

RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

FINANCIAL STATEMENTS  
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2018 AND 2017

RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

June 19, 2019

Board of Directors  
Ronald McDonald House Charities of Western Washington & Alaska  
Seattle, Washington

We have audited the accompanying financial statements of Ronald McDonald House Charities of Western Washington & Alaska (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activity, 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 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 in the first paragraph of this letter present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Western Washington & Alaska 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.

*Jacobson Jarvis & Co, PLLC*

Jacobson Jarvis & Co, PLLC

RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b><u>ASSETS</u></b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,483,174	\$ 3,546,877
Investments	13,840,021	13,025,779
Promises to give	235,044	370,521
Other receivables	45,646	87,846
Prepays	<u>22,637</u>	<u>24,809</u>
Total Current Assets	17,626,522	17,055,832
<b>Investments - long-term</b>	3,589,213	3,643,852
<b>Promises to Give - long-term</b>	4,000	4,000
<b>Cash and Cash Equivalents Restricted to Investment in Property and Equipment</b>	317,876	-
<b>Property and Equipment, net</b>	<u>10,572,002</u>	<u>10,723,726</u>
	<u>\$ 32,109,613</u>	<u>\$ 31,427,410</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 342,749	\$ 275,851
Unearned revenue	18,478	18,478
Capital lease obligation, current	<u>1,745</u>	<u>1,657</u>
Total Current Liabilities	362,972	295,986
<b>Capital Lease Obligation, less current portion above</b>	<u>3,118</u>	<u>4,863</u>
Total Liabilities	<u>366,090</u>	<u>300,849</u>
<b>Net Assets</b>		
Without donor restrictions		
Invested in property and equipment	7,616,058	7,767,781
Board designated	<u>20,076,052</u>	<u>19,669,773</u>
Total Net Assets Without Donor Restrictions	27,692,110	27,437,554
With donor restrictions	<u>4,051,413</u>	<u>3,689,007</u>
Total Net Assets	<u>31,743,523</u>	<u>31,126,561</u>
	<u>\$ 32,109,613</u>	<u>\$ 31,427,410</u>

See notes to financial statements.

RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF ACTIVITY

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Public Support</b>						
Annual giving	\$ 1,722,677	\$ 587,473	\$ 2,310,150	\$ 1,734,845	\$ 182,995	\$ 1,917,840
McDonald's support	894,740	-	894,740	1,002,772	-	1,002,772
Special events	557,211	400,945	958,156	573,983	395,743	969,726
Planned giving	1,100,708	-	1,100,708	677,255	-	677,255
In-kind contributions	62,932	-	62,932	107,657	-	107,657
Satisfaction of purpose restrictions	571,373	(571,373)	-	724,456	(724,456)	-
Total Public Support	4,909,641	417,045	5,326,686	4,820,968	(145,718)	4,675,250
<b>Revenues</b>						
Room receipts	595,408		595,408	571,213		571,213
Other revenue	(793)		(793)	1,700		1,700
Total Revenues	594,615		594,615	572,913		572,913
Total Public Support and Revenue	5,504,256	417,045	5,921,301	5,393,881	(145,718)	5,248,163
<b>Expenses</b>						
Program services	3,290,414		3,290,414	3,261,476		3,261,476
Management and general	255,363		255,363	247,670		247,670
Cost of Direct Benefits to Donors	121,011		121,011	116,831		116,831
Fundraising	639,358		639,358	623,131		623,131
Remittance to Global	104,272		104,272	115,820		115,820
Total Expenses and Remittance to Global	4,410,418		4,410,418	4,364,928		4,364,928
Change in Net Assets Before Gains and Losses	1,093,838	417,045	1,510,883	1,028,953	(145,718)	883,235
<b>Gains and Losses</b>						
Investment returns, net	(839,282)	(54,639)	(893,921)	2,115,756	77,757	2,193,513
Total Change in Net Assets	254,556	362,406	616,962	3,144,709	(67,961)	3,076,748
Net Assets - beginning of year	27,437,554	3,689,007	31,126,561	24,292,845	3,756,968	28,049,813
Net Assets - end of year	\$ 27,692,110	\$ 4,051,413	\$ 31,743,523	\$ 27,437,554	\$ 3,689,007	\$ 31,126,561

See notes to financial statements.

RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018					2017				
	Program Services	Management and General	Cost of Direct Donor Benefits	Fundraising	Total	Program Services	Management and General	Cost of Direct Donor Benefits	Fundraising	Total
Salaries and wages	\$ 1,109,854	\$ 170,898	\$ -	\$ 328,974	\$ 1,609,726	\$ 1,035,942	\$ 164,350	\$ -	\$ 305,499	\$ 1,505,791
Payroll taxes	102,608	12,603	-	24,260	139,471	94,294	12,515	-	23,264	130,073
Employee benefits	221,155	27,163	-	52,289	300,607	190,385	25,269	-	46,971	262,625
Total Salaries and Related Expenses	1,433,617	210,664	-	405,523	2,049,804	1,320,621	202,134	-	375,734	1,898,489
Occupancy	898,923	907	-	-	899,830	875,248	-	-	-	875,248
Depreciation	495,956	7,669	-	7,669	511,294	537,793	8,316	-	8,316	554,425
Alaska House support	295,206	596	-	473	296,275	407,811	-	-	-	407,811
Special events expenses	-	-	121,011	99,551	220,562	-	-	116,831	93,711	210,542
Administrative and operating	46,217	7,649	-	45,489	99,355	41,505	10,384	-	46,537	98,426
Armored car expenses	-	-	-	79,405	79,405	-	-	-	70,942	70,942
Insurance	56,247	6,250	-	-	62,497	51,538	6,117	-	-	57,655
In-kind expense	54,132	-	-	-	54,132	17,859	-	-	26,748	44,607
Professional services	-	19,832	-	-	19,832	-	19,337	-	-	19,337
Miscellaneous	10,116	1,796	-	1,248	13,160	9,101	1,382	-	1,143	11,626
Total Expenses	<u>\$ 3,290,414</u>	<u>\$ 255,363</u>	<u>\$ 121,011</u>	<u>\$ 639,358</u>	4,306,146	<u>\$ 3,261,476</u>	<u>\$ 247,670</u>	<u>\$ 116,831</u>	<u>\$ 623,131</u>	4,249,108
Remittance to Global					104,272					115,820
Total Expenses and Remittance to Global					<u>\$ 4,410,418</u>					<u>\$ 4,364,928</u>

RONALD McDONALD HOUSE CHARITIES  
OF WESTERN WASHINGTON & ALASKA

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 616,962	\$ 3,076,748
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	511,294	554,425
Reinvested investment earnings	(286,341)	(351,119)
Realized and unrealized loss (gain) on investments	1,168,520	(1,830,854)
Contributions restricted to investment in property and equipment	(317,376)	-
Donated property and equipment	(8,800)	(63,050)
Change in:		
Promises to give	135,477	160,494
Other receivables	42,200	2,235
Prepays	2,172	17,599
Accounts payable and accrued expenses	21,000	53,457
Unearned revenue	-	18,478
Net Cash Provided by Operating Activities	<u>1,885,108</u>	<u>1,638,413</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(304,872)	(134,332)
Purchases of investments	(12,627,324)	(6,867,063)
Proceeds from sale of investments	<u>10,985,542</u>	<u>6,860,875</u>
Net Cash Used by Investing Activities	<u>(1,946,654)</u>	<u>(140,520)</u>
<b>Cash Flows Used by Financing Activities</b>		
Contributions restricted to investment in property and equipment	317,376	-
Payment on capital lease obligation	<u>(1,657)</u>	<u>(1,573)</u>
Net Cash Provided (Used) by Financing Activities	<u>315,719</u>	<u>(1,573)</u>
Change in Cash and Cash Equivalents	254,173	1,496,320
Cash and Cash Equivalents - beginning of year	<u>3,546,877</u>	<u>2,050,557</u>
Cash and Cash Equivalents - end of year	<u>\$ 3,801,050</u>	<u>\$ 3,546,877</u>

RONALD MCDONALD HOUSE CHARITIES OF  
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Ronald McDonald House Charities of Western Washington & Alaska (RMHC) owns and operates the Seattle Ronald McDonald House. With 80 rooms, the Seattle House provides supportive, temporary lodging to families of seriously ill children who must leave their own community to have their children treated at Seattle Children's Hospital (Children's). In 2018, 374 families stayed at the Seattle House. By providing a "home-away-from-home," RMHC helps keep families together during a very difficult time in their lives.

RMHC also operates a House in Anchorage, Alaska, in partnership with the Alaska Native Medical Center (ANMC). The 34-room House is within the patient housing building and serves expectant mothers with high risk pregnancies as well as families of pediatric patients at the Alaska Native Medical Center. In 2018, 1,400 families were served at the House at ANMC.

