Ryan House

Financial Statements
and
Independent Auditors' Report

Year Ended September 30, 2017
(with comparative totals for 2016)

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FESTER & CHAPMAN PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Ryan House
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Ryan House (a nonprofit Organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ryan House as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Ryan House's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 30, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Fester & Chapman, PLLC

March 15, 2018

RYAN HOUSE
STATEMENT OF FINANCIAL POSITION
September 30, 2017
(with comparative financial information as of September 30, 2016)

	2017	2016
ASSETS		
Current assets:		
Cash	$ 247,448	$ 558,013
Pledges receivable, net	414,695	125,064
Grants receivable	2,803	28,312
Investments	3,959,443	3,675,477
Prepaid expenses	43,506	13,500
Total current assets	4,667,895	4,400,366
Property and equipment, net	155,758	167,539
Pledges receivable	40,000	33,333
Total assets	$ 4,863,653	$ 4,601,238
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 44,968	$ 35,717
Due to related party	413,382	304,484
Deferred revenue	-	5,000
Total current liabilities	458,350	345,201
Net assets:		
Unrestricted	3,598,644	3,611,582
Board designated	269,337	227,974
Total unrestricted net assets	3,867,981	3,839,556
Temporarily restricted	537,322	416,481
Total net assets	4,405,303	4,256,037
Total liabilities and net assets	$ 4,863,653	$ 4,601,238

The accompanying notes are an integral part of these statements.

RYAN HOUSE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017
(with comparative financial information for the year ended September 30, 2016)

	2017			
	Unrestricted	Temporarily Restricted	Totals	2016
Support and revenue:				
Contributions and grants	$ 1,311,821	$ 472,862	$ 1,784,683	$ 1,499,731
In-kind contributions	518,004	-	518,004	307,556
Government grants	42,803	-	42,803	268,312
Interest and dividends, net of fees	81,401	-	81,401	91,461
Gain on investments	210,755	-	210,755	230,179
Net assets released from restrictions	352,021	(352,021)	-	-
	2,516,805	120,841	2,637,646	2,397,239
Special event revenue	637,183	-	637,183	527,788
Less: Costs of direct benefits to donors	(58,323)	-	(58,323)	(41,444)
Net revenues from special events	578,860	-	578,860	486,344
Total support and revenue	3,095,665	120,841	3,216,506	2,883,583
Expenses:				
Program services	2,170,074	-	2,170,074	1,846,717
Supporting services:				
Management and general	377,957	-	377,957	250,090
Fundraising	519,209	-	519,209	496,867
Total supporting services	897,166	-	897,166	746,957
Total expenses	3,067,240	-	3,067,240	2,593,674
Change in net assets	28,425	120,841	149,266	289,909
Net assets, beginning of year	3,839,556	416,481	4,256,037	3,966,128
Net assets, end of year	$ 3,867,981	$ 537,322	$ 4,405,303	$ 4,256,037

The accompanying notes are an integral part of these statements.

RYAN HOUSE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2017
(with comparative financial information for the year ended September 30, 2016)

	2017					
		Supporting Services				
	Program Services	Management and General	Fundraising	Total Supporting Services	Total	2016
Payroll and related	$ 1,328,973	$ 153,652	$ 241,018	$ 394,670	$ 1,723,643	$ 1,501,122
Office supplies and equipment	18,953	4,753	15,511	20,264	39,217	27,377
Technology	4,831	107	9,618	9,725	14,556	21,881
Board expenses	2,170	4,985	3,022	8,007	10,177	1,193
Insurance	8,760	1,612	471	2,083	10,843	11,252
Banking and credit card fees	-	2,318	16,829	19,147	19,147	13,983
Consulting and contract labor	29,550	24,240	65,100	89,340	118,890	118,641
Accounting fees	-	27,587	-	27,587	27,587	21,280
Legal fees	-	98,127	-	98,127	98,127	29,214
Child care and life enhancement program	28,334	-	-	-	28,334	57,191
Facility, utilities and maintenance	117,121	2,335	833	3,168	120,289	102,953
Hospice of the Valley - Facility in-kind	82,800	2,700	4,500	7,200	90,000	90,000
Hospice of the Valley - Support services	67,500	22,500	-	22,500	90,000	90,000
Hospice of the Valley - Support services in-kind	49,500	16,500	-	16,500	66,000	66,000
Events	101,774	-	45,565	45,565	147,339	150,126
Events in-kind	248,196	-	74,370	74,370	322,566	119,881
Marketing and collateral	4,682	180	6,280	6,460	11,142	22,914
Donor cultivation	350	-	2,053	2,053	2,403	8,292
Community relations	3,555	838	5,126	5,964	9,519	4,438
Other in-kind	22,192	14,186	3,060	17,246	39,438	31,675
Bad debt expense	-	-	23,091	23,091	23,091	14,679
Depreciation	50,833	1,337	2,762	4,099	54,932	89,582
	$ 2,170,074	$ 377,957	$ 519,209	$ 897,166	$ 3,067,240	$ 2,593,674

