

RONALD McDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2018
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ronald McDonald House Charities of Rochester, NY, Inc.:

We have audited the accompanying financial statements of Ronald McDonald House Charities of Rochester, NY, Inc., which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and change in net assets, functional expenses and cash flows for the year 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Rochester, NY, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Ronald McDonald House Charities of Rochester, NY, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 2, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

DeJoy, Knauf & Blood, LLP

October 18, 2019.

**DEJOY, KNAUF
& BLOOD LLP**

certified public accountants

RONALD McDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

(with comparative totals as of December 31, 2017)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 175,557	\$ 373,792
Accounts and grants receivable	29,543	14,485
Contributions receivable	25,000	5,000
Prepaid expenses and other assets	32,255	39,492
Total current assets	262,355	432,769
Investments	6,684,477	8,692,100
Property and equipment, net	2,952,441	2,445,279
Long-term portion of contributions receivable	-	3,000
Total other assets	9,636,918	11,140,379
TOTAL ASSETS	\$ 9,899,273	\$ 11,573,148
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 218,390	\$ 135,742
Accrued expenses	43,765	35,684
Deferred revenue	-	4,602
Due to RMHC Global	-	5,345
Total current liabilities	262,155	181,373
NET ASSETS:		
Without donor restrictions	7,766,884	9,348,622
With donor restrictions	1,870,234	2,043,153
Total net assets	9,637,118	11,391,775
TOTAL LIABILITIES AND NET ASSETS	\$ 9,899,273	\$ 11,573,148

The accompanying notes to financial statements
are an integral part of this statement.

RONALD McDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018
(with comparative totals for the year ended December 31, 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT AND REVENUE:				
Public support from special events	\$ 495,823	\$ 22,000	\$ 517,823	\$ 1,224,367
Less - direct expenses for special events	(386,703)	-	(386,703)	(338,844)
Individual contributions	474,682	5,000	479,682	307,098
Foundation and business contributions	207,966	5,179	213,145	313,655
McDonald's Corporation support, net	87,602	-	87,602	92,817
United Way contributions	75,305	-	75,305	80,647
In-kind donations for operations	85,498	-	85,498	14,883
Other income	8,234	-	8,234	2,288
Total support and revenue	<u>1,048,407</u>	<u>32,179</u>	<u>1,080,586</u>	<u>1,696,911</u>
Net assets released from restriction	66,353	(66,353)	-	-
Total support and revenue after releases from restrictions	<u>1,114,760</u>	<u>(34,174)</u>	<u>1,080,586</u>	<u>1,696,911</u>
EXPENSES:				
Program services	<u>1,436,329</u>		<u>1,436,329</u>	<u>1,834,428</u>
Supporting services:				
General and administrative	387,686		387,686	382,471
Fundraising	578,955		578,955	197,996
Total supporting services	<u>966,641</u>		<u>966,641</u>	<u>580,467</u>
Total expenses	<u>2,402,970</u>		<u>2,402,970</u>	<u>2,414,895</u>
DEFICIT OF SUPPORT AND REVENUE OVER EXPENSES	<u>(1,288,210)</u>	<u>(34,174)</u>	<u>(1,322,384)</u>	<u>(717,984)</u>
Investment return (loss), net	(293,528)	(138,745)	(432,273)	1,127,004
CHANGE IN NET ASSETS	(1,581,738)	(172,919)	(1,754,657)	409,020
NET ASSETS , beginning of year	<u>9,348,622</u>	<u>2,043,153</u>	<u>11,391,775</u>	<u>10,982,755</u>
NET ASSETS , end of year	<u>\$ 7,766,884</u>	<u>\$ 1,870,234</u>	<u>\$ 9,637,118</u>	<u>\$ 11,391,775</u>

