



RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

**CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2016 AND 2015

Ronald McDonald House of Dallas, Inc. and Affiliates
Table of Contents
December 31, 2016 and 2015

	Page
INDEPENDENT AUDITORS' REPORT.....	1-2
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Net Assets.....	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....	7-21
SUPPLEMENTARY INFORMATION	
Consolidating Statement of Financial Position-2016	22
Consolidating Statement of Financial Position-2015	23
Consolidating Statement of Activities-2016.....	24
Consolidating Statement of Activities-2015.....	25



SALMON SIMS THOMAS

Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Ronald McDonald House of Dallas, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of Ronald McDonald House of Dallas, Inc. and Affiliates which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House of Dallas, Inc. and Affiliates 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.

Report on Supplementary Information

Our audits were conducted for the purposes of forming an opinion on the consolidated financial statements as a whole. The supplemental information on pages 22-25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Salmon Sims Thomas & Associates".

Salmon Sims Thomas & Associates
A Professional Limited Liability Company

June 5, 2017

Ronald McDonald House of Dallas, Inc. and Affiliates
Consolidated Statements of Financial Position
December 31, 2016 and 2015

ASSETS

	2016	2015
Cash	\$ 2,892,121	\$ 2,274,710
Pledges receivable, net	533,956	87,132
Investments, at fair value	15,291,582	14,638,307
Prepaid expenses and other assets	42,746	57,967
Beneficial interest held in trust	303,736	333,867
Property and equipment, net	14,847,404	15,686,005
 TOTAL ASSETS	 \$ 33,911,545	 \$ 33,077,988

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 32,871	\$ 14,220
Accrued liabilities	98,091	100,991
Deferred revenue	29,000	41,710
Total liabilities	159,962	156,921

Net Assets

Unrestricted		
Board designated	3,579,502	3,564,657
Undesignated	28,899,894	28,514,406
	32,479,396	32,079,063
Temporarily restricted	780,312	350,129
Permanently restricted	491,875	491,875
Total net assets	33,751,583	32,921,067
 TOTAL LIABILITIES AND NET ASSETS	 \$ 33,911,545	 \$ 33,077,988

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

Ronald McDonald House of Dallas, Inc. and Affiliates
Consolidated Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support								
Public support:								
Contributions and grants	\$ 1,528,510	\$ 616,673	\$ -	\$ 2,145,183	\$ 1,237,566	\$ 110,115	\$ -	\$ 1,347,681
Special event income, net of direct donor benefits costs of \$96,445 and \$108,314	1,304,898	-	-	1,304,898	1,433,046	-	-	1,433,046
	<u>2,833,408</u>	<u>616,673</u>	<u>-</u>	<u>3,450,081</u>	<u>2,670,612</u>	<u>110,115</u>	<u>-</u>	<u>2,780,727</u>
Other revenue:								
Program service fees	384,398	-	-	384,398	457,409	-	-	457,409
Interest income	879	-	-	879	1,041	-	-	1,041
Investment return	796,272	-	-	796,272	(277,069)	-	-	(277,069)
Other income (expense)	(5,423)	-	-	(5,423)	16,799	-	-	16,799
Change in fair value of beneficial interest held in trust	-	(30,131)	-	(30,131)	-	(51,937)	-	(51,937)
Net assets released from restrictions	156,359	(156,359)	-	-	148,486	(148,486)	-	-
	<u>1,332,485</u>	<u>(186,490)</u>	<u>-</u>	<u>1,145,995</u>	<u>346,666</u>	<u>(200,423)</u>	<u>-</u>	<u>146,243</u>
Total revenue and support	4,165,893	430,183	-	4,596,076	3,017,278	(90,308)	-	2,926,970
Expenses:								
Program expenses	2,777,754	-	-	2,777,754	2,717,844	-	-	2,717,844
Supporting services	93,781	-	-	93,781	91,097	-	-	91,097
Fundraising	894,025	-	-	894,025	852,142	-	-	852,142
Total expenses	<u>3,765,560</u>	<u>-</u>	<u>-</u>	<u>3,765,560</u>	<u>3,661,083</u>	<u>-</u>	<u>-</u>	<u>3,661,083</u>
Change in net assets	400,333	430,183	-	830,516	(643,805)	(90,308)	-	(734,113)
Net assets at beginning of year	<u>32,079,063</u>	<u>350,129</u>	<u>491,875</u>	<u>32,921,067</u>	<u>32,722,868</u>	<u>440,437</u>	<u>491,875</u>	<u>33,655,180</u>
Net assets at end of year	<u>\$ 32,479,396</u>	<u>\$ 780,312</u>	<u>\$ 491,875</u>	<u>\$ 33,751,583</u>	<u>\$ 32,079,063</u>	<u>\$ 350,129</u>	<u>\$ 491,875</u>	<u>\$ 32,921,067</u>

