RONALD MCDONALD HOUSE CHARITIES OF MEMPHIS, INC.

FINANCIAL STATEMENTS

December 31, 2017 and 2016

Watkins Uiberall
Certified Public Accountants
Independent Member of BKR International

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ronald McDonald House Charities of Memphis, Inc.
Memphis, Tennessee

We have audited the accompanying financial statements of Ronald McDonald House Charities of Memphis, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 Memphis, Inc. as of December 31, 2017 and 2016, 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 Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental Schedules of Functional and Capital Expenditures on pages 20-21 are presented for purposes of additional analysis and are not a required part of the 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.

Watkins Uiberall, PLLC

Memphis, Tennessee
July 23, 2018

RONALD MCDONALD HOUSE CHARITIES OF MEMPHIS, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

Assets

	2017	2016
Cash and cash equivalents	$ 3,921,899	$ 7,783,529
Pledges receivable, net of allowance for doubtful accounts and discount	1,660,785	126,260
Promise to give - bequest	-	900,000
Prepaid expenses	45,176	36,329
Investments		
Endowment investments	3,977,752	3,485,635
Other investments	4,946,845	50,622
Total investments	8,924,597	3,536,257
Land lease, net of accumulated amortization	784,792	794,602
Property and equipment, net of accumulated depreciation	6,688,759	6,419,036
Total assets	$ 22,026,008	$ 19,596,013

Liabilities and Net Assets

	2017	2016
Liabilities		
Accounts payable	$ 93,592	$ 106,384
Accrued payroll liabilities	50,206	67,721
Deferred revenue	14,500	18,000
Total liabilities	158,298	192,105
Net Assets		
Unrestricted		
Undesignated	15,290,405	15,055,511
Board-designated endowment fund	3,466,502	2,974,385
Total unrestricted	18,756,907	18,029,896
Temporarily restricted	2,599,553	862,762
Permanently restricted	511,250	511,250
Total net assets	21,867,710	19,403,908
Total liabilities and net assets	$ 22,026,008	$ 19,596,013

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

RONALD MCDONALD HOUSE CHARITIES OF MEMPHIS, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2017 and 2016

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Other Revenues				
Contributions				
General contributions	$ 1,102,149	$ 2,314,601	$ -	$ 3,416,750
In-kind contributions	61,118	-	-	61,118
Total contributions	1,163,267	2,314,601	-	3,477,868
Special event revenue	1,231,764	-	-	1,231,764
Less: costs of direct benefits to donors	(200,084)	-	-	(200,084)
Net revenues from special events	1,031,680	-	-	1,031,680
Program service fees	950,916	-	-	950,916
Investment income, net	443,392	63,251	-	506,643
Program service grant	-	7,500	-	7,500
	1,394,308	70,751	-	1,465,059
Net assets released from restrictions	648,561	(648,561)	-	-
Total support and other revenues	4,237,816	1,736,791	-	5,974,607
Expenses				
Program services	2,351,981	-	-	2,351,981
Supporting Services:				
Management and general	498,287	-	-	498,287
Fundraising	613,262	-	-	613,262
Unallocated payments to national organization:				
Payments to RMHC Global	47,275	-	-	47,275
Total expenses	3,510,805	-	-	3,510,805
Change in net assets	727,011	1,736,791	-	2,463,802
Net assets at beginning of year	18,029,896	862,762	511,250	19,403,908
Net assets at end of year	$ 18,756,907	$ 2,599,553	$ 511,250	$ 21,867,710

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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Other Revenues				
Contributions				
General contributions	$ 1,115,177	$ 71,696	$ -	$ 1,186,873
In-kind contributions	60,697	-	-	60,697
Bequests	4,190,107	-	-	4,190,107
Total contributions	5,365,981	71,696	-	5,437,677
Special event revenue	1,410,716	40,000	-	1,450,716
Less: costs of direct benefits to donors	(202,771)	-	-	(202,771)
Net revenues from special events	1,207,945	40,000	-	1,247,945
Program service fees	979,242	-	-	979,242
Investment income, net	156,816	25,074	-	181,890
Program service grant	-	7,500		7,500
Insurance proceeds	30,120	-	-	30,120
	1,166,178	32,574	-	1,198,752
Net assets released from restrictions	85,920	(85,920)	-	-
Total support and other revenues	7,826,024	58,350	-	7,884,374
Expenses				
Program services	2,445,857	-	-	2,445,857
Supporting Services:				
Management and general	396,337	-	-	396,337
Fundraising	647,312	-	-	647,312
Unallocated payments to national organization:				
Payments to RMHC Global	42,230	-	-	42,230
Total expenses	3,531,736	-	-	3,531,736
Change in net assets	4,294,288	58,350	-	4,352,638
Net assets at beginning of year	13,735,608	804,412	511,250	15,051,270
Net assets at end of year	$ 18,029,896	$ 862,762	$ 511,250	$ 19,403,908