The accompanying notes to financial statements
are an integral part of this statement.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	General and Administrative	Fundraising	Total
SALARIES AND RELATED EXPENSES:				
Salaries and wages	\$ 620,637	\$ 228,656	\$ 239,543	\$ 1,088,836
Employee benefits and payroll taxes	90,650	42,853	31,316	164,819
Total salaries and related expenses	711,287	271,509	270,859	1,253,655
OTHER EXPENSES:				
Facilities, equipment and transportation	74,249	5,500	456,962	536,711
Family and guest	238,181	-	-	238,181
Office expense	49,011	34,120	21,988	105,119
Grants	81,850	-	-	81,850
Professional fees	8,357	49,730	8,378	66,465
Event direct expenses	-	-	105,527	105,527
Advertising and marketing	-	-	42,839	42,839
Insurance	7,093	525	18,650	26,268
Travel and seminars	5	20,681	306	20,992
Postage and printing	31	1,436	18,080	19,547
Development	-	3,411	5,968	9,379
Volunteer recognition	5,643	-	1,855	7,498
Bad debt expense	1,145	-	-	1,145
Miscellaneous	-	-	6,276	6,276
Total other expenses before depreciation	465,565	115,403	686,829	1,267,797
Depreciation	259,477	774	7,970	268,221
Total expenses by function	1,436,329	387,686	965,658	2,789,673
Less expenses included with revenues on the statement of activities and change in net assets:				
Direct expenses for special events	-	-	(386,703)	(386,703)
Total expenses included in the expense section on the statement of activities and change in net assets	\$ 1,436,329	\$ 387,686	\$ 578,955	\$ 2,402,970

The accompanying notes to financial statements
are an integral part of this statement.

RONALD MCDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(with comparative totals for the year ended December 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,754,657)	\$ 409,020
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	268,221	243,211
Net realized and unrealized (gain) loss on investments	579,218	(990,575)
(Increase) decrease in accounts and grants receivable	(15,058)	26,100
(Increase) decrease in contributions receivable	(17,000)	69,183
Decrease in prepaid expenses and other assets	7,237	31,562
Decrease in accounts payable	(20,997)	(34,589)
Increase in accrued expenses	8,081	3,910
Decrease in deferred revenue	(4,602)	(24,145)
Decrease in due to RMHC Global	(5,345)	(970)
Total adjustments	799,755	(676,313)
Net cash used in operating activities	(954,902)	(267,293)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments, net	1,428,405	362,742
Purchases of property and equipment	(671,738)	(127,473)
Net cash provided by investing activities	756,667	235,269
NET DECREASE IN CASH AND CASH EQUIVALENTS	(198,235)	(32,024)
CASH AND CASH EQUIVALENTS, beginning of year	373,792	405,816
CASH AND CASH EQUIVALENTS, end of year	\$ 175,557	\$ 373,792

The accompanying notes to financial statements
are an integral part of this statement.

RONALD McDONALD HOUSE CHARITIES OF ROCHESTER, NY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. ORGANIZATION

Ronald McDonald House Charities of Rochester, NY, Inc. (“RMHCR”) supports the health and wellness of children and their families through innovative programming, supportive services and community partnerships.

The Ronald McDonald House (the “House”) is a 24-bedroom facility that provides temporary lodging to families of seriously ill children and is the cornerstone program of RMHCR. The organization also operates a seven-bedroom House Within the Hospital at the Golisano Children’s Hospital of the University of Rochester Medical Center (“URMC”). In 2015, RMHCR opened the Ronald McDonald Family Room on the first floor of the Golisano Children’s Hospital of URMC to provide a respite for pediatric patients and their families looking for a break from the traditional hospital setting. In December 2017, the Pediatric Family Lounge was opened at Rochester General Hospital adjacent to the Special Care Nursery to provide families a space to rest and recharge during hospital visits. During the year ended December 31, 2018, RMHCR opened a Mental Health and Wellness Lounge and a Hospitality Cart at URMC.

The management of RMHCR is governed by the Board of Directors (the “Board”) and various committees established under the by-laws of RMHCR to fulfill its mission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting -

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Use of estimates -

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include, but are not limited to, the fair value of investments, contributions receivable, the depreciable lives of property and equipment, donated and in-kind services and the allocation of functional expenses. Actual results could differ from those estimates, and those differences could be material.

Cash and cash equivalents -

Cash and cash equivalents include cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes. Cash and highly liquid financial instruments restricted for capital projects, endowments that are perpetual in nature and other long-term purposes are excluded from this definition.

Financial instruments and credit risk -

Deposit concentration risk is managed by placing cash, money market accounts and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or may include uninsured investments in money market mutual funds. To date, management has not experienced losses in any of these accounts.

