

**RONALD MCDONALD HOUSE CHARITIES OF  
SOUTHERN ARIZONA, INC.**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

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## Independent Auditors' Report

Board of Directors and Management  
Ronald McDonald House Charities of Southern Arizona, Inc.  
Tucson, Arizona

We have audited the accompanying financial statements of Ronald McDonald House Charities of Southern Arizona, Inc. (the Organization) which comprise the statements of financial position as of December 31, 2018 and 2017, 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.

### **Auditors' 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 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 Organization'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 Organization'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 Southern Arizona, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Leah Fleischman PC". The signature is written in a cursive, flowing style.

Tucson, Arizona  
May 15, 2019

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,176,492	\$ 1,318,459
Accounts receivable	120,260	13,544
Bequests receivable	-	87,500
Investments	4,134,035	4,546,176
Prepaid expenses	7,949	8,525
Total current assets	5,438,736	5,974,204
Property and equipment, net	4,180,330	3,772,897
Investments whose use is limited	490,891	506,250
In-kind contribution receivable - land lease	638,352	654,720
Total assets	\$ 10,748,309	\$ 10,908,071
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 14,417	\$ 11,759
Accrued expenses and other liabilities	25,325	20,025
Total current liabilities	39,742	31,784
Total liabilities	39,742	31,784
Commitments and contingencies		
Net assets:		
Without donor restrictions	9,484,865	9,646,429
With donor restrictions	1,223,702	1,229,858
Total net assets	10,708,567	10,876,287
Total liabilities and net assets	\$ 10,748,309	\$ 10,908,071

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenue and support:			
Public support:			
Bequests and legacies	\$ 42,844	\$ -	\$ 42,844
Contributions	934,675	118,587	1,053,262
Special events	303,469	-	303,469
Program service fees	87,886	-	87,886
In-kind contributions	183,823	-	183,823
Grants	23,475	-	23,475
Other support	<u>5,637</u>	<u>-</u>	<u>5,637</u>
Total public support	1,581,809	118,587	1,700,396
Investment loss, net	(124,951)	(15,359)	(140,310)
Loss on disposal of assets	(13,807)	-	(13,807)
Net assets released from restrictions	<u>109,384</u>	<u>(109,384)</u>	<u>-</u>
	<u>1,552,435</u>	<u>(6,156)</u>	<u>1,546,279</u>
Expenses:			
Program services	1,216,473	-	1,216,473
General and administrative	144,450	-	144,450
Fundraising	<u>353,076</u>	<u>-</u>	<u>353,076</u>
	<u>1,713,999</u>	<u>-</u>	<u>1,713,999</u>
Change in net assets	(161,564)	(6,156)	(167,720)
Net assets, beginning	<u>9,646,429</u>	<u>1,229,858</u>	<u>10,876,287</u>
Net assets, ending	<u>\$ 9,484,865</u>	<u>\$ 1,223,702</u>	<u>\$ 10,708,567</u>

See notes to financial statements.

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED DECEMBER 31, 2017**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenue and support:			
Public support:			
Bequests and legacies	\$ 107,921	\$ -	\$ 107,921
Contributions	796,654	94,582	891,236
Special events	290,032	-	290,032
Program service fees	150,989	-	150,989
In-kind contributions	79,580	-	79,580
Grants	54,300	-	54,300
Other support	<u>4,590</u>	<u>-</u>	<u>4,590</u>
Total public support	1,484,066	94,582	1,578,648
Investment income, net	546,987	-	546,987
Net assets released from restrictions	<u>81,497</u>	<u>(81,497)</u>	<u>-</u>
	<u>2,112,550</u>	<u>13,085</u>	<u>2,125,635</u>
Expenses:			
Program services	1,091,116	-	1,091,116
General and administrative	127,951	-	127,951
Fundraising	227,737	-	227,737
Remittances to RMHC, Inc.	<u>11,612</u>	<u>-</u>	<u>11,612</u>
	<u>1,458,416</u>	<u>-</u>	<u>1,458,416</u>
Change in net assets	654,134	13,085	667,219
Net assets, beginning	<u>8,992,295</u>	<u>1,216,773</u>	<u>10,209,068</u>
Net assets, ending	<u>\$ 9,646,429</u>	<u>\$ 1,229,858</u>	<u>\$ 10,876,287</u>

See notes to financial statements.