RONALD MCDONALD HOUSE CHARITIES OF MEMPHIS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2017 and 2016

	2017			
	Program Services	Management and General	Fundraising	Total
Advertising	$ 3,955	$ 1,923	$ 31,649	$ 37,527
Bad debt	-	58,919	-	58,919
Bank fees	8,785	-	14,753	23,538
Cable television	11,800	-	-	11,800
Canister fees	-	-	58,910	58,910
Computer support	53,609	10,290	12,591	76,490
Depreciation	505,896	32,291	-	538,187
Direct mailing fees	-	-	79,309	79,309
Dues and subscriptions	45	199	2,550	2,794
Family services	129,493	-	-	129,493
Health insurance	65,211	15,695	19,377	100,283
Insurance	74,017	-	868	74,885
Loss on disposal of assets	42,441	-	-	42,441
Miscellaneous	3,210	5,616	2,400	11,226
Office expenses	3,342	1,354	6,590	11,286
Payroll services	-	4,716	-	4,716
Payroll taxes	37,183	18,924	18,271	74,378
Postage	2,450	683	12,690	15,823
Printing	-	2,011	33,328	35,339
Professional fees	-	40,125	-	40,125
Rent	10,470	4,492	54,627	69,589
Repairs and maintenance	352,164	-	-	352,164
Retirement expenses	9,263	6,886	2,071	18,220
Salaries and wages	542,078	245,816	255,871	1,043,765
Scholarships	20,000	-	-	20,000
Security services	192,670	-	-	192,670
Supplies	63,163	32,226	5,025	100,414
Taxes and licenses	-	1,024	-	1,024
Telephone	42,895	1,806	452	45,153
Training	1,219	6,362	198	7,779
Utilities	164,556	6,929	1,732	173,217
Volunteer expenses	12,066	-	-	12,066
	$ 2,351,981	$ 498,287	$ 613,262	$ 3,463,530

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

	2016			
	Program Services	Management and General	Fundraising	Total
Advertising	$ 2,005	$ 509	$ 32,511	$ 35,025
Bad debt	-	35,689	-	35,689
Bank fees	11,521	-	15,171	26,692
Cable television	13,333	-	-	13,333
Canister fees	-	-	54,379	54,379
Computer support	64,150	14,604	9,742	88,496
Consulting fees	9,744	-	-	9,744
Depreciation	513,686	33,009	-	546,695
Direct mailing fees	-	-	88,505	88,505
Dues and subscriptions	799	1,075	1,595	3,469
Family services	131,750	-	-	131,750
Health insurance	55,210	19,619	29,173	104,002
Insurance	79,862	-	866	80,728
Loss on disposal of assets	590	-	-	590
Miscellaneous	2,733	7,605	2,551	12,889
Office expenses	2,901	1,294	6,898	11,093
Payroll services	-	5,001	-	5,001
Payroll taxes	41,106	11,925	20,855	73,886
Postage	3,563	375	15,607	19,545
Printing	-	1,173	43,937	45,110
Professional fees	-	22,275	-	22,275
Rent	9,670	4,978	36,697	51,345
Repairs and maintenance	475,836	-	-	475,836
Retirement expenses	7,582	2,714	4,404	14,700
Salaries and wages	517,766	194,296	276,114	988,176
Scholarships	21,625	-	-	21,625
Security services	186,271	-	-	186,271
Supplies	61,114	23,120	4,512	88,746
Taxes and licenses	285	610	-	895
Telephone	40,748	1,716	429	42,893
Training	13,043	7,708	1,605	22,356
Utilities	167,256	7,042	1,761	176,059
Volunteer expenses	11,708	-	-	11,708
	$ 2,445,857	$ 396,337	$ 647,312	$ 3,489,506

