

Ronald McDonald House Charities of Richmond, Virginia, Inc.

Financial Statements

December 31, 2018 and 2017



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RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Ronald McDonald House Charities of Richmond, Virginia, Inc.
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Ronald McDonald House Charities of Richmond, Virginia, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows, and functional expenses 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; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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 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 Richmond, Virginia, Inc. as of December 31, 2018 and 2017, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink, appearing to read "Keita", with a long, sweeping horizontal stroke extending to the right.

September 6, 2019
Glen Allen, Virginia

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Statements of Financial Position
December 31, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 1,035,016	\$ 824,161
Contributions receivable	<u>75,728</u>	<u>73,777</u>
Total current assets	1,110,744	897,938
Investments	1,541,264	1,842,521
Property and equipment - net	<u>441,798</u>	<u>479,366</u>
Total assets	<u>\$ 3,093,806</u>	<u>\$ 3,219,825</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 57,598	\$ 45,631
Grant payable - current	<u>50,000</u>	<u>50,000</u>
Total current liabilities	107,598	95,631
Noncurrent liabilities:		
Grant payable - less current portion	<u>46,585</u>	<u>93,792</u>
Total liabilities	<u>154,183</u>	<u>189,423</u>
Net assets:		
Without donor restrictions	1,859,100	1,641,818
With donor restrictions	<u>1,080,523</u>	<u>1,388,584</u>
Total net assets	<u>2,939,623</u>	<u>3,030,402</u>
Total liabilities and net assets	<u>\$ 3,093,806</u>	<u>\$ 3,219,825</u>

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Statements of Activities
Year Ended December 31, 2018, with Comparative Totals for 2017

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues, gains (losses), and other support:				
Gross revenue from special events	\$ 413,113	\$ -	\$ 413,113	\$ 334,452
Less cost of direct benefits to donors	<u>(103,718)</u>	<u>-</u>	<u>(103,718)</u>	<u>(74,221)</u>
Net revenue from special events	309,395	-	309,395	260,231
Contributions	663,338	-	663,338	566,867
Room donations	8,968	-	8,968	4,509
In-kind contributions	167,325	-	167,325	145,461
Investment income	63,850	21,903	85,753	85,558
Unrealized and realized (losses) gains on investments - net	(159,966)	(25,114)	(185,080)	146,242
Other income	<u>990</u>	<u>-</u>	<u>990</u>	<u>4,539</u>
Total revenues, gains (losses), and other support	<u>1,053,900</u>	<u>(3,211)</u>	<u>1,050,689</u>	<u>1,213,407</u>
Net assets released from restriction	<u>304,850</u>	<u>(304,850)</u>	<u>-</u>	<u>-</u>
Expenses:				
Program services	848,338	-	848,338	813,722
Supporting services:				
Management and general	68,613	-	68,613	21,654
Fund-raising	206,347	-	206,347	166,610
Unallocated payments to RMHC Global	<u>18,170</u>	<u>-</u>	<u>18,170</u>	<u>21,984</u>
Total expenses	<u>1,141,468</u>	<u>-</u>	<u>1,141,468</u>	<u>1,023,970</u>
Change in net assets	217,282	(308,061)	(90,779)	189,437
Net assets, beginning of year	<u>1,641,818</u>	<u>1,388,584</u>	<u>3,030,402</u>	<u>2,840,965</u>
Net assets, end of year	<u>\$ 1,859,100</u>	<u>\$ 1,080,523</u>	<u>\$ 2,939,623</u>	<u>\$ 3,030,402</u>

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Statement of Activities
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Gross revenue from special events	\$ 334,452	\$ -	\$ 334,452
Less cost of direct benefits to donors	(74,221)	-	(74,221)
Net revenue from special events	260,231	-	260,231
Contributions	566,867	-	566,867
Room donations	4,509	-	4,509
In-kind contributions	145,461	-	145,461
Investment income	63,579	21,979	85,558
Unrealized and realized gains on investments - net	126,838	19,404	146,242
Other income	4,539	-	4,539
Total revenues, gains, and other support	1,172,024	41,383	1,213,407
Net assets released from restriction	19,568	(19,568)	-
Expenses:			
Program services	813,722	-	813,722
Supporting services:			
Management and general	21,654	-	21,654
Fund-raising	166,610	-	166,610
Unallocated payments to RMHC Global	21,984	-	21,984
Total expenses	1,023,970	-	1,023,970
Change in net assets	167,622	21,815	189,437
Net assets, beginning of year	1,474,196	1,366,769	2,840,965
Net assets, end of year	\$ 1,641,818	\$ 1,388,584	\$ 3,030,402

