



RMHC[®]
Central & Northern
Arizona

Phoenix, Arizona

FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND
NORTHERN ARIZONA
TABLE OF CONTENTS

Independent Auditors' Report	1
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	5
Statements of Functional Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	8

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ronald McDonald House Charities of Central and Northern Arizona
Phoenix, Arizona

We have audited the accompanying financial statements of Ronald McDonald House Charities of Central and Northern Arizona (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, 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 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 Central and Northern Arizona as of December 31, 2018 and 2017, 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.

Henry + Horne, LLP

Tempe, Arizona
May 22, 2019

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 819,417	\$ 872,440
Accounts receivable	87,304	31,036
Promises to give, current portion	730,614	389,214
Prepaid expenses	<u>27,081</u>	<u>6,493</u>
TOTAL CURRENT ASSETS	1,664,416	1,299,183
PROMISES TO GIVE, net of current portion	10,000	25,000
INVESTMENTS		
Board designated endowment	1,001,167	1,098,583
Donor restricted endowment	489,625	537,109
Unrestricted and undesignated	<u>3,908,687</u>	<u>3,791,461</u>
	<u>5,399,479</u>	<u>5,427,153</u>
DONATED LAND USE RIGHTS, net	209,794	206,057
PROPERTY AND EQUIPMENT, net	<u>7,758,951</u>	<u>8,054,337</u>
TOTAL ASSETS	<u>\$ 15,042,640</u>	<u>\$ 15,011,730</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF FINANCIAL POSITION (Continued)
 December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 28,632	\$ 31,733
Deferred revenue	<u>47,321</u>	<u>14,895</u>
TOTAL CURRENT LIABILITIES	<u>75,953</u>	<u>46,628</u>
TOTAL LIABILITIES	<u>75,953</u>	<u>46,628</u>
NET ASSETS		
Without donor restriction:		
Undesignated	12,767,981	12,793,211
Board designated	<u>1,001,167</u>	<u>1,098,583</u>
	13,769,148	13,891,794
With donor restriction	<u>1,197,539</u>	<u>1,073,308</u>
TOTAL NET ASSETS	<u>14,966,687</u>	<u>14,965,102</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,042,640</u>	<u>\$ 15,011,730</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Contributions	\$ 1,819,625	\$ 528,539	\$ 2,348,164	\$ 2,249,907	\$ 302,108	\$ 2,552,015
Donated materials and services	494,724	-	494,724	387,171	-	387,171
Program service revenues	349,991	-	349,991	571,772	-	571,772
Net assets released from restrictions	378,301	(378,301)	-	300,327	(300,327)	-
	<u>3,042,641</u>	<u>150,238</u>	<u>3,192,879</u>	<u>3,509,177</u>	<u>1,781</u>	<u>3,510,958</u>
Special events:						
Event contributions	416,906	-	416,906	378,281	-	378,281
Event income	367,634	-	367,634	389,964	-	389,964
Less direct donor benefits	(177,365)	-	(177,365)	(161,131)	-	(161,131)
	<u>607,175</u>	<u>-</u>	<u>607,175</u>	<u>607,114</u>	<u>-</u>	<u>607,114</u>
TOTAL SUPPORT AND REVENUE	<u>3,649,816</u>	<u>150,238</u>	<u>3,800,054</u>	<u>4,116,291</u>	<u>1,781</u>	<u>4,118,072</u>
EXPENSES						
Program services	2,526,136	-	2,526,136	2,380,492	-	2,380,492
Management and general	268,027	-	268,027	160,434	-	160,434
Fundraising	716,029	-	716,029	729,092	-	729,092
TOTAL EXPENSES	<u>3,510,192</u>	<u>-</u>	<u>3,510,192</u>	<u>3,270,018</u>	<u>-</u>	<u>3,270,018</u>
Unallocated payments to RMHC Global	1,281	-	1,281	71,173	-	71,173
CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	<u>138,343</u>	<u>150,238</u>	<u>288,581</u>	<u>775,100</u>	<u>1,781</u>	<u>776,881</u>
NONOPERATING ACTIVITIES						
Investment income (loss)	(236,586)	(26,007)	(262,593)	379,783	42,528	422,311
Loss on disposal of assets	(24,403)	-	(24,403)	-	-	-
TOTAL NONOPERATING ACTIVITIES	<u>(260,989)</u>	<u>(26,007)</u>	<u>(286,996)</u>	<u>379,783</u>	<u>42,528</u>	<u>422,311</u>
CHANGE IN NET ASSETS	<u>(122,646)</u>	<u>124,231</u>	<u>1,585</u>	<u>1,154,883</u>	<u>44,309</u>	<u>1,199,192</u>
NET ASSETS, BEGINNING OF YEAR	<u>13,891,794</u>	<u>1,073,308</u>	<u>14,965,102</u>	<u>12,736,911</u>	<u>1,028,999</u>	<u>13,765,910</u>
NET ASSETS, END OF YEAR	<u>\$ 13,769,148</u>	<u>\$ 1,197,539</u>	<u>\$ 14,966,687</u>	<u>\$ 13,891,794</u>	<u>\$ 1,073,308</u>	<u>\$ 14,965,102</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF FUNCTIONAL EXPENSES
 Years Ended December 31, 2018 and 2017

