

**RONALD MCDONALD HOUSE CHARITIES
OF ANN ARBOR
ANN ARBOR, MICHIGAN**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

**RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
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STEFFORIA, PETIK & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ronald McDonald House Charities of Ann Arbor

We have audited the accompanying financial statements of Ronald McDonald House Charities of Ann Arbor (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Ann Arbor 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.

Emphasis of Matter

As discussed in Note 8 to the financial statements, in 2018, the organization adopted Accounting Standards update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Stefforia, Petik & Associates, P.C.

August 14, 2019

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 696,088	\$ 529,581
Accounts Receivable, Net	11,215	14,145
Contributions Receivable, Net	160,000	10,000
Prepaid Expenses	5,970	5,970
Other Assets	<u>2,510</u>	<u>3,001</u>
Total Current Assets	875,783	562,697
NONCURRENT ASSETS		
Contributions Receivable, Net	148,000	18,267
Investments	1,563,109	1,716,522
Property and Equipment, Net	<u>2,900,909</u>	<u>3,013,424</u>
Total Noncurrent Assets	4,612,018	4,748,213
Total Assets	<u><u>\$ 5,487,801</u></u>	<u><u>\$ 5,310,910</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 153,361	\$ 82,217
Other Liabilities	11,531	-
Deferred Revenue	<u>12,500</u>	<u>43,500</u>
Total Current Liabilities	177,392	125,717
NET ASSETS		
Without Donor Restrictions	4,463,020	4,629,733
With Donor Restrictions	<u>847,389</u>	<u>555,460</u>
Total Net Assets	<u>5,310,409</u>	<u>5,185,193</u>
Total Liabilities and Net Assets	<u><u>\$ 5,487,801</u></u>	<u><u>\$ 5,310,910</u></u>

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT						
Contributions	\$ 975,689	\$ 452,000	\$ 1,427,689	\$ 691,692	\$ 24,000	\$ 715,692
Special Events Revenue	527,618	-	527,618	350,781	-	350,781
Family Insurance Reimbursements	78,596	-	78,596	33,588	-	33,588
Loss on Disposal of Property and Equipment	(145,715)	-	(145,715)	-	-	-
Other Income	5,885	-	5,885	7,677	-	7,677
Net Assets Released from Restrictions	160,071	(160,071)	-	155,935	(155,935)	-
Total Revenues and Other Support	<u>1,602,144</u>	<u>291,929</u>	<u>1,894,073</u>	<u>1,239,673</u>	<u>(131,935)</u>	<u>1,107,738</u>
EXPENSES						
Program Services	965,431	-	965,431	795,297	-	795,297
Cost of Direct Benefits to Donors	114,618	-	114,618	88,138	-	88,138
Management and General Administration	247,967	-	247,967	162,931	-	162,931
Fundraising	274,803	-	274,803	154,818	-	154,818
Unallocated Payments to RMHC Global	-	-	-	8,245	-	8,245
Total Expenses	<u>1,602,819</u>	<u>-</u>	<u>1,602,819</u>	<u>1,209,429</u>	<u>-</u>	<u>1,209,429</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(675)	291,929	291,254	30,244	(131,935)	(101,691)
INVESTMENT INCOME, NET	<u>(166,038)</u>	<u>-</u>	<u>(166,038)</u>	<u>174,685</u>	<u>150,935</u>	<u>325,620</u>
CHANGE IN NET ASSETS	<u>(166,713)</u>	<u>291,929</u>	<u>125,216</u>	<u>204,929</u>	<u>19,000</u>	<u>223,929</u>
Net Assets - Beginning of Year as Previously Reported	4,629,733	555,460	5,185,193	4,486,482	506,460	4,992,942
Prior Period Adjustments	-	-	-	(61,678)	30,000	(31,678)
Net Assets - Beginning of Year as Restated	<u>4,629,733</u>	<u>555,460</u>	<u>5,185,193</u>	<u>4,424,804</u>	<u>536,460</u>	<u>4,961,264</u>
NET ASSETS - END OF YEAR	<u>\$ 4,463,020</u>	<u>\$ 847,389</u>	<u>\$ 5,310,409</u>	<u>\$ 4,629,733</u>	<u>\$ 555,460</u>	<u>\$ 5,185,193</u>

