

RONALD MCDONALD HOUSE CHARITIES, INC.
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2018 and 2017



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ronald McDonald House Charities, Inc.
Chicago, Illinois

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

Management's Responsibility for the Financial Statements

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

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

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

Board of Trustees
Ronald McDonald House Charities, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RMHC at December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, in 2018 RMHC adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matters.



CliftonLarsonAllen LLP

Oak Brook, Illinois
May 8, 2019

RONALD MCDONALD HOUSE CHARITIES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS	2018	2017
	<i>(In Thousands)</i>	
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,476	\$ 8,769
Contributions receivable, net	9,815	10,789
Short-term investments	3,265	3,221
Other current assets	2,111	1,541
Total current assets	27,667	24,320
NONCURRENT ASSETS		
Contributions receivable, net	453	581
Investments	109,740	116,347
Other noncurrent assets	495	158
Total noncurrent assets	110,688	117,086
TOTAL ASSETS	\$ 138,355	\$ 141,406
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and other liabilities	\$ 1,360	\$ 1,517
Grants payable, net	9,318	7,598
Total current liabilities	10,678	9,115
NET ASSETS		
Without donor restrictions	121,234	130,953
With donor restrictions	6,443	1,338
Total net assets	127,677	132,291
TOTAL LIABILITIES AND NET ASSETS	\$ 138,355	\$ 141,406

The accompanying notes are an integral part of the financial statements.

RONALD MCDONALD HOUSE CHARITIES, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>					
REVENUES						
Contributions	\$ 43,414	\$ 100,391	\$ 143,805	\$ 39,264	\$ 331	\$ 39,595
Special events revenue	6,338	-	6,338	6,061	-	6,061
Program service and other revenue	1,199	-	1,199	432	-	432
Net assets released from restrictions	95,292	(95,292)	-	2,269	(2,269)	-
Total revenues	146,243	5,099	151,342	48,026	(1,938)	46,088
EXPENSES						
Program services	139,170	-	139,170	36,696	-	36,696
Management and general administration	3,066	-	3,066	2,954	-	2,954
Fundraising	6,041	-	6,041	4,830	-	4,830
Cost of direct benefits to donors	899	-	899	813	-	813
Total expenses	149,176	-	149,176	45,293	-	45,293
CHANGE IN NET ASSETS FROM OPERATIONS	(2,933)	5,099	2,166	2,733	(1,938)	795
INVESTMENT INCOME (LOSS), NET	(6,786)	6	(6,780)	14,859	1	14,860
CHANGE IN NET ASSETS	(9,719)	5,105	(4,614)	17,592	(1,937)	15,655
NET ASSETS, BEGINNING OF YEAR	130,953	1,338	132,291	113,361	3,275	116,636
NET ASSETS, END OF YEAR	<u>\$ 121,234</u>	<u>\$ 6,443</u>	<u>\$ 127,677</u>	<u>\$ 130,953</u>	<u>\$ 1,338</u>	<u>\$ 132,291</u>

The accompanying notes are an integral part of the financial statements.

**RONALD MCDONALD HOUSE CHARITIES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2018 AND 2017**

Year Ended December 31, 2018	Ronald McDonald House	Ronald McDonald Family Room	Ronald McDonald Care Mobile	RMHC Local Chapter Grants and Support	Total Support of RMHC Local Chapters	Other Programs	Total Program Services	Management and General	Fundraising	Cost of Direct Benefits to Donors	Total
<i>(In Thousands)</i>											
Grants	\$ 99,848	\$ 1,764	\$ 501	\$ 22,556	\$ 124,669	\$ 2,048	\$ 126,717	\$ -	\$ -	\$ -	\$ 126,717
Professional fees	-	-	61	3,029	3,090	62	3,152	479	1,399	-	5,030
Donated services and occupancy	-	-	-	2,128	2,128	-	2,128	1,862	1,271	-	5,261
Meetings, education, and training	-	-	-	1,767	1,767	2	1,769	57	498	351	2,675
Travel, meals, and entertainment	-	-	-	774	774	21	795	106	151	343	1,395
Advertising	-	-	-	15	15	-	15	248	788	-	1,051
Other	-	-	41	4,551	4,592	2	4,594	314	1,934	205	7,047
TOTAL EXPENSES	\$ 99,848	\$ 1,764	\$ 603	\$ 34,820	\$ 137,035	\$ 2,135	\$ 139,170	\$ 3,066	\$ 6,041	\$ 899	\$ 149,176

