
External fundraising events	190,880	267,658		458,538
Medicaid revenue	346,106	-		346,106
Other	4,720	-		4,720
Net assets released from restrictions	<u>1,027,336</u>	<u>(1,027,336)</u>		<u>-</u>
Total revenues, gains and other support	<u>3,580,672</u>	<u>154,766</u>		<u>3,735,438</u>
Expenses and Losses				
Program services	3,106,768	-		3,106,768
Support services				
Management and general	375,687	-		375,687
Fundraising	518,539	5,223		523,762
Unallocated payments to RMHC Global	<u>64,874</u>	<u>-</u>		<u>64,874</u>
Total expenses and losses	<u>4,065,868</u>	<u>5,223</u>		<u>4,071,091</u>
Change in Net Assets from Operations	<u>(485,196)</u>	<u>149,543</u>		<u>(335,653)</u>
Investment Income				
Interest and dividends	47,628	-		47,628
Net realized and unrealized losses on investments	<u>28,689</u>	<u>62,462</u>		<u>91,151</u>
Total investment income	<u>76,317</u>	<u>62,462</u>		<u>138,779</u>
Change in Net Assets	(408,879)	212,005		(196,874)
Net Assets, Beginning of Year	<u>18,449,856</u>	<u>786,292</u>	\$ 1,000,000	<u>20,236,148</u>
Net Assets, End of Year	<u>\$ 18,040,977</u>	<u>\$ 998,297</u>	<u>\$ 1,000,000</u>	<u>\$ 20,039,274</u>

Ronald McDonald House Charities of Kansas City, Inc.

Statement of Activities Year Ended December 31, 2015

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Contributions – general	\$ 1,430,567	\$ 256,191		\$ 1,686,758
Contributions – Hope Grows Here Campaign	-	479,179		479,179
Contributions – McDonald’s related fundraisers	414,535	33,182		447,717
Total contributions	<u>1,845,102</u>	<u>768,552</u>		<u>2,613,654</u>
Organization-sponsored fundraising events	637,496	157,822		795,318
Less direct benefit costs	194,232	1,200		195,432
Net revenue from special events	<u>443,264</u>	<u>156,622</u>		<u>599,886</u>
External fundraising events	217,943	198,346		416,289
Medicaid revenue	454,395	-		454,395
Other	49,343	-		49,343
Net assets released from restrictions	<u>1,013,288</u>	<u>(1,013,288)</u>		<u>-</u>
Total revenues, gains and other support	<u>4,023,335</u>	<u>110,232</u>		<u>4,133,567</u>
Expenses and Losses				
Program services	3,015,872	-		3,015,872
Support services				
Management and general	297,139	-		297,139
Fundraising	626,321	7,842		634,163
Unallocated payments to RMHC Global	<u>60,937</u>	<u>-</u>		<u>60,937</u>
Total expenses and losses	<u>4,000,269</u>	<u>7,842</u>		<u>4,008,111</u>
Change in Net Assets from Operations	<u>23,066</u>	<u>102,390</u>		<u>125,456</u>
Investment Income				
Interest and dividends	26,669	-		26,669
Net realized and unrealized gains on investments	<u>(15,886)</u>	<u>(20,607)</u>		<u>(36,493)</u>
Total investment income (loss)	<u>10,783</u>	<u>(20,607)</u>		<u>(9,824)</u>
Change in Net Assets	33,849	81,783		115,632
Net Assets, Beginning of Year	<u>18,416,007</u>	<u>704,509</u>	\$ 1,000,000	<u>20,120,516</u>
Net Assets, End of Year	<u>\$ 18,449,856</u>	<u>\$ 786,292</u>	<u>\$ 1,000,000</u>	<u>\$ 20,236,148</u>

Ronald McDonald House Charities of Kansas City, Inc.