RONALD MCDONALD HOUSE CHARITIES OF MEMPHIS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows Provided By (Used For) Operating Activities:		
Change in net assets	$ 2,463,802	$ 4,352,638
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	538,187	546,695
Land lease amortization	9,810	9,810
Bad debt	58,919	35,689
Loss on disposal of assets	42,441	590
Change in market value of investments	(432,320)	(96,581)
Changes in Operating Assets and Liabilities:		
Increase (Decrease) in Cash and Cash Equivalents:		
Pledges receivable	(1,593,444)	(69,514)
Promise to give - bequest	900,000	(900,000)
Prepaid expenses	(8,847)	(3,149)
Accounts payable	(12,792)	(17,087)
Accrued payroll liabilities	(17,515)	36,454
Deferred revenue	(3,500)	13,500
Total adjustments	(519,061)	(443,593)
Net cash provided by operating activities	1,944,741	3,909,045
Cash Flows From (Used For) Investing Activities:		
Proceeds from sale of investments	1,700,402	607,047
Purchases of investments	(6,656,422)	(682,092)
Purchases of property and equipment	(850,351)	(145,108)
Net cash used for investing activities	(5,806,371)	(220,153)
Net increase (decrease) in cash and cash equivalents	(3,861,630)	3,688,892
Cash and cash equivalents at beginning of year	7,783,529	4,094,637
Cash and cash equivalents at end of year	$ 3,921,899	$ 7,783,529

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activities

Ronald McDonald House Charities of Memphis, Inc. (the "Organization") provides temporary housing at no charge to 53 out-patients of St. Jude Children's Research Hospital ("St. Jude") and their families nightly. The Organization, at no charge to their guests, provides supportive services and "keeps families close" while children are receiving treatment for cancer and other catastrophic childhood illnesses at St. Jude. The Organization operates as a "Ronald McDonald House" by virtue of a non-exclusive licensing agreement with McDonald's Corporation. While the Organization is not owned or operated by McDonald's Corporation or St. Jude, they do provide financial and logistical support. The majority of funding is raised through community support. The Organization is located in Memphis, Tennessee.

Method of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restriction. When a donor restriction expires in the same year received, revenue first flows through temporarily restricted net assets as an increase and is also shown as a release during the same year.

Unconditional promises to give, which consist of pledges receivable, are recorded when the pledge is received. Those due in the following year are recorded at their net realizable value, while those due in subsequent years have been discounted to the present value of their net realizable value using risk-free interest rates applicable to the years in which the pledges were received.

Credit Risks

The Organization's credit risks primarily relate to cash and cash equivalents, investments, and receivables. Cash and cash equivalents are primarily held in bank accounts at several institutions. Accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to an aggregate of $250,000 at each institution. The Organization's cash deposits exceeded FDIC limits at various times during the year. The Organization believes it is not exposed to any significant credit risk on its cash balances, due to its policy of banking with high quality financial institutions.

Investments, which are not insured by the FDIC, are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with these investments, it is at least possible that changes in the values of investments will occur in the near term and such changes could materially affect the Organization's financial position and changes in its net assets.

Fair Value Measurements

The Organization applies GAAP for fair value measurements of financial asset and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as 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. GAAP also establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. See Note 3 for additional disclosures.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The Organization has excluded cash and cash equivalents held in investment accounts.

Receivables

Pledges and other receivables are stated at the amount management expects to collect from outstanding balances. Management monitors outstanding balances and provides for probable uncollectible amounts through a valuation allowance based upon its assessment of the individual accounts. Balances that are still outstanding after a reasonable period of time has elapsed are written off through a charge to the valuation allowance and a credit to the appropriate receivable.

Investments

Investments are carried at fair market value in the statement of financial position. Realized and unrealized gains and losses and interest and dividend income are included in investment income in the statements of activities, net of investment management fees.