Credit risk with accounts receivable and contributions receivable is considered to be limited due to high historical collection rates and because substantial amounts are due from local agencies, individuals, foundations and corporations supportive of the mission of the organization.

Investments are managed with a diversified portfolio whose performance is monitored by a committee established by the Board. Although the fair values of investments are subject to fluctuation, investment policies are believed to be prudent for the long-term welfare of the organization.

Accounts and grants receivable and allowance for doubtful accounts -

Accounts and grants receivable consist primarily of amounts from individuals and corporations. Management periodically reviews the sufficiency of the allowance for doubtful accounts, taking into consideration its historical losses and existing economic conditions, and makes adjustments to the allowance as it considers necessary. Accounts and grants receivable are written off in the period in which management determines the receivable is uncollectible. At December 31, 2018, management has determined that no allowance is deemed necessary.

Contributions receivable -

Contributions receivable, or promises to give, are recorded in the year the promise is made. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Management periodically reviews the sufficiency of the allowance for doubtful contributions receivable, taking into consideration its historical losses and existing economic conditions, and makes adjustments to the allowance as it considers necessary.

Contributions are written off when deemed uncollectible. At December 31, 2018, management has determined that no such allowance is deemed necessary.

Property and equipment -

Property and equipment is recorded at cost, or fair value if donated. RMHCR's policy is to capitalize property and equipment in excess of \$1,000 with a useful life greater than one year. Costs associated with construction in progress are held until the asset is placed in service, at which point the asset is transferred out of construction in progress and depreciated over its useful life.

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, which are as follows:

Building and building improvements	5 - 30 years
Furniture and equipment	5 - 20 years
Vehicles	5 years

When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities as incurred. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred.

Long-lived assets -

Management reviews long-lived assets to be held and used for possible impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of these assets is measured by comparison of the carrying value of the asset to the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the assets are considered to be impaired, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Investments -

Investments are initially recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return (loss) is reported in the statement of activities and change in net assets and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses including custodial and investment advisory fees.

Fair value measurements -

Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date, under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the assets or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

A three-tier hierarchy categorizes the inputs as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Valuation based on observable inputs other than quoted prices within Level 1 that include:

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

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

Level 3 Inputs to the valuation methodology that are unobservable and significant to the fair value measurement.

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

Net assets -

Support and revenue, expenses and net assets of RMHCR are reported in the following classifications:

Net assets without donor restrictions - Net assets available for use in general operations and net investment in property and equipment. The Board has designated, from net assets without donor restrictions, net assets for an operating reserve and a board designated endowment.

Net assets with donor restrictions - Net assets subject to donor, or certain grantor, 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 restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity. Such gifts may stipulate that the entity may expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a Board approved spending policy.

Gifts of long-lived assets and gifts restricted for the acquisition of long-lived assets are recognized when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, when the time period has elapsed or when the stipulated purpose for which the resource has been restricted has been fulfilled.

See Note 13 for more information on the composition and releases of net assets with donor restrictions.

Revenue recognition -

Revenue is recognized when earned. RMHCR recognizes contributions received and made, including unconditional promises to give, as revenue in the period received or made. Contributions are reported as either revenues without donor restrictions or revenues with donor restrictions. Contributions with restrictions that are used for the purpose specified by the donor in the same year as the contribution is received are recognized as revenues with donor restrictions and are reclassified as net assets released from restriction in the same year. Promises to give that stipulate conditions to be met before the contribution is made are not recorded until the conditions are met.

Income taxes -

RMCHR is established as a nonprofit corporation in New York State and has been recognized by the Internal Revenue Service ("IRS") as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). RMCHR has also been classified as an entity that is not a private foundation.

Advertising -

Advertising expenses are expensed and totaled approximately \$42,800 and \$67,000 for the years ended December 31, 2018 and 2017, respectively.

Donated services -

A substantial number of volunteers have donated significant amounts of time to support program activities and fund-raising of RMHCR. No amounts have been recognized in the statement of activities and change in net assets since time contributed by volunteers does not meet the criteria for recognition established by GAAP. Donated professional services are recorded at the fair value of the services received.