Statement of Functional Expenses Year Ended December 31, 2016

	Program Services			Support Services		Total Expenses
	Ronald McDonald Houses	Family Room	Camp ChiMer	Management and General	Fundraising	
Salaries	\$ 744,352	\$ 150,545	\$ 10,415	\$ 142,474	\$ 187,516	\$ 1,235,302
Employee benefits	116,987	12,547	1,115	13,969	25,497	170,115
Payroll taxes	60,359	12,239	887	10,579	14,199	98,263
Total	<u>921,698</u>	<u>175,331</u>	<u>12,417</u>	<u>167,022</u>	<u>227,212</u>	<u>1,503,680</u>
Office expenses	7,707	216	1,774	14,476	8,187	32,360
Utilities and telephone	202,152	-	-	-	-	202,152
Repairs and maintenance	195,497	4,000	51	7,605	14,069	221,222
Contracted services	306,227	-	-	-	1,294	307,521
Supplies	85,494	4,225	-	40	166	89,925
Seminars and training	4,761	773	-	2,948	2,958	11,440
Family services	240,816	2,282	50,420	-	-	293,518
Insurance	67,931	5,658	-	15,383	8,814	97,786
Volunteers/donor appreciation	1,909	179	16	92	9,790	11,986
Newsletters and printing	3,330	283	345	777	21,949	26,684
Depreciation	740,000	20,485	-	3,859	3,437	767,781
Bank and debt service fees	12,184	-	-	37,415	-	49,599
Leases	4,738	-	-	2,127	896	7,761
Professional services	19,433	-	-	64,469	-	83,902
Board expenses	-	-	-	3,859	-	3,859
Annual giving campaign	-	-	-	-	170,767	170,767
Red Shoe Shindig	-	-	-	-	19,905	19,905
Trent Green Golf Classic	-	-	-	-	12,725	12,725
Pull A Plane	-	-	-	-	80	80
Donation Box Administration	-	-	-	55,615	-	55,615
Bad debt expense	-	-	-	-	9,344	9,344
Cost of goods sold	2,498	-	-	-	8,788	11,286
Loss on disposal of equipment	11,938	-	-	-	3,381	15,319
	<u>\$ 2,828,313</u>	<u>\$ 213,432</u>	<u>\$ 65,023</u>	<u>\$ 375,687</u>	<u>\$ 523,762</u>	<u>4,006,217</u>
Unallocated payments to RMHC Global						<u>64,874</u>
Total Expenses						<u>\$ 4,071,091</u>

Ronald McDonald House Charities of Kansas City, Inc.

Statement of Functional Expenses Year Ended December 31, 2015

	Program Services			Support Services			Total Expenses
	Ronald McDonald Houses	Family Room	Camp ChiMer	Management and General	Fundraising	Fundraising - Hope Grows Here Campaign	
Salaries	\$ 688,981	\$ 130,572	\$ 7,449	\$ 90,815	\$ 259,934	\$ -	\$ 1,177,751
Employee benefits	105,584	17,624	1,362	12,235	38,962	-	175,767
Payroll taxes	55,711	10,792	618	6,988	20,040	-	94,149
Total	<u>850,276</u>	<u>158,988</u>	<u>9,429</u>	<u>110,038</u>	<u>318,936</u>	<u>-</u>	<u>1,447,667</u>
Office expenses	10,595	1,371	1,796	13,571	7,964	364	35,661
Utilities and telephone	183,178	-	-	168	-	-	183,346
Repairs and maintenance	128,718	3,421	-	10,906	16,496	-	159,541
Contracted services	226,613	-	-	-	-	-	226,613
Supplies	65,656	5,009	-	83	-	-	70,748
Seminars and training	7,783	1,302	143	10,111	4,522	-	23,861
Family services	383,498	1,101	42,689	566	-	-	427,854
Insurance	69,323	6,231	-	12,446	7,390	-	95,390
Volunteers/donor appreciation	5,208	1,242	60	1,855	4,700	21,225	34,290
Newsletters and printing	2,053	469	345	775	22,655	1,667	27,964
Depreciation	745,108	20,707	-	4,552	16,841	-	787,208
Bank and debt service fees	21,021	-	-	37,210	-	-	58,231
Leases	4,508	-	-	1,941	900	-	7,349
Professional services	6,216	-	-	34,476	-	-	40,692
Board expenses	-	-	-	2,539	-	-	2,539
Annual giving campaign	25,457	-	-	-	168,542	5,815	199,814
Red Shoe Shindig	-	-	-	-	21,750	-	21,750
Trent Green Golf Classic	-	-	-	-	1,010	-	1,010
Pull A Plane	-	-	-	-	3,272	-	3,272
Donation Box Administration	-	-	-	55,902	-	-	55,902
Bad debt expense	200	-	-	-	10,074	40	10,314
Cost of goods sold	2,255	-	-	-	-	-	2,255
Loss on disposal of equipment	23,903	-	-	-	-	-	23,903
	<u>\$ 2,761,569</u>	<u>\$ 199,841</u>	<u>\$ 54,462</u>	<u>\$ 297,139</u>	<u>\$ 605,052</u>	<u>\$ 29,111</u>	<u>3,947,174</u>
Unallocated payments to RMHC Global							<u>60,937</u>
Total Expenses							<u>\$ 4,008,111</u>