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services Ronald McDonald House	Management and General	Fundraising	Cost of Direct Benefits to Donors	Total
Salaries	\$ 394,883	\$ 81,656	\$ 158,423	\$ -	\$ 634,962
Employee Benefits	34,318	7,096	13,768	-	55,182
Payroll Taxes	30,387	6,284	12,191	-	48,862
Total Salaries and Related Expenses	459,588	95,036	184,382	-	739,006
Advertising	-	-	1,500	-	1,500
Automobile	2,819	705	-	-	3,524
Depreciation	136,803	30,781	3,420	-	171,004
Direct Mail	-	-	35,716	-	35,716
Donor Development	3,707	-	19,906	-	23,613
Donor Recognition	-	-	3,461	-	3,461
Family Support Services and Supplies	223,868	-	-	-	223,868
Grants	71	-	-	-	71
Insurance	6,747	1,518	169	-	8,434
Maintenance and Repairs	60,516	4,382	-	-	64,898
Meetings, Education and Training	5,120	10,241	5,120	-	20,481
Office Supplies	2,044	2,044	2,044	-	6,132
Outside Services	-	-	-	16,019	16,019
Postage and Courier	1,119	1,119	2,204	-	4,442
Printing and Publishing	1,790	1,790	7,888	-	11,468
Professional Fees	7,638	78,822	460	-	86,920
Rent	-	-	-	15,750	15,750
Supplies and Decorations	-	-	-	14,907	14,907
Technology	3,949	3,949	3,949	-	11,847
Telephone	1,179	1,179	1,179	-	3,537
Travel, Meals, and Entertainment	1,668	1,751	1,668	65,565	70,652
Utilities	39,510	8,890	988	-	49,388
Volunteer Resources and Recognition	3,035	-	-	-	3,035
Other	4,260	5,760	749	2,377	13,146
Total Expenses	\$ 965,431	\$ 247,967	\$ 274,803	\$ 114,618	\$ 1,602,819

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services			Total
	Ronald McDonald House	Management and General	Fundraising	Cost of Direct Benefits to Donors	
Salaries	\$ 364,793	\$ 64,568	\$ 82,270	\$ -	\$ 511,631
Employee Benefits	39,349	6,954	8,885	-	55,188
Payroll Taxes	29,846	5,274	6,740	-	41,860
Total Salaries and Related Expenses	433,988	76,796	97,895	-	608,679
Automobile	12,947	3,237	-	-	16,184
Cleaning Services and Supplies	1,460	328	36	-	1,824
Depreciation	139,340	31,352	3,484	-	174,176
Direct Mail	1,703	-	20,516	-	22,219
Donor Recognition	-	-	3,183	-	3,183
Family Support Services and Supplies	81,582	1,592	177	-	83,351
Family Grants	5,000	-	-	-	5,000
Insurance	11,363	2,557	284	-	14,204
Maintenance and Repairs	55,764	12,547	1,394	-	69,705
Meetings, Education and Training	1,974	3,948	2,646	-	8,568
Office Supplies	3,205	3,204	3,204	-	9,613
Outside Services	-	-	-	9,200	9,200
Postage and Courier	732	732	732	-	2,196
Printing and Publishing	457	456	10,338	-	11,251
Professional Fees	7,563	8,796	446	-	16,805
Rent	-	-	-	15,150	15,150
Supplies and Décor	-	-	-	3,306	3,306
Technology	3,265	3,265	3,264	-	9,794
Telephone	1,860	1,860	1,860	-	5,580
Travel, Meals, and Entertainment	1,702	1,736	1,702	59,021	64,161
Utilities	23,700	5,332	592	-	29,624
Volunteer Resources and Recognition	3,836	-	-	-	3,836
Other	3,856	5,193	3,065	1,461	13,575
	<u>\$ 795,297</u>	<u>\$ 162,931</u>	<u>\$ 154,818</u>	<u>\$ 88,138</u>	<u>\$ 1,201,184</u>
Unallocated Payments to RMHC global					8,245
Total Expenses					<u>\$ 1,209,429</u>