Year Ended December 31, 2017	Ronald McDonald House	Ronald McDonald Family Room	Ronald McDonald Care Mobile	RMHC Local Chapter Grants and Support	Total Support of RMHC Local Chapters	Other Programs	Total Program Services	Management and General	Fundraising	Cost of Direct Benefits to Donors	Total
<i>(In Thousands)</i>											
Grants	\$ 2,095	\$ 1,353	\$ 1,222	\$ 20,550	\$ 25,220	\$ 3,517	28,737	\$ -	\$ -	\$ -	\$ 28,737
Professional fees	-	-	261	2,392	2,653	66	2,719	532	1,479	-	4,730
Donated services and occupancy	-	-	-	1,829	1,829	-	1,829	1,791	979	-	4,599
Meetings, education, and training	-	-	-	414	414	-	414	53	498	294	1,259
Travel, meals, and entertainment	-	-	4	690	694	5	699	86	59	357	1,201
Advertising	-	-	-	296	296	-	296	-	834	-	1,130
Other	-	-	35	1,967	2,002	-	2,002	492	981	162	3,637
TOTAL EXPENSES	\$ 2,095	\$ 1,353	\$ 1,522	\$ 28,138	\$ 33,108	\$ 3,588	\$ 36,696	\$ 2,954	\$ 4,830	\$ 813	\$ 45,293

The accompanying notes are an integral part of the financial statements.

RONALD MCDONALD HOUSE CHARITIES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
	<i>(In Thousands)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,614)	\$ 15,655
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	9,300	(12,354)
Bad debt	22	260
Amortization	63	67
Effects of changes in operating assets and liabilities:		
Contributions receivable	1,080	1,373
Other assets	(970)	751
Accounts payable and other liabilities	(157)	715
Grants payable	1,720	2,030
	<u>6,444</u>	<u>8,497</u>
Net cash provided by operating activities		
	<u>6,444</u>	<u>8,497</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(32,647)	(48,034)
Proceeds from sale of investments	29,910	42,539
Purchases of software	-	(68)
	<u>(2,737)</u>	<u>(5,563)</u>
Net cash used in investing activities		
	<u>(2,737)</u>	<u>(5,563)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,707	2,934
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>8,769</u>	<u>5,835</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 12,476</u>	<u>\$ 8,769</u>
SUPPLEMENTAL DISCLOSURES		
Donated Stock	<u>\$ 59</u>	<u>\$ 205</u>

The accompanying notes are an integral part of the financial statements.

**RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ronald McDonald House Charities, Inc. (RMHC) is an Illinois nonprofit charitable corporation formed on September 7, 1977. The mission of RMHC is to create, find, and support programs that directly improve the health and well-being of children and their families. RMHC fulfills its mission by creating programs that address targeted needs and by supporting these programs and other activities conducted by its RMHC Local Chapters (Chapters) worldwide. In addition, RMHC awards grants to other organizations that positively impact the health and well-being of children.

Ronald McDonald House Charities is a system of independent, separately registered public benefit organizations, referred to as “Chapters” by RMHC. Each Chapter is licensed by McDonald’s Corporation and RMHC to use RMHC related trademarks in conjunction with fundraising activities and the operation of its programs; the license agreement also sets standards of operations for programs, governance, finance, branding, and reporting. Collectively, RMHC and the network of local Chapters ascribe to five core values: we are focused on the critical needs of children, we lead with compassion, we celebrate the diversity of our people and our programs, we value our heritage and we operate with accountability and transparency.