Functional allocation of expenses -

The statement of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of RMHCR are reported as expenses of those functional areas. Natural expenses attributable to more than one functional expense category are allocated based on cost allocation techniques deemed appropriate for the expense incurred. Such techniques may include estimated time allotted to activities allocating an individual's salary and benefits, square footage of space utilized and other usage patterns established by the policies and procedures of the RMHCR.

Taxes collected and remitted to governmental authorities -

Sales tax collected from retail sales at certain fundraising activities is recorded on a net basis and are not recorded in support and revenue.

Prior year comparative information -

The accompanying financial statements include certain prior year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with RMHCR's financial statements as of and for the year ended December 31, 2017, from which the summarized information was derived.

Prior period reclassifications -

Certain reclassifications have been made to the prior year comparative information to conform to the current year presentation.

Change in accounting principle -

For the year ended December 31, 2018, RMCHR adopted Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (“ASU 2016-14”). ASU 2016-14 changes the reporting model for not-for-profit entities and adds required disclosures which include the following:

- The prior three categories of unrestricted, temporarily and permanently restricted net assets were modified to be 1) *without* donor restrictions and 2) *with* donor restrictions. The existence and purpose of any board designated assets within net assets without donor restrictions must be disclosed.
- Quantitative and qualitative disclosures are required regarding the liquidity and availability of financial resources.
- The reporting of expenses by both function and natural classification with a description of the nature of expenses that are allocated between programs and supporting services and the specific methods used for those allocations.
- Investment returns are reported net of any related expenses and the disclosure of investment expenses is no longer required.
- Modified the presentation of underwater endowment funds and related disclosures.

The adoption of ASU 2016-14 requires retrospective application for the 2017 comparative information. RMCHR has opted to not disclose functional expenses and liquidity and availability of financial resources information for 2017, as permitted in the year of adoption of ASU 2016-14. In addition, RMCHR changed its presentation of its net asset classes and expanded the footnote disclosures as required by ASU 2016-14. The adoption of ASU 2016-14 resulted in no changes to total net assets or to the change in net assets.

Recent accounting pronouncements -

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (“ASU 2018-08”), is effective for the year ending December 31, 2019. ASU 2018-08 provides a framework for determining whether a grant or similar contract should be accounted for as a contribution or as an exchange transaction. One of the criteria under the new guidance is to evaluate whether the resource provider is receiving value in return for the resources transferred to the not-for-profit entity (i.e. an exchange transaction) with the understanding that a governmental agency or private foundation is not synonymous with the general public. The evaluation of grants that take the form of conditional contributions would consider the existence of measurable performance-related barriers or other criteria prior to the timing of the recognition of the related revenue. RMCHR is currently evaluating the impact the adoption of this guidance will have on its financial statements.

ASU 2016-02, *Leases*, is scheduled to become effective for the year ending December 31, 2020, but may be delayed until December 31, 2021. This guidance impacts the presentation of an entity’s leasing activities and will require the recognition of lease (right-of-use) assets and related lease liabilities on the statement of financial position and disclosure of key information about leasing arrangements. RMCHR is currently evaluating the impact the adoption of this guidance will have on its financial statements.

3. CONTRIBUTIONS RECEIVABLE

Estimated future collections from contributions receivable are \$25,000 for the year ending December 31, 2019.

Contributions receivable of \$6,000 at December 31, 2017 were deferred by the donor from prior years and are reported as currently due at December 31, 2018.

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments measured at fair value on a recurring basis at December 31 are as follows:

	2018		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 516,914	\$ -	\$ 516,914
McDonald's Corporation common stock	710,280	-	710,280
Common stocks - U.S.	2,247,344	-	2,247,344
Common stocks - international	856,672	-	856,672
Real estate trusts	45,894	-	45,894
Exchange traded funds - international	77,343	-	77,343
U.S. Treasuries	491,545	-	491,545
U.S. government obligations	318,719	-	318,719
Corporate bonds	-	808,300	808,300
Federal agency mortgage backed securities	-	349,265	349,265
Municipal bonds	-	200,679	200,679
CMO / asset backed securities	-	37,502	37,502
International bonds	-	24,020	24,020
Total	<u>\$ 5,264,711</u>	<u>\$ 1,419,766</u>	<u>\$ 6,684,477</u>