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
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	\$ 125,216	\$ 223,929
Adjustments to Reconcile Change in Net Assets to Net		
Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	171,004	174,176
Donated Property and Equipment	(19,106)	-
Loss on Disposal of Property and Equipment	145,715	-
Net Realized and Unrealized (Gains) Losses on Investments	191,958	(302,417)
(Increase) Decrease in Assets:		
Accounts Receivable	2,930	(9,995)
Contributions Receivable	(279,733)	21,166
Prepaid Expenses	-	-
Other Assets	491	-
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	71,144	32,487
Other Liabilities	11,531	(3,484)
Deferred Revenue	(31,000)	28,500
Net Cash Provided (Used) by Operating Activities	<u>390,150</u>	<u>164,362</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(439,317)	(1,191,767)
Proceeds from Sale of Investments	400,772	786,291
Purchases of Property and Equipment	(185,098)	(72,301)
Net Cash Provided (Used) by Investing Activities	<u>(223,643)</u>	<u>(477,777)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	166,507	(313,415)
Cash and Cash Equivalents - Beginning of Year	<u>529,581</u>	<u>842,996</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 696,088</u></u>	<u><u>\$ 529,581</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Noncash Investing and Financing Activities	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ronald McDonald House Charities of Ann Arbor (the Organization) is a Michigan nonprofit charitable corporation formed in 1983. The mission of Ronald McDonald House Charities is to create, find and support programs that directly improve the health and well-being of children and their families. Collectively, RMHC and the network of local Chapters ascribe to five core values: we are focused on the critical needs of children, we lead with compassion, we celebrate the diversity of our people and our programs, we value our heritage and we operate with accountability and transparency.

We fulfill our mission through operation of sustainable programs that enable family-centered care, bridge access to quality health care, are a vital part of the health care continuum and strengthen families during difficult times. The following program, operated by the Organization, represents one of the core functions of Ronald McDonald House Charities:

Ronald McDonald House

When children must travel long distances to access top medical care, accommodations and support for families can be expensive or not readily available. The Organization helps families stay close to their ill or injured child through the Ronald McDonald House program(s) located in Ann Arbor, which provide temporary lodging, meals and other support to children and their families. The program provides families with emotional and physical comfort and increases the caregivers' ability to spend more time with their child, to interact with their clinical care team and to participate in critical medical care decisions.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and are presented on the basis of net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions are created only by donor-imposed restrictions on their use. 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. All other net assets, including board-designated or appropriated amounts, are net assets without donor restrictions and are reported as part of the net assets without donor restriction class.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management of the Organization to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents include money market funds and all highly liquid investments with a maturity date of less than three months from the date of purchase. The Organization's cash balances that are maintained in bank accounts may exceed Federal Deposit Insurance Corporation limits from time to time. The Organization has not experienced any losses in such accounts and management believes that it is not exposed to any significant credit risk on cash.

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING (CONTINUED)

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. The Organization has not recorded an allowance for uncollectible receivables as of December 31, 2018 and 2017.

Contributions Receivable

Contributions receivable are unconditional promises to give. Unconditional promises to give that are expected 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 risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Contributions receivable are written off when deemed uncollectible.

Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Realized and unrealized gains and losses and income are included in the statements of activities.

Property and Equipment

Property and equipment are stated at cost, if purchased, or estimated fair value, if donated, at the date of donation. All significant amounts are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and Improvements	30 - 40 Years
Office Furniture and Equipment	5 - 7 Years
Vehicles	5 Years

Impairment of Long-Lived Assets

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

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Assets, Property and Equipment, and Services

Donated marketable securities, property and equipment, and other noncash donations are recorded as contributions at their fair values at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donated services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization also receives donated services from other contributors and volunteers that are not measurable, and therefore, are excluded from the financial statements.

Deferred Revenue

Income from sponsorships received in advance of future special events, which the resource provider is receiving commensurate value in return or a right of return exists if the event does not occur, is deferred and recognized over the periods to which the sponsorships relate.

Net Assets

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

Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions or law.