RMHC also provides van service in Anchorage to transport families who are in Anchorage while their children receive medical care.

Adoption of new accounting pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. RMHC has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

Basis of presentation

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Directors has designated net assets otherwise without donor restrictions as follows as of December 31:

	<u>2018</u>	<u>2017</u>
House operations	\$ 17,076,052	\$ 16,669,773
Capital improvements	<u>3,000,000</u>	<u>3,000,000</u>
	<u>\$ 20,076,052</u>	<u>\$ 19,669,773</u>

RONALD MCDONALD HOUSE CHARITIES OF  
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) 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. Net assets with donor restrictions are available as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specific purpose:		
Promised land use	\$ 2,955,944	\$ 2,955,944
AK equipment & supply grants	3,075	3,075
Capital improvements	317,876	500
RMHC house operations	<u>185,305</u>	<u>85,636</u>
	3,462,200	3,045,155
Subject to RMHC endowment spending policy and appropriation	<u>589,213</u>	<u>643,852</u>
Total net assets with donor restrictions	<u>\$ 4,051,413</u>	<u>\$ 3,689,007</u>

Contributions restricted by donors are reported increases in net assets with donor restrictions when received. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the assets are placed in service.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Cash and cash equivalents

Cash and cash equivalents consist of general checking and savings accounts and money market accounts. RMHC maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. RMHC has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

RONALD MCDONALD HOUSE CHARITIES OF  
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NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Investments

Investments are reported at their fair values in the statements of financial position. Market risk could occur and is dependent on the future changes in market prices of the various investments held. Gains and losses on investments are reported as increases or decreases in net assets without donor restriction, unless their use is restricted by explicit donor stipulation. Investment returns are reflected net of investment expenses.

RMHC maintains master investment accounts for its donor-restricted and board-designated endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of each endowment to the total fair value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Certain investments are being held for the following long-term purposes as of December 31:

	<u>2018</u>	<u>2017</u>
Capital improvements	\$ 3,000,000	\$ 3,000,000
Endowment	<u>589,213</u>	<u>643,852</u>
	<u>\$ 3,589,213</u>	<u>\$ 3,643,852</u>

RONALD MCDONALD HOUSE CHARITIES OF  
WESTERN WASHINGTON & ALASKA

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to give

In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period 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. As of December 31, 2018, RMHC had no conditional promises to give.

Unconditional promises to give at December 31, 2018 and 2017 are \$239,044 and \$374,521, respectively, which are considered fully collectible by management. Long-term promises to give are due in one to five years.

Medicaid receivables

In accordance with financial accounting standards, room receipts from Medicaid are recognized as revenue in the period earned and recorded as receivables if not paid by year-end. Amounts receivable from Medicaid at December 31, 2018 and 2017 are \$44,840 and \$82,930, respectively, and are included in other receivables.

Property and equipment

Expenditures for the acquisition of equipment are capitalized at cost. The fair value of donated property, including long-term land leases, and equipment is capitalized on the date of donation. RMHC capitalizes all expenditures for property and equipment in excess of \$5,000. Depreciation is provided over the estimated useful lives of the assets on the straight-line method. RMHC uses the direct expensing method to account for planned maintenance activities. Property and equipment consist of the following as of December 31:

	Estimated Useful Lives	<u>2018</u>	<u>2017</u>
Land		\$ 2,955,944	\$ 2,955,944
Building and improvements	15-40 years	13,708,138	13,672,501
Furniture and fixtures	5-7 years	2,225,762	2,222,184
Vehicles	5 years	111,901	111,901
Construction in progress		<u>445,328</u>	<u>132,529</u>
		19,447,073	19,095,059
Accumulated depreciation		<u>(8,875,071)</u>	<u>(8,371,333)</u>
		<u>\$ 10,572,002</u>	<u>\$ 10,723,726</u>

RONALD MCDONALD HOUSE CHARITIES OF  
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NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Children's Health Care System (an affiliate of Children's) holds title to, and is the landlord for, all real estate (land) associated with grounds of the RMHC houses. The ground lease associated with the original house is for \$1 per year for a term of 99 years, from May 1983 through April 2082. The use of the land is restricted for the purposes of operating the House or a similar facility. The estimated fair value of the land in 1983, when its use was first donated, was \$829,544. The value of the land is included in net assets with donor restrictions.