	2017		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 340,793	\$ -	\$ 340,793
McDonald's Corporation common stock	688,480	-	688,480
Common stocks - U.S.	3,541,306	-	3,541,306
Common stocks - international	1,116,394	-	1,116,394
Real estate trusts	66,064	-	66,064
Exchange traded funds - international	649,232	-	649,232
U.S. Treasuries	583,551	-	583,551
U.S. government obligations	171,490	-	171,490
Corporate bonds	-	925,241	925,241
Federal agency mortgage backed securities	-	428,015	428,015
Municipal bonds	-	104,915	104,915
CMO / asset backed securities	-	52,601	52,601
International bonds	-	24,018	24,018
Total	<u>\$ 7,157,310</u>	<u>\$ 1,534,790</u>	<u>\$ 8,692,100</u>

Fair value measurements are obtained using quoted prices (Level 1) for the McDonald's Corporation common stock and other common stocks traded in active markets. Real estate trusts and exchange traded funds are valued using the Level 1 inputs from the related net asset values at the measurement dates. U.S. treasuries and government obligations are valued using Level 1 inputs from quoted prices on active exchanges. Other fixed income securities are valued based on quoted prices for nearly identical or similar securities as provided by the custodian and are reported as Level 2 inputs. There were no changes in fair value measurement techniques used during the year ended December 31, 2018.

5. ENDOWMENT

RMHCR's investments consist of both funds that are board designated funds functioning as endowment and funds restricted by donors in perpetuity and (the "Endowment"). Funds restricted for perpetuity include shares of McDonald's Corporation common stock that were originally received as a gift from the Ray Kroc family.

Interpretation of relevant law -

The Board of Directors has determined that the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), applies to the Endowment. UPMIFA provides guidance and authority to charitable organizations concerning the management and investment of funds held by those organizations, and UPMIFA imposes additional duties on those who manage and invest charitable funds. Those duties provide additional protections for charities and also protect the interests of donors who want to see their contributions used wisely.

RMHCR classifies its net assets with donor restrictions (a time restriction in perpetuity) the original value of the gifts associated to the donor restricted endowment and the original value of subsequent gifts to the donor restricted endowment. Investment income from the donor restricted endowment is classified as net assets with donor restrictions (a purpose restriction) until those amounts are appropriated by the Board of RMHCR in a manner consistent with the donor stipulated purpose within the standard of prudence prescribed by UPMIFA.

Endowment investment and spending policies -

The Board of RMHCR has adopted an Investment Policy Statement ("IPS") for the Endowment. The IPS documents a prudent process that provides diversification with the appropriate level of assumed risk and return necessary to achieve the stated objectives which include the following:

- To provide income and appreciation of investment sufficient to support the services and programs provided by RMHCR.
- To maximize return within reasonable and prudent levels of risk.
- To maintain an appropriate asset allocation based on total return needs compatible with the spending policy.

The IPS establishes target asset allocation levels for the Endowment as follows:

U.S. large cap stock	21 to 31%
U.S. mid cap stock	7 to 13%
U.S. small cap stock	4 to 8%
International developed countries stock	11 to 17%
International emerging markets stock	2 to 6%
U.S. and international fixed income	30 to 42%

Due to the restrictions on this gift, the McDonald's Corporation common stock is not considered to be a component of the above asset allocation targets of the IPS.

In developing its spending policy, RMHCR considers the following factors:

1. The duration and preservation of the Endowment;
2. The purposes of RMHCR and the Endowment;
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 RMHCR;
7. Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the Endowment, giving due consideration to the effect that such alternatives may have on RMHCR; and
8. The investment policies of RMHCR.

The IPS provides for an annual appropriation from total Endowment investments of 4% of a rolling 20-quarter average of market value, subject to a floor of 3% and a ceiling of 5.5% of the current market value of such investments. The amount available to be appropriated is calculated annually at September 30th each year, with 25% of this calculated annual amount considered available in each quarter during the following calendar year, subject to certain restrictions.