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

Ronald McDonald House of Dallas, Inc. and Affiliates
Consolidated Statements of Functional Expenses
For the Years Ended December 31, 2016 and 2015

	2016				2015			
	Program	Supporting	Fundraising	Total	Program	Supporting	Fundraising	Total
Payroll and related	\$ 1,039,357	\$ 76,262	\$ 252,138	\$ 1,367,757	\$ 1,025,981	\$ 73,814	\$ 251,117	\$ 1,350,912
Depreciation	860,611	317	74,821	935,749	870,544	244	57,635	928,423
Events and catering	81,313	87	292,623	374,023	79,882	-	372,048	451,930
Facility maintenance and repairs	191,275	-	17	191,292	183,113	-	-	183,113
Professional fees	132,569	10,546	117,134	260,249	130,773	9,441	13,706	153,920
Utilities	143,368	256	7,451	151,075	144,764	345	6,552	151,661
Miscellaneous	14,001	400	3,906	18,307	6,756	423	3,853	11,032
Volunteer program	22,104	-	892	22,996	15,032	-	2,074	17,106
Family assistance	7,059	-	-	7,059	13,334	-	-	13,334
Bank and merchant fees	2,976	29	26,744	29,749	2,384	21	29,417	31,822
Marketing	-	-	30,429	30,429	1,334	-	32,383	33,717
Staff and board development	20,779	2,591	10,340	33,710	16,791	3,289	9,053	29,133
Groceries and household supplies	126,469	-	15	126,484	111,554	-	175	111,729
Insurance	64,419	1,331	1,332	67,082	77,367	1,966	5,054	84,387
Office expenses	25,950	1,962	76,183	104,095	14,909	1,554	69,075	85,538
Program supplies	5,762	-	-	5,762	7,090	-	-	7,090
Bad debts	39,742	-	-	39,742	16,236	-	-	16,236
	<u>\$ 2,777,754</u>	<u>\$ 93,781</u>	<u>\$ 894,025</u>	<u>\$ 3,765,560</u>	<u>\$ 2,717,844</u>	<u>\$ 91,097</u>	<u>\$ 852,142</u>	<u>\$ 3,661,083</u>

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

Ronald McDonald House of Dallas, Inc. and Affiliates
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 830,516	\$ (734,113)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	935,749	928,423
Unrealized (gain) loss on investments	(304,150)	807,911
Realized (gain) loss on investments	(138,843)	21,018
Reinvested interest and dividends	(319,569)	(501,090)
Donated stock	(10,192)	(8,039)
Beneficial interest held in trust	30,131	51,937
Changes in operating assets and liabilities:		
Pledges receivable	(446,824)	(3,963)
Prepaid expenses and other assets	15,221	(22,358)
Accounts payable	18,651	(7,783)
Accrued liabilities	(2,900)	24,732
Deferred revenue	(12,710)	(12,340)
Net cash provided by operating activities	<u>595,080</u>	<u>544,335</u>
Cash Flows From Investing Activities		
Proceeds from sales of investments	2,855,172	3,116,005
Purchase of investments	(2,735,693)	(3,654,246)
Purchase of property, plant and equipment	(97,148)	(195,312)
Net cash provided (used) by investing activities	<u>22,331</u>	<u>(733,553)</u>
 Net increase (decrease) in cash	 617,411	 (189,218)
 Cash, beginning of year	 <u>2,274,710</u>	 <u>2,463,928</u>
 Cash, end of year	 <u><u>\$ 2,892,121</u></u>	 <u><u>\$ 2,274,710</u></u>

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

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of Ronald McDonald House of Dallas, Inc. and Affiliates is presented to assist in understanding the consolidated financial statements. The consolidated financial statements and notes are representations of management, who are responsible for the fairness and objectivity embodied in the consolidated financial statements.

Organization

Ronald McDonald House of Dallas, Inc. (RMHD) was incorporated in the state of Texas on June 5, 1978, as a nonprofit organization. RMHD provides a home-away-from-home for families of injured or seriously ill children through the age of 21 who are undergoing treatment at area hospitals. RMHD is primarily supported by contributions from the general public.

Ronald McDonald House of Dallas Endowment Foundation (EF) is a nonprofit organization established on December 9, 1998, to support and benefit RMHD by investing and managing gifts, grants, contributions, and bequests intended to benefit the long-term goals of RMHD, and by holding, managing, and investing an endowment fund for RMHD. Under EF's Articles of Incorporation and Bylaws, RMHD's Board of Directors has the authority to elect a simple majority of EF's trustees. Notwithstanding this relationship, EF is not required by its Articles or Bylaws to make annual grants or distributions to RMHD.

Ronald McDonald House of Dallas Family Assistance Foundation (FAF) is a nonprofit organization established on December 9, 1998, to support and benefit RMHD and its families by owning, maintaining, and improving the house facility, as well as maintaining an assistance fund to benefit the needs of these families. Under FAF's Articles of Incorporation and Bylaws, RMHD's Board of Directors has the authority to elect a simple majority of FAF's trustees. Notwithstanding this relationship, FAF is not required by its Articles or Bylaws to make annual grants or distributions to RMHD.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements include the accounts of RMHD, EF, and FAF, and have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). All significant intercompany transactions and balances have been eliminated in consolidation.

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, 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.

Temporarily Restricted Net Assets- Net assets subject to donor-imposed stipulations that may or will be met by actions of the donee and/or the passage of time.

Unrestricted Net Assets- Net assets not subject to donor-imposed stipulations. Board designated net assets are considered unrestricted net assets in which the board has internally designated stipulations for purposes of the various programs held.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporarily restricted 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. Contributions are recognized as revenues in the period unconditional promises to give are received. Contributions of assets other than cash are recorded at their estimated fair value.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these consolidated financial statements include those assumed in recording depreciation, allocation of functional expenses, valuation allowances for pledges receivable, and fair value of beneficial interest held in trust. Actual results could vary from estimates.

Cash and Cash Equivalents

All short-term investments with original maturities of ninety days or less are considered to be cash equivalents.

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable and Promises to Give

Contributions are recognized when a donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires or is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give that are due more than one year beyond the statement of financial position date are discounted to a net present value using an estimated discount factor for risk-free borrowing.

Pledges receivable are considered past due when payments are not made under the terms of the pledge agreement. There were past due pledges receivable at December 31, 2016 and 2015 and FAF had bad debt expense in the amounts of \$39,742 and \$16,236, respectively for uncollectible receivables for years 2016 and 2015, respectively. The allowance for doubtful accounts is established through a provision for bad debts charged to expense and represents management's best estimate of possible losses that may occur within the pledges receivable portfolio; however, its establishment involves an element of uncertainty and future events may cause significant fluctuations. Allocations of the allowance may be made for specific pledges receivable, but the entire allowance is available for any receivable that, in management's judgment, should be written off.

Property and Equipment

Property and equipment are stated at cost, when purchased, or at fair value as of the date of the gift, when donated. All donations of and expenditures for property and equipment in excess of \$500 are capitalized. Major expenditures and expenditures which substantially increase useful lives are capitalized. Maintenance, repairs, and replacements, which do not improve or extend the lives of the respective assets, are charged to operations when incurred. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed, and any gain or loss is included in operations.

Donated assets are reported as unrestricted support unless the donor has restricted the asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, expirations of donor restrictions are reported when the donated or acquired assets are placed in service as instructed by the donor. Temporarily restricted net assets are reclassified to unrestricted net assets at that time.

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation is calculated using the straight-line method at rates sufficient to amortize the related costs over the estimated useful lives of the respective assets. Estimated useful lives as of December 31, 2016 and 2015 are as follows:

Building	25 years
Furniture and fixtures, playground equipment, and train exhibit	3 - 10 years
Transportation equipment	3 - 5 years

Investments

Investments, which consist of marketable equity securities and debt securities, are reported at their fair values in the Consolidated Statements of Financial Position. Securities that have been donated are recorded at the fair value as of the date of the gift. Increases or decreases in fair value are recorded as unrealized gains and losses and are reflected on the Consolidated Statements of Activities along with all realized gains and losses under the caption "Investment Return."

Donated Assets and Services

Donations of noncash assets as contributions are recorded as contributions at their estimated fair value as of the date of donation. Donated services are recognized as contributions in accordance with US GAAP, if the services (a) create or enhance nonfinancial assets or (b) require and are provided by individuals with specialized skills and if not provided by donation would typically need to be purchased.

Split Interest Agreements

RMHD and its Affiliates accept gifts subject to split interest agreements. These gifts are generally in the form of externally managed charitable remainder annuity trusts (CRATs) and charitable remainders unitrusts (CRUTs). At the time the trust is determined to be irrevocable, the beneficial interest held in trust is recorded at fair value which constitutes the present value of estimated future cash receipts to be received from the assets of the trust.

These trusts are revalued annually and the beneficial interest adjusted accordingly. Funds subject to split interest agreements are classified as temporarily restricted based upon donor designations and the passage of time.

Functional Allocation of Expenses

The costs of providing the various program and other activities have been summarized on a functional basis in the accompanying Consolidated Statements of Activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

RMHD and its Affiliates are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as organizations described in Section 501(c)(3) of the IRC. RMHD, EF and FAF each has been classified as an organization that is not a private foundation under IRC Section 509(a)(1), and as such, contributions to each of RMHD, EF and FAF qualify for deductions as charitable contributions. However, income generated from activities unrelated to the exempt purpose of RMHD, EF and FAF is subject to tax under IRC Section 511. There was no net income from unrelated business for the years ended December 31, 2016 and 2015.

Accounting for Uncertainty in Income Taxes

Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) Topic 740-10, *Accounting for Income Taxes*, would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the Consolidated Statements of Activities or accrued in the Consolidated Statements of Financial Position. Federal and state tax returns of the entity are generally open to examination by the relevant taxing authorities for a period of three years from the date the returns are filed.

Concentrations of Credit Risk

Financial instruments exposed to concentrations of credit risk consisted primarily of cash, cash equivalents, pledges receivable, and investments. Cash in excess of federally insured limits is maintained in financial institutions which management considers to be of high credit quality. RMHD and its Affiliates did not incur and do not anticipate incurring losses related to these balances. RMHD and its Affiliates have a formal investment policy of placing investments in high-quality financial institutions and limiting the size of any investment with any single entity or type of investment. 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 which could materially affect investment balances.

Special Events

Receipts and direct expenditures relating to special events are reported as revenues and expenses in the fiscal year in which the events occur. Cash receipts and billings made in the current fiscal year relating to the next year's events are reported as deferred revenue. At December 31, 2016 and 2015, \$29,000 and \$41,710 respectively, were received and recorded by RMHD as deferred revenue related to the annual Gala and Young Friends events. Likewise, expenses directly related to those events which are paid in the current fiscal year are recorded as deferred expenses and are included in prepaid expenses and other assets on the Consolidated Statements of Financial Position.

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Date of Management's Review

Subsequent events have been evaluated for potential recognition or disclosure through June 5, 2017, which is the date the financial statements were available to be issued.

NOTE 2: PLEDGES RECEIVABLE

The pledges receivable at December 31, 2016 and 2015, are expected to be realized in the following periods:

	<u>2016</u>	<u>2015</u>
In one year or less	\$ 258,894	\$ 99,050
Between one year and five years	325,121	3,000
	<u>584,015</u>	<u>102,050</u>
Less:		
Allowance for uncollectible pledges	(25,135)	(14,775)
Discount, at 5%	(24,924)	(143)
	<u>\$ 533,956</u>	<u>\$ 87,132</u>

NOTE 3: INVESTMENTS

Investments at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Mutual Funds	\$ 11,774,098	\$ 10,704,583
Stocks	271,524	771,833
Bonds	3,245,960	3,161,891
	<u>\$ 15,291,582</u>	<u>\$ 14,638,307</u>

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 3: INVESTMENTS (CONTINUED)

Investment return for the year ended December 31, 2016 and 2015 is summarized as follows:

	2016	2015
Interest and dividends	\$ 353,279	\$ 551,860
Realized gain (loss)	138,843	(21,018)
Unrealized gain (loss)	304,150	(807,911)
	\$ 796,272	\$ (277,069)

NOTE 4: FAIR VALUE MEASUREMENTS

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides the 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 priority to unobservable inputs (level 3 measurements). The asset or liability's fair value measurement level within 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.

Following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at December 31, 2016.

Mutual funds: Mutual funds are valued at the net asset value (NAV) of shares held at year end.

Stocks: Valued at the closing price reported in an active market in which the stock is traded.

Bonds: Valued at the closing price reported in an active market in which the bond is traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although RMHD and its Affiliates believe its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The provisions of Topic ASC 820 did not have an impact on nonfinancial assets and nonfinancial liabilities that are not permitted or required to be measured at fair value on a recurring basis.

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 4: FAIR VALUE MEASUREMENTS (CONTINUED)

The following schedule summarizes the fair values of assets measured on a recurring basis as of December 31, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Beneficial interest held in trust	\$ 303,736	-	-	\$ 303,736
Class of Investments:				
Large cap	1,822,349	1,822,349	-	-
Balanced	2,748,741	2,748,741	-	-
Small cap	712,953	712,953	-	-
Duration fixed income	3,922,645	3,922,645	-	-
Intermediate term bonds	988,771	988,771	-	-
International equity	2,567,410	2,567,410	-	-
Global bonds	66,544	66,544	-	-
Short term bonds	2,190,645	2,190,645	-	-
Equities	271,524	271,524	-	-
Total Investments	<u>\$ 15,291,582</u>	<u>\$ 15,291,582</u>	<u>\$ -</u>	<u>\$ -</u>

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 4: FAIR VALUE MEASUREMENTS (CONTINUED)

The following schedule summarizes the fair values of assets measured on a recurring basis as of December 31, 2015:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Beneficial interest held in trust	\$ 333,867	-	-	\$ 333,867
Class of Investments:				
Large cap	2,276,142	2,276,142	-	-
Balanced	1,768,126	1,768,126	-	-
Small cap	492,456	492,456	-	-
Duration fixed income	3,781,868	3,781,868	-	-
Intermediate term bonds	963,716	963,716	-	-
International equity	2,385,991	2,385,991	-	-
Global bonds	62,421	62,421	-	-
Short term bonds	2,135,754	2,135,754	-	-
Equities	771,833	771,833	-	-
Total Investments	<u>\$ 14,638,307</u>	<u>\$ 14,638,307</u>	<u>\$ -</u>	<u>\$ -</u>

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 4: FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for Level 3 pledges receivable is determined by calculating the present value of future cash in-flows as expected to be received using a 5% risk adjusted discount rate. Fair value for Level 3 beneficial interest held in trust is determined by calculating the present value of future distributions expected to be received using published IRS life expectancy tables and a 1.78% discount rate, adjusted annually.

The changes in the balances of Level 3 financial assets were as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Beneficial interest held in trust		
Beginning balance	\$ 333,867	\$ 385,804
Change in fair value	(30,131)	(51,937)
Ending balance	<u>\$ 303,736</u>	<u>\$ 333,867</u>

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 2,547,147	\$ 2,547,147
Building	16,749,809	16,749,809
Furniture and fixtures	1,620,015	1,606,770
Train exhibit	865,608	781,705
Transportation equipment	99,772	99,772
	<u>21,882,351</u>	<u>21,785,203</u>
Less accumulated depreciation	<u>(7,034,947)</u>	<u>(6,099,198)</u>
	<u>\$ 14,847,404</u>	<u>\$ 15,686,005</u>

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 6: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
Time restricted		
For use in future years	\$ 476,351	\$ 14,632
Beneficial interest held in trust	303,736	333,867
Purpose restricted		
For equipment, meals, education and art	225	1,630
	<u>\$ 780,312</u>	<u>\$ 350,129</u>

NOTE 7: PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at December 31, 2016 and 2015, totaled \$491,875 in endowments to be held in perpetuity with the investment income to be used for operating expenses. These investments are invested in a mix of stocks and mutual funds.

NOTE 8: DONATED ASSETS AND SERVICES

RMHD received donated materials, investments, equipment, and services for the following purposes for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Operations	\$ 73,512	\$ 53,843
Special Events	263,016	325,218
Stock	10,192	8,039
	<u>\$ 346,720</u>	<u>\$ 387,100</u>

These amounts are included in revenue as unrestricted contributions which are reflected in the Consolidated Statements of Activities and Changes in Net Assets.

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 9: COMMITMENTS AND CONTINGENCIES

Operating Leases

RMHD has an obligation under a noncancelable lease agreement for the use of office equipment expiring in 2019. Total lease expense was approximately \$4,000 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease payments required under the agreement are approximately as follows:

For the years ending December 31,		
2017	\$	4,700
2018		4,700
2019 and thereafter		4,700
	\$	<u>14,100</u>

NOTE 10: ENDOWMENTS

Endowments owned by RMHD or an Affiliate consist of individual endowment funds established for the exclusive purpose of operating for the benefit of RMHD and its Affiliates. The endowments include both donor-restricted endowment funds and funds designated by the Board of the donee to function as endowments. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Boards of RMHD and of each Affiliate has interpreted the Uniform Prudent Management of Institutional Funds Act (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 restrictions to the contrary. As a result of this interpretation, classified as permanently restricted net assets are (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 RMHD and each Affiliate in a manner consistent with the standard of prudence prescribed by UPMIFA.

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 10: ENDOWMENTS (CONTINUED)

In accordance with UPMIFA, RMHD and its Affiliates consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment fund:

- (1) The duration and preservation of the fund
- (2) The purposes of RMHD and each Affiliate 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 (depreciation) of investments
- (6) Other resources of RMHD and each Affiliate
- (7) The investment policies of RMHD and each Affiliate

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
As of December 31, 2016				
Endowment net assets,				
December 31, 2015	\$ 8,105,638	\$ -	\$ 491,875	\$ 8,597,513
Interest & Dividends	248,624	-	-	248,624
Net unrealized/realized gain/(loss)	429,569	-	-	429,569
Other changes	(65,191)	-	-	(65,191)
Distributions to RMHD	(406,250)	-	-	(406,250)
Endowment net assets,				
December 31, 2016	<u>\$ 8,312,390</u>	<u>\$ -</u>	<u>\$ 491,875</u>	<u>\$ 8,804,250</u>
As of December 31, 2015				
Endowment net assets,				
December 31, 2014	\$ 8,805,451	\$ -	\$ 491,875	\$ 9,297,326
Interest & Dividends	468,436	-	-	468,436
Net unrealized/realized gain/(loss)	(786,041)	-	-	(786,041)
Other changes	(63,208)	-	-	(63,208)
Distributions to RMHD	(319,000)	-	-	(319,000)
Endowment net assets,				
December 31, 2015	<u>\$ 8,105,638</u>	<u>\$ -</u>	<u>\$ 491,875</u>	<u>\$ 8,597,513</u>

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 10: ENDOWMENTS (CONTINUED)

Return Objectives and Risk Parameters

RMHD and its Affiliates have adopted investment and spending policies for endowment assets that attempt to protect the related assets and provide a reasonable return until authorized use. The investment philosophy is to invest in secure vehicles, obtain adequate return on investment and invest in vehicles which are compatible with purposes of RMHD and its Affiliates.

Strategies Employed for Achieving Objectives

To satisfy its long-term objectives, RMHD and its Affiliates rely on a strategy of asset diversification through professional investment managers.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires to be retained as a fund of perpetual duration. An aggregate deficiency did not exist at December 31, 2016 and 2015.

NOTE 11: RETIREMENT PLAN

RMHD has a 401(k) defined contribution retirement plan covering all employees meeting specified eligibility requirements. RMHD contributed \$77,578 and \$79,324 to the plan for the years ended December 31, 2016 and 2015 respectively.

NOTE 12: RELATIONSHIPS WITH AFFILIATES

The Board of Trustees of EF adopted a Total Return Policy (the Policy) to guide in the distribution of funds from EF to RMHD. Under the terms of the Policy, EF distributes annually up to, but no more than, 3.5% of the average value of its investment assets to RMHD. If the distribution to RMHD in any particular year is less than 3.5%, the difference will remain available for distribution in subsequent years. Distributions accrued to RMHD amounted to \$334,000 and \$319,000 for the years ended December 31, 2016 and 2015 respectively.

RMHD maintains individual administrative agreements with FAF and EF, wherein RMHD agrees to provide personnel and office facilities for the management of the administrative and business affairs of FAF and EF. In exchange, FAF and EF agree to pay fees to RMHD to be determined by the parties in accordance with procedures set forth in the agreements. The agreements will continue year-to-year until terminated by mutual agreement or with 30-days written notice from any one of the three parties. During 2016 and 2015, no fees were allocated to FAF or EF by RMHD.

Ronald McDonald House of Dallas, Inc. and Affiliates
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 13: PUBLIC SUPPORT REVENUE

Public support revenue consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Contributions	\$ 2,145,183	\$ 1,347,681
Special Events		
Share the Love	22,154	27,857
Annual Gala	161,344	230,002
Young Friends' Gala	96,192	122,999
The Trains at Northpark	1,025,208	1,052,188
Total Special Events	<u>1,304,898</u>	<u>1,433,046</u>
Total Public Support	<u>\$ 3,450,081</u>	<u>\$ 2,780,727</u>

NOTE 14: RELATED PARTY TRANSACTIONS

At December 31, 2016 and 2015, pledges receivable due from related parties for both the capital campaign and operations were \$502,692 and \$1,000 respectively. These amounts are included in pledges receivable in the Statements of Financial Position.

SUPPLEMENTARY INFORMATION

Ronald McDonald House of Dallas, Inc. and Affiliates
Consolidating Statement of Financial Position
December 31, 2016

	Ronald McDonald House of Dallas, Inc.	Ronald McDonald House of Dallas Endowment Foundation	Ronald McDonald House of Dallas Family Assistance Foundation	Consolidated Balance
Assets				
Cash	\$ 1,462,682	\$ 751,498	\$ 677,941	\$ 2,892,121
Pledges receivable, net	81,323	-	452,633	533,956
Investments, at fair value	2,323,999	10,041,307	2,926,276	15,291,582
Prepaid expenses and other assets	42,746	-	-	42,746
Intercompany receivable (payable)	3,465,177	(2,482,911)	(982,266)	-
Beneficial interest held in trust	303,736	-	-	303,736
Property and equipment, net	278,022	-	14,569,382	14,847,404
Total Assets	<u>\$ 7,957,685</u>	<u>\$ 8,309,894</u>	<u>\$ 17,643,966</u>	<u>\$ 33,911,545</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 30,707	\$ -	\$ 2,164	\$ 32,871
Accrued liabilities	98,091	-	-	98,091
Deferred revenue	29,000	-	-	29,000
Total Liabilities	<u>157,798</u>	<u>-</u>	<u>2,164</u>	<u>159,962</u>
Net Assets				
Unrestricted				
Board designated	-	-	3,579,502	3,579,502
Undesignated	7,004,052	8,309,891	13,585,951	28,899,894
Temporarily restricted	303,962	-	476,350	780,312
Permanently restricted	491,875	-	-	491,875
Total Net Assets	<u>7,799,889</u>	<u>8,309,891</u>	<u>17,641,803</u>	<u>33,751,583</u>
Total Liabilities and Net Assets	<u>\$ 7,957,687</u>	<u>\$ 8,309,891</u>	<u>\$ 17,643,967</u>	<u>\$ 33,911,545</u>

See independent auditors' report.

Ronald McDonald House of Dallas, Inc. and Affiliates
Consolidating Statement of Financial Position
December 31, 2015

	Ronald McDonald House of Dallas, Inc.	Ronald McDonald House of Dallas Endowment Foundation	Ronald McDonald House of Dallas Family Assistance Foundation	Consolidated Balance
Assets				
Cash	\$ 1,176,087	\$ 330,053	\$ 768,570	\$ 2,274,710
Pledges receivable, net	72,500	-	14,632	87,132
Investments, at fair value	2,243,907	9,532,293	2,862,107	14,638,307
Prepaid expenses and other assets	57,967	-	-	57,967
Intercompany receivable (payable)	3,208,988	(2,136,411)	(1,072,577)	-
Beneficial interest held in trust	333,867	-	-	333,867
Property and equipment, net	313,512	-	15,372,493	15,686,005
Total Assets	<u>\$ 7,406,828</u>	<u>\$ 7,725,935</u>	<u>\$ 17,945,225</u>	<u>\$ 33,077,988</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 13,970	\$ -	\$ 250	\$ 14,220
Accrued liabilities	100,991	-	-	100,991
Deferred revenue	41,710	-	-	41,710
Total Liabilities	<u>156,671</u>	<u>-</u>	<u>250</u>	<u>156,921</u>
Net Assets				
Unrestricted				
Board designated	-	-	3,564,657	3,564,657
Undesignated	6,422,785	7,725,935	14,365,686	28,514,406
Temporarily restricted	335,497	-	14,632	350,129
Permanently restricted	491,875	-	-	491,875
Total Net Assets	<u>7,250,157</u>	<u>7,725,935</u>	<u>17,944,975</u>	<u>32,921,067</u>
Total Liabilities and Net Assets	<u>\$ 7,406,828</u>	<u>\$ 7,725,935</u>	<u>\$ 17,945,225</u>	<u>\$ 33,077,988</u>

See independent auditors' report.

Ronald McDonald House of Dallas, Inc. and Affiliates
Consolidating Statement of Activities
For the Year Ended December 31, 2016

	Ronald McDonald House of Dallas, Inc.	Ronald McDonald House of Dallas Endowment Foundation	Ronald McDonald House of Dallas Family Assistance Foundation	Consolidated Balance
Revenue and support:				
Public support:				
Contributions and grants	\$ 1,219,076	\$ 351,933	\$ 574,174	\$ 2,145,183
Special event income, net of direct donor benefits costs of \$96,445	1,304,898	-	-	1,304,898
	<u>2,523,974</u>	<u>351,933</u>	<u>574,174</u>	<u>3,450,081</u>
Other revenue:				
Program service fees	384,398	-	-	384,398
Interest income	128	70	681	879
Investment return	93,899	638,206	64,167	796,272
Other income (expense)	(5,423)	-	-	(5,423)
Change in fair value of beneficial interest held in trust	(30,131)	-	-	(30,131)
Intercompany contributions (distributions)	264,000	(334,000)	70,000	-
	<u>706,871</u>	<u>304,276</u>	<u>134,848</u>	<u>1,145,995</u>
Total revenue and support	3,230,845	656,209	709,022	4,596,076
Expenses:				
Program expenses	1,808,292	68,822	900,640	2,777,754
Supporting services	91,782	1,999	-	93,781
Fundraising	781,040	1,429	111,556	894,025
Total expenses	<u>2,681,114</u>	<u>72,250</u>	<u>1,012,196</u>	<u>3,765,560</u>
Change in net assets:	549,731	583,959	(303,174)	830,516
Net assets at beginning of year	<u>7,250,158</u>	<u>7,725,932</u>	<u>17,944,977</u>	<u>32,921,067</u>
Net assets at end of year	<u>\$ 7,799,889</u>	<u>\$ 8,309,891</u>	<u>\$ 17,641,803</u>	<u>\$ 33,751,583</u>

See independent auditors' report.

Ronald McDonald House of Dallas, Inc. and Affiliates
Consolidating Statement of Activities
For the Year Ended December 31, 2015

	Ronald McDonald House of Dallas, Inc.	Ronald McDonald House of Dallas Endowment Foundation	Ronald McDonald House of Dallas Family Assistance Foundation	Consolidated Balance
Revenue and support:				
Public support:				
Contributions and grants	\$ 1,335,181	\$ 12,500	\$ -	\$ 1,347,681
Special event income, net of direct donor benefits costs of \$108,314	1,433,046	-	-	1,433,046
	<u>2,768,227</u>	<u>12,500</u>	<u>-</u>	<u>2,780,727</u>
Other revenue:				
Program service fees	457,409	-	-	457,409
Interest income	173	4	864	1,041
Investment return	(18,511)	(287,428)	28,870	(277,069)
Other income (expense)	16,799	-	-	16,799
Change in fair value of beneficial interest held in trust	(51,937)	-	-	(51,937)
Intercompany contributions (distributions)	249,000	(319,000)	70,000	-
	<u>652,933</u>	<u>(606,424)</u>	<u>99,734</u>	<u>146,243</u>
Total revenue and support	3,421,160	(593,924)	99,734	2,926,970
Expenses:				
Program expenses	1,751,526	66,822	899,496	2,717,844
Supporting services	89,344	1,753	-	91,097
Fundraising	850,901	1,241	-	852,142
Total expenses	<u>2,691,771</u>	<u>69,816</u>	<u>899,496</u>	<u>3,661,083</u>
Change in net assets:	729,389	(663,740)	(799,762)	(734,113)
Net assets at beginning of year	<u>6,520,769</u>	<u>8,389,672</u>	<u>18,744,739</u>	<u>33,655,180</u>
Net assets at end of year	<u>\$ 7,250,158</u>	<u>\$ 7,725,932</u>	<u>\$ 17,944,977</u>	<u>\$ 32,921,067</u>

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