Property and Equipment

Property and equipment items are recorded at acquisition cost, if purchased, or the estimated fair value on the date received, if donated. The Organization capitalizes expenditures for property and equipment with a cost in excess of $5,000 and provides for depreciation using the straight-line method over the estimated useful lives of the assets, generally ten to forty years for buildings and building improvements, five years for computer equipment, seven to ten years for other equipment, furniture and fixtures, and five years for canisters.

Impairment of Long-Lived Assets

The Organization evaluates its long-lived assets for any events or changes in circumstances which indicate that the carrying amount of such assets may not be fully recoverable. The Organization evaluates the recoverability of long-lived assets by measuring the carrying amount of such assets against the estimated undiscounted future cash flows associated with them. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

Net Assets

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

Permanently Restricted Net Assets – Permanently restricted net assets represent contributions subject to donor-imposed stipulations to be invested in perpetuity, for which only the income may be available for operations. See Note 7 for additional disclosures.

Temporarily Restricted Net Assets – Temporarily restricted net assets represent gifts or other revenues wherein donors have specified the purpose for which the net assets are to be spent or time restrictions imposed or implied by the nature of the gift. When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. See Note 6 for additional disclosures.

Unrestricted Net Assets – Unrestricted net assets are all the remaining net assets of the Organization. This includes voluntary board-approved designations of unrestricted net assets for specific purposes, projects or investments. Because designations are voluntary and may be reversed at any time by the board, designated portions of net assets are not considered temporarily or permanently restricted.

In-Kind Donations

Donated supplies and services are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended December 31, 2017 and 2016, in-kind donations for the House and special events totaled $190,387 and $225,230, respectively. In addition, a substantial number of volunteers have donated significant time to the Organization. No amounts have been recognized in the accompanying financial statements for these services since they do not meet the criteria for recognition.

Functional Expense Allocation

The cost of providing various programs and supporting services have been reported on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services based on estimates made by management.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is similarly exempt from Tennessee state income taxes under provisions of the Tennessee tax regulations. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization files an exempt organization return in the United States federal jurisdiction.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Advertising

Advertising costs of $37,527 and $35,025 for the years ended December 31, 2017 and 2016, respectively, were expensed as incurred.

Recent Accounting Pronouncement

The FASB issued ASU No.2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The most significant changes within the ASU impact the following areas:

1. Net Asset Classes – Net asset classification has been reduced from three classes of net assets (unrestricted, temporarily restricted and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.

2. Expenses – Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement or in the notes to the financial statements.

3. Liquidity and Availability of Resources – The ASU requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.

4. Presentation of Operating Cash Flows – Not-for-profit entities can continue to present the statement of cash flows using either the direct method or indirect method. The ASU removes the requirement to present or disclose the indirect method when using the direct method of reporting cash flows.

The above changes only impact the presentation and disclosures within the financial statements. However, within the ASU, there is one change in the accounting requirements for not-for-profit entities. The placed-in-service approach will now be required for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU eliminates the current option that, in the absence of explicit donor stipulations, had allowed a not-for-profit to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed, i.e. to match the depreciation expense on the asset) rather than when placed in service.

The Organization intends to adopt the new ASU guidance using the retrospective method for the year ended December 31, 2018.

Date of Management's Review

The Organization evaluated its December 31, 2017 financial statements for subsequent events through July 23, 2018, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 - PLEDGES RECEIVABLE AND PROMISE TO GIVE

Pledges receivable consisted of the following at December 31:

	2017	2016
Receivable in less than one year	$ 557,282	$ 178,444
Receivable within one to three years	1,220,167	-
Less discount	(50,512)	-
Less allowance for doubtful accounts	(66,152)	(52,184)
Net pledges receivable	$ 1,660,785	$ 126,260

The promise to give at December 31, 2016 represents an unconditional promise made to the Organization through a valid will. This was validated in probate court and the remaining payment was received by the Organization in 2017.

These pledges receivable are recorded as income when contributed and have been discounted to net present value using a discount rate ranging from 1.10-1.71% based on expected payments.

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

GAAP establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, as described below:

- Level 1 – Quoted prices in active markets for identical assets or liabilities the Organization has the ability to access.
- Level 2 – Inputs (other than quoted prices within level 1) such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable market data.
- Level 3 – Inputs which are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

In determining fair values, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017.

Cash and cash equivalents: Valued at amortized cost, which approximates fair value.