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

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	\$ (90,779)	\$ 189,437
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	60,306	60,780
Unrealized and realized losses (gains) on investments - net	185,080	(146,242)
Capitalized in-kind contributions	(10,602)	(2,076)
Securities donated	(974)	-
Changes in operating assets and liabilities:		
Contributions receivable	(1,951)	18,147
Accounts payable and accrued liabilities	11,967	12,061
Grant payable	<u>(47,207)</u>	<u>(48,406)</u>
Net cash provided by operating activities	<u>105,840</u>	<u>83,701</u>
Cash flows from investing activities:		
Purchases of investments	(63,651)	(61,661)
Proceeds from sale and maturities of investments	180,802	100,000
Purchases of property and equipment	<u>(12,136)</u>	<u>(12,953)</u>
Net cash provided by investing activities	<u>105,015</u>	<u>25,386</u>
Net change in cash and cash equivalents	210,855	109,087
Cash and cash equivalents, beginning of year	<u>824,161</u>	<u>715,074</u>
Cash and cash equivalents, end of year	<u>\$ 1,035,016</u>	<u>\$ 824,161</u>

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Statements of Functional Expenses
Year Ended December 31, 2018, with Comparative Totals for 2017

	2018			2017	
	Program Services	Management and General	Fund-raising	Total Expenses	Total Expenses
Personnel	\$ 446,946	\$ 26,456	\$ 98,269	\$ 571,671	\$ 460,006
Advertising	2,064	-	6,925	8,989	13,963
Household and administrative expenses	76,209	920	3,417	80,546	37,753
Repairs and maintenance	45,122	189	704	46,015	62,363
Depreciation	47,149	2,791	10,366	60,306	60,780
Scholarships	-	-	-	-	25,034
Professional services	-	24,526	-	24,526	20,908
Utilities	22,190	-	-	22,190	19,876
Contractual services	32,978	-	82,034	115,012	102,648
Grants	2,793	-	-	2,793	1,594
Insurance	-	11,621	-	11,621	11,459
Household supplies	141,220	-	-	141,220	150,278
Travel and conference	18,853	1,116	4,145	24,114	13,283
Telephone	2,770	-	-	2,770	3,036
Miscellaneous	3,632	994	487	5,113	3,843
Volunteer	6,412	-	-	6,412	15,162
	<u>848,338</u>	<u>68,613</u>	<u>206,347</u>	<u>1,123,298</u>	<u>1,001,986</u>
Unallocated payments to RMHC Global	-	-	-	18,170	21,984
Total expenses	<u>\$ 848,338</u>	<u>\$ 68,613</u>	<u>\$ 206,347</u>	<u>\$ 1,141,468</u>	<u>\$ 1,023,970</u>

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Statement of Functional Expenses
Year Ended December 31, 2017

	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and General</u>	<u>Fund-raising</u>	<u>Total</u> <u>Expenses</u>
Personnel	\$ 389,637	\$ 15,160	\$ 55,209	\$ 460,006
Advertising	3,897	254	9,812	13,963
Household and administrative expenses	34,151	776	2,826	37,753
Repairs and maintenance	62,116	53	194	62,363
Depreciation	46,674	3,039	11,067	60,780
Scholarships	25,034	-	-	25,034
Professional services	16,056	1,045	3,807	20,908
Utilities	19,876	-	-	19,876
Contractual services	23,785	-	78,863	102,648
Grants	1,594	-	-	1,594
Insurance	8,800	573	2,086	11,459
Household supplies	150,278	-	-	150,278
Travel and conference	10,200	664	2,419	13,283
Telephone	3,036	-	-	3,036
Miscellaneous	3,426	90	327	3,843
Volunteer	<u>15,162</u>	<u>-</u>	<u>-</u>	<u>15,162</u>
	813,722	21,654	166,610	1,001,986
Unallocated payments to RMHC Global	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,984</u>
Total expenses	<u>\$ 813,722</u>	<u>\$ 21,654</u>	<u>\$ 166,610</u>	<u>\$ 1,023,970</u>

See accompanying notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Notes to Financial Statements

1. Organization and Nature of Activities:

Ronald McDonald House Charities of Richmond, Virginia, Inc. (the "Organization") was incorporated as a nonprofit organization in 1978 for charitable purposes to provide temporary housing at the Richmond, Virginia Ronald McDonald House and other assistance to families of children with serious illnesses or other health issues.