RMHC ensures delivery of the mission across the globe. As a center of excellence, RMHC builds and sustains a robust infrastructure of support to the network of Chapters, including operations, licensing and compliance, finance, risk management, communications, marketing and development. Following are the program activities operated by RMHC:

Support of RMHC Local Chapters:

- *Ronald McDonald House*
 - RMHC provides grants for new and expanding Ronald McDonald House programs. The Ronald McDonald House provides comfort, support and resources for families with sick children.
- *Ronald McDonald Family Room*
 - RMHC provides grants for new Ronald McDonald Family Room programs, which offer a home-like environment within the walls of the hospital. Ronald McDonald Family Rooms provide families of hospitalized children with a place to refresh and relax while remaining near their child’s bedside.
- *Ronald McDonald Care Mobile*
 - RMHC developed and continues to support mobile pediatric health care services to children in underserved areas of the world by funding the capital build for all new Ronald McDonald Care Mobiles. In addition to primary and specialty medical care, health education, and oral health services, the program links children to other community and social service resources.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support of RMHC Local Chapters: (continued)

- *RMHC Local Chapter Grants and Support*
 - *Capacity Building*
 - RMHC is committed to strengthening the global system of Chapters, by providing “capacity building” grants and programmatic support to help each Chapter achieve a high level of excellence in management and operations, and to help them effectively and efficiently fulfill their mission. Activities include, among others: resource development; sharing best practices to improve all aspects of RMHC; strategic planning; technology upgrades; ongoing training and education of board, staff, and volunteers to encourage excellence in delivering programs, fundraising and administrative practices; investment in environmental sustainability activities such as energy audits, water and waste efficiency projects at Ronald McDonald House programs; facilitation of networking opportunities; and developing local fundraising capabilities to grow resources and meet new and expanding program needs.
 - *Scholarship Programs*
 - RMHC developed and supported four scholarship programs: RMHC/HACER, RMHC/ASIA, RMHC/Future Achievers, and RMHC Scholars that assisted graduating high school seniors with their first year of college or university education. RMHC also directly matched scholarships awarded by U.S. Chapters through these programs. RMHC discontinued its support of the scholarship programs at the end of 2017 in order to deepen its focus on building capacity of its local Chapters and supporting core programs around the world.
 - *General RMHC and Other Program Support*
 - RMHC provides expertise in all aspects of the three core program operations, other program development, and nonprofit management for its Chapters worldwide. Support also includes general program support grants.

Other Programs:

RMHC provides funding to other organizations to address the needs of children throughout the world. These efforts are directed towards providing access to quality health care, with a special focus on maternal/child health in Africa, South Asia and Latin America.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The financial statements of RMHC have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and are presented on the basis of net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions are created only by donor-imposed restrictions on their use. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. All other net assets, including board-designated or appropriated amounts, are net assets without donor restrictions and are reported as part of the net assets without donor restriction class.

Measure of Operations

RMHC's change in net assets from operations on the statements of activities includes all operating revenues and expenses that are an integral part of its program and supporting activities, net assets released from donor restrictions to support operating expenditures and other non-operating funds to support current operating activities. The measure of operations excludes investment return on investments.

Estimates

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

Cash Equivalents

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

Contributions Receivable

Contributions receivable are unconditional promises to give. RMHC has received unconditional promises to give consisting of pledges, bequests, and split-interest agreements. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the date of the gift using risk-free interest rates applicable to the years in which the promises are received. The discount rate used was 2.6% in both 2018 and 2017. Amortization of the discounts is included in contribution revenue. Contributions receivable are written off when deemed uncollectible.

**RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions Receivable (continued)

Contributions receivable also include the value of various split interest agreements. Split-interest agreements include three charitable remainder trusts from which RMHC will receive a percentage of the remaining assets upon the death of the initial beneficiaries, and an annuity from which RMHC receives annual payments during the donor's lifetime. A receivable has been recorded for the present value of the expected future cash flows using published life expectancy tables and a discount rate of 3.6% in 2018 and 2.6% in 2017. The fair value of the receivable is updated annually and the change in value and amortization of the present value discounts are included in contribution revenue.

RMHC is the beneficiary under various wills and trust agreements of which the total realizable amount is not presently determinable. Such amounts are recorded when a will is declared valid by probate court and the proceeds are measurable.

Cash Surrender Value of Life Insurance

RMHC carries the value of contributed life insurance policies at cash surrender value, which approximates fair value in the statements of financial position.

Software

Software and web development are stated at cost and amortized when placed in service. Amortization is calculated using the straight-line method over the estimated useful lives of the assets, generally three years. RMHC capitalizes all acquisitions in excess of \$5,000. During the year ended December 31, 2017, RMHC increased its capitalization threshold to \$5,000 from \$1,000. Ongoing maintenance contracts are charged to expense when incurred. The balance in software as of December 31, 2018 and 2017 is as follows:

	2018	2017
	<i>(In Thousands)</i>	
Software and web enhancements	\$ 2,105	\$ 2,105
Accumulated amortization	(2,010)	(1,947)
Total	\$ 95	\$ 158

The net book value of software costs is reported in other noncurrent assets on the statements of financial position.

Investments

RMHC records all investments in equity securities with readily determinable fair values and all investments in debt securities and commodities at fair value in the statements of financial position. Realized and unrealized investment gains and losses and income are included in the statements of activities.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (continued)

RMHC also has investments of less than 1% in two limited partnerships which are reported at cost. Capital calls to cover management fees are expensed as incurred.

Donated Assets, Software, and Services

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

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

Net Assets

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

Without Donor Restrictions

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

With Donor Restrictions

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

Revenue Recognition

Unconditional promises to give are recognized as revenue in the period the promise was made. Conditional promises are recorded as revenue when the conditions are substantially met. Contributions, grants, and bequests are recognized as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses

The statements of functional expenses report certain categories of expenses that are attributable to one or more program or supporting functions of RMHC. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include donated services and occupancy, which are allocated on the basis of estimates of time and effort.

Liquidity

RMHC has \$20,995,000 of financial assets available to meet cash needs for general expenditures within one year of the statement of financial position date, which consists of the current assets per the statement of financial position, reduced by \$6,672,000 of current assets not available for general use because of contractual or donor-imposed restrictions.

RMHC maintains financial assets, consisting of cash and short-term investments, on hand to meet its normal operating expenses based on its annual budget. Operating expenses are compared to budgeted expenses on a monthly basis and financial assets on hand are adjusted as necessary. As part of its liquidity management, RMHC invests cash in excess of daily requirements in various short-term investments. In addition, RMHC maintains a long-term reserve that allows for annual spending of 5% of assets based on a rolling 2 year average market value in addition to investment income and earnings, if needed. Appropriations of \$6,152,000 from the long-term reserve will be available within the next 12 months.

Income Tax Status

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

RMHC believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Income taxes for unrelated business income were \$5,000 and \$1,000 for the years ended December 31, 2018 and 2017, respectively.

Reclassifications

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

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 – SIGNIFICANT CONTRIBUTION

AbbVie, a research-based global biopharmaceutical company, provided a historic donation of \$100 million to RMHC in 2018. Of this donation, \$96,292,000 was designated to provide grants to 32 Chapters to build family-centered spaces and to add more than 600 new guest sleeping rooms in 26 states at 32 Ronald McDonald Houses. This will allow for approximately 230,000 additional night stays for pediatric patients and their families each year, helping Chapters to meet increasing demand and serve more families. Additionally, \$3,708,000 was designated to fund Chapter capacity building programs.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consists primarily of pledges, bequests, and split-interest agreements, as of the years ended December 31:

	2018	2017
	<i>(In Thousands)</i>	
Amounts due in:		
Less than one year	\$ 9,815	\$ 10,790
One to five years	454	648
More than five years	127	141
Total	10,396	11,579
Unamortized discount	(107)	(128)
Allowance for uncollectibles	(21)	(81)
Net contributions receivable	\$ 10,268	\$ 11,370

NOTE 4 - FAIR VALUE MEASUREMENTS

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

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

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

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

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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

	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at Cost	Total
	<i>(In Thousands)</i>				
Assets					
Investments					
Mutual funds:					
Domestic equity	\$ 11,126	\$ -	\$ -	\$ -	\$ 11,126
International equity	5,782	-	-	-	5,782
Global	67,396	-	-	-	67,396
Commodities	7,498	-	-	-	7,498
Bonds	9,361	-	-	-	9,361
U.S. Corporate equity securities	11,475	-	-	-	11,475
Private equity	-	-	-	367	367
Total investments	<u>\$ 112,638</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 367</u>	<u>\$ 113,005</u>
Split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 335</u>	<u>\$ -</u>	<u>\$ 335</u>

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

	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at Cost	Total
	<i>(In Thousands)</i>				
Assets					
Investments					
Mutual funds:					
Global	\$ 98,093	\$ -	\$ -	\$ -	\$ 98,093
Commodities	7,124	-	-	-	7,124
Bonds	3,221	-	-	-	3,221
U.S. Corporate equity securities	10,809	-	-	-	10,809
Private equity	-	-	-	321	321
Total investments	<u>\$ 119,247</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 321</u>	<u>\$ 119,568</u>
Split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 358</u>	<u>\$ -</u>	<u>\$ 358</u>

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of Level 3 split-interest agreements is determined by calculating the present value of future distributions expected to be received using published life expectancy tables and a discount rate of 3.6% in 2018 and 2.6% in 2017. Split-interest agreements are included in contributions receivable on the statements of financial position. There has been no change in valuation techniques from the prior year.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>2018</u>	<u>2017</u>
	<i>(In Thousands)</i>	
Beginning balance	\$ 358	\$ 409
Payments received	(48)	(48)
Change in value	25	(3)
Ending balance	<u>\$ 335</u>	<u>\$ 358</u>

Investments

Overall Investment Objective

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

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

	<u>2018</u>	<u>2017</u>
	<i>(In Thousands)</i>	
Interest and dividend income	\$ 2,652	\$ 2,636
Realized and unrealized gains (losses), net	(9,300)	12,354
Less investment expenses	(132)	(130)
Investment income (loss), net	<u>\$ (6,780)</u>	<u>\$ 14,860</u>

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

Private Equity Funds

RMHC invests in two private equity funds that seek long-term capital appreciation by making mainly equity and equity-related investments in conjunction with privately negotiated transactions. The investment strategies include management buyout, growth-equity transactions, special equity situations, and investments acquired in the secondary market. Redemptions are not permitted during the life of the fund. However, interests may be transferred with the written consent of the general partner if certain conditions are met. The invested funds were committed for a period of 10 years, originally set to expire in July 2016. To maximize the remaining value of the partnership assets, both funds were extended, one until July 2019 and the other until April 2020. Distributions are generally made when the funds receive income, but are at the discretion of the general partner. Unfunded commitments on these funds were approximately \$652,000 and \$653,000 as of December 31, 2018 and 2017, respectively.

NOTE 5 - GRANTS PAYABLE

Grants payable of \$9,318,000 and \$7,598,000 as of December 31, 2018 and 2017, respectively, are all due in less than one year.