The ground lease associated with the second house is for \$1 per year for a term of 99 years, from September 2002 through August 2101. The lease requires the lessor's prior written permission for changes in the agreed upon use of the second house, assignment, subletting, and significant changes related to the initial construction.

In addition, the lease prohibits use of the building as collateral except for a construction loan, and gives the lessor first right to purchase the buildings and equipment at the expiration of the lease term. The estimated fair value of the land in 2002, when its use was first donated, was \$2,126,400. The value of the land is included in net assets with donor restrictions.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted cash flows. We measure the impairment loss based on the difference between the carrying amount and the estimated fair value. No impairment losses were recognized for the years ended December 31, 2018 or 2017.

Donated goods and services

Non-cash donations are recorded as contributions at their estimated fair values at the date of donation. Donated assets, goods, and services were used for program and supporting services and were as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Donated goods	\$ 33,466	\$ 76,314
Donated services	<u>29,466</u>	<u>31,343</u>
Total in-kind contributions	62,932	107,657
Less amount capitalized	<u>8,800</u>	<u>63,050</u>
Total in-kind expense	<u>\$ 54,132</u>	<u>\$ 44,607</u>

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NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with financial accounting standards, the financial statements reflect only those donated services requiring specific expertise which RMHC would otherwise need to purchase. However, many individual volunteers donate significant amounts of time and perform a variety of tasks that assist RMHC. For the years ended December 31, 2018 and 2017, management estimates that RMHC received approximately 43,670 and 43,150 hours with estimated values of \$1,110,528 and \$1,065,374, respectively.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activity and of functional expenses. Where possible, specific expenses have been charged directly to the appropriate category. Certain categories of expenses are attributable to one or more program or supporting functions requiring allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: depreciation, insurance, maintenance and repairs, and utilities, which are allocated on a square footage basis; printing, postage, office supplies, technology and telephone, which are allocated based on full-time equivalents; and salaries and wages, payroll taxes and employee benefits, which are allocated on the basis of time and effort.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the total net assets or total change in net assets as of or for the year ended December 31, 2017.

Income taxes

The Internal Revenue Service has recognized Ronald McDonald House Charities of Western Washington & Alaska as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation. RMHC follows the provisions of authoritative guidance related to accounting for uncertain tax positions. As of December 31, 2018, RMHC did not have any uncertain tax positions requiring accrual.

NOTE B - LIQUIDITY

RMHC strives to maintain cash and short-term investments sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in a managed stock portfolio.

RONALD MCDONALD HOUSE CHARITIES OF  
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NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE B - LIQUIDITY (Continued)

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2018 are as follows:

Total financial assets	\$ 21,514,974
Less financial assets not available for general operations within one year:	
Promise to give due in more than one year	(4,000)
Net assets with donor restrictions - non-operating	(320,951)
Board designated capital improvement reserve	(3,000,000)
Endowments	<u>(589,213)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 17,600,810</u>

NOTE C - RELATED PARTY TRANSACTIONS

Under the terms of its affiliation agreement with Ronald McDonald House Charities, Inc., RMHC is obligated to remit 25% of certain contributions, net of fundraising expenses, to that national group on a regular basis. For the years ended December 31, 2018 and 2017, RMHC incurred obligations of \$104,272 and \$115,820, respectively, to the national group, of which \$22,040 and \$26,920, respectively, was included in accounts payable at December 31, 2018 and 2017.

NOTE D - RETIREMENT PLAN

RMHC sponsors a 401(k) defined contribution plan (the Plan). The Plan covers all employees from date of hire. RMHC's contributions to the Plan are at the discretion of the Board of Directors. Currently, RMHC will make a 4% contribution for all eligible employees, based on salary, and match an additional 1% of employee contributions. RMHC's contributions for the years ended December 31, 2018 and 2017 totaled \$73,237 and \$69,372, respectively.

NOTE E - OPERATING AGREEMENT

RMHC and Seattle Children's Hospital have a Memorandum of Understanding which is negotiated and renewed annually. RMHC provides rooms exclusively for families of patients at Children's and Children's provides annual financial support. For the years ended December 31, 2018 and 2017, \$452,862 and \$431,400, respectively, was paid. For the year ending December 31, 2019, \$475,505 will be paid.