With Donor Restrictions

Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue Recognition

Unconditional promises to give are recognized as revenue in the period the promise was made. Conditional promises are recorded as revenue when the conditions are substantially met. Contributions, grants, and bequests are recognized as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. 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. We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

The statements of functional expenses report certain categories of expenses that are attributable to one or more programs or supporting functions of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: depreciation, insurance, maintenance and repairs, utilities, meetings, education and training, office supplies, technology and telephone, which are allocated on the estimated basis of areas benefitted; and salaries and wages, payroll taxes and employee benefits, which are allocated on the basis of estimates of time and effort.

Liquidity

The Organization has \$875,783 of financial assets available to meet cash needs for general expenditures within one year of the statement of financial position date, as noted in the current assets section of the statement. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The current contributions receivable are subject to time restrictions, but will be collected within one year.

The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$202,000.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income, if any, from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

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

Reclassifications

Certain amounts have been reclassified for the year ended December 31, 2017 to conform to the presentation for the year ended December 31, 2018. The reclassifications had no impact on previously reported net assets.

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 CONTRIBUTIONS RECEIVABLE

Contributions receivable consist primarily of pledges and bequests as of the years ended December 31:

	2018	2017
Amounts due in:		
Less than One Year	\$ 160,000	\$ 10,167
One to Five Years	160,000	20,000
More than Five Years	-	-
Total	320,000	30,167
Unamortized Discount	12,000	1,900
Net Contributions Receivable	\$ 308,000	\$ 28,267

The discount rate used for both the years ended December 31, 2018 and 2017 was 4%.

NOTE 3 FAIR VALUE MEASUREMENTS

In determining fair value, the Organization uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Levels within the hierarchy are based on the reliability of inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 - Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 FAIR VALUE MEASUREMENTS

The fair values of assets measured on a recurring basis as of December 31, 2018 and 2017 are as follows:

	Fair Value Measurements Using Level 1	
	2018	2017
Assets:		
Investments:		
Mutual Funds		
Domestic Equity	\$ 766,470	\$ 795,837
Global	391,893	560,741
Asset Allocation	138,381	139,604
Bonds	266,365	220,340
Total Investments	<u>\$ 1,563,109</u>	<u>\$ 1,716,522</u>

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of Level 2 investments are determined by reference to quoted prices for similar assets in less active markets. Fair value of Level 3 investments are determined from valuation techniques in which one or more inputs are unobservable. The carrying amounts of all other assets and liabilities reflected in the statements of financial position for the Organization's financial instruments approximates their respective fair value due to the short-term maturities of those instruments. There have been no changes in valuation techniques and related inputs.

Overall Investment Objective

The overall investment objective of the Organization is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The Organization diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board of Trustees which oversees the Organization's investment program in accordance with established guidelines.

The composition of investment income on the Organization's investment portfolio for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Interest and Dividend Income	\$ 34,025	\$ 30,681
Realized and Unrealized Gains, Net	(191,958)	302,417
Less Investment Expenses	(8,105)	(7,478)
Investment Income, Net	<u>\$ (166,038)</u>	<u>\$ 325,620</u>

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	2018	2017
Buildings and Improvements	\$ 4,568,181	\$ 4,707,691
Office Furniture and Equipment	489,478	1,005,682
Total, at Cost	5,057,659	5,713,373
Accumulated Depreciation	(2,156,750)	2,699,949
Total Property and Equipment	<u>\$ 2,900,909</u>	<u>\$ 3,013,424</u>

NOTE 6 FACILITIES

The Organization entered into a lease agreement for land with the Regents of the University of Michigan (the "University") in June 1984, which was amended in February 1991. The major provisions of this lease included, but are not limited to, the following:

- The purpose of the lease is to permit the Organization to construct, expand, and operate a Ronald McDonald House (the "House").
- The term of the lease is 45 years, with an option to renew for an additional 10 years.
- The cost of the lease is \$1 per year.
- The University holds the legal title to the building and its fixtures.
- Upon expiration of the lease or termination due to a breach of the agreement, the Organization may be required to demolish or remove the House. In the event of a breach in the lease, all the personal property shall become the property of the University.
- The lease may be terminated by the University with 360 days' notice at which time the University is required to pay the Organization the fair market value of the House based on an independent real estate appraisal.