Common trust funds and diversifiers: Valued at the net asset value of shares held by the Organization at year end.

Mutual funds, bond funds, and precious metals: Valued at the closing price reported on the active market in which they are traded.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis at December 31, 2017 and 2016. All categories of mutual funds, bond funds, diversifiers, and common trust funds representing 5% or more of total assets at fair value are separately identified.

	2017		
	Level 1	Level 2	Total
Investments			
Cash and cash equivalents	$ 4,905,251	$ -	$ 4,905,251
Common Trust Funds - Equities			
DTC Large Cap U.S. Equity	-	867,827	867,827
DTC Active U.S. Equity Core		298,699	298,699
DTC International Equity		959,475	959,475
Total common trust funds - equities	-	2,126,001	2,126,001
Common Trust Funds - Fixed Income			
DTC Short Duration Fixed Income	-	459,852	459,852
DTC Core Fixed Income	-	471,592	471,592
Total common trust funds - fixed income	-	931,444	931,444
Equity Mutual Funds			
Other - below 5% threshold	368,729	-	368,729
Bond funds			
Other - below 5% threshold	119,910	-	119,910
Diversifiers			
DTC Multi-Strategy Fund	-	473,262	473,262
Total investments	$ 5,393,890	$ 3,530,707	$ 8,924,597

	2016		
	Level 1	Level 2	Total
Investments			
Cash and cash equivalents	$ 5,203	$ -	$ 5,203
Common Trust Funds - Equities			
DTC Large Cap U.S. Equity	-	1,468,266	1,468,266
DTC International Equity	-	646,190	646,190
Total common trust funds - equities	-	2,114,456	2,114,456
Common Trust Funds - Fixed Income			
DTC Short Duration Fixed Income	-	667,466	667,466
DTC Core Fixed Income	-	517,861	517,861
Total common trust funds - fixed income	-	1,185,327	1,185,327
Equity Mutual Funds			
Other - below 5% threshold	194,113	-	194,113
Precious metals	37,158	-	37,158
Total investments	$ 236,474	$ 3,299,783	$ 3,536,257

The following schedule summarizes investment income (loss) for the years ended December 31:

	2017	2016
Interest and dividend income	$ 100,592	$ 108,966
Change in market value of investments	432,320	96,581
Investment management fees	(26,269)	(23,657)
Total investment income	$ 506,643	$ 181,890

NOTE 4 - LAND LEASE

The Organization entered into a lease agreement in 1998 with American Lebanese Syrian Associated Charities, Inc. ("ALSAC") for a portion of its land for $1 per year through 2097. ALSAC is the fundraising arm of St. Jude. The value of the lease was determined to be $974,902, which was the estimated fair market value of the land at the lease inception. The net amount of the land lease is reflected in temporarily restricted net assets due to time restrictions.

Amortization is recorded in the statement of functional expenses as rent. The land lease consisted of the following at December 31:

	2017	2016
Land lease	$ 974,902	$ 974,902
Less accumulated amortization	(190,110)	(180,300)
	$ 784,792	$ 794,602

Future amortization expense is as follows for the years ending December 31:

2018	$ 9,810
2019	9,810
2020	9,810
2021	9,810
2022	9,810
Thereafter	735,742
	$ 784,792

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31 is as follows:

	2017	2016
Land	$ 236,009	$ 236,009
Buildings and improvements	11,998,128	11,451,289
Furniture and fixtures	514,223	514,223
Equipment and vehicles	831,827	615,947
Computer equipment	145,015	145,015
Canisters	21,535	21,535
Construction in progress	-	9,000
	13,746,737	12,993,018
Less accumulated depreciation	(7,057,978)	(6,573,982)
	$ 6,688,759	$ 6,419,036

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Net assets were temporarily restricted as follows at December 31:

	2017	2016
Purpose Restrictions:		
Kitchen renovations	$ -	$ 68,160
Generators	586,004	-
Software upgrade	7,500	-
Time restrictions	2,006,049	794,602
	$ 2,599,553	$ 862,762

NOTE 7 - ENDOWMENT FUND

The Organization has an endowment fund which was created with the proceeds of the sale of donated stock. This permanently restricted gift, which was received in 1993, is to be held in perpetuity for the benefit of the Organization. The donor stipulated that income from these funds could be used for operating expenses. The Board of Directors' intent is to treat the unrestricted portion of the endowment as a "rainy day" fund, allowing for continued growth of the fund. The endowment and its cumulative earnings make up the entirety of this investment account, as listed on the balance sheet as endowment investments.