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED DECEMBER 31, 2018**

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total expenses</u>
Payroll	\$ 389,533	\$ 91,000	\$ 167,824	\$ 648,357
Benefits	70,893	15,444	26,904	113,241
Payroll taxes	<u>29,505</u>	<u>6,853</u>	<u>12,662</u>	<u>49,020</u>
	489,931	113,297	207,390	810,618
Conferences and meetings	422	6,747	2,832	10,001
Depreciation	196,392	1,317	2,059	199,768
Donor and volunteer recognition	11,771	468	2,840	15,079
Dues and subscriptions	2,405	26	2,469	4,900
House expense	100,278	-	212	100,490
Household supplies	37,344	-	-	37,344
Insurance	24,327	1,428	2,413	28,168
Miscellaneous expense	23,609	467	24,089	48,165
Office supplies	2,446	2,014	1,119	5,579
Postage	1,181	48	3,330	4,559
Printing and publication	5,499	1,592	4,297	11,388
Professional services	45,193	9,925	4,023	59,141
Promotions	9,181	1,068	90,742	100,991
Rent - land lease	16,091	108	169	16,368
Repairs and maintenance	48,285	58	90	48,433
Special event direct costs	125,582	-	-	125,582
Telephone	14,727	802	1,159	16,688
Travel and transportation	7,406	4,720	3,272	15,398
Utilities	<u>54,403</u>	<u>365</u>	<u>571</u>	<u>55,339</u>
	<u>\$ 1,216,473</u>	<u>\$ 144,450</u>	<u>\$ 353,076</u>	<u>\$ 1,713,999</u>

See notes to financial statements.



**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED DECEMBER 31, 2017**

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total expenses</u>
Payroll	\$ 475,075	\$ 47,996	\$ 48,122	\$ 571,193
Benefits	71,885	8,620	8,345	88,850
Payroll taxes	<u>36,735</u>	<u>3,777</u>	<u>3,762</u>	<u>44,274</u>
	583,695	60,393	60,229	704,317
Conferences and meetings	1,589	6,246	5,538	13,373
Depreciation	135,040	27,008	6,752	168,800
Donor and volunteer recognition	5,915	1,128	3,850	10,893
Dues and subscriptions	2,410	949	4,824	8,183
House expense	36,074	-	486	36,560
Household supplies	18,144	-	-	18,144
Insurance	23,089	2,919	1,731	27,739
Miscellaneous expense	2,811	336	15,868	19,015
Office supplies	1,456	1,511	1,382	4,349
Postage	1,689	265	2,521	4,475
Printing and publication	6,999	1,603	3,045	11,647
Professional services	39,622	8,039	21,081	68,742
Promotions	15,678	-	95,106	110,784
Rent - land lease	13,094	2,619	655	16,368
Repairs and maintenance	45,778	2,027	507	48,312
Special event direct costs	92,370	-	-	92,370
Telephone	17,730	2,057	724	20,511
Travel transportation	3,695	2,003	1,226	6,924
Utilities	<u>44,238</u>	<u>8,848</u>	<u>2,212</u>	<u>55,298</u>
	<u>\$ 1,091,116</u>	<u>\$ 127,951</u>	<u>\$ 227,737</u>	<u>\$ 1,446,804</u>

See notes to financial statements.

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (167,720)	\$ 667,219
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Donated securities	(25,237)	(27,985)
Loss on disposal of assets	13,807	-
Net realized and unrealized gains (losses) on investments	227,271	(474,809)
Depreciation	199,768	168,800
Donated equipment	(101,715)	(40,664)
Rent - land lease	16,368	16,368
Scheduled release of deferred grant obligation	-	(65,000)
Changes in operating assets and liabilities:		
Accounts receivable	(106,716)	33,204
Bequest receivable	87,500	412,500
Prepaid expenses	576	(1,876)
Accounts payable	2,658	(8,668)
Accrued expenses and other liabilities	5,300	(13,020)
Net adjustments	<u>319,580</u>	<u>(1,150)</u>
Net cash provided by operating activities	<u>151,860</u>	<u>666,069</u>
Cash flows from investing activities:		
Purchases of property and equipment	(519,293)	(60,800)
Purchases of investments	(1,525,694)	(1,917,003)
Proceeds from sale of investments	<u>1,751,160</u>	<u>1,555,722</u>
Net cash used in investing activities	<u>(293,827)</u>	<u>(422,081)</u>
Net increase (decrease) in cash and cash equivalents	(141,967)	243,988
Cash and cash equivalents, beginning	<u>1,318,459</u>	<u>1,074,471</u>
Cash and cash equivalents, ending	<u>\$ 1,176,492</u>	<u>\$ 1,318,459</u>

See notes to financial statements.