2. Summary of Significant Accounting Policies:

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Adoption of New Accounting Principles: In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities*" (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (c) requiring disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization has adopted this ASU as of and for the year ended December 31, 2018. As a result, the Organization changed the presentation of its net asset classes, restated prior year net asset balances, and expanded the note disclosures as required by the ASU.

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

Cash and Cash Equivalents: For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Dividends and interest are recorded as revenue when earned. Gains and losses on sales of securities are calculated using the specific identification method and recorded on the trade date.

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Property and Equipment: Property and Equipment are recorded at cost or, if donated, at fair market value at the date of gift. Depreciation is provided for using the straight-line method over the estimated useful lives as follows for the major classes of assets:

Buildings and improvements	25 – 39 years
Furniture, fixtures, and equipment	3 – 15 years

Impairment of Long-Lived Assets: The Organization reviews the carrying value of its long-lived assets whenever significant events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recovery is evaluated by measuring the carrying value of the assets against the associated estimated undiscounted cash flows. The Organization did not record any impairment charge for 2018 or 2017.

Contributions Receivable: Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restriction.

Advertising: Advertising costs are expensed as incurred and totaled \$8,989 for 2018 and \$13,963 for 2017.

Contributed Materials and Services: The value of contributed materials and the value of contributed services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and would typically need to be purchased if they had not been contributed, amounted to \$167,325 in 2018 and \$145,461 in 2017 and have been recognized in the financial statements.

Grants: Grants are recognized as expenses in the period they are awarded. If the grant award is subject to certain performance conditions, the expense is recognized as the performance conditions are satisfied.

Income Tax: The Organization has been approved as a tax-exempt organization under the Internal Revenue Code Section 501(c)(3) and the tax statutes of the Commonwealth of Virginia.

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Income Tax Uncertainties: The Organization follows the FASB guidance related to accounting for uncertainty in income taxes, which clarifies the accounting for income taxes by prescribing the minimum recognition threshold that a tax position is required to meet before being recognized in the Organization's financial statements.

In accordance with the guidance, the Organization discloses the expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the facts and the Organization's position and records unrecognized tax benefits or liabilities for known, or anticipated tax issues based on the Organization's analysis of whether additional taxes would be due to the authority given their full knowledge of the tax position. The Organization has completed its assessment and determined that there were no tax positions which would require recognition under the guidance. The Organization is not currently under audit by any tax jurisdiction.

Net Assets: The Organization classifies its net assets into two categories: net assets with donor restrictions and net assets without donor restrictions. The Organization reports amounts separately as follows.

Net assets without donor restrictions – Net assets currently available at the discretion of the Organization's Board of Directors for use in the Organization's operations and those resources invested in property or equipment.

Net assets with donor restrictions – Net assets resulting from support and revenue whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time, can be fulfilled and removed by actions of the Organization pursuant to those donor-imposed stipulations, or are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

Expense Allocation Methodology: The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Personnel and other expenses are allocated based on time and effort of identified employees. The Organization's website and direct mail marketing campaign are allocated amongst program and fundraising expenses based on estimated use of their intended users. Other expenses are allocated based on management's estimate of time and effort of identified employees involved in those functions.

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Concentration of Credit Risk: Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents and investments. The Company maintains its cash in multiple financial institutions, one of which contains balances that periodically exceed federally insured limits. The Organization places its cash and cash equivalents and investments with high credit quality financial institutions whose credit ratings are monitored by management to minimize credit risk. Investments consist primarily of marketable equity securities and government and corporate obligations which are not concentrated in any one company or industry. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the near term would affect the investment balances and the amount reported in the financial statements.

Reclassifications: Certain prior year balances have been reclassified to conform with the current year presentation.

Subsequent Events: Management has evaluated subsequent events through September 6, 2019, the date the financial statements were available to be issued, and has determined that there are no other subsequent events to be reported in the accompanying financial statements.