At December 31, the endowment net asset composition by type of fund is as follows:

	2017		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ -	$ 511,250	$ 511,250
Board-designated endowment fund	3,466,502	-	3,466,502
Total	$ 3,466,502	$ 511,250	$ 3,977,752

	2016		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ -	$ 511,250	$ 511,250
Board-designated endowment fund	2,974,385	-	2,974,385
Total	$ 2,974,385	$ 511,250	$ 3,485,635

A reconciliation of the endowment fund's balance at December 31 by net asset class is as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning endowment net assets	$ 2,974,385	$ -	$ 511,250	$ 3,485,635
Investment Return (Loss)				
Interest and dividend income	74,724	11,020	-	85,744
Change in market value	376,986	55,600	-	432,586
Management fees	(22,844)	(3,369)	-	(26,213)
Total investment return	428,866	63,251	-	492,117
Appropriation of endowment assets for expenditure	63,251	(63,251)	-	-
Ending endowment net assets	$ 3,466,502	$ -	$ 511,250	$ 3,977,752

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning endowment net assets	$ 2,803,432	$ -	$ 511,250	$ 3,314,682
Investment Return (Loss)				
Interest and dividend income	83,650	14,378	-	98,028
Change in market value	82,416	14,166	-	96,582
Management fees	(20,187)	(3,470)	-	(23,657)
Total investment return	145,879	25,074	-	170,953
Appropriation of endowment assets for expenditure	25,074	(25,074)	-	-
Ending endowment net assets	$ 2,974,385	$ -	$ 511,250	$ 3,485,635

Endowment Investment Policy

The primary purpose of the Organization's investment policy is to supplement annual operating expenses, provide for short-term capital needs, and allow sufficient long-term growth of capital to meet future capital and budgetary requirements. This includes maintaining an appropriate combination of assets to meet its performance objectives and ensuring a proper level of diversification within the asset classes of cash and cash equivalents, fixed income securities, equities, and publicly traded real estate.

Spending Policy

The Organization has a policy in which the general rule of appropriating for distribution each year is through a formal annual budget approved by the governing board. In establishing this policy, the Organization considered the long-term expected returns on its endowment investments. Accordingly, over the long-term, the Organization expects the current spending policy will allow its endowment to retain the original fair value of the gifts.

Interpretation of Relevant Law

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as enacted by the State of Tennessee applies to the Organization's endowment fund. Management interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted portion of the endowment fund. Among other considerations, management considers the duration and preservation of the fund and general economic conditions in making a determination to appropriate or accumulate donor-restricted endowment funds.

NOTE 8 - RETIREMENT PLAN

The Organization maintains a 401(k) retirement plan for all employees working at least twenty-four (24) hours a week and at least twenty-one (21) years of age. Optional employee contributions are withheld from the employees' compensation. The plan was amended during 2015 to add a provision for employer contributions. The Organization will make a matching contribution for each participant equal to 100% of the participant's salary contributions, up to 3% of annual compensation. Employer contributions for the years ended December 31, 2017 and 2016 were $18,220 and $14,700, respectively.

NOTE 9 - CONCENTRATIONS OF RISK

For the year ended December 31, 2017, one donor accounted for approximately 31% of total support and other revenue, and St. Jude program service fees received accounted for approximately 17% of support and other revenue. For the year ended **December 31, 2016**, one donor accounted for approximately 53% of total support and other revenue, and St. Jude program service fees received accounted for approximately 12% of support and other revenue. At December 31, 2017, two donors accounted for approximately 86% of total pledges receivable.

NOTE 10 - COMMITMENTS

The Organization leases office equipment according to a lease agreement that is classified as an operating lease. Rent expense under equipment leases for the years ended December 31, 2017 and 2016, was $6,907 and $12,096, respectively. Future minimum lease payments for the years ending December 31 are as follows:

2018	$	4,013
2019		2,748
2020		2,748
2021		1,145
	$	10,654

SUPPLEMENTAL INFORMATION

RONALD MCDONALD HOUSE CHARITIES OF MEMPHIS, INC.