The Organization also entered into an additional agreement with the University in October 2008, which was amended in December 2011. The major provisions of this agreement include, but are not limited to, the following:

- The purpose of the agreement is to permit the Organization to use a space within CS Mott Children's Hospital ("Mott Hospital") to operate a Ronald McDonald house (the "Mott House"). The Mott House space includes 12 private sleep and bath lodging rooms, as well as a common parent lounge, laundry and reception area.
- The term of the lease is 20 years, terminating in October 2028.
- The Mott House space is made available to the Organization without cost, including the facility and facility costs such repairs and maintenance, utilities, local telephone services, and janitorial services, but excluding long distance telephone and data services.
- The University holds the legal title to the building and its fixtures.
- The Organization shall, at its expense obtain all necessary licenses and permits to conduct the Mott House and its operations, and shall oversee and coordinate all Mott House staff and volunteers at Mott House. The Organization shall also acquire and maintain all personal property required for Mott House operations and maintain insurance on the same, as well as maintaining general liability insurance at specified minimum coverage limits.

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
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NOTE 7 ENDOWMENT FUNDS

The Organization's endowment consists of one individual fund established by a donor to provide annual funding for specific activities and general operations

Absent explicit donor stipulations to the contrary, the Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with the standard of prudence prescribed by UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (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) Other resources of the Organization
- (7) The Organization's investment policies

Investment Return Objectives, Risk Parameters and Strategies. The Organization's objective is to earn a respectable, long-term risk adjusted total rate of return to support the Organization's programs. Management recognizes and accepts that pursuing a respectable rate of return involves risk and potential volatility. The generation of current income is a secondary consideration, as the investment portfolio is comprised entirely of publicly traded securities. The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The Organization has established a policy portfolio, or normal asset allocation. While the policy portfolio can be adjusted from time to time, it is designed to serve for long-term horizons based upon long-term expected returns. The Organization has preference for simple investment structures which will have lower cost, easier oversight and less complexity for internal financial management and auditing.

Spending Policy. The Organization reports endowment earnings as changes in temporarily restricted net assets. The Organization's annual appropriation policy for expenditure of endowment earnings does not require formal action, therefore endowment earnings are released from restriction in the period earned absent action by the Board of Directors.

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NOTE 7 ENDOWMENT FUNDS (CONTINUED)

Changes in endowment net assets and net assets by type of fund were as follows for the fiscal year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$496,250	\$496,250
Investment return, net	-	-	-
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 496,250</u>	<u>\$496,250</u>
Original donor-restricted gift amount and amounts required to be retained by donor	<u>\$ -</u>	<u>\$ 496,250</u>	<u>\$ 496,250</u>

Changes in endowment net assets and net assets by type of fund were as follows for the fiscal year ended December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$496,250	\$496,250
Investment return, net	-	150,935	150,935
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	(150,935)	(150,935)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 496,250</u>	<u>\$496,250</u>
Original donor-restricted gift amount and amounts required to be retained by donor	-	496,250	496,250
Portion subject to appropriation under UPMIFA	-	-	-
Total funds	<u>\$ -</u>	<u>\$496,250</u>	<u>\$496,250</u>

Fund Deficiencies.

There were no such deficiencies as of December 31, 2018 and 2017.

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
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NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes and periods as of December 31:

	2018	2017
Subject to expenditure for specific purpose:		
Program Activities:		
Family grants	\$ 31,139	\$ 29,210
Subject to passage of time:		
For periods after December 31	320,000	30,000
Subject to the Organization's spending policy and appropriation:		
Ronald McDonald House Operations:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	496,250	496,250
Total net assets with donor restrictions	<u>\$ 847,389</u>	<u>\$ 555,460</u>

NOTE 9 NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows for the year ended December 31, 2018 and 2017:

	2018	2017
Purpose restrictions accomplished:		
Family grants	\$ 71	\$ 5,000
Time restrictions expired:		
Passage of specified time	160,000	-
Release of appropriated endowment returns without purpose restrictions	-	150,935
Total restrictions released	<u>\$ 160,071</u>	<u>\$ 155,935</u>

NOTE 10 DONATED GOODS AND SERVICES

The fair value of donated goods and services included as contributions in the financial statements and the corresponding expense or property and equipment categories for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Consultant Fees	\$ 70,000	\$ -
Office Furniture and Equipment	19,106	-
House Maintenance Services	-	1,824
Public Relations	1,500	-
Family Supplies	203,822	74,171
Total	<u>\$ 294,428</u>	<u>\$ 75,995</u>

RONALD MCDONALD HOUSE CHARITIES OF ANN ARBOR
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NOTE 11 401(K) SIMPLE IRA PLAN

The Organization provides a 401(k) SIMPLE IRA plan to all full and part-time employees after one year of employment with the Organization. The Organization contributes 3% of gross salaries to the plan for qualified employees. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. Employer contributions to the plan were \$14,097 and \$10,723 for the years ended December 31, 2018 and 2017, respectively.