Withdrawals will be made in this manner without regard to increases or decreases in the market value of investment assets during the year or the amount of income generated by Endowment funds during the year. Withdrawals may exceed income and appreciation on these Endowment assets. In the event that a donor restricted endowment fund is received with specific donor stipulations regarding the use of the income on those funds that are not consistent with the terms of this spending policy, the donor stipulations will prevail for those specific funds, and such funds will not be included in the withdrawal calculation above.

From time to time, the fair value of assets associated with the investments held in perpetuity may fall below the level that RMHCR must maintain as a fund of perpetual duration. At December 31, 2018, no such deficiencies existed.

Endowment activity for the year ending December 31, 2018 is as follows:

	Without Donor Restrictions		With Donor Restrictions		Total
	Undesignated	Board designated	Accumulated investment gains	Perpetual investments	
Beginning of year	\$183,131	\$ 6,473,816	\$1,082,468	\$952,685	\$8,692,100
Investment return (loss), net	-	(293,528)	(138,745)	-	(432,273)
Spending policy	-	(273,826)	(51,174)	-	(325,000)
Additional appropriations	(183,131)	(1,067,219)	-	-	(1,250,350)
End of year	<u>\$ -</u>	<u>\$ 4,839,243</u>	<u>\$ 892,549</u>	<u>\$952,685</u>	<u>\$6,684,477</u>

During the year ended December 31, 2018, the Board authorized additional appropriations of \$1,250,350 in excess of the spending policy to fund a new location for the Household Sale and capital improvements and operating deficiencies.

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2018	2017
Building and building improvements	\$ 6,325,347	\$ 5,542,828
Furniture and equipment	889,774	815,108
Vehicles	13,423	13,423
Land	7,297	7,297
Construction in progress	-	81,802
	<u>7,235,841</u>	<u>6,460,458</u>
Accumulated depreciation	<u>(4,283,400)</u>	<u>(4,015,179)</u>
Property and equipment, net	<u>\$ 2,952,441</u>	<u>\$ 2,445,279</u>

7. REVOLVING DEMAND NOTE

RMHCR has a revolving demand note with M&T Bank (the "Bank") which provides for maximum borrowings of \$200,000, with no maturity date. The note is secured by all of RMCHR's cash and cash equivalents held by the Bank. Interest is payable monthly at 2% plus the prime rate, which was 5.5% at December 31, 2018. There were no outstanding borrowings on the revolving demand note at either December 31, 2018 and 2017.

8. IN-KIND DONATIONS

In-kind donations consist primarily of materials and supplies for operations for the House. These amounts are reflected in the accompanying financial statements at their fair values as contributions and expenses as of their date of receipt. For the year ended December 31, 2018, total in-kind donations were approximately \$220,000, which are comprised of approximately \$85,000 for general House operations and approximately \$135,000 for special events activities.

For the year ended December 31, 2017, total in-kind donations were approximately \$26,000, which are comprised of \$14,883 for general House operations and \$10,800 for special events activities.

Volunteers provide housekeeping, office assistance, gardening, repairs and maintenance services as well as the solicitation of in-kind goods for the House and the House Within the Hospital. Volunteers also assist with special events including the Household Sale. In accordance with GAAP, no amounts have been reflected in the accompanying financial statements for these donated (volunteer) services.

9. RETIREMENT PLAN

RMHCR has a retirement plan (the “Plan”) for the benefit of its employees which covers all employees who have three or more months of service. The Plan is subject to provisions of the Employee Retirement Income Security Act of 1974, as amended. Participants may elect to defer a percentage of their compensation under the Plan which may not exceed the dollar limit set by law and may select from a variety of investment options. RMHCR contributes a 50% matching contribution up to 3% of the employee’s deferrals to the Plan. Employer contributions were \$16,514 and \$15,232 for the years ended December 31, 2018 and 2017, respectively.

10. RONALD McDONALD HOUSE CHARITIES, INC.

Ronald McDonald House Charities, Inc. (“RMHC Global”) is a separately registered nonprofit organization which oversees a system of independent, separately registered public benefit organizations (“Chapters”) within the global organization. RMHCR is an independent operating Chapter. Each Chapter is licensed by McDonald’s Corporation and RMHC Global to use RMHC Global related trademarks in conjunction with fundraising activities and the operation of its programs. The associated license agreement also sets standards of operations for programs, governance, finance, branding and reporting.