RONALD MCDONALD HOUSE CHARITIES OF  
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NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE F – COMMITMENTS

RMHC leases certain office equipment under a non-cancelable capital lease. The previous capital lease expired during 2016. In September 2016, RMHC entered into a new non-cancelable capital lease for certain office equipment with a cost of \$8,620. Accumulated depreciation totaled \$4,406 as of December 31, 2018. Depreciation expense reported in the statements of activities includes \$1,724 for the equipment under capital lease. Monthly payments are \$242 including taxes, service fees and interest at 5.2% per annum. Scheduled lease payments for the years ending December 31 are as follows:

	2019	\$	1,957		
	2020		1,957		
	2021		1,305		
			<u>5,219</u>		
Less amounts representing interest			<u>(356)</u>		
			4,863		
Less current portion			<u>(1,745)</u>		
		\$	<u><u>3,118</u></u>		

NOTE G - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis as of December 31, 2018 and 2017 is as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of December 31, 2018:				
Cash and money market funds	\$ 599,500	\$ -	\$ -	\$ 599,500
Equity funds	7,902,124	-	-	7,902,124
Fixed income funds	7,917,241	-	-	7,917,241
Alternative investment funds	<u>1,010,369</u>	<u>-</u>	<u>-</u>	<u>1,010,369</u>
Total Assets shown at Fair Value	<u>\$ 17,429,234</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,429,234</u>
As of December 31, 2017:				
Cash and money market funds	\$ 2,324,727	\$ -	\$ -	\$ 2,324,727
Equity funds	8,513,219	-	-	8,513,219
Fixed income funds	4,685,174	87,899	-	4,773,073
Alternative investment funds	<u>1,058,612</u>	<u>-</u>	<u>-</u>	<u>1,058,612</u>
Total Assets shown at Fair Value	<u>\$ 16,581,732</u>	<u>\$ 87,899</u>	<u>\$ -</u>	<u>\$ 16,669,631</u>

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NOTE G - FAIR VALUE MEASUREMENTS (Continued)

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input. RMHC also uses fair value concepts to test various long-lived assets for impairment.

NOTE H - ENDOWMENT

RMHC's endowment consists of one donor restricted fund ("the Fund") established in 1993 by Mrs. Kroc to help with ongoing "operating expenses." As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There are no funds designated by the Board of Directors to function as endowments.

Interpretation of Relevant Law

Based on the Board of Directors' interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted in the State of Washington, the original amount of donor-restricted contributions to the endowment plus any required accumulations are not expendable.

As a result of this interpretation, RMHC 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.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

One hundred percent of the endowment's earnings are available to be spent in the year earned on operating expenses. These earnings represent interest and dividends, exclusive of gains and losses. In establishing this policy, RMHC considered the long-term expected return on its endowment. Accordingly, over the long term, RMHC expects the current spending policy to allow its endowment to maintain purchasing power of the assets held in perpetuity as well as to provide additional real growth through new gifts and investment appreciation.

Return Objectives and Risk Parameters

The investment policy includes a target allocation table that allows for diversity and performance measurement against the appropriate index. The long-term objective of the Fund is to provide income and achieve a target rate of return of CPI + 4% annualized over a full market cycle, defined as 5 to 7 years, with diversification employed to reduce risk.

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NOTE H - ENDOWMENT (Continued)

The relative objectives of the policy are to generate a return in excess of the passive portfolio benchmark for each asset class, exceed the rate of inflation, assumed to be approximately 3% annually over a five- to 10-year period, and exceed the 50th percentile return of a universe comprised of funds or managers with similar objectives and/or styles.

Change in endowment funds for the years ended December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Donor-restricted endowment, beginning of year	\$ 643,852	\$ 573,511
Investment returns, net	(54,639)	77,757
Appropriated for expenditure	<u>-</u>	<u>(7,416)</u>
Donor-restricted endowment, end of year	<u>\$ 589,213</u>	<u>\$ 643,852</u>

NOTE I - CONTINGENCY

In August 2017, RMHC signed an agreement to purchase for \$2,500,000 the PROVAIL property that abuts RMHC's largest building on their Seattle campus. It is the intent of RMHC to use the property to expand their Seattle campus. In 2018, they applied for a Master Use Permit from the City of Seattle. Should the permit and any subsequent appeals be denied, RMHC would incur a loss of \$445,328, which represents the escrow deposit, preliminary construction designs, permits and fees, and other related costs.

NOTE J - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2018 through June 19, 2019, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2018, including the estimates inherent in the processing of financial statements.