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

1. Description of organization and summary of significant accounting policies:

Organization:

Ronald McDonald House Charities of Southern Arizona, Inc. (the Organization) is a nonprofit corporation organized in Arizona. The mission of the Organization is to create, find and support programs that directly improve the health and well-being of children and their families. In Southern Arizona, the primary services are to provide a home-away-from-home for families with critically ill children; a Ronald McDonald Family Room at Banner's Diamond Children's Medical Center, to give families of pediatric patients a place to rest and regroup; and Caring Carts at both Diamond Children's and Tucson Medical Center, to share snacks, toys for kids and goodwill throughout the neonatal intensive care and pediatric units. The Organization's primary funding comes from public contributions.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net assets:

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve, capital reserve and other purposes.
- *Net assets with donor restrictions* - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues and support:

Contributions are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

1. Description of organization and summary of significant accounting policies (continued):

Revenues and support (continued):

Revenues from special events and program service fees are recorded when the event or program has occurred.

Support arising from donated goods and services is recognized in the financial statements at its fair value. Donated services are recognized when the services received meet one of the following criteria:

- (a) create or enhance nonfinancial assets
- (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization, the fair value of all these services may not be reflected in the financial statements because the above criteria are not met.

The Organization recorded contributed services and materials support and related expenses of \$183,823 and \$79,580, of which \$101,715 and \$40,664 were capitalized as property and equipment during the years ended December 31, 2018 and 2017.

Cash and cash equivalents:

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

All cash and cash equivalents are placed with various credit institutions. At times, such amounts may be in excess of the FDIC insurance limits; however, management does not believe they are exposed to any significant credit risk on cash and cash equivalents.

Investments:

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at their fair value in the statements of financial position determined by quoted market prices. Donated investments are recorded at fair value at the date of gift. Investment gains and losses are included in the changes in net assets in the accompanying statements of activities as increases or decreases in net assets without donor restrictions unless their use is with donor restrictions by explicit donor-imposed stipulations or legal requirements.

Realized gains or losses on disposition of investments are recorded on a trade date basis using the specific identification method. The fair value of investment securities is estimated based upon the last trade price on a national securities exchange or in the over-the-counter market. If no trade price is reported for the measurement date, the fair value is estimated based upon the current bid price at the close of business on the measurement date.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2018 AND 2017

1. Description of organization and summary of significant accounting policies (continued):

Fair value measurements:

Fair value is defined as the price to sell an asset or transfer a liability between market participants as of the measurement date. Fair value measurements assume the asset or liability is exchanged in an orderly manner; the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and that the market participants are independent, knowledgeable, able and willing to transact an exchange. GAAP also clarifies that the reporting entity's nonperformance risk (credit risk) should be considered in valuing liabilities.

GAAP establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. 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 fair value for qualifying alternative investments is determined based on the investment's net asset value as a practical expedient. Considerable judgment is required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value.

Accounts receivable:

Accounts receivable consists principally of uncollateralized amounts due from governmental agencies and unconditional promises to give from donors. The Organization considers amounts over 30 days to be past due. Receivable balances are considered fully collectible by management; therefore, no allowance for doubtful accounts has been provided.

Bequests receivable:

Support arising from bequests and legacies is recognized by the Organization when it has been established that there are no uncertainties as to the beneficiaries and the amounts can be reasonably estimated. The net balance of these bequests receivable is \$0 and \$87,500 at December 31, 2018 and 2017.

Property, equipment, and depreciation:

Property and equipment are stated at cost except for donated equipment, which is recorded at its fair market value at the date of gift. Property and equipment with a value of greater than or equal to \$1,000 and a useful life of more than one year is capitalized. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets.

Buildings and building improvements	7 - 40 years
Equipment	3 - 7 years
Furniture and fixtures	5 - 7 years
Vehicles	5 years

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

1. Description of organization and summary of significant accounting policies (continued):

Functional allocation of expenses:

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include depreciation, repairs and maintenance, and utilities, which are allocated on a square footage basis, as well as payroll, benefits and payroll taxes, which are allocated on the basis of estimates of time and effort.

Advertising:

Advertising costs are expensed as incurred. Total advertising expense was \$85,179 and \$85,434 for 2018 and 2017.

Income taxes:

The Organization is exempt from income taxes under both Federal Internal Revenue Code Section §501(c)(3) and Arizona income tax laws, and is classified as other than a private foundation under Internal Revenue Code Section §509(a)(1). Income from certain activities not directly related to the Organization's tax-exempt purpose, however, may be subject to taxation as unrelated business taxable income (UBTI).

From time to time, the Organization may be subject to penalties and interest assessed by various taxing authorities, which are classified as general and administrative expenses if they occur.

Change in accounting principle:

In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to December 31, 2018 through May 15, 2019, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

2. Liquidity and availability of financial assets:

The following reflects the Organization's financial assets for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date:

	2018	2017
Cash and cash equivalents	\$ 1,176,492	\$ 1,318,459
Accounts receivable	120,260	13,544
Bequest receivable	-	87,500
Investments	4,624,926	5,052,426
Total financial assets	5,921,678	6,471,929
Contractual or donor-imposed restrictions:		
Endowment funds	(490,891)	(506,250)
Other donor restrictions	(732,811)	(723,608)
Board designations:		
Capital reserves	-	(445,570)
Operating reserves	-	(500,000)
Other	-	(29,827)
	\$ 4,697,976	\$ 4,266,674

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

3. Investments:

	2018	2017
Fixed income securities	\$ 1,792,692	\$ 2,274,776
U.S. equities	1,890,897	1,877,015
International equities	668,617	662,176
Campbell fund trust	172,644	186,191
Other	100,076	52,268
Total investments at fair value	4,624,926	5,052,426
Less investments whose use is limited:		
Endowments	490,891	506,250
	\$ 4,134,035	\$ 4,546,176

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

3. Investments (continued):

Net investment income (loss) for the years ended December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 138,080	\$ 120,225
Net realized and unrealized gains on investments	(227,271)	474,809
Investment expense	<u>(51,119)</u>	<u>(48,047)</u>
Investment income (loss), net	<u>\$ (140,310)</u>	<u>\$ 546,987</u>

4. Fair value measurements:

The fair value of assets measured on a recurring basis is as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Investments at level 1:		
Fixed income securities	\$ 1,792,692	\$ 2,274,776
U.S. equities	1,890,897	1,877,015
International equities	668,617	662,176
Other	100,076	52,268
Investments measured at net asset value:		
Campbell fund trust	<u>172,644</u>	<u>186,191</u>
	<u>\$ 4,624,926</u>	<u>\$ 5,052,426</u>

The fair value of the level 1 investments above have been measured on a recurring basis using the market approach and priced based on quoted market information.

The investment in the Campbell fund trust is valued based on its net asset value. The fund primarily invests and reinvests in futures contracts. The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient as of December 31, 2018 and 2017.

<u>December 31, 2018</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Campbell fund trust	\$ 172,644	-	Monthly	5 days prior to month end



**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

4. Fair value measurements (continued):

<u>December 31, 2017</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Campbell fund trust	\$ 186,191	-	Monthly	5 days prior to month end

5. Property and equipment:

	<u>2018</u>	<u>2017</u>
Buildings and building improvements	\$ 5,343,265	\$ 5,098,621
Equipment	165,178	159,980
Furniture and fixtures	367,711	277,943
Vehicles	<u>52,959</u>	<u>52,959</u>
	5,929,113	5,589,503
Less accumulated depreciation	<u>1,748,783</u>	<u>1,816,606</u>
	<u>\$ 4,180,330</u>	<u>\$ 3,772,897</u>

6. In-kind contribution receivable - land lease:

The Organization is leasing the land upon which the current facility has been built. The lease term is 50 years at an annual rental of \$1. The fair market value of the land at inception was approximately \$818,400. Annual amortization of the lease value is \$16,368. The contribution has been recorded as donor restricted support to reflect the use restriction of the land to the operation of the Ronald McDonald House for the 50-year lease term. The Organization will release \$16,368 to net assets without donor restrictions annually over the 50-year lease term. As of December 31, 2018 and 2017, the remaining in-kind contribution receivable for the land lease is \$638,352 and \$654,720.

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

7. Net assets with donor restrictions:

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Family fund	\$ 6,300	\$ 2,811
Family room refresh	-	26,032
Professional development	-	13,718
Lactation room	14,228	-
Care mobile	62,233	-
Other	<u>11,698</u>	<u>26,327</u>
	94,459	68,888
Subject to the passage of time:		
Land lease	<u>638,352</u>	<u>654,720</u>
	<u>732,811</u>	<u>723,608</u>
Endowments:		
Subject to the Organization's endowment spending policy and appropriation:		
General use	506,250	506,250
Underwater endowments	<u>(15,359)</u>	<u>-</u>
	<u>490,891</u>	<u>506,250</u>
	<u>\$ 1,223,702</u>	<u>\$ 1,229,858</u>

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

8. Endowments:

The Organization's Board of Directors 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, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Changes in endowment net assets with donor restrictions for the years ended December 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Endowment net assets, beginning of year	\$ 506,250	\$ 506,250
Investment return, net	(15,359)	54,808
Appropriation of endowment assets pursuant to spending policy	<u>-</u>	<u>(54,808)</u>
Endowment net assets, end of year	<u>\$ 490,891</u>	<u>\$ 506,250</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift value of \$506,250, fair value of \$490,891, and deficiency of \$15,359 was reported in net assets with donor restrictions. This deficiency resulted from unfavorable market conditions that occurred near year end. There was no deficiency at December 31, 2017.

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

8. Endowments (continued):

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment fund while seeking to maintain the original value of any contributions to the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the board of directors, the endowment assets are invested with a growth and income style of investing in a portfolio comprised of cash, fixed income securities, equities and mutual funds. Investment income is appropriated for expenditure in the year earned, and is, therefore, included in net assets without donor restrictions.

9. Net assets without donor restrictions:

Net assets without donor restrictions at December 31, 2018 and 2017 is as follows:

	2018	2017
Undesignated	\$ 5,304,535	\$ 4,898,135
Investment in property and equipment, net	4,180,330	3,772,897
Board designated:		
Reserve for operations	-	500,000
Property replacement	-	445,570
Program expansion	-	26,313
Family emergency fund	-	3,514
	\$ 9,484,865	\$ 9,646,429

10. Special events:

Special event activities for the year ended December 31, 2018 are:

	Revenue	Direct Donor Benefit Costs	Indirect Expenses	Net
Ronald McDonald House Party	\$ 211,607	\$ 88,240	\$ 8,464	\$ 114,903
Walk for Kids	91,862	37,342	3,674	50,846
	\$ 303,469	\$ 125,582	\$ 12,138	\$ 165,749

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

10. Special events (continued):

Special event activities for the year ended December 31, 2017 are:

	Revenue	Direct Donor Benefit Costs	Indirect Expenses	Net
Ronald McDonald House Party	\$ 200,180	\$ 72,298	\$ 8,007	\$ 119,875
Walk for Kids	89,852	20,072	3,594	66,186
	\$ 290,032	\$ 92,370	\$ 11,601	\$ 186,061

Special event expenses reported above for each of the years ended December 31, 2018 and 2017 include direct donor benefit costs allocated to program activities and other indirect expenses allocated to fundraising activities as reported on the statements of functional expenses.

11. Joint cost allocations:

During the year ended December 31, 2018, the Organization incurred joint costs of \$57,786 for informational materials that included fundraising appeals. The Organization allocated \$14,447 to program expense and \$43,339 to fund-raising expenses.

During the year ended December 31, 2017, the Organization incurred joint costs of \$57,003 for informational materials that included fundraising appeals. The Organization allocated \$14,251 to program expense and \$42,752 to fund-raising expenses.

12. Simplified employee pension plan:

The Organization contributes to a simplified employee pension plan for its employees who are over the age of 21. The Organization provides discretionary contributions each year to all eligible employees who received at least \$5,000 in compensation for the current calendar year and in a previous year. Contributions to the plan for the years ended December 31, 2018 and 2017 were \$14,609 and \$7,999.

13. Related party transactions:

During the years ended December 31, 2018 and 2017, the Organization paid \$21,137 and \$9,453 to Nextrio for IT services and equipment. Nextrio also provided in-kind computer consulting services totaling \$12,959 and \$10,891 for the years ended December 31, 2018 and 2017. A founder of Nextrio is a board member of the Organization.

**RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

13. Related party transactions (continued):

During the years ended December 31, 2018 and 2017, the Organization received \$97,562 and \$176,976 in support and contributions from the McDonald's of Southern Arizona Operator's Association and from three operators of local McDonald's restaurants. The three operators are members of the Organization's Board of Directors.

14. Pending pronouncements:

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers." ASU 2014-09 applies to contracts with customers, excluding, most notably, insurance and leasing contracts. ASU 2014-09 prescribes a framework in accounting for revenues from contracts within its scope, including (a) identifying the contract, (b) identifying the performance obligations under the contract, (c) determining the transaction price, (d) allocating the transaction price to the identified performance obligations and (e) recognizing revenues as the identified performance obligations are satisfied. ASU 2014-09 also prescribes additional financial statement presentations and disclosures. ASU 2014-09 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted.

In February 2016, the FASB issued ASU 2016-02 "Leases." ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for reporting periods beginning after December 15, 2019, with early adoption permitted.

Management is currently evaluating the effect that these standards will have on the financial statements.