NOTE 12 TRANSACTIONS WITH RELATED ENTITIES

Ronald McDonald House Charities (RMHC) is a system of independent, separately registered public benefit organizations, referred to as "Chapters" within the global organization. The Organization is an independent operating Chapter within the RMHC system. Each Chapter is licensed by McDonald's Corporation and Ronald McDonald House Charities, Inc. to use RMHC related trademarks in conjunction with fundraising activities and the operation of its programs; the License Agreement also sets standards of operations for programs, governance, finance, branding and reporting.

Ronald McDonald House Charities, Inc. (RMHC Global), a separately registered nonprofit organization, ensures delivery of the mission across the globe. As a center of excellence, RMHC Global builds and sustains a robust infrastructure of support to the network of Chapters, including operations, licensing and compliance, finance, risk management, communications, marketing and development. The Organization receives 75% of net revenues from all national fundraising efforts facilitated by RMHC Global, as defined by the license agreement. During the years ended December 31, 2018 and 2017, the Organization received \$31,198 and \$53,378, respectively, from these revenue streams.

NOTE 13 CONCENTRATIONS

Contributions totaling \$450,000, were received from a single donor during the year ended December 31, 2018 which represents 23% of total revenues and other support for 2018. There were no such concentrations during the year ended December 31, 2017.

NOTE 14 SUBSEQUENT EVENTS

Management evaluated subsequent events through August 14, 2019, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the financial statements.

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

During the year ended December 31, 2018, it was discovered that prior years' payroll liabilities and expenses were understated by a total \$56,422. Net assets at the beginning of 2017 were decreased by \$31,678 and previously reported net assets for 2017 were decreased by \$24,744 and total 2017 liabilities were increased by \$56,422.

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NOTE 15 – PRIOR PERIOD ADJUSTMENTS (CONTINUED)

In addition, net assets with donor restrictions at the beginning of 2017 were increased by \$30,000 to properly record long-term contributions receivable as net assets with donor restrictions and net assets without donor restrictions were reduced by the same amount. The adjustment had no effect on total net assets.

NOTE 16 CHANGE IN ACCOUNTING PRINCIPLE

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Organization has applied the changes retrospectively to all periods presented. The new standard changes the following aspects of the financial statements:

- Unrestricted net asset class has been renamed Net Assets Without Donor Restrictions
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called Net Assets with Donor Restrictions
- The financial statements include a disclosure about liquidity and availability of resources (Note 1)
- Investment expenses are included in net investment return

NOTE 17 RECENT ACCOUNTING PRONOUNCEMENTS

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one or two methods. The standard will be effective for the Organization for the year ending December 31, 2019. Early adoption is permitted. Management is evaluating the impact of the amended revenue recognition guidance on the Organization's financial statements.

Clarifying Scope and the Accounting Guidance for Contributions

In June 2018, the FASB issued amended guidance to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This amended guidance distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. For contributions, the guidance in Subtopic 958-605, *Not-for-Profit Entities—Revenue Recognition*, should be followed. For exchange transactions, Topic 606, *Revenue from Contracts with Customers*, should be followed. In addition, once a transaction is deemed to be a contribution, this amended guidance assists in determining

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NOTE 17 RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

whether a contribution is conditional or unconditional, and if unconditional, whether the transaction is donor-restricted for a limited purpose or timing. The guidance should be applied on a modified prospective basis. As a resource recipient, the guidance will be effective for the Organization for the year ending December 31, 2019. As a resource provider, the guidance will be effective for the Organization for the year ending December 31, 2020 (include this sentence if applicable). Early adoption is permitted.