SCHEDULES OF FUNCTIONAL AND CAPITAL EXPENDITURES

For the Years Ended December 31, 2017 and 2016

	2017			
	Program Services	Management and General	Fundraising	Total Expenditures
Advertising	$ 3,955	$ 1,923	$ 31,649	$ 37,527
Bad debt	-	58,919	-	58,919
Bank fees	8,785	-	14,753	23,538
Cable television	11,800	-	-	11,800
Canister fees	-	-	58,910	58,910
Computer support	53,609	10,290	12,591	76,490
Depreciation	505,896	32,291	-	538,187
Direct mailing fees	-	-	79,309	79,309
Dues and subscriptions	45	199	2,550	2,794
Family services	129,493	-	-	129,493
Loss on disposal of assets	42,441	-	-	42,441
Health insurance	65,211	15,695	19,377	100,283
Insurance	74,017	-	868	74,885
Miscellaneous	3,210	5,616	2,400	11,226
Office expenses	3,342	1,354	6,590	11,286
Payroll services	-	4,716	-	4,716
Payroll taxes	37,183	18,924	18,271	74,378
Postage	2,450	683	12,690	15,823
Printing	-	2,011	33,328	35,339
Professional fees	-	40,125	-	40,125
Rent	10,470	4,492	54,627	69,589
Repairs and maintenance	352,164	-	-	352,164
Retirement expenses	9,263	6,886	2,071	18,220
Salaries and wages	542,078	245,816	255,871	1,043,765
Security services	192,670	-	-	192,670
Supplies	63,163	32,226	5,025	100,414
Taxes and licenses	-	1,024	-	1,024
Telephone	42,895	1,806	452	45,153
Training	1,219	6,362	198	7,779
Utilities	164,556	6,929	1,732	173,217
Volunteer expenses	12,066	-	-	12,066
Scholarships	20,000	-	-	20,000
	2,351,981	498,287	613,262	3,463,530
Capital expenditures by program use	850,351	-	-	850,351
Total expenditures	$ 3,202,332	$ 498,287	$ 613,262	$ 4,313,881

See independent auditor’s report.

	2016			
	Program Services	Management and General	Fundraising	Total Expenditures
Advertising	$ 2,005	$ 509	$ 32,511	$ 35,025
Bad debt	-	35,689	-	35,689
Bank fees	11,521	-	15,171	26,692
Cable television	13,333	-	-	13,333
Canister fees	-	-	54,379	54,379
Computer support	64,150	14,604	9,742	88,496
Consulting fees	9,744	-	-	9,744
Depreciation	513,686	33,009	-	546,695
Direct mailing fees	-	-	88,505	88,505
Dues and subscriptions	799	1,075	1,595	3,469
Family services	131,750	-	-	131,750
Health insurance	55,210	19,619	29,173	104,002
Insurance	79,862	-	866	80,728
Loss on disposal of assets	590	-	-	590
Miscellaneous	2,733	7,605	2,551	12,889
Office expenses	2,901	1,294	6,898	11,093
Payroll services	-	5,001	-	5,001
Payroll taxes	41,106	11,925	20,855	73,886
Postage	3,563	375	15,607	19,545
Printing	-	1,173	43,937	45,110
Professional fees	-	22,275	-	22,275
Rent	9,670	4,978	36,697	51,345
Repairs and maintenance	475,836	-	-	475,836
Retirement expenses	7,582	2,714	4,404	14,700
Salaries and wages	517,766	194,296	276,114	988,176
Scholarships	21,625	-	-	21,625
Security services	186,271	-	-	186,271
Supplies	61,114	23,120	4,512	88,746
Taxes and licenses	285	610	-	895
Telephone	40,748	1,716	429	42,893
Training	13,043	7,708	1,605	22,356
Utilities	167,256	7,042	1,761	176,059
Volunteer expenses	11,708	-	-	11,708
	2,445,857	396,337	647,312	3,489,506
Capital expenditures by program use	145,108	-	-	145,108
Total expenditures	$ 2,590,965	$ 396,337	$ 647,312	$ 3,634,614