The accompanying notes are an integral part of these statements.

RYAN HOUSE
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2017
(with comparative financial information for the year ended September 30, 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 149,266	$ 289,909
Adjustments to reconcile change in net assets to net cash (used) provided for operating activities:		
Depreciation	54,932	89,582
Realized gain on investments	(25,313)	(19,037)
Unrealized gain on investments	(185,442)	(211,142)
Decrease in:		
Pledges receivable, net	(296,298)	(83,397)
Grants receivable	25,509	(28,312)
Prepaid expenses	(30,006)	6,020
Increase (decrease) in:		
Accounts payable and accrued expenses	9,251	30,574
Due to related party	108,898	172,609
Deferred revenue	(5,000)	5,000
Net cash (used) provided for operating activities	(194,203)	251,806
Cash flows from investing activities:		
Purchases of investments	(3,267,573)	(5,329,333)
Proceeds from sales of investments	3,194,362	5,501,333
Purchases of property and equipment	(43,151)	(25,786)
Net cash (used) provided by investing activities	(116,362)	146,214
Change in cash	(310,565)	398,020
Cash, beginning of year	558,013	159,993
Cash, end of year	$ 247,448	$ 558,013

The accompanying notes are an integral part of these statements.

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ryan House (the Organization) is a nonprofit 501(c)(3) organization incorporated in Arizona. The Organization's mission is to provide essential care in a home-like setting where families of children with life-limiting conditions come for respite and, as needed, end-of-life care. All services at Ryan House are guided by the principles of palliative care. This philosophy of comfort care addresses not only physical pain but also the emotional, spiritual and social needs of the child and family. This enlightened approach to care is of critical importance, beginning at diagnosis and continuing throughout the entire course of a child's life and beyond. The Organization is primarily supported by public contributions from individuals, corporations, foundations, and community organizations.

Ryan House operates the freestanding palliative care home facility to provide respite and pediatric hospice support and comfort care for children with life-limiting conditions and their families. The Organization serves as a source of comfort, ease, quiet, strength and courage. The facility is designed to be fully accessible, providing for all types of mobility and ability without the use of ramps and lifts. The Organization, in partnership with Hospice of the Valley (see Note 8), employs a team of nurses, therapists, and other highly skilled professional caregivers, led by medical doctors and professional health care providers. Each child is provided with a specialized program of care designed by his or her personal physician and parents.

Ryan House operates exclusively on fundraised revenue and in-kind support from Hospice of the Valley and other donors, and a small governmental contract. Ryan House does not charge families for services provided. Ryan House has made significant investments in building its fundraising capacity in order to sustain revenue and operations long-term. The Board of Directors is committed to this fundraising strategy that diversifies Ryan House's donor base and allows for programmatic improvements and growth over time.

The significant accounting policies of the Organization follow:

Basis 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). Under this method of accounting, revenue and expenses are identified with specific periods of time and are recorded as earned and incurred, respectively, without regard to the date of receipt or payment.

Financial Statement Presentation: The financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - Net assets which are not subject to any donor imposed stipulations. Restricted net assets received and expended in the same year are classified as unrestricted.