3. Investments:

Investments are carried at fair value. The aggregate carrying amounts of investments by major type are summarized as follows at December 31:

	<u>2018</u>	<u>2017</u>
Corporate debt securities	\$ 67,793	\$ 72,983
Equity securities	214,127	236,349
Government securities	298,387	292,595
Mutual funds	<u>960,957</u>	<u>1,240,594</u>
	<u>\$ 1,541,264</u>	<u>\$ 1,842,521</u>

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Notes to Financial Statements, Continued

4. Property and Equipment:

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

	<u>2018</u>	<u>2017</u>
Land	\$ 30,000	\$ 30,000
Buildings and improvements	982,025	972,423
Furniture and fixtures	304,377	298,409
Equipment	119,759	114,141
Construction in progress	<u>4,502</u>	<u>2,952</u>
	1,440,663	1,417,925
Less accumulated depreciation	<u>(998,865)</u>	<u>(938,559)</u>
	<u>\$ 441,798</u>	<u>\$ 479,366</u>

Depreciation expense was \$60,306 for 2018 and \$60,780 for 2017.

5. Fair Value Measurements:

The Organization has adopted FASB guidance on fair value measurements. The provisions of the guidance provides a framework for measuring fair value under generally accepted accounting principles and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. This guidance also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
Level 2	Quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.
Level 3	Inputs to the valuation methodology are unobservable for the instrument and significant to the fair value measurement. There were no assets or liabilities classified as Level 3 at December 31, 2018 and 2017.

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Notes to Financial Statements, Continued

5. Fair Value Measurements, Continued:

Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for investments carried or disclosed at fair value:

Equity securities – Common and preferred stock are valued at the closing price reported on a national exchange.

Corporate debt and government securities – Commercial and governmental notes and bonds are valued at the closing price on a national exchange.

Mutual funds – Funds invested in mutual funds are valued at the closing price reported on a national exchange.

The following tables set forth by level, within the fair value hierarchy, the Organization's investments measured at fair value:

	Investments at Fair Value as of		
	December 31, 2018:		
	Level 1	Level 2	Total
Investments:			
Corporate debt securities	\$ -	\$ 67,793	\$ 67,793
Equity securities	214,127	-	214,127
Government securities	-	298,387	298,387
Mutual funds	960,957	-	960,957
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 1,175,084</u>	<u>\$ 366,180</u>	<u>\$ 1,541,264</u>

	Investments at Fair Value as of		
	December 31, 2017:		
	Level 1	Level 2	Total
Investments:			
Corporate debt securities	\$ -	\$ 72,983	\$ 72,983
Equity securities	236,349	-	236,349
Government securities	-	292,595	292,595
Mutual funds	1,240,594	-	1,240,594
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 1,476,943</u>	<u>\$ 365,578</u>	<u>\$ 1,842,521</u>

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Notes to Financial Statements, Continued

6. Grant Payable:

During 2016, the Organization pledged \$250,000 to another non-profit organization to support its efforts in enhancing care provided to pediatric patients and their families. The grant is payable over five years, beginning in October 2016. The Organization paid \$50,000 in 2018. The remaining payments will be made in two equal installments of \$50,000 from 2019 through 2020. The long-term portion of the grant payable was discounted at a rate of 3.6%, which amounted to a discount of \$3,415.

7. Liquidity and Availability of Resources:

The following table reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when restricted by a donor for time or purpose or because the governing board has set aside the funds for a specific purpose.

Financial assets:	
Cash	\$ 1,035,016
Contributions receivable	75,728
Investments	<u>1,541,264</u>
Total financial assets	2,652,008
Less those unavailable for general expenditure within one year due to:	
Donor imposed restrictions, where funds can only be used to support certain activities or programs	<u>1,080,523</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,571,485</u>

The Organization has a policy to structure its financial assets as its general expenditures, liabilities, and other obligations come due.

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Notes to Financial Statements, Continued

8. Endowment Funds:

The Organization's endowment consists of two individual funds. The funds are donor-restricted endowment funds and were established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The management of donor-restricted endowment funds is governed by state law under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as adopted by the Virginia legislature in 2008. The law gives guidance for investments and spending practices, giving consideration of donor-intent and the Organization's overall resources and charitable purpose. Based on management's interpretation of law and in compliance with donor-intent, the Organization classifies as net assets with donor restrictions the original value of gifts donated to the permanent endowment. Amounts are periodically withdrawn appropriated for expenditure.