	2018					2017				
	Program Services	Management and General	Fundraising Activities	Direct Donor Benefits	Total	Program Services	Management and General	Fundraising Activities	Direct Donor Benefits	Total
Personnel costs										
Salaries and wages	\$ 694,618	\$ 183,201	\$ 398,614	\$ -	\$ 1,276,433	\$ 705,458	\$ 107,612	\$ 382,621	\$ -	\$ 1,195,691
Employee benefits	95,698	25,240	54,917	-	175,855	85,453	13,035	46,347	-	144,835
Payroll taxes	48,579	12,812	27,877	-	89,268	53,913	8,224	29,241	-	91,378
Total personnel costs	838,895	221,253	481,408	-	1,541,556	844,824	128,871	458,209	-	1,431,904
In-kind donations for families:										
Repairs and cleaning services	96,860	-	-	-	96,860	68,325	-	-	-	68,325
Meals and supplies	336,574	-	-	-	336,574	244,029	-	-	-	244,029
Utilities	25,200	-	-	-	25,200	25,200	-	-	-	25,200
Scholarships	285,067	-	-	-	285,067	232,876	-	-	-	232,876
Occupancy	55,951	354	770	-	57,075	55,241	570	1,139	-	56,950
Maintenance	267,501	10,666	23,209	-	301,376	279,406	6,570	19,352	-	305,328
Telephone	18,718	336	732	-	19,786	20,059	207	414	-	20,680
Canister expenses	-	-	495	-	495	-	-	56,588	-	56,588
Other fundraising expenses	-	-	29,776	-	29,776	-	-	46,251	-	46,251
Volunteer expenses	-	-	316	-	316	-	-	3,203	-	3,203
House supplies and expenses	20,719	-	-	-	20,719	16,291	-	-	-	16,291
Professional services	52,096	20,128	10,252	-	82,476	2,737	15,603	56	-	18,396
Printing and publications	14,568	262	570	-	15,400	16,126	166	332	-	16,624
Insurance	27,819	500	1,088	-	29,407	26,087	268	538	-	26,893
Office supplies	9,118	164	357	-	9,639	12,160	126	251	-	12,537
Transportation, travel and meetings	8,929	2,355	5,124	-	16,408	4,481	684	2,430	-	7,595
Bank and credit card fees	15,813	284	618	-	16,715	30,983	319	639	-	31,941
Special event - professional fees	-	-	32,305	-	32,305	-	-	14,588	-	14,588
Special event - audio and miscellaneous	-	-	61,537	-	61,537	-	-	76,201	-	76,201
Golf tournament - services and miscellaneous	-	-	41,869	-	41,869	-	-	31,650	-	31,650
Cost of meals	-	-	-	132,629	132,629	-	-	-	121,262	121,262
Entertainment	-	-	-	44,736	44,736	-	-	-	39,869	39,869
Depreciation	425,132	7,640	16,628	-	449,400	460,777	4,750	9,501	-	475,028
Other expenses	27,176	4,085	8,975	-	40,236	40,890	2,300	7,750	-	50,940
Total expenses	2,526,136	268,027	716,029	177,365	3,687,557	2,380,492	160,434	729,092	161,131	3,431,149
Less expenses included with support and revenue in statements of activities	-	-	-	(177,365)	(177,365)	-	-	-	(161,131)	(161,131)
	<u>\$ 2,526,136</u>	<u>\$ 268,027</u>	<u>\$ 716,029</u>	<u>\$ -</u>	<u>\$ 3,510,192</u>	<u>\$ 2,380,492</u>	<u>\$ 160,434</u>	<u>\$ 729,092</u>	<u>\$ -</u>	<u>\$ 3,270,018</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,585	\$ 1,199,192
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	449,400	475,028
Loss on disposal of assets	24,403	-
Donation of property and equipment	(35,590)	(49,617)
Net realized/unrealized (gain) loss on investments	408,101	(303,137)
Change in value of donated land use rights	(3,737)	(3,972)
Decrease (increase) in:		
Accounts receivable	(56,268)	28,095
Promises to give	(326,400)	17,331
Prepaid expenses	(20,588)	21,310
Increase (decrease) in:		
Accounts payable	(3,101)	(28,196)
Accrued expenses	-	(36,393)
Deferred revenue	32,426	617
	<u>470,231</u>	<u>1,320,258</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
	<u>470,231</u>	<u>1,320,258</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(648,271)	(1,269,133)
Proceeds from sales of investments	267,845	65,700
Purchases of property and equipment	(142,828)	(206,405)
	<u>(523,254)</u>	<u>(1,409,838)</u>
NET CASH USED IN INVESTING ACTIVITIES		
	<u>(523,254)</u>	<u>(1,409,838)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(53,023)	(89,580)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>872,440</u>	<u>962,020</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 819,417</u>	<u>\$ 872,440</u>

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Operations

Ronald McDonald House Charities of Central and Northern Arizona (RMHC), formerly known as Ronald McDonald House Charities of Phoenix, is a welcoming home away from home for families with children facing medical challenges, providing an atmosphere of comfort, hope and courage. Since 1985, the Ronald McDonald House has been providing a loving “home away from home” for families. Managed by a volunteer community board and over 50 house volunteers, the house is a peaceful respite for families from the noise, machines, confusion, and stress of the hospital. The families will find private bedrooms, an outdoor playground and indoor playroom, and a large kitchen with dining room and laundry facilities. In addition to providing housing, another benefit of staying at Ronald McDonald House is being able to interact with the other families who are going through the same experiences. Ronald McDonald House is the cornerstone program of RMHC, and is able to provide assistance to 78 families every night.

In addition to providing a home away from home, RMHC, with support from Global Ronald McDonald House Charities, McDonald’s and McDonald’s restaurants also offered scholarships to students from the local area who face limited access to educational and career opportunities. The scholarship program offered by RMHC ended during the year ended December 31, 2018.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, RMHC considers all highly liquid debt instruments with an original maturity of three months or less at date of acquisition to be cash equivalents. Cash and money market funds held in investment accounts are included as investments instead of cash as they are considered to be part of the investment pool. Cash and highly liquid financial instruments restricted to: building projects, endowments that are perpetual in nature, or other long-term purposes are also excluded from this definition.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Accounts Receivable

Accounts receivable from program services are stated at the amount management expects to collect from outstanding balances. Accounts receivable are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. Management evaluates the collectability of its accounts receivable based on a combination of factors, including an assessment of the current status of individual balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Management considers accounts receivable at December 31, 2018 and 2017 to be fully collectible and, accordingly, an allowance has not been recorded.

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contributions. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, RMHC records a specific reserve to reduce the amounts recorded to what it believes will be collected. Promises are charged off against the allowance when they are deemed to be uncollectible. Management considers promises to give at December 31, 2018 and 2017 to be fully collectible and, accordingly, an allowance has not been recorded.

Fair Value Measurements

Accounting Standards establish a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Fair Value Measurements (Continued)

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that RMHC has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect RMHC's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments

Investments are measured at fair value in the statements of financial position. Investment return or loss is included in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external investment expenses.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Risks and Uncertainty

RMHC invests in various types of investments which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments may occur in the near term and that such changes could materially affect the amount reported in the statements of financial position.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

RMHC reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Endowment Funds

RMHC's endowments consist of one board designated fund and one donor restricted fund. These endowment funds are held and managed by Arizona Community Foundation (ACF), which is holding the assets as an endowed component fund (Fund) for the benefit of RMHC. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Income from the endowment fund assets can be used to support general activities of the RMHC.

RMHC follows Arizona's Management of Charitable Funds Act (MCFA) and its own governing documents. MCFA requires the preservation of endowment funds when a donor's intent is not expressed. MCFA directs RMHC to spend an amount that is prudent, consistent with the purposes of the fund, relevant economic factors and the donor's intent that the fund continues in perpetuity.

RMHC classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund also includes accumulated earnings in the fund that are also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by RMHC's Board in a manner consistent with the standard of prudence prescribed by MCFA.

In accordance with MCFA, RMHC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) RMHC's other resources, and (7) RMHC's investment policies.

Return Objectives, Risk Parameters and Spending Policy. The Fund is subject to ACF's investment and spending policies which currently results in a distribution to RMHC of 4.5 percent of the average quarterly value over the previous 12 quarters. The primary objective of ACF's investment program is to achieve long-term returns net of investment expenses sufficient to meet or exceed annual spending and inflation. RMHC has funds in ACF's long-term investment pool, which seeks capital appreciation with the ability to reduce public volatility and enhance returns through diversifying strategies and private market investments.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Revenue Recognition for Program Services

RMHC recognizes program service fees from contracts, primarily with health insurance providers, when services are rendered.

Contributions

Contributions and grants, including promises to give, are recorded as either support with donor restrictions or as support without donor restrictions, depending on the existence and/or nature of any donor imposed restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. It is the Organization's policy to classify donor restricted contributions as support without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

Donated Materials and Services

Donated materials and other non-cash tangible assets (in-kind donations) are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donated services, are recorded at their fair market values in the period received. No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under the generally accepted accounting principle guidelines; however, a substantial number of volunteers have donated significant amounts of their time to RMHC's program services and fund-raising campaigns.

Net Assets

RMHC reports information regarding its financial position and activities according to two classes of net assets as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Net Assets (Continued)

- Net Assets With Donor Restrictions— Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue when the assets are placed in service. 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.

Functional Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain employee positions are allocated based on time and effort. Occupancy, depreciation expense, and the majority of other allocated expenses are allocated based on square footage utilized by the function.

Income Tax Status

RMHC qualifies as a tax exempt organization under Section 501(c)(3) of Internal Revenue Code (the Code), and accordingly, there is no provision for corporate income taxes in the accompanying financial statements. In addition, RMHC qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

RMHC recognizes uncertain tax positions in the financial statements when it is more-likely-than-not the positions will not be sustained upon examination by the tax authorities. At December 31, 2018 and 2017, RMHC had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

RMHC recognizes interest and penalties associated with income taxes in operating expenses. During the years ended December 31, 2018 and 2017, RMHC did not have any income tax related interest or penalty expense.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Management's Use of Estimates

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

Date of Management's Review

In preparing these financial statements, RMHC has evaluated events and transactions for potential recognition or disclosure through May 22, 2019, the date the financial statements were available to be issued.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities - 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. RMHC 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 and resulted in temporarily and permanently restricted net asset balances as of December 31, 2017 (\$1,073,308) and unrestricted net asset balance as of December 31, 2017 (\$13,891,794) being renamed net assets with donor restrictions, and net assets without donor restrictions, respectively. Also, a new disclosure about liquidity and availability has been added.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 2 LIQUIDITY AND AVAILABILITY

RMHC regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. RMHC has various sources of liquidity at its disposal, including cash and cash equivalents, investments in bonds and equitable securities and a distribution from its endowment funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, RMHC considers all expenditures necessary to operate three facilities and accomplish its mission.

RMHC's endowments held by the Arizona Community Foundation (ACF), are separated into three amounts. The first amount is \$489,625 which is permanently restricted by the donor and must always be included in an endowed fund. The second amount is \$750,000 which is board designated and the third amount is \$251,167 which consists of the earnings on the board designated funds. ACF establishes a spending policy of 4.5% which is included in amounts available for available for use.

The following reflects RMHC's financial assets as of December 31, 2018, reduced by amounts not available for general use within one year because of donor-imposed or other restrictions or internal designations. Amounts available include the board-approved appropriation from the endowment funds for the following year as well as donor-restricted amounts that are available for expenditure in the following year.

Cash and cash equivalents without donor restriction	\$ 781,709
Accounts receivable	87,304
Promises to give, current portion	730,614
Unrestricted and undesignated investments	3,908,687
Endowment spending appropriation	<u>67,085</u>
Financial assets available for expenditures	<u><u>\$ 5,575,399</u></u>

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 3 CONCENTRATION OF CREDIT RISK

Financial instruments that subject RMHC to potential concentrations of credit risk consist principally of cash and cash equivalents and promises to give. RMHC maintains its cash in bank accounts with financial institutions which at times may exceed federally insured limits. RMHC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

Gross promises to give at December 31, 2018 include amounts from two donors which make up 73% of total gross promises to give. Gross promises to give at December 31, 2017 include amounts from three donors which make up 58% of total gross promises to give. Concentrations of credit risk with respect to these promises to give are limited due to the collection history and relationships with these donors.

NOTE 4 PROMISES TO GIVE

Promises to give consist of the following unconditional promises to give at December 31:

	2018	2017
Promises to give due in less than one year	\$ 730,614	\$ 389,214
Promises to give due in two to five years	10,000	25,000
Total promises to give	\$ 740,614	\$ 414,214

NOTE 5 INVESTMENTS

Investments consist of the following at December 31:

	2018	2017
Cash and short term investments	\$ 571,560	\$ 615,907
Equity securities	1,868,745	1,878,800
Fixed income securities	1,468,382	1,296,754
Investments held at ACF	1,490,792	1,635,692
Total investments	\$ 5,399,479	\$ 5,427,153

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 5 INVESTMENTS (Continued)

Investment return is summarized as follows for the year ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 169,981	\$ 141,383
Realized gain (loss)	177,370	72,405
Unrealized gain (loss)	(585,471)	230,732
Investment fees	<u>(24,473)</u>	<u>(22,209)</u>
Investment return	<u>\$ (262,593)</u>	<u>\$ 422,311</u>

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 6 FAIR VALUE MEASUREMENTS

Investments with readily determinable fair values are measured at fair value in the statements of financial position as determined by quoted market prices in active markets (level 1). Investments in funds held with ACF are valued based on the value of the underlying assets held by ACF and RMHC's percentage interest in ACF's investment pool (level 3). The following table presents assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of December 31:

	2018			Total
	Level 1	Level 2	Level 3	
Board-designated and unrestricted investments:				
Cash and short term investments	\$ 571,560	\$ -	\$ -	\$ 571,560
Equity securities	1,868,745	-	-	1,868,745
Fixed income securities	1,468,382	-	-	1,468,382
	<u>3,908,687</u>	<u>-</u>	<u>-</u>	<u>3,908,687</u>
Endowment investments:				
Investments held at ACF	<u>-</u>	<u>-</u>	<u>1,490,792</u>	<u>1,490,792</u>
Total assets at fair value	<u>\$ 3,908,687</u>	<u>\$ -</u>	<u>\$ 1,490,792</u>	<u>\$ 5,399,479</u>
	2017			Total
	Level 1	Level 2	Level 3	
Board-designated and unrestricted investments:				
Cash and short term investments	\$ 615,907	\$ -	\$ -	\$ 615,907
Equity securities	1,878,800	-	-	1,878,800
Fixed income securities	1,296,754	-	-	1,296,754
	<u>3,791,461</u>	<u>-</u>	<u>-</u>	<u>3,791,461</u>
Endowment investments:				
Investments held at ACF	<u>-</u>	<u>-</u>	<u>1,635,692</u>	<u>1,635,692</u>
Total assets at fair value	<u>\$ 3,791,461</u>	<u>\$ -</u>	<u>\$ 1,635,692</u>	<u>\$ 5,427,153</u>

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 6 FAIR VALUE MEASUREMENTS (Continued)

The following is a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended December 31, 2018 and 2017:

Balance at December 31, 2016	\$ 1,506,180
Interest and dividends	28,670
Realized and unrealized gains	181,614
Investment fees	(15,072)
Amounts appropriated for expenditure	<u>(65,700)</u>
Balance at December 31, 2017	1,635,692
Interest and dividends	29,311
Realized and unrealized gains	(94,193)
Investment fees	(14,318)
Amounts appropriated for expenditure	<u>(65,700)</u>
Balance at December 31, 2018	<u><u>\$ 1,490,792</u></u>

NOTE 7 DONATED LAND USE RIGHTS

In March 2007, RMHC received a donation of a right to the use of land for 99 years. This donated right to the use of land was donated to RMHC for the purpose of constructing and operating a housing unit on the campus of Phoenix Children's Hospital. During the year ended December 31, 2014, RMHC received another donation of a right to use of land and building space for 99 years. The donated right to use of land and building space was donated for the purpose of constructing and operating a housing unit on the Banner Desert Hospital campus. These donated land use rights assets are recorded at the net present value of estimated future benefits to be received at a discount rate of 3%.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 7 DONATED LAND USE RIGHTS (Continued)

The annual lease expense recognized in relation to these two donations is approximately \$36,000. The annual amortization expense of the discounts is approximately \$40,000. The promise to give of donated land use rights as of December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Donated land and building use rights	\$ 3,266,746	\$ 3,302,998
Unamortized discount	<u>(3,056,952)</u>	<u>(3,096,941)</u>
	<u>\$ 209,794</u>	<u>\$ 206,057</u>

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 636,182	\$ 636,182
Buildings and improvements	11,635,999	11,598,039
Furniture and equipment	708,200	708,200
Vehicles	<u>31,730</u>	<u>31,730</u>
	13,012,111	12,974,151
Accumulated depreciation	<u>(5,355,088)</u>	<u>(4,919,814)</u>
	7,657,023	8,054,337
Construction in progress	<u>101,928</u>	<u>-</u>
	<u>\$ 7,758,951</u>	<u>\$ 8,054,337</u>

Depreciation expense was \$449,400 and \$475,028 for the years ended December 31, 2018 and 2017, respectively.

Construction-in-progress consists of building improvements that were not placed in service as of December 31, 2018. These assets will be classified to the appropriate property and equipment category and commence depreciation when placed in service.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 9 ENDOWMENT FUNDS

Endowment funds are included in investments and consist of one fund restricted in perpetuity by a donor and a board designated fund.

Endowment net asset composition by type of fund at December 31, 2018 are as follows:

	2018		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Board designated endowment fund	\$ 1,001,167	\$ -	\$ 1,001,167
Donor restricted endowment funds:			
Original donor-restricted amount	-	489,625	489,625
Accumulated investment earnings	-	-	-
	<u>\$ 1,001,167</u>	<u>\$ 489,625</u>	<u>\$ 1,490,792</u>

Endowment net asset composition by type of fund at December 31, 2017 are as follows:

	2017		
	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Board designated endowment fund	\$ 1,098,583	\$ -	\$ 1,098,583
Donor restricted endowment funds:			
Original donor-restricted amount	-	489,625	489,625
Accumulated investment earnings	-	47,484	47,484
	<u>\$ 1,098,583</u>	<u>\$ 537,109</u>	<u>\$ 1,635,692</u>

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 9 ENDOWMENT FUNDS (Continued)

Changes in endowment funds for the years ended December 31, 2018 and 2017 are as follow:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Balance at December 31, 2016	\$ 1,011,599	\$ 494,581	\$ 1,506,180
Interest and dividends	19,256	9,415	28,671
Net realized and unrealized gains	121,978	59,636	181,614
Investment fees	(10,123)	(4,949)	(15,072)
Amounts appropriated for expenditure	<u>(44,127)</u>	<u>(21,574)</u>	<u>(65,701)</u>
Balance at December 31, 2017	1,098,583	537,109	1,635,692
Interest and dividends	19,686	9,625	29,311
Net realized and unrealized losses	(63,263)	(30,930)	(94,193)
Investment fees	(9,616)	(4,702)	(14,318)
Amounts appropriated for expenditure	<u>(44,223)</u>	<u>(21,477)</u>	<u>(65,700)</u>
Balance at December 31, 2018	<u><u>\$ 1,001,167</u></u>	<u><u>\$ 489,625</u></u>	<u><u>\$ 1,490,792</u></u>

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Time restricted:		
Promises to give	\$ 498,120	\$ 50,000
Investment income on perpetual endowment funds subject to a time restriction under MCFA	-	47,484
	<u>498,120</u>	<u>97,484</u>
Purpose restricted:		
Scholarships	-	280,142
Time and purpose restricted:		
Donated land use rights	209,794	206,057
Endowments - subject to spending policy and appropriation	<u>489,625</u>	<u>489,625</u>
	<u>\$ 1,197,539</u>	<u>\$ 1,073,308</u>

NOTE 11 RETIREMENT PLAN

RMHC sponsors a 401(k) retirement plan (“the Plan”) on behalf of employees. Employees are eligible to participate in the plan upon completion of 1,000 hours worked or one year of continuous employment, whichever comes first, and can contribute to the Plan up to the maximum allowed. RMHC will match employee contributions up to 4% of each eligible employee’s salary upon eligibility. Contribution expense under the Plan was \$39,103 and \$34,472 during the years ended December 31, 2018 and 2017, respectively.

NOTE 12 PAYMENTS TO AFFILIATES

Certain fundraising promotions are subject to a 25% allocation to Ronald McDonald House Charities Global (Global). Reporting and remittance of amounts owed are due on a quarterly basis. During the years ended December 31, 2018 and 2017, RMHC remitted a total of \$1,281 and \$71,173 to Global, respectively.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 13 DONATED MATERIALS AND SERVICES

Donated materials and services consist of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Equipment and supplies	\$ 172,939	\$ 78,011
House and room improvements	23,280	775
Meals for families	154,714	137,288
Entertainment and airline tickets for families	8,921	28,731
Professional services	74,081	67,549
Utilities	25,200	25,200
Capitalized house improvements	<u>35,590</u>	<u>49,617</u>
Total donated materials and services	<u>\$ 494,724</u>	<u>\$ 387,171</u>

Professional services include landscaping, pest control and various maintenance services provided for the housing facilities as well as services related to special events.

NOTE 14 OPERATING LEASES

RMHC entered into lease agreements for a postage machine and copiers in the current year, expiring at various terms through December 2022. Approximate minimum future lease payments under these non-cancelable operating leases are as follows:

<u>Years Ending December 31,</u>	
2019	\$ 9,300
2020	8,600
2021	700
2022	<u>700</u>
	<u>\$ 19,300</u>

Lease expense was approximately \$9,300 for the year ended December 31, 2018.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 15 NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. For nonpublic companies, this standard must be adopted for annual reporting periods beginning after December 15, 2018. The standard’s core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard’s core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The Financial Accounting Standards Board has issued Accounting Standards Update (“ASU”) No. 2018-08, *Not-For-Profit Entities-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard’s core principle is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This ASU should assist entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.