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets are limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets, i.e. the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Board Designated Net Assets - The Board of Directors has designated certain funds to be set aside as board designated net assets for accumulation of reserve funds for future use and/or to accumulate funds to generate earnings to support the operations of the Organization. Earnings on these set aside funds are included in board designated net assets.

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

Permanently Restricted Net Assets - Net assets subject to donor imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes. The Organization had no permanently restricted net assets at September 30, 2017 or 2016.

Use of Estimates: In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash: The Organization may at times maintain cash at financial institutions in excess of the maximum amount insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pledges Receivable: Pledges receivable are stated at net present value of expected cash flows, less an allowance for doubtful accounts, as deemed necessary, and are recognized as contribution revenue in the year the unconditional promise to give is made. The Organization provides for losses on receivables using the allowance method. The allowance is based on experience, knowledge of the donor or grantor, the industry and other circumstances which may affect the ability of donors or grantors to meet their obligations. It is the Organization's policy to charge off uncollectible pledges receivable when management determines the receivable will not be collected.

Grants Receivable: The Organization recognizes grant revenue when eligible costs are incurred or the required services are performed. Grants receivable are recorded when grants and contract expenses are incurred or contract services have been provided, but reimbursement has not been received by the Organization.

Investments: The Organization holds certain operational funds in investments with readily determinable fair values. Investments in certificates of deposit, equity securities, and mutual funds are recorded at their estimated fair value based on quoted market prices in the Statement of Financial Position. See Note 3 regarding the fair value measurements of investments. The Organization holds certain cash and cash equivalents as part of its investment portfolio. Unrealized gains and losses are included in the change in net assets in the Statement of Activities.

Property and Equipment: Property and equipment are stated at cost, or at their estimated fair value at the date of donation. Property and equipment costing $1,000 or more is capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and fixtures	7 years
Computers and technology	5 years
Website	3 years
Leasehold improvements	Lesser of the estimated useful life or remaining lease term

Property and equipment also includes the rights to a book, which the Organization sells to promote its mission. The book is stated at the cost of amounts paid to professional writers to develop it, and as the estimated useful life of the book is not determinable, the cost is not being amortized.

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In-kind Contributions/Expenses: Use of donated facilities, goods and services are recorded at their estimated fair value at the date of donation. Donated services are recognized in the financial statements at their estimated fair value if the following criteria are met:

i) The services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated, or
ii) The services enhance or create an asset.

The Organization also received numerous hours of donated services by volunteers committed to the Organization's mission. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under GAAP.

Income Taxes: The Organization is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Contributions: Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose of restriction is accomplished) in the reporting period in which the revenue is recognized.

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities, and allocated among the programs and supporting services benefited in the Statement of Functional Expenses.

Organization Personnel: The Organization's personnel are employees of Hospice of the Valley and are subject to all rules and regulations of Hospice of the Valley. In addition, Hospice of the Valley provides all payroll administration and human resource functions for these employees. The Organization reimburses Hospice of the Valley for personnel costs associated with employees of the Organization.

Prior Year Summarized Information: The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Subsequent Events: Subsequent events have been evaluated through March 15, 2018, which was the date the Organization's financial statements were issued. Management has concluded that no events have occurred since the year ended September 30, 2017 that would require an adjustment to, or disclosure in, the financial statements.

NOTE 2 - PLEDGES RECEIVABLE, NET

Unconditional promises to give are recorded as pledges receivable and revenue is recognized when the promise is made by the donor. The Organization's pledges receivable are due as follows at September 30:

	2017	2016
Receivable in less than one year	$ 434,695	$ 139,743
Receivable in one to five years	40,000	33,333
	474,695	173,076
Less:		
Allowance for uncollectible pledges	(20,000)	(14,679)
	$ 454,695	$ 158,397

At September 30, 2017, 54% of the Organization's pledges were due from two donors and at September 30, 2016, 89% of the Organization's pledges were due from three donors.