A summary of the activity in endowment funds for the years ended December 31, 2018 and 2017 is as follows:

	<u>Net Assets with Donor Restrictions</u>
Endowment net assets - January 1, 2017	\$ 570,153
Investment return:	
Investment income	18,145
Net realized and unrealized gains	1,827
Amounts appropriated for expenditure	<u>(19,568)</u>
Endowment net assets - December 31, 2017	570,557
Investment return:	
Investment income	17,341
Net realized and unrealized losses	(22,546)
Amounts appropriated for expenditure	<u>(16,745)</u>
Endowment net assets - December 31, 2018	<u><u>\$ 548,607</u></u>

RONALD MCDONALD HOUSE CHARITIES OF RICHMOND, VIRGINIA, INC.

Notes to Financial Statements, Continued

8. Endowment Funds, Continued:

At December 31, 2018 and 2017, the fair value of assets was above the level required to be held as net assets with donor restrictions. The minimum amounts required to be held in the endowment funds as of December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Pickard fund	\$ 15,000	\$ 15,000
Kroc fund	<u>503,750</u>	<u>503,750</u>
	<u>\$ 518,750</u>	<u>\$ 518,750</u>

Endowment Investing and Spending Policies: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to provide long-term capital appreciation and total return. The Organization utilizes diversified investment classes that provide the opportunity to achieve the return objective without exposing the funds to unnecessary risk.

9. Net Assets with Donor Restrictions:

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

	<u>2018</u>	<u>2017</u>
Operator's fund	\$ 531,916	\$ 525,597
Investment fund	-	176,575
Kroc bequest	-	115,855
Pickard fund	15,000	15,000
Kroc fund	<u>533,607</u>	<u>555,557</u>
	<u>\$ 1,080,523</u>	<u>\$ 1,388,584</u>

Net assets within the Operator's fund have been provided by various McDonald restaurant owners/operators. The Organization must obtain approval from the owners/operators for expenditure of these funds. The Investment fund and Kroc bequest funds were restricted for improvements and expansion of the current house. These funds were released from their respective restrictions during 2018. The Pickard and Kroc funds are endowment funds and are described in Note 8.

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Notes to Financial Statements, Continued

9. Net Assets with Donor Restrictions, Continued:

Net assets with donor restrictions released from restriction amounting to \$304,850 for 2018 and \$19,568 for 2017 consisted of amounts appropriated for expenditure from endowment funds and funds used for designated purposes.

10. Retirement Plan:

The Organization maintains a 403(b) plan for all employees who have met the applicable eligibility requirements and elect to participate. Employees are eligible to receive employer matching contributions upon completion of six months of full-time service. The Organization makes matching contributions, subject to service requirements, for participants in an amount equal to 100 percent of the first 4 percent of eligible compensation contributed to the plan. Both employee and employer contributions are subject to Internal Revenue Service maximum limits. The total expenses recorded for the Organization's match was \$3,258 for 2018 and \$4,302 for 2017.

11. Related Party Transactions:

During 2017, the Organization received funding for scholarships in the amount of \$10,000 from the national organization. In addition, during 2017, the Organization received one grant from the national organization amounting to \$25,000. Each month, the Organization remits 25% of McCoin collections to the national organization. The amount remitted was \$18,170 in 2018 and \$21,984 in 2017.

12. New Accounting Guidance:

Leases: In February 2016, the FASB issued a new accounting standard for leases that will impact both lessees and lessors. The new lease standard will require leases with terms more than 12 months to be recognized on the statement of financial position of lessees by recording a right of use asset with a corresponding obligation to pay rent liability which will be calculated based on the net present value of rental payments. The new standard will be effective for periods beginning after December 15, 2019, and will require entities to use a modified retrospective approach to the earliest period presented. The Organization is currently evaluating the reporting and economic implications of the new standard.

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Notes to Financial Statements, Continued

12. New Accounting Guidance, Continued:

Contributions Received and Contributions Made: In June 2018, the FASB issued ASU 2018-08, "Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which presents a new methodology for determining whether a grant contribution or contribution received or made by a not-for-profit entity should be accounted for as an exchange transaction or as a contribution. This new standard is effective for fiscal years beginning after December 31, 2018, for entities receiving contributions and fiscal years beginning after December 31, 2019, for entities providing contributions, with early adoption permitted. The Organization is currently evaluating the reporting and economic implications of the new standard.