

**Ronald McDonald House Charities Bay Area**

Financial Statements

December 31, 2018



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Ronald McDonald House Charities Bay Area  
Palo Alto, California

We have audited the accompanying financial statements of Ronald McDonald House Charities Bay Area (a California nonprofit corporation) (the "RMHCBA"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, 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.

### **Auditor's Responsibility**

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

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

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

### **Opinion**

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

**Change in Accounting Principle**

As described in Note 2 to the financial statements, Ronald McDonald House Charities Bay Area adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
San Jose, California

July 22, 2019

Ronald McDonald House Charities Bay Area  
Statement of Financial Position  
December 31, 2018

ASSETS

Current assets	
Cash and cash equivalents	\$ 5,575,340
Contributions and other receivables, net	834,673
Prepaid expenses	193,499
Investments	6,479,795
Beneficial use of land	<u>1,934,000</u>
Total current assets	<u>15,017,307</u>
Property and equipment, net	<u>41,486,566</u>
Noncurrent assets	
Contributions and other receivables, net of current portion	635,055
Investments, endowment	18,781,138
Beneficial use of land, net of current portion	<u>19,944,225</u>
Total noncurrent assets	<u>39,360,418</u>
Total assets	<u><u>\$ 95,864,291</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 70,091
Accrued expenses	550,390
Notes payable, net of discount	<u>505,000</u>
Total current liabilities	1,125,481
Notes payable, net of discount and current portion	<u>913,000</u>
Total liabilities	<u>2,038,481</u>
Net assets	
Without donor restrictions	51,863,800
With donor restrictions	<u>41,962,010</u>
Total net assets	<u>93,825,810</u>
Total liabilities and net assets	<u><u>\$ 95,864,291</u></u>

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

Ronald McDonald House Charities Bay Area  
Statement of Activities  
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains (losses), and other support			
Contributions	\$ 4,962,783	\$ 181,911	\$ 5,144,694
Special events revenue, net	1,333,798	-	1,333,798
Donated goods and services	1,196,628	1,757,976	2,954,604
Room donations	108,240	-	108,240
Program services revenue	264,630	-	264,630
Other revenue	308,278	-	308,278
Inherent contributions from acquisitions (See Note 3)	4,457,173	760,354	5,217,527
Net assets released from restriction	<u>4,491,552</u>	<u>(4,491,552)</u>	<u>-</u>
Total revenues, gains (losses), and other support	<u>17,123,082</u>	<u>(1,791,311)</u>	<u>15,331,771</u>
Functional expenses			
Program services	8,773,500	-	8,773,500
Management and administrative	427,907	-	427,907
Fundraising	<u>1,399,214</u>	<u>-</u>	<u>1,399,214</u>
Total functional expenses	<u>10,600,621</u>	<u>-</u>	<u>10,600,621</u>
Change in net assets from operations	6,522,461	(1,791,311)	4,731,150
Net investment income	<u>(337,170)</u>	<u>(1,403,205)</u>	<u>(1,740,375)</u>
Change in net assets	6,185,291	(3,194,516)	2,990,775
Net assets, beginning of year	<u>45,678,509</u>	<u>45,156,526</u>	<u>90,835,035</u>
Net assets, end of year	<u>\$ 51,863,800</u>	<u>\$ 41,962,010</u>	<u>\$ 93,825,810</u>

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

Ronald McDonald House Charities Bay Area  
Statement of Functional Expenses  
For the Year Ended December 31, 2018