There were \$5,366,000 and \$5,110,000 in contingent grants at December 31, 2018 and 2017, respectively. Contingent grants represent grants that have been approved by the board, but which will only be paid once certain criteria have been met.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2018	2017
	<i>(In Thousands)</i>	
Subject to expenditure for specific purpose:		
Program activities:		
Ronald McDonald House	\$ 2,424	\$ 105
Ronald McDonald Care Mobile	20	20
Local Chapter support	3,392	-
	5,836	125
Subject to passage of time:		
For periods after December 31	607	1,213
Total net assets with donor restrictions	\$ 6,443	\$ 1,338

**RONALD MCDONALD HOUSE CHARITIES, INC.
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NOTE 7 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

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

	<u>2018</u>	<u>2017</u>
	<i>(In Thousands)</i>	
Purpose restrictions accomplished:		
Ronald McDonald House	\$ 94,167	\$ 74
Ronald McDonald Care Mobile	20	20
Local Chapter support	370	100
	<u>94,557</u>	<u>194</u>
Time restrictions expired:		
Passage of specified time	735	2,075
Total restrictions released	<u>\$ 95,292</u>	<u>\$ 2,269</u>

NOTE 8 – DONATED GOODS AND SERVICES

RMHC received total donated goods and services of \$5,832,000 and \$5,088,000, for the years ended December 31, 2018 and 2017, respectively. Most of these donated goods and services are included in contribution revenue, with the rest included in special events revenue as they relate to specific events. Donated goods and services include support from McDonald's Corporation consisting of the free use of its facilities, equipment, materials, and employee services, which totaled \$5,168,000 and \$4,688,000, for the years ended December 31, 2018 and 2017, respectively.

NOTE 9 – RELATED PARTY TRANSACTIONS

RMHC provides ongoing program grants to all of its Chapters around the world. These program grants are pre-authorized by the board of RMHC for the benefit of all Chapters. The grants are available to all Chapters that meet the program parameters; as such, the individual grants do not require any additional board action. Grants totaling \$4,731,000 and \$1,907,000, during the years ended December 31, 2018 and 2017, respectively, were provided to Chapters where certain members of the RMHC board also serve as officers and/or directors of the Chapter.

RONALD MCDONALD HOUSE CHARITIES, INC.
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NOTE 10 – CONCENTRATIONS

McDonald's Corporation provides support to RMHC through donated goods and services (see Note 8), direct contributions, and facilitation of fundraisers at its company-owned and franchised restaurants, of which the proceeds collected are remitted to RMHC. Contributions from these efforts totaled \$38,413,000 and \$27,426,000, during the years ended December 31, 2018 and 2017, respectively. This represents 25% and 60% of total revenues, of which \$7,603,000 and \$7,375,000 are included in contributions receivable as of December 31, 2018 and 2017, respectively.

During the year ended December 31, 2018, RMHC received contributions totaling \$100,000,000 from Abbvie, Inc., which represents 66% of total revenues. All funds were received as of December 31, 2018.

NOTE 11 – SUBSEQUENT EVENT DISCLOSURES

Management evaluated subsequent events through May 8, 2019, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the financial statements.

NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE

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

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

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NOTE 13 – RECENT ACCOUNTING PRONOUNCEMENTS

Revenue from Contracts with Customers

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

Clarifying Scope and the Accounting Guidance for Contributions

In June 2018, the FASB issued amended guidance to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This amended guidance distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. For contributions, the guidance in Subtopic 958-605, *Not-for-Profit Entities—Revenue Recognition*, should be followed. For exchange transactions, Topic 606, Revenue from Contracts with Customers, should be followed. In addition, once a transaction is deemed to be a contribution, this amended guidance assists in determining whether a contribution is conditional or unconditional, and if unconditional, whether the transaction is donor-restricted for a limited purpose or timing. The guidance should be applied on a modified prospective basis. As a resource recipient, the guidance will be effective for RMHC for the year ending December 31, 2019. As a resource provider, the guidance will be effective for RMHC for the year ending December 31, 2020. Early adoption is permitted.

Leases

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of RMHC's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance will be effective for the year ending December 31, 2020. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on RMHC's financial statements.

This information is an integral part of the accompanying financial statements.