See Notes to Financial Statements

**Ronald McDonald House Charities
of Kansas City, Inc.
Statements of Cash Flows
Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating Activities		
Change in net assets	\$ (196,874)	\$ 115,632
Items not requiring (providing) operating activities cash flows		
Depreciation	767,781	787,208
Loss on disposal of equipment	15,319	23,903
Net realized and unrealized losses (gains) on investments	(91,151)	36,493
Contributions of property and equipment or contributions received restricted for acquisition of property and equipment	(91,453)	(835,996)
Changes in		
Contributions receivable	(55,599)	(283,129)
Beneficial interest in assets	2,607	-
Miscellaneous receivables and other assets	950	(17,801)
Accounts payable and accrued expenses	6,233	35,425
Deferred revenue	(9,000)	19,000
	<u>348,813</u>	<u>(119,265)</u>
Investing Activities		
Purchase of property and equipment	(399,157)	(2,158,058)
Purchase of investments	(60,256)	(25,531)
Proceeds from disposition of investments	12,340	-
	<u>(447,073)</u>	<u>(2,183,589)</u>
Financing Activities		
Proceeds from contributions restricted for acquisition of property and equipment	128,328	753,126
Net borrowings (payments) on lines of credit	(200,000)	402,666
	<u>(71,672)</u>	<u>1,155,792</u>
Decrease in Cash and Cash Equivalents	(169,932)	(1,147,062)
Cash and Cash Equivalents, Beginning of Year	<u>626,875</u>	<u>1,773,937</u>
Cash and Cash Equivalents, End of Year	<u>\$ 456,943</u>	<u>\$ 626,875</u>
Supplemental Cash Flows Information		
Property and equipment acquired through noncash contributions	\$ 18,394	\$ 356,817
Property and equipment purchases in accounts payable	-	3,000

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements

December 31, 2016 and 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Organization

Ronald McDonald House Charities of Kansas City, Inc. (the “Organization”) is a Missouri not-for-profit organization formed in 1979 that owns and operates three Kansas City Ronald McDonald Houses and a Family Room, which provides temporary housing for the families of seriously ill children while the children are receiving treatment at local hospitals. The mission of Ronald McDonald House Charities – Kansas City is to reduce the burden of childhood illness on children and their families.

The Organization’s revenues and other support are derived principally from contributions and Organization-sponsored fundraising events.

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 revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of money market accounts.

At December 31, 2016, the Organization’s cash accounts exceeded federally insured limits by approximately \$178,000.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements December 31, 2016 and 2015

Contributions Receivable

Unconditional promises to give are recognized as revenue in the period the promise was made. Conditional promises are recorded as revenue when the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

The Organization is the beneficiary under various wills and trust agreements of which the total realizable amount is not presently determinable. Such amounts are recorded when a will is declared valid by probate court and the proceeds are measurable.

Beneficial Interest in Assets held by Another Not-for-Profit Organization

The Organization is a beneficiary of a \$250,000 contribution made to and held by an unrelated not-for-profit organization. The funds are restricted to support Ronald McDonald Family Room and may be utilized at any time. The unspent contribution was \$247,393 and \$250,000 at December 31, 2016 and 2015, respectively.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividends, interest and realized and unrealized gains and losses on investments carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements December 31, 2016 and 2015

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building improvements	10 - 15 years
Building under capital lease	50 years
Vans and autos	5 years
Furniture, fixtures and equipment	5 years
Donation box equipment	5 years

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2016 and 2015.

Net Assets

The Organization's net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions or law.

Temporarily restricted net assets – Net assets subject to restrictions imposed by donor or law that may be met either by actions of the Organization or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that the principal be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for unrestricted purposes.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements

December 31, 2016 and 2015

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed into service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue. The Organization estimates an allowance for uncollectible contributions receivable, which is based upon a review of outstanding pledges, historical collection information and existing economic conditions.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

In-kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions in the form of goods and services from various donors. Such contributions are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets, or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. It is the policy of the Organization to record the estimated fair value of certain in-kind contributions as revenue in the financial statements, and similarly increase an expense or capitalized asset by a like amount. In-kind contributions recognized during 2016 and 2015 were approximately \$413,000 and \$981,000, respectively, which includes contributed services of approximately \$80,000 and \$369,000, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time to the Organization. Contributed goods and services not subject to objective measurement or valuation are not reflected in the financial statements.

Deferred Revenue

Revenue received for future events is deferred and recognized over the periods to which the sponsorships relate.

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements December 31, 2016 and 2015

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization is not aware of any uncertain tax positions at December 31, 2016 and 2015. The Organization files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on time expended, usage and other methods.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. The reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 2: Investments

Investments at December 31 consisted of the following:

	2016	2015
Money market accounts	\$ 669,066	\$ 671,700
Certificate of deposit	25,000	25,000
Bond mutual funds	847,999	834,055
Equity mutual funds	1,553,914	1,426,157
	<u>\$ 3,095,979</u>	<u>\$ 2,956,912</u>

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements

December 31, 2016 and 2015

Note 3: Contributions Receivable

Contributions receivable at December 31 consisted of the following unconditional promises to give discounted at a rate of 5%:

	2016	2015
Due within one year	\$ 398,368	\$ 359,963
Due in one to five years	3,500	42,244
	401,868	402,207
Less		
Allowance for uncollectible contributions	(11,350)	(6,742)
Unamortized discount	(578)	(5,855)
	\$ 389,940	\$ 389,610

Contributions receivable are reflected in the statements of financial position as follows:

	2016	2015
Contributions receivable - General operations	\$ 375,140	\$ 319,541
Contributions receivable - Hope Grows Here Campaign	14,800	70,069
	\$ 389,940	\$ 389,610

The Organization reached the \$5.1 million contribution goal for the Hope Grows Here capital campaign in 2014. The building of the 20 bedroom Ronald McDonald House was completed in 2015 and placed into service.

Approximately 77% and 63% of contributions receivable was due from two donors as of December 31, 2016 and 2015, respectively.

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements December 31, 2016 and 2015

Note 4: Property and Equipment

Property and equipment at December 31 consisted of the following:

	2016	2015
Land and parking lot	\$ 158,845	\$ 158,845
Buildings and improvements	8,624,275	8,376,293
Buildings and improvements under capital lease	12,123,912	12,016,283
Vans and autos	20,919	20,919
Furniture and equipment	1,472,907	1,481,107
Donation box equipment	26,421	159,682
Family Room	405,485	405,485
	22,832,764	22,618,614
Less accumulated depreciation	(6,810,158)	(6,227,459)
	\$ 16,022,606	\$ 16,391,155

Note 5: Lines of Credit

	2016	2015
Line of credit (A)	\$ 92,666	\$ 92,666
Construction line of credit (B)	110,000	310,000
	\$ 202,666	\$ 402,666
	\$ 202,666	\$ 402,666

(A) During 2016 and 2015, the Organization had a \$750,000 revolving bank line of credit due on demand. Interest on the revolving line of credit is payable monthly at the bank prime rate (3.75% at December 31, 2016).

(B) The Organization has a \$1,750,000 revolving bank line of credit that is reduced by \$175,000 annually for the construction of the new 20 bedroom Ronald McDonald House. As of December 31, 2016 and 2015, the maximum line of credit was \$1,400,000 and \$1,575,000, respectively. The line of credit is due in September 2018. Interest on the line of credit is payable monthly at an annual interest rate of 4%.

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements December 31, 2016 and 2015

Note 6: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 were available for the following purpose or periods:

	2016	2015
Accumulated earnings on endowment	\$ 343,208	\$ 280,746
For periods after December 31	329,772	133,686
Family Room	258,640	265,100
Cherry Street projects	-	39,001
Camp ChiMer	1,927	8,391
Other miscellaneous projects	64,750	59,368
	\$ 998,297	\$ 786,292

Permanently Restricted Net Assets

Permanently restricted net assets at December 31 were restricted to:

	2016	2015
Investment in perpetuity, the income of which is expendable to support operations	\$ 1,000,000	\$ 1,000,000
	\$ 1,000,000	\$ 1,000,000

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The following purpose restrictions were accomplished during the years ended December 31, 2016 and 2015:

	2016	2015
Time restrictions expired	\$ 731,063	\$ 166,405
Property and equipment	127,016	739,260
Camp ChiMer	39,794	50,093
Other miscellaneous projects	129,463	57,530
	\$ 1,027,336	\$ 1,013,288

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements

December 31, 2016 and 2015

Note 7: Endowment

The Organization's endowment consists of one donor-restricted fund established in the amount of \$1,000,000, to be held in perpetuity in order to provide supplemental income for the operating expenses at the Ronald McDonald House. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's governing body has interpreted the *Uniform Prudent Management of Institutional Funds Act* as adopted by the state of Missouri (UPMIFA) as requiring 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. As a result of this interpretation, the Organization 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. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Organization and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Organization
7. Investment policies of the Organization

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements December 31, 2016 and 2015

The composition of net assets and the changes in the net assets of the donor-restricted endowment funds for the years ended December 31, 2016 and 2015 were:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 217,515	\$ 280,746	\$ 1,000,000	\$ 1,498,261
Investment return				
Investment income	31,493	-	-	31,493
Net appreciation	-	62,462	-	62,462
Total investment return	31,493	62,462	-	93,955
Endowment net assets, end of year	<u>\$ 249,008</u>	<u>\$ 343,208</u>	<u>\$ 1,000,000</u>	<u>\$ 1,592,216</u>
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 199,919	\$ 301,353	\$ 1,000,000	\$ 1,501,272
Investment return				
Investment income	17,596	-	-	17,596
Net depreciation	-	(20,607)	-	(20,607)
Total investment return	17,596	(20,607)	-	(3,011)
Endowment net assets, end of year	<u>\$ 217,515</u>	<u>\$ 280,746</u>	<u>\$ 1,000,000</u>	<u>\$ 1,498,261</u>

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements

December 31, 2016 and 2015

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at December 31 consisted of:

	2016	2015
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation	\$ 1,000,000	\$ 1,000,000
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under UPMIFA without purpose restriction	343,208	280,746

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Organization is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets, which the Organization did not have at December 31, 2016 and 2015.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include assets of donor-restricted endowment funds the Organization must hold in perpetuity.

Under the Organization’s policies, the primary investment goal is long-term asset growth with the generation of investment income a secondary goal. The Organization’s investment policy details other guidelines for investment assets. The Organization expects its endowment funds to provide returns over a rolling three-year period, which will be reasonably consistent with those from a comparably positioned “unmanaged” fund consisting of equity, fixed income and cash indices, as applicable. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization follows the donor’s stipulation in regard to this endowment, which requires the original gift to be held in perpetuity and the income earned to be used for operating expenses. The Organization has a policy (the spending policy) of appropriating for expenditure each year up to 5% of the endowment fund’s average fair value over the prior three years and up to an amount equal to the excess of the Organization’s budgeted expenses over budgeted income as approved by the Board.

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements

December 31, 2016 and 2015

Note 8: Long-term Leases

The Cherry Street facility has been constructed on land subject to a lease through the year 2085 for an annual payment of \$10.

The Longfellow facility was constructed on land that was donated by a local company and by the City of Kansas City, Missouri. Upon completion of the project, the Organization transferred the property to Kansas City, Missouri in accordance with the restrictions set forth by Kansas City, Missouri. The Organization then contracted to lease the property from the City at \$1 per year for a term of 20 years with three 10-year renewal options. The lease qualifies for capital lease accounting treatment. Leasehold improvements are being amortized over the shorter of the lease term or their estimated useful lives.

Property and equipment includes the following property under the capital lease at December 31, 2016 and 2015:

	2016	2015
Land	\$ 1,613,691	\$ 1,613,691
Building and improvements	10,510,221	10,402,592
	12,123,912	12,016,283
Less accumulated depreciation	2,616,941	2,337,074
	\$ 9,506,971	\$ 9,679,209

Note 9: Retirement Plan

The Organization has a defined contribution pension plan covering substantially all employees. Regularly scheduled employees are eligible to participate in the plan after reaching age 21 and completing six months of eligible service. For both 2016 and 2015, the Organization contributed the 5% required of eligible compensation and also matched 50% of the employees' contributions up to 4% of eligible compensation. The Organization's retirement expense amounted to \$73,465 and \$65,306 for the years ended 2016 and 2015, respectively.

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements December 31, 2016 and 2015

Note 10: Related Party

The Organization is a local chapter of the Ronald McDonald House Charities, Inc. (RMHC Global), an organization that supports a global network of Ronald McDonald Houses and other programs directed at children around the world. The Organization has a license agreement with McDonald's Corporation and RMHC Global for use of its name and trademarks. The license agreement also includes programmatic guidelines that should be followed. As part of this license agreement, 25% of the revenues from all national fundraising efforts as defined by the license agreement, are remitted to RMHC Global.

Note 11: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs are supported by little or no market activity and are significant to the fair value of the assets or liabilities

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements

December 31, 2016 and 2015

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
Money market accounts	\$ 669,066	\$ 669,066	\$ -	\$ -
Bond mutual funds	847,999	847,999	-	-
Equity mutual funds	1,553,914	1,553,914	-	-
Total	<u>\$ 3,070,979</u>	<u>\$ 3,070,979</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2015				
Money market accounts	\$ 671,700	\$ 671,700	\$ -	\$ -
Bond mutual funds	834,055	834,055	-	-
Equity mutual funds	1,426,157	1,426,157	-	-
Total	<u>\$ 2,931,912</u>	<u>\$ 2,931,912</u>	<u>\$ -</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2016.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.