During the year ended December 31, 2018, RMHC Global was responsible for canister collections from Rochester area restaurants and remitted a percentage of proceeds to RMHCR totalling \$67,082.

For the year ended December 31, 2017, RMHC Global required that 25% of all revenue that RMHCR earned from canister collections held at area McDonald's restaurants be remitted to them in support of national charitable programs. RMHCR earned \$106,141 for the year ended December 31, 2017 with payments to RMHC Global of \$22,746. The amount due to RMHC Global for the fourth quarter remittance was \$5,345 as of December 31, 2017.

11. COMMITMENTS

RMHCR leases space for the House Sale fundraising activities and certain equipment under the terms of operating lease agreements which expire at various dates through August 2023.

Estimated future minimum lease payments are as follows:

Year ending December 31,	
2019	\$ 213,453
2020	213,453
2021	223,065
2022	242,588
2023	161,725
	<u>\$1,054,284</u>

In conjunction with certain lease agreements, RMHCR may be required to pay nominal on-going maintenance fees. In addition, upon termination of these leases, RMHCR may be required to pay for certain costs of returning the space to its pre-lease condition. The amount of such payments is not currently estimable. Some lease arrangements also include the option to renew for up to 15 additional years. The costs of optional renewal periods that have not been expressly agreed to are not included in the future minimum payments above.

Certain lease terms require that RMHCR utilize the space exclusively for the operation of specific programmatic activities, including the Ronald McDonald House, the House Within the Hospital, the Family Room and the Mental Health and Wellness Lounge at Golisano Children's Hospital, and the Family Lounge at Rochester General Hospital.

During the years ended December 31, 2018 and 2017, RMHCR incurred rent expense totaling approximately \$72,500 and \$109,000, respectively, under the various rental agreements which are reported in direct expenses for special events.

12. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are as follows at December 31:

	2018	2017
Board designated	<u>\$4,839,243</u>	<u>\$6,473,816</u>
Undesignated	<u>2,927,641</u>	<u>2,874,806</u>
	<u>\$7,766,884</u>	<u>\$9,348,622</u>

13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Contributions receivable that are not restricted by donors, but are unavailable for expenditure until paid	\$ 25,000	\$ 8,000
Endowments subject to spending policy and appropriation:		
Investments in perpetuity	952,685	952,685
Accumulated investment gains	892,549	1,082,468
	<u>1,845,234</u>	<u>2,035,153</u>
Total net assets with donor restrictions	<u>\$1,870,234</u>	<u>\$2,043,153</u>

Net assets released from donor restrictions are as follows for the year ended December 31, 2018:

Satisfaction of time restrictions:	
Distributions from donor restricted	\$51,174
Donor restricted contribution received	2,000
Other increases/decreases, net	13,179
Net assets released from with donor restrictions	<u>\$66,353</u>

14. LIQUIDITY AND AVAILABILITY OF RESOURCES

As of December 31, 2018, financial assets and liquidity resources of RMHCR that are available within one year for general expenditure, such as operating expenses, scheduled lease payments, and capital projects not financed with debt, are as follows:

Financial assets:	
Cash and cash equivalents	\$ 175,557
Accounts and grants receivable	29,543
Contributions receivable	25,000
Investments	6,684,477
	<u>6,914,577</u>
Less:	
Board designated investments	(4,839,243)
Donor restricted investment appreciation	(892,549)
Donor restricted perpetual investments	(952,685)
	<u>\$ 230,100</u>

RMHCR's cash flows have seasonal variations during the year due to the timing of fundraising events. To manage liquidity, RMHCR has a \$200,000 line of credit for operational needs. At December 31, 2018, RMHCR had no outstanding balance on the line of credit. For the year ending December 31, 2019, the Board has authorized an appropriation at a rate of 5% from the Endowment to fund operations and capital expenditures.

15. SUPPLEMENTAL CASH FLOW DISCLOSURES

The following transaction is a non-cash transaction and has been excluded from the accompanying statement of cash flows:

- Property and equipment in the amount of \$103,645 was reported in accounts payable as of December 31, 2018.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 18, 2019, which is the date the financial statements were available to be issued.