	<u>Ronald McDonald Houses</u>	<u>Ronald McDonald Care Mobile</u>	<u>Total Program Services</u>	<u>Management and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel costs						
Salaries	\$ 2,035,039	\$ -	\$ 2,035,039	\$ 198,256	\$ 641,416	\$ 2,874,711
Payroll taxes	176,970	-	176,970	17,241	55,779	249,990
Employee benefits	<u>349,977</u>	<u>-</u>	<u>349,977</u>	<u>34,095</u>	<u>110,309</u>	<u>494,381</u>
Total personnel costs	2,561,986	-	2,561,986	249,592	807,504	3,619,082
Advertising	37,202	-	37,202	3,603	11,782	52,587
Automobile	3,647	-	3,647	-	-	3,647
Cleaning service	93,228	-	93,228	1,921	960	96,109
Depreciation	1,561,264	-	1,561,264	32,191	16,095	1,609,550
Donor acquisition	-	-	-	-	71,343	71,343
Donor recognition	-	-	-	-	100,838	100,838
Donor special events	-	-	-	-	157,097	157,097
House supplies - other	1,124,477	-	1,124,477	473	237	1,125,187
Grants	-	71,070	71,070	-	-	71,070
Insurance	54,464	-	54,464	1,172	586	56,222
Interest expense	210,037	-	210,037	4,331	2,165	216,533
Linens and laundry	76,045	-	76,045	-	-	76,045
Repairs and maintenance	113,142	-	113,142	2,244	1,122	116,508
Meetings and trainings	44,226	-	44,226	4,308	13,939	62,473
Office supplies	6,526	-	6,526	446	1,442	8,414
Outside contractors	63,563	-	63,563	4,154	15,040	82,757
Postage	2,095	-	2,095	203	658	2,956
Professional Fees	22,157	-	22,157	57,817	95,181	175,155
Printing	1,470	-	1,470	143	463	2,076
Rent, imputed	2,319,980	-	2,319,980	38,680	19,340	2,378,000
Technology	68,017	-	68,017	4,215	64,339	136,571
Telephone	48,158	-	48,158	819	410	49,387
Travel, meals and entertainment	10,386	-	10,386	862	2,789	14,037
Utilities	238,238	-	238,238	4,579	2,289	245,106
Volunteer	3,370	-	3,370	-	-	3,370
Other	<u>38,752</u>	<u>-</u>	<u>38,752</u>	<u>16,154</u>	<u>13,595</u>	<u>68,501</u>
	<u>\$ 8,702,430</u>	<u>\$ 71,070</u>	<u>\$ 8,773,500</u>	<u>\$ 427,907</u>	<u>\$ 1,399,214</u>	<u>\$ 10,600,621</u>

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

Ronald McDonald House Charities Bay Area  
Statement of Cash Flows  
For the Year Ended December 31, 2018

Cash flows from operating activities	
Change in net assets	\$ 2,990,775
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	1,609,550
Realized and unrealized loss on investments	2,179,472
Contributions restricted for capital campaign	(1,514,552)
Contributions to endowment	(3,525)
Amortization of discount on notes payable	195,000
Loss on disposal of property and equipment	39,732
Inherent contribution from acquisitions (See Note 3)	(5,217,527)
Changes in operating assets and liabilities	
Contributions and other receivables, net	1,958,219
Prepaid expenses	(106,003)
Beneficial use of land	176,029
Accounts payable	(38,821)
Accrued expenses	<u>(31,857)</u>
Net cash provided by operating activities	<u>2,236,492</u>
Cash flows from investing activities	
Proceeds from maturity of short-term certificates of deposit	499,290
Purchases of investments	(8,352,928)
Proceeds from the sale of investments	4,646,599
Purchases of property and equipment	(103,929)
Cash acquired from acquisitions (See Note 3)	<u>557,790</u>
Net cash used in investing activities	<u>(2,753,178)</u>
Cash flows from financing activities	
Capital campaign contributions	1,514,552
Payments on notes payable	(2,020,000)
Contributions to endowment	<u>3,525</u>
Net cash used in financing activities	<u>(501,923)</u>
Net decrease in cash and cash equivalents	(1,018,609)
Cash and cash equivalents, beginning of year	<u>6,593,949</u>
Cash and cash equivalents, end of year	<u>\$ 5,575,340</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ 24,900

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



Ronald McDonald House Charities Bay Area  
Notes to Financial Statements  
December 31, 2018

1. NATURE OF OPERATIONS

On January 1, 2018 the three local entities, Ronald McDonald House at Stanford ("RMH Stanford"), Ronald McDonald House of San Francisco, Inc. ("RMHSF") and Ronald McDonald House Charities of the Bay Area, Inc. ("RMHC") merged into one organization to better support families with children receiving essential pediatric care at partner hospitals (see Note 3). As part of this merger, the RMH Stanford Board of Directors amended its articles of incorporation, changing its name to Ronald McDonald House Charities Bay Area ("RMHCBA"). The mission of RMHCBA is to provide communities support, access to medical care, and the healing power of family and home for critically ill children.

We fulfill our mission through the operation of sustainable programs that enable family-centered care, bridge access to quality health care, are a vital part of the health care continuum and strengthen families during difficult times. The following programs represent the core functions of RMHCBA.

Ronald McDonald House Programs

When children must travel long distances to access top medical care, accommodations and support for families can be expensive or not readily available. Our Ronald McDonald House (RMH) programs offer short and long-term lodging, in-hospital and residential meal support, therapeutic support, recreational and wellness activities and educational programming for siblings and patients. Our program sites include a 123 bedroom Ronald McDonald House at Stanford (RMH Stanford) near Lucile Packard Children's Hospital and an 11 bedroom Ronald McDonald House of San Francisco (RMHSF) uniquely located inside UCSF Benioff Children's Hospital.

This family housing community is the best place for parents, siblings, and caregivers to be during a child's medical treatment at partner hospitals as we provide care, support, and sense of community to our patients' support networks. As the most program rich of nearly 400 Ronald McDonald Houses across the globe, RMH programs provide the families, patients and siblings the opportunity to enjoy activities that they would likely do in their own home. Many of these activities are led by volunteers and include Bingo Night, birthday and holiday celebrations, Furry Friends pet-assisted therapy, movie nights, gardening, scrap-booking, and arts and crafts. Relaxation and healing opportunities are provided through weekly massages and haircuts.

Our primary target population for housing services continues to be families who must travel long distances (50 miles or more) to access critical pediatric care, as well as any family, regardless of distance, whose child is awaiting heart, lung, liver, kidney, stem cell or bone marrow transplants. We also serve families from across the Western United States who need advanced, highly specialized levels of medicine that are not widely accessed in their home states. Of the families who stayed at a RMH in 2018, 85% came from California and 15% traveled from other states.

Ronald McDonald House Charities Bay Area  
Notes to Financial Statements  
December 31, 2018

1. NATURE OF OPERATIONS (continued)

The impact of the RMHCBA's comprehensive programming extends beyond those families who stay overnight. The Day Pass Program served approximately 23,000 individuals in 2018 and is available to families whose children are being treated at the partner hospitals but who are not staying overnight at RMH due to capacity constraints or geographical restrictions. The Day Pass Program runs daily from 9am to 9pm at RMH Stanford and 24-hours per day at RMHSF and allows families to enjoy the comfort and amenities of RMH, including the community kitchen, age-appropriate activity rooms, free laundry facilities, showers, restorative family activities, our free megaBITES meal program and food pantry, and more.

Our innovative Family Support Services (FSS) provides therapeutic support to families. Available 24-hours a day, FSS connects parents and children to supportive resources and helps them develop positive coping and communication skills through: new family welcome meetings; private individual and group support sessions; developmentally-appropriate Fun Club activities for patients, siblings and caregivers; parent workshops; and large-scale community events. FSS also provides staff and volunteer trainings to improve overall service delivery. Our grief and loss program provides support for families who lose a child for up to two years after they return home to their communities.

Our volunteer-run Happy Wheels hospitality carts bring comfort and care directly to families bedside, circulating partner hospitals through the common areas and on some units serving patients, siblings and family members on morning and evening shifts during the week. Happy Wheels provides hot beverages, snack service, and hygiene kits while keeping children entertained with books, fun activities and toys. In 2018, the Happy Wheels cart served over 10,000 individuals at partner hospitals.

Ronald McDonald Care Mobile

The Ronald McDonald Care Mobile ("RMCM") program provides oral health services to low-income children who would otherwise go without care. Through partnerships with local healthcare organizations, our RMCM programs in the South and East Bay Area are bringing essential oral health care services and education directly to those in need so children facing socioeconomic and cultural barriers to care can receive high quality convenient dental services and education. Each partner plays a critical role in providing RMCM services. RMHCBA supports this program through annual operating grants and providing the mobile clinic facility. Clinical partners and health care organizations provide dental screenings and services, patient registration, assistance with benefit enrollment, and assistance in identifying and establishing a connection to a dental and medical home for the child and the family. Health care partners also manage the mobile clinic and program coordination.

Ronald McDonald House Charities Bay Area  
Notes to Financial Statements  
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements 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 nets assets without donor restriction class.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. The RMHCBA recognizes support from net assets with donor restrictions when the restrictions imposed by the donors have been satisfied or expired. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as contributions without donor restrictions.

Use of estimates

The preparation of financial statements in conformity with U.S. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of short-term, highly liquid investments with original maturity dates of three months or less and exclude cash held in managed investment accounts or certificates of deposit.

Contributions and other receivables

Unconditional promises to give are recorded at their net realizable value. If such promises to give are due in more than one year, they are discounted to the present value of their estimated future cash flows using a discount rate commensurate with the risks involved. Reserves for potential uncollectable contributions receivable are maintained based on historical credit losses and management's expectations.

Ronald McDonald House Charities Bay Area  
Notes to Financial Statements  
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Beneficial use of land

The Ronald McDonald House at Stanford and its facilities are located on a leased parcel of land for which the rental payments are below market rates (see Note 5). The arrangement was recognized as a contribution at inception, and the difference between fair rental value and the stated lease payments is recognized as a lease contribution receivable on the Statement of Financial Position. The receivable has been discounted to its net present value and is amortized to in-kind rent expense. The discount is amortized to donated goods and services revenue over the term of the lease.

Investments

Investments consist of money market funds, marketable equity securities and debt securities and are stated at fair values using quoted market prices. Unrealized and realized gains and losses include investment management fees and are reflected in the Statement of Activities.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the RMHCBA uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. Observable inputs are inputs market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the RMHCBA. Unobservable inputs are inputs that reflect the RMHCBA's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of financial instruments:

- *Level 1* - Investments include quoted prices (unadjusted) in active markets for identical investments RMHCBA has the ability to access at the measurement date.
- *Level 2* - Investments include other significant observable inputs (including quoted prices for similar instruments, interest rates, prepayment terms, credit risk, etc.).
- *Level 3* - Investments include significant unobservable inputs (including RMHCBA's own assumptions in determining fair value instruments).

The category within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Ronald McDonald House Charities Bay Area  
Notes to Financial Statements  
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are recorded at cost, if purchased, and at estimated fair value, if donated, provided there is an objective basis for determining the value. Depreciation is calculated on the straight-line basis using an estimated useful life of 5 to 7 years for furniture and equipment and 30 and 32 years for the renovated and new buildings, respectively.

Expenditures for major renewals and betterments are capitalized, while expenditures for maintenance and repairs, which do not improve assets or extend their useful lives, are charged to expense as incurred. When property is retired, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized.

Long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets' carrying value is adjusted to fair value.

Contributions and revenue

Contributions, including unconditional promises to give, are recognized as revenues, at fair value, in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Special event revenue is recognized when the event is held. Goods and services donated for the special events are recognized as in-kind revenue and expense at their estimated fair value on the date donated.

Donated stock, materials and equipment are recorded as contributions at their estimated fair value on the date of receipt. Such donations are reported as without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Absent explicit donor stipulations about how long those long-lived assets must be maintained, RMHCBA reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

RMHCBA is the beneficiary under various wills and trust agreements. Such amounts are recognized in the RMHCBA's financial statements as bequests receivable and planned gifts when they become unconditional, clear title is established, and the proceeds are measurable. As of December 31, 2018, no bequests receivable are outstanding.

Ronald McDonald House Charities Bay Area  
Notes to Financial Statements  
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated goods and services

Donated goods and services are reflected at the fair value of the contribution received. The contributions of goods and services are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Volunteer services

For the year ended December 31, 2018, the RMHCBA benefited from approximately 27,000 hours of volunteer assistance. The value of this contributed time is not reflected in these financial statements because the criteria for recognition have not been met.

Functional expense allocation

Costs of providing RMHCBA's programs and other activities have been allocated between program services, management and administrative, and fundraising functional expenses based upon employees' time spent in each function and an allocation based upon square footage of facilities used.

Income tax status

The RMHCBA has been granted tax-exempt status under Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code. In addition, the House has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. However, the RMHCBA is subject to taxes on income, if any, that is unrelated to its exempt purpose. The RMHCBA evaluated its current tax positions and has concluded that as of December 31, 2018, the RMHCBA does not have any significant uncertain tax positions for which a reserve would be necessary.

Subsequent events

Subsequent events have been evaluated through July 22, 2019, which is the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the RMHCBA's financial statements.

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. RMHCBA adopted the provisions of this new standard in 2018 and has applied the changes on a retrospective basis. The new standard changes the following aspects of the financial statements:

- Unrestricted net asset class has been renamed Net Assets Without Donor Restrictions;

Ronald McDonald House Charities Bay Area  
Notes to Financial Statements  
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

- 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 16);
- Investment expenses are included in net investment return.

3. ACQUISITION

On January 1, 2018 RMH Stanford acquired RMHSF and RMHC. Subsequently, the name of the new entity was changed to Ronald McDonald House Charities Bay Area (RMHCBA). As one entity, RMHCBA will be able to better support families with children receiving essential pediatric care at partner hospitals in the greater Bay Area. RMHCBA will sustain core programs through two Ronald McDonald Houses and through two Ronald McDonald Care Mobiles. Additionally, as a combined entity, RMHCBA will realize greater efficiencies overall and continue efforts to enhance programs and services that benefit families. No consideration was transferred as part of the transaction.

The following table summarizes the fair values of identifiable assets acquired and liabilities assumed at the acquisition date, January 1, 2018:

Financial assets	\$ 5,217,126
Property and equipment	152,237
Liabilities	<u>(151,836)</u>
	<u>\$ 5,217,527</u>

On the statement of activities, the inherent contribution received was recognized as an increase to net assets as follows:

With donor restrictions	\$ 4,457,173
Without donor restrictions	<u>760,354</u>
	<u>\$ 5,217,527</u>

Ronald McDonald House Charities Bay Area  
Notes to Financial Statements  
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4. CONTRIBUTIONS AND OTHER RECEIVABLES, NET

Contributions and other receivables, net consist of the following at December 31, 2018:

Capital campaign	\$ 1,277,356
General purposes	356,139
	1,633,495
Allowance for doubtful accounts	(66,533)
Discount to net present value	(97,234)
	\$ 1,469,728

Net receivables are anticipated to be collected as follows:

Within 1 year	\$ 834,673
From 1 to 5 years	635,055
	\$ 1,469,728

5. BENEFICIAL USE OF LAND

The Ronald McDonald House at Stanford is located on a leased parcel of land in Palo Alto, California. The terms of the lease require an annual rental payment of \$1.00 through the year 2048. RMHCBA recognized as revenue and a contribution receivable the difference between the fair rental value of the property and the present value of the stated amount of the lease payment at the date of contribution.

Beneficial use of land consisted of the following:

Noncurrent portion of beneficial use of land	\$ 55,205,985
Less: discount to net present value	(35,261,760)
	19,944,225
Current portion of beneficial use of land	1,934,000
	\$ 21,878,225



Ronald McDonald House Charities Bay Area  
Notes to Financial Statements  
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6. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the RMHCBA's assets at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3	Fair Value
Investments				
Money market funds	\$ 356,861	\$ -	\$ -	\$ 356,861
Debt securities	8,402,066	-	-	8,402,066
Equity securities	<u>16,502,006</u>	<u>-</u>	<u>-</u>	<u>16,502,006</u>
	<u>25,260,933</u>	<u>-</u>	<u>-</u>	<u>25,260,933</u>
	<u>\$ 25,260,933</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,260,933</u>

Management fees paid to external investment advisors were \$98,004 and are included in net investment income in the Statement of Activities.

7. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Non depreciable assets	
Artwork	<u>\$ 165,737</u>
Depreciable assets	
Building	50,642,063
Furniture and equipment	<u>876,296</u>
	<u>51,684,096</u>
Accumulated depreciation	<u>(10,197,530)</u>
	<u>\$ 41,486,566</u>

Ronald McDonald House Charities Bay Area  
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8. NOTES PAYABLE

In 2015, RMH Stanford, prior to its name change to RMHCBA, entered into a credit agreement with the David and Lucile Packard Foundation (the "Credit Agreement"). The Credit Agreement provides for a term loan of up to \$10,000,000 to be used to bridge-finance pledge commitments to pay costs for constructing the new 3-story, 52,000 square foot facility. Borrowings bear interest at one percent (1%) per year. In 2015, a fair market interest rate of 3.5% was used to impute discounted interest and recognize a \$277,000 contribution and resulting debt discount. The discount is being amortized to interest expense over the term of the note. During 2015, RMH Stanford was advanced a total of \$8,410,000. Principal payments were scheduled based on the pledge commitments with principal and interest due on November 1 and May 1 of each year. All unpaid accrued interest and principal are due on or before October 16, 2020. During 2018, RMHCBA repaid \$1,785,000 of the funds previously advanced.

In 2016, RMH Stanford entered into a second credit agreement with the David and Lucile Packard Foundation (the "Second Credit Agreement"). The Second Credit Agreement provides for a term loan of up to \$5,310,000 to be used to bridge-finance pledge commitments to pay costs for renovating and expanding RMH Stanford's original facility. Borrowings bear interest at one percent (1%) per year. In 2017, a fair market interest rate of 3.5% was used to impute discounted interest and recognize an \$81,000 contribution and resulting debt discount. The discount is being amortized to interest expense over the term of the note. During 2017, RMH Stanford was advanced a total of \$1,245,000. Principal payments were scheduled based on the pledge commitments with principal and interest due on November 1 and May 1 of each year. All unpaid accrued interest and principal are due on or before the five year anniversary of the last principal advance. During 2018, RMHCBA repaid \$235,000 of the funds previously advanced.

Notes payable consisted of the following:

Principal	\$ 1,480,000
Less: Unamortized discount	<u>(62,000)</u>
	<u>\$ 1,418,000</u>

The future maturities of the notes payable are as follows:

<u>Year ending December 31,</u>	
2019	\$ 505,000
2020	309,000
2021	<u>604,000</u>
	<u>\$ 1,418,000</u>

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9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following:

Beneficial use of land, net	\$ 21,878,225
Time or purpose restrictions	1,302,647
Subject to RMHCBA's spending policy and appropriation:	
Amounts required to be maintained in perpetuity	9,803,366
Unexpended endowment earnings	<u>8,977,772</u>
	<u><u>\$ 41,962,010</u></u>

Net assets with donor restrictions released during the year were as follows:

Beneficial use of land, net	\$ 1,934,000
Purpose restrictions	263,000
Capital campaign	1,514,552
Appropriation of endowment earnings	<u>780,000</u>
	<u><u>\$ 4,491,552</u></u>

10. ENDOWMENT

RMHCBA's endowment consists of four individual funds established by donors to provide annual funding for general operations.

Interpretation of relevant law

The Board of Directors of RMHCBA has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair market value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, RMHCBA 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.

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10. ENDOWMENT (continued)

Interpretation of relevant law (continued)

In accordance with UPMIFA, the RMHCBA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Return objectives and risk parameters

RMHCBA has adopted investment and spending policies for endowment assets with the philosophy that RMHCBA is to exist in perpetuity, and therefore, should provide for spending in perpetuity. To attain this goal, the overriding objective of RMHCBA is to maintain purchasing power while preserving the endowment corpus. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to grow the aggregate portfolio value at the rate of the Bay Area Consumer Price Index plus 4.5% over RMHCBA's investment horizon while assuming a moderate level of investment risk. RMHCBA expects its endowment funds, over time, to provide an average rate of return of approximately 7.5% annually. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, RMHCBA relies on a total return strategy in which investment returns are achieved through both capital and appreciation (realized and unrealized) and current yield (interest and dividends).

Spending policy and how the investment objectives relate to the spending policy

RMHCBA has a policy that provides the Board of Directors the discretion to spend up to 4.5% of the three year rolling average of the actual fund's value. In establishing this policy, RMHCBA considered the long-term expected return on its endowment. Accordingly, over the long term, RMHCBA expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment returns. Additionally, the Board of Directors also considers the guidance of UPMIFA in determining the annual spending allocation which provides a prudent spending allocation of up to 7% of the prior three year average. During 2018, the Board of Directors appropriated \$780,000 representing 4.4% of the prior three year average, for expenditure on operations.

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10. ENDOWMENT (continued)

Endowment composition

Changes in endowment net assets for the year ended December 31, 2018 is as follows:

	With Donor Restrictions
Balance, beginning of year	\$ 20,213,983
Investment return	
Investment income	488,016
Net realized/unrealized loss on investment	(1,891,221)
Total investment return	(1,403,205)
Contributions	3,525
Inherent contribution from the acquisition of RMHSF	746,835
Amounts appropriated for expenditure	(780,000)
	(1,432,845)
Balance, end of year	\$ 18,781,138

11. RETIREMENT PLAN

RMHCBA maintains a tax deferred 403(b) plan for all eligible employees. After 12 months of service, RMHCBA generally contributes 5% of eligible full time employees' compensation beginning with their respective plan entry date. RMHCBA made contributions of \$90,592 to the plan for the year ended December 31, 2018. RMHCBA paid \$2,281 for the plan's administration costs during the year ended December 31, 2018.

12. CONCENTRATIONS OF RISK

RMHCBA has defined its financial instruments which are potentially subject to credit risk as cash, receivables, and investments.

At December 31, 2018, RMHCBA had cash deposits in excess of federally insured limits. Investments are subject to a formal investment policy. RMHCBA attempts to limit its credit risk associated with cash equivalents and marketable securities by utilizing outside advisors and managers to place its investments with highly rated corporate and financial institutions.

The majority of RMHCBA's revenue is derived from public and private donations, along with several fundraising events scheduled throughout the year. The success of these events could vary from year to year. Contributions receivable are due from various individuals which mitigate the risk associated therein.

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12. CONCENTRATIONS OF RISK (continued)

RMHCBA had two donors that accounted for approximately 69% of contributions and other receivables as of December 31, 2018 and two donors that accounted for approximately 43% of contribution revenue for the year then ended.

13. RELATED PARTY TRANSACTIONS

Approximately \$854,000 of net contributions receivable are due from Board members and staff at December 31, 2018. RMHCBA received approximately \$303,000 in donations from Board members and staff in 2018.

14. IN-KIND EXPENSES

Donated goods and services consisted of the following:

Beneficial use of land, Stanford	\$ 1,934,000
Rent, San Francisco	444,000
Cleaning services and supplies	418,676
Toys, games and family events	310,444
Professional services and other	<u>22,908</u>
	<u>\$ 3,130,028</u>

15. COMMITMENTS

RMHSF leases their facilities in Pacific Heights and Mission Bay districts of San Francisco, California under various noncancelable operating leases with The Regents of the University of California, on behalf of UCSF Benioff Children's Hospital ("UCSF") through November 2026 and February 2020, respectively, with an option to renew every 5 years after the date of its expiration. The lease agreements provide for RMHSF to pay an annual lease payment of \$1 per facility. RMHCBA has elected to report the fair market value of the rent as a donation to match with the expense on an annual ongoing basis. The difference between the fair market value of the rent and actual rent paid is recorded as contributions received and rent expense. For the year ended December 31, 2018 the value of the donated rent was approximately \$444,000.

16. LIQUIDITY AND FUNDS AVAILABLE

RMHCBA has financial assets available to meet cash needs for general expenditures within one year of the statement of financial position date comprised of \$5,575,340 of cash, \$6,479,795 of investments and \$199,769 of receivables. Investments held have no redemption restrictions and may be liquidated as needed; however, RMHCBA intends to hold, or reinvest as needed, its investments for the purpose of generating investment income and does not anticipate liquidating such funds within one year. None of these available financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

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16. LIQUIDITY AND FUNDS AVAILABLE (continued)

As part of its liquidity management, RMHCBA maintains financial assets 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. During 2019, