



RMHC[®]

Central & Northern
Arizona

Phoenix, Arizona

FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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 27, 2020

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,404,820 | \$ 819,417 |
| Accounts receivable | 201,589 | 87,304 |
| Promises to give, current portion | 303,511 | 730,614 |
| Prepaid expenses and other current assets | <u>51,356</u> | <u>27,081</u> |
| TOTAL CURRENT ASSETS | 1,961,276 | 1,664,416 |
| PROMISES TO GIVE, net of current portion | - | 10,000 |
| INVESTMENTS | | |
| Board designated endowment | 1,083,240 | 1,001,167 |
| Donor restricted endowment | 529,763 | 489,625 |
| Unrestricted and undesignated | <u>4,589,554</u> | <u>3,908,687</u> |
| | <u>6,202,557</u> | <u>5,399,479</u> |
| DONATED LAND USE RIGHTS, net | 213,874 | 209,794 |
| PROPERTY AND EQUIPMENT, net | <u>7,609,965</u> | <u>7,758,951</u> |
| TOTAL ASSETS | <u>\$ 15,987,672</u> | <u>\$ 15,042,640</u> |

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF FINANCIAL POSITION (Continued)
 December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|----------------------------------|----------------------|----------------------|
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 43,702 | \$ 28,632 |
| Accrued expenses | 71,627 | - |
| Deferred revenue | <u>26,352</u> | <u>47,321</u> |
| TOTAL CURRENT LIABILITIES | <u>141,681</u> | <u>75,953</u> |
| TOTAL LIABILITIES | <u>141,681</u> | <u>75,953</u> |
| NET ASSETS | | |
| Without donor restriction: | | |
| Undesignated | 13,749,114 | 12,767,981 |
| Board designated | <u>1,313,240</u> | <u>1,001,167</u> |
| | 15,062,354 | 13,769,148 |
| With donor restriction | <u>783,637</u> | <u>1,197,539</u> |
| TOTAL NET ASSETS | <u>15,845,991</u> | <u>14,966,687</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 15,987,672</u> | <u>\$ 15,042,640</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, 2019 and 2018

| | 2019 | | | 2018* | | |
|--|----------------------------|-------------------------|----------------------|----------------------------|-------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| SUPPORT AND REVENUE | | | | | | |
| Contributions | \$ 1,498,449 | \$ 70,332 | \$ 1,568,781 | \$ 1,819,625 | \$ 528,539 | \$ 2,348,164 |
| Donated materials and services | 501,662 | - | 501,662 | 494,724 | - | 494,724 |
| Program service revenues | 780,799 | - | 780,799 | 349,991 | - | 349,991 |
| Net assets released from restrictions | 546,049 | (546,049) | - | 378,301 | (378,301) | - |
| | <u>3,326,959</u> | <u>(475,717)</u> | <u>2,851,242</u> | <u>3,042,641</u> | <u>150,238</u> | <u>3,192,879</u> |
| Special events: | | | | | | |
| Event contributions | 488,763 | - | 488,763 | 312,606 | - | 312,606 |
| Event income | 445,363 | - | 445,363 | 471,934 | - | 471,934 |
| Less direct donor benefits | (204,308) | - | (204,308) | (177,365) | - | (177,365) |
| | <u>729,818</u> | <u>-</u> | <u>729,818</u> | <u>607,175</u> | <u>-</u> | <u>607,175</u> |
| TOTAL SUPPORT AND REVENUE | <u>4,056,777</u> | <u>(475,717)</u> | <u>3,581,060</u> | <u>3,649,816</u> | <u>150,238</u> | <u>3,800,054</u> |
| EXPENSES | | | | | | |
| Program services | 2,407,197 | - | 2,407,197 | 2,526,136 | - | 2,526,136 |
| Management and general | 435,892 | - | 435,892 | 268,027 | - | 268,027 |
| Fundraising | 728,476 | - | 728,476 | 716,029 | - | 716,029 |
| TOTAL EXPENSES | <u>3,571,565</u> | <u>-</u> | <u>3,571,565</u> | <u>3,510,192</u> | <u>-</u> | <u>3,510,192</u> |
| Unallocated payments to RMHC Global | - | - | - | 1,281 | - | 1,281 |
| CHANGE IN NET ASSETS BEFORE NONOPERATING ACTIVITIES | <u>485,212</u> | <u>(475,717)</u> | <u>9,495</u> | <u>138,343</u> | <u>150,238</u> | <u>288,581</u> |
| NONOPERATING ACTIVITIES | | | | | | |
| Investment income (loss) | 807,994 | 61,815 | 869,809 | (236,586) | (26,007) | (262,593) |
| Loss on disposal of assets | - | - | - | (24,403) | - | (24,403) |
| TOTAL NONOPERATING ACTIVITIES | <u>807,994</u> | <u>61,815</u> | <u>869,809</u> | <u>(260,989)</u> | <u>(26,007)</u> | <u>(286,996)</u> |
| CHANGE IN NET ASSETS | <u>1,293,206</u> | <u>(413,902)</u> | <u>879,304</u> | <u>(122,646)</u> | <u>124,231</u> | <u>1,585</u> |
| NET ASSETS, BEGINNING 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> |
| NET ASSETS, END OF YEAR | <u>\$ 15,062,354</u> | <u>\$ 783,637</u> | <u>\$ 15,845,991</u> | <u>\$ 13,769,148</u> | <u>\$ 1,197,539</u> | <u>\$ 14,966,687</u> |

* Reclassified to conform to current year presentation

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF FUNCTIONAL EXPENSES
 Years Ended December 31, 2019 and 2018

| | 2019 | | | | | 2018* | | | | |
|---|---------------------|------------------------|------------------------|-----------------------|---------------------|---------------------|------------------------|------------------------|-----------------------|---------------------|
| | 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 | \$ 826,357 | \$ 298,674 | \$ 379,194 | \$ - | \$ 1,504,225 | \$ 694,618 | \$ 183,201 | \$ 398,614 | \$ - | \$ 1,276,433 |
| Employee benefits | 95,448 | 34,498 | 43,799 | - | 173,745 | 95,698 | 25,240 | 54,917 | - | 175,855 |
| Payroll taxes | 60,541 | 21,881 | 27,780 | - | 110,202 | 48,579 | 12,812 | 27,877 | - | 89,268 |
| Total personnel costs | 982,346 | 355,053 | 450,773 | - | 1,788,172 | 838,895 | 221,253 | 481,408 | - | 1,541,556 |
| In-kind donations for families: | | | | | | | | | | |
| Repairs and cleaning services | 72,255 | - | - | - | 72,255 | 96,860 | - | - | - | 96,860 |
| Meals and supplies | 379,715 | - | - | - | 379,715 | 336,574 | - | - | - | 336,574 |
| Utilities | 25,200 | - | - | - | 25,200 | 25,200 | - | - | - | 25,200 |
| Scholarships | - | - | - | - | - | 285,067 | - | - | - | 285,067 |
| Occupancy | 54,945 | 987 | 2,149 | - | 58,081 | 55,951 | 354 | 770 | - | 57,075 |
| Maintenance | 282,753 | 12,573 | 20,214 | - | 315,540 | 267,501 | 10,666 | 23,209 | - | 301,376 |
| Telephone | 18,857 | 339 | 738 | - | 19,934 | 18,718 | 336 | 732 | - | 19,786 |
| Other fundraising expenses | - | - | 49,636 | - | 49,636 | - | - | 29,776 | - | 29,776 |
| House supplies and expenses | 29,085 | - | - | - | 29,085 | 20,719 | - | - | - | 20,719 |
| Professional services | 28,542 | 53,063 | 1,117 | - | 82,722 | 52,096 | 20,128 | 10,252 | - | 82,476 |
| Printing and publications | 14,585 | 262 | 570 | - | 15,417 | 14,568 | 262 | 570 | - | 15,400 |
| Insurance | 37,558 | 674 | 1,469 | - | 39,701 | 27,819 | 500 | 1,088 | - | 29,407 |
| Office supplies | 25,721 | 463 | 1,006 | - | 27,190 | 9,118 | 164 | 357 | - | 9,639 |
| Transportation, travel and meetings | 5,766 | 2,084 | 2,646 | - | 10,496 | 8,929 | 2,355 | 5,124 | - | 16,408 |
| Bank and credit card fees | 11,480 | 205 | 449 | - | 12,134 | 15,813 | 284 | 618 | - | 16,715 |
| Special event - professional fees | - | - | 25,669 | - | 25,669 | - | - | 32,305 | - | 32,305 |
| Special event - audio and miscellaneous | - | - | 119,405 | - | 119,405 | - | - | 61,537 | - | 61,537 |
| Golf tournament - services and miscellaneous | - | - | 32,288 | - | 32,288 | - | - | 41,869 | - | 41,869 |
| Cost of meals | - | - | - | 155,853 | 155,853 | - | - | - | 132,629 | 132,629 |
| Entertainment | - | - | - | 48,455 | 48,455 | - | - | - | 44,736 | 44,736 |
| Depreciation | 411,772 | 7,400 | 16,105 | - | 435,277 | 425,132 | 7,640 | 16,628 | - | 449,400 |
| Other expenses | 26,617 | 2,789 | 4,242 | - | 33,648 | 27,176 | 4,085 | 9,786 | - | 41,047 |
| Total expenses | 2,407,197 | 435,892 | 728,476 | 204,308 | 3,775,873 | 2,526,136 | 268,027 | 716,029 | 177,365 | 3,687,557 |
| Less expenses included with support and revenue in statements of activities | - | - | - | (204,308) | (204,308) | - | - | - | (177,365) | (177,365) |
| | <u>\$ 2,407,197</u> | <u>\$ 435,892</u> | <u>\$ 728,476</u> | <u>\$ -</u> | <u>\$ 3,571,565</u> | <u>\$ 2,526,136</u> | <u>\$ 268,027</u> | <u>\$ 716,029</u> | <u>\$ -</u> | <u>\$ 3,510,192</u> |

* Reclassified to conform to current year presentation

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 879,304 | \$ 1,585 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 435,277 | 449,400 |
| Loss on disposal of assets | - | 24,403 |
| Donation of property and equipment | (20,000) | (35,590) |
| Net realized/unrealized (gain) loss on investments | (706,898) | 408,101 |
| Change in value of donated land use rights | (4,080) | (3,737) |
| Decrease (increase) in: | | |
| Accounts receivable | (114,285) | (56,268) |
| Promises to give | 437,103 | (326,400) |
| Prepaid expenses and other current assets | (24,275) | (20,588) |
| Increase (decrease) in: | | |
| Accounts payable | 15,070 | (3,101) |
| Accrued expenses | 71,627 | - |
| Deferred revenue | (20,969) | 32,426 |
| | <u>947,874</u> | <u>470,231</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (3,037,996) | (648,271) |
| Proceeds from sales of investments | 2,941,816 | 267,845 |
| Purchases of property and equipment | (266,291) | (142,828) |
| | <u>(362,471)</u> | <u>(523,254)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 585,403 | (53,023) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>819,417</u> | <u>872,440</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 1,404,820</u> | <u>\$ 819,417</u> |

See accompanying notes.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Operations

Ronald McDonald House Charities of Central and Northern Arizona (RMHC), 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 endowments that are perpetual in nature or other long-term purposes are also excluded from this definition.

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, 2019 and 2018 to be fully collectible and, accordingly, an allowance has not been recorded.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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

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, 2019 and 2018 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).

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: <ul style="list-style-type: none">• 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. |

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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

Fair Value Measurements (Continued)

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.

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.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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

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.

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.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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

Endowment Funds (Continued)

Return Objectives, Risk Parameters and Spending Policy. The endowment funds are 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.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to funding sources and clients in an amount equal to the consideration the entity receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2018. RMHC adopted ASC 606 with a date of the initial application of January 1, 2019.

The majority of RMHC's revenue arrangements generally consist of a single performance obligation to transfer promised services. Based on RMHC's evaluation of its contracts with funding sources and clients the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

Program services revenue includes fees for daily lodging for families staying at the homes. Families typically stay for one or more nights, so the performance obligation of providing the lodging may extend over time. Fees for these services are billed to third party insurance companies generally on the date of the family's departure from the home and are due within 30 days of date of the billing. If a family's stay extends beyond the end of the month, the third party payer is billed on the last day of the month for the dates of services provided at that point in time. Therefore, the revenue is recognized in the month the services are provided and earned. The amounts billed are based on contracted rates with each insurance company which represents the amount that RMHC expects to collect.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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

Revenue Recognition for Program Services (Continued)

Earned revenues also include the exchange transaction portion of ticket sales for special events. Performance obligations are satisfied at a point in time and include providing meals, beverages and entertainment at the event. Generally, all ticket sales occur within the fiscal year of the event and recognized as revenue accordingly.

Contributions

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made by clarifying whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional or unconditional. The change in accounting principle was adopted on a modified prospective basis on January 1, 2019. As a result, there was no cumulative-effect adjustment to beginning net assets as of January 1, 2019.

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, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018

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. Significant estimates have been made by management in determining the net present value of future benefits to be received for donated land use rights. Due to uncertainties in estimating these costs, it is possible that the estimates could change in the near term.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Date of Management's Review

In preparing these financial statements, RMHC has evaluated events and transactions for potential recognition or disclosure through May 27, 2020, the date the financial statements were available to be issued.

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 by amounts with donor restriction and amounts with board designation. At December 31, 2019 and 2018, amounts permanently restricted by the donor, which must always be included in an endowed fund, totaled \$489,625 and had accumulated earnings \$40,138 at December 31, 2019. There were no accumulated earnings on permanently restricted donor endowment funds as of December 31, 2018. At December 31, 2019 and 2018, endowments with board designation consist of \$750,000 and accumulated earnings of \$333,240 and \$251,167, respectively. ACF established a spending policy of 4.5% and the annual draw is considered available for use within the next year.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 2 LIQUIDITY AND AVAILABILITY (Continued)

The following reflects RMHC's financial assets as of December 31, 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 amounts that are donor restricted for ongoing program activities.

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Cash and cash equivalents | \$ 1,404,820 | \$ 819,417 |
| Less: board designated reserve included in cash | (230,000) | - |
| Accounts receivable | 201,589 | 87,304 |
| Promises to give, current portion | 303,511 | 730,614 |
| Unrestricted and undesignated investments | 4,589,554 | 3,908,687 |
| Endowment spending appropriation | <u>72,585</u> | <u>67,085</u> |
| Financial assets available for expenditures | <u>\$ 6,342,059</u> | <u>\$ 5,613,107</u> |

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, 2019 include amounts from three donors which make up 62% of total gross promises to give. Gross promises to give at December 31, 2018 include amounts from two donors which make up 73% 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.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 4 PROMISES TO GIVE

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

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Promises to give due in less than one year | \$ 303,511 | \$ 730,614 |
| Promises to give due in two to five years | - | 10,000 |
| | <u> </u> | <u> </u> |
| Total promises to give | <u>\$ 303,511</u> | <u>\$ 740,614</u> |

NOTE 5 INVESTMENTS

Investments consist of the following at December 31:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------|---------------------|---------------------|
| Cash and short term investments | \$ 354,608 | \$ 571,560 |
| Equity securities | 2,797,718 | 1,868,745 |
| Fixed income securities | 1,437,228 | 1,468,382 |
| Investments held at ACF | 1,613,003 | 1,490,792 |
| | <u> </u> | <u> </u> |
| Total investments | <u>\$ 6,202,557</u> | <u>\$ 5,399,479</u> |

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

| | <u>2019</u> | <u>2018</u> |
|------------------------|-------------------|---------------------|
| Interest and dividends | \$ 187,435 | \$ 169,981 |
| Realized gain | 79,696 | 177,370 |
| Unrealized gain/(loss) | 627,202 | (585,471) |
| Investment fees | (24,524) | (24,473) |
| | <u> </u> | <u> </u> |
| Investment return | <u>\$ 869,809</u> | <u>\$ (262,593)</u> |

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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:

| | 2019 | | | Total |
|--|---------------------|-------------|---------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | |
| Board-designated and unrestricted investments: | | | | |
| Cash and short term investments | \$ 354,608 | \$ - | \$ - | \$ 354,608 |
| Equity securities | 2,797,718 | - | - | 2,797,718 |
| Fixed income securities | 1,437,228 | - | - | 1,437,228 |
| | <u>4,589,554</u> | <u>-</u> | <u>-</u> | <u>4,589,554</u> |
| Endowment investments: | | | | |
| Investments held at ACF | - | - | 1,613,003 | 1,613,003 |
| Total assets at fair value | <u>\$ 4,589,554</u> | <u>\$ -</u> | <u>\$ 1,613,003</u> | <u>\$ 6,202,557</u> |
| | | | | |
| | 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 | - | - | 1,490,792 | 1,490,792 |
| Total assets at fair value | <u>\$ 3,908,687</u> | <u>\$ -</u> | <u>\$ 1,490,792</u> | <u>\$ 5,399,479</u> |

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2019 and 2018

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, 2019 and 2018:

| | |
|--------------------------------------|----------------------------|
| Balance at December 31, 2017 | \$ 1,635,692 |
| Interest and dividends | 29,311 |
| Realized and unrealized losses | (94,193) |
| Investment fees | (14,318) |
| Amounts appropriated for expenditure | <u>(65,700)</u> |
| Balance at December 31, 2018 | 1,490,792 |
| Interest and dividends | 31,775 |
| Realized and unrealized gains | 170,329 |
| Investment fees | (13,893) |
| Amounts appropriated for expenditure | <u>(66,000)</u> |
| Balance at December 31, 2019 | <u><u>\$ 1,613,003</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, 2019 and 2018

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, 2019 and 2018 consists of the following:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------|--------------------|--------------------|
| Donated land and building use rights | \$ 3,230,494 | \$ 3,266,746 |
| Unamortized discount | <u>(3,016,620)</u> | <u>(3,056,952)</u> |
| | <u>\$ 213,874</u> | <u>\$ 209,794</u> |

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

| | <u>2019</u> | <u>2018</u> |
|----------------------------|---------------------|---------------------|
| Land | \$ 636,182 | \$ 636,182 |
| Buildings and improvements | 12,001,536 | 11,635,999 |
| Furniture and equipment | 730,881 | 708,200 |
| Vehicles | <u>31,730</u> | <u>31,730</u> |
| | 13,400,329 | 13,012,111 |
| Accumulated depreciation | <u>(5,790,364)</u> | <u>(5,355,088)</u> |
| | 7,609,965 | 7,657,023 |
| Construction in progress | <u>-</u> | <u>101,928</u> |
| | <u>\$ 7,609,965</u> | <u>\$ 7,758,951</u> |

Depreciation expense was \$435,277 and \$449,400 for the years ended December 31, 2019 and 2018, respectively.

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

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2019 and 2018

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, 2019 are as follows:

| | 2019 | | |
|-----------------------------------|------------------------------|---------------------------|---------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Board designated endowment fund | \$ 1,083,240 | \$ - | \$ 1,083,240 |
| Donor restricted endowment funds: | | | |
| Original donor-restricted amount | - | 489,625 | 489,625 |
| Accumulated investment earnings | - | 40,138 | 40,138 |
| | <u>\$ 1,083,240</u> | <u>\$ 529,763</u> | <u>\$ 1,613,003</u> |

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

| | 2018 | | |
|-----------------------------------|------------------------------|---------------------------|---------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| 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> |

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 9 ENDOWMENT FUNDS (Continued)

Changes in endowment funds for the years ended December 31, 2019 and 2018 are as follow:

| | <u>Without Donor Restriction</u> | <u>With Donor Restriction</u> | <u>Total</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 | 1,001,167 | 489,625 | 1,490,792 |
| Interest and dividends | 21,339 | 10,436 | 31,775 |
| Net realized and unrealized gains | 114,387 | 55,942 | 170,329 |
| Investment fees | (9,330) | (4,563) | (13,893) |
| Amounts appropriated for expenditure | <u>(44,323)</u> | <u>(21,677)</u> | <u>(66,000)</u> |
| Balance at December 31, 2019 | <u>\$ 1,083,240</u> | <u>\$ 529,763</u> | <u>\$ 1,613,003</u> |

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2019 and 2018

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

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

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|---------------------|
| Time restricted: | | |
| Promises to give | \$ 40,000 | \$ 498,120 |
| Investment income on perpetual endowment funds subject to a time restriction under MCFA | <u>40,138</u> | <u>-</u> |
| | 80,138 | 498,120 |
| Time and purpose restricted: | | |
| Donated land use rights | 213,874 | 209,794 |
| Endowments - subject to spending policy and appropriation | <u>489,625</u> | <u>489,625</u> |
| | <u>\$ 783,637</u> | <u>\$ 1,197,539</u> |

NOTE 11 BOARD DESIGNATED NET ASSETS

Board designated net assets include a board designated endowment fund in the amount \$1,083,240 and \$1,001,167 at December 31, 2019 and 2018, respectively. In addition, board designated net assets include a reserve in the amount \$230,000 at December 31, 2019 for capital expenditures.

NOTE 12 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 \$34,809 and \$39,103 during the years ended December 31, 2019 and 2018, respectively.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2019 and 2018

NOTE 13 DONATED MATERIALS AND SERVICES

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

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Equipment and supplies | \$ 209,256 | \$ 172,939 |
| House and room improvements | 13,567 | 23,280 |
| Meals for families | 174,951 | 154,714 |
| Entertainment and airline tickets for families | 21,187 | 8,920 |
| Professional services | 37,501 | 74,081 |
| Utilities | 25,200 | 25,200 |
| Capitalized house improvements | <u>20,000</u> | <u>35,590</u> |
| Total donated materials and services | <u>\$ 501,662</u> | <u>\$ 494,724</u> |

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

NOTE 14 COMMITMENTS AND CONTINGENCIES

Leases

RMHC leases office equipment under operating leases agreements with terms expiring through December 2022 and require monthly payments totaling approximately \$2,100.

Approximate minimum future lease payments under these non-cancelable operating leases are as follows:

| <u>Years Ending December 31,</u> | |
|----------------------------------|------------------|
| 2020 | \$ 24,300 |
| 2021 | 16,500 |
| 2022 | <u>8,600</u> |
| | <u>\$ 49,400</u> |

Lease expense was approximately \$17,200 for the year ended December 31, 2019.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 14 COMMITMENTS AND CONTINGENCIES (Continued)

Contracts

During the year ended December 31, 2019, RMHC entered into a group sales agreement with a local venue for their annual gala to be held during 2020 with a minimum service agreement of \$90,000. The contract required a deposit of \$20,000 upon execution, which is included in prepaid expenses and other current assets on the accompanying Statement of Financial Position at December 31, 2019. The contract contains cancellation clauses requiring fees ranging from \$36,000 to \$90,000 depending on timing of the notification given.

Subsequent to year end, RMHC entered into a three-year contract in March 2020 with a database subscription provider. Annual payments under the contract are approximately \$16,000.

Legal Proceedings

RMHC could be involved in legal disputes that may arise from time to time under the normal course of business. In the opinion of management, currently there are no such matters that will have a material adverse impact on the RMHC's financial position, results of operations or cash flows.

NOTE 15 SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risk to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

RMHC operations are heavily dependent on private and public donations from individuals, foundations, and corporations. As of April 30, 2020, our investment values have experienced a temporary decline of approximately \$566,000. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. In addition, as a result of the pandemic, RMHC is currently operating at a reduced capacity. Therefore, we are anticipating a decrease in program service revenue and revenue generated from events for the fiscal year 2020. As such, this may hinder our ability to advance our mission and our financial condition and liquidity will be negatively impacted for the fiscal year 2020.

RONALD MCDONALD HOUSE CHARITIES OF CENTRAL AND NORTHERN ARIZONA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 15 SUBSEQUENT EVENTS (Continued)

Subsequent to year-end, RMHC received loan proceeds in the amount of \$316,400 under the Paycheck Protection Program (PPP) authorized under section 7(a) of the Small Business Act as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll costs incurred during the year prior to the loan date of the qualifying business. The loan and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll costs, interest on mortgage obligations, rent, and utilities. The amount of the loan forgiveness will be reduced if the borrower reduces the number of employees or reduces salaries by more than 25% during the eight week period beginning on the loan origination date. Due to likely high subscription, it is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs.

NOTE 16 NEW ACCOUNTING PRONOUNCEMENTS

The FASB has issued ASU No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2020. 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.