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value measurements are determined based on assumptions that market participants would use in pricing assets and liabilities. GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions and the Organization’s own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are the Organization’s own assumptions about what market participants would assume based on the best information available in the circumstance.

Level 1 inputs – A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value.

Level 2 inputs – These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1.

Level 3 inputs – These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The Organization does not currently have any investments valued based on Level 3 inputs.

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

The Organization's investments and their fair value hierarchy consisted of the following at September 30:

	2017	2016
Level 1 inputs:		
Cash equivalents	$ 97,154	$ 183,651
Fixed Income:		
Corporate bonds	304,284	309,403
Municipal bonds	1,666,428	1,481,428
Mutual funds:		
Domestic core equities	749,439	722,693
Emerging market core equities	118,410	124,486
Domestic real estate equities	147,170	152,825
Global moderate allocation equities	269,337	241,945
International core equities	482,081	459,046
Total Level 1 inputs	3,834,303	3,675,477
Level 2 inputs:		
Certificates of deposit	125,140	-
Total Level 2 inputs	125,140	-
Total investments	$ 3,959,443	$ 3,675,477

The Organization's investments are covered in limited amounts by Securities Investor Protection Corporation (SIPC). The Organization has not experienced material losses in such accounts and management believes it is not exposed to significant credit risks. Although management is not aware of any factors that would significantly affect the estimated fair value amounts of the Organization's investments, current estimates of fair value may differ significantly from the amounts presented in these financial statements.

The Organization's interest and dividends are presented in the Statement of Activities net of investment fees of $18,946 and $18,502 for the years ended September 30, 2017 and 2016, respectively. The Organization's gains on investments included the following for the years ended September 30:

	2017	2016
Realized gain	$ 25,313	$ 19,037
Unrealized gain	185,442	211,142
Total gains on investments	$ 210,755	$ 230,179

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at September 30:

	2017	2016
Furniture and fixtures	$ 441,829	$ 436,555
Computers and technology	72,650	72,650
Website	27,000	56,470
Book	34,203	34,203
Leasehold improvements	124,494	75,344
Construction in progress	-	14,190
	700,176	689,412
Accumulated depreciation	(544,418)	(521,873)
	$ 155,758	$ 167,539

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at September 30:

	2017	2016
Time restricted	$ 344,696	$ 173,076
Electronic medical records (EMR) & outreach	130,000	-
Treasured Memories project	28,721	6,500
Story of Me Room	33,905	31,905
Child Life program	-	205,000
	$ 537,322	$ 416,481

NOTE 6 - RELEASED FROM RESTRICTIONS

Net assets were released from time and purpose restrictions as follows for the years ended September 30:

	2017	2016
Sibshops	-	$ 1,528
Treasured Memories project	$ 3,779	109,893
Sensory Needs Room	-	18,369
Food for House	-	2,104
Child Life Program	208,500	7,000
Event sponsorships	-	26,000
Release of time restrictions	139,742	75,000
Total temporarily restricted net assets released from restrictions	$ 352,021	$ 239,894

NOTE 7 - IN-KIND CONTRIBUTIONS

The Organization receives donated goods and services from various sources. In-kind contributions consisted of the following for the years ended September 30:

	2017	2016
Facility - Hospice of the Valley	$ 90,000	$ 90,000
General support - Hospice of the Valley	66,000	66,000
Storage space - Hospice of the Valley	16,200	21,600
Professional services	23,238	-
Event related	322,566	119,881
Supplies	-	10,075
	$ 518,004	$ 307,556

NOTE 8 - RELATED PARTY

As discussed in Note 1, Hospice of the Valley (HOV) administers the human resource and payroll functions of the Organization, providing clinical care oversight of respite, palliative, and hospice services. HOV invoices the Organization for these costs, as well as for a portion of the costs relating to the shared facility and equipment. HOV donates the value of unbilled facilities costs as in-kind contributions.

During the years ended September 30, 2017 and 2016, the Organization incurred expenses payable to HOV of $1,928,127 and $1,690,436, respectively. At September 30, 2017 and 2016, the Organization had accounts payable and accrued expenses due to HOV of $413,382 and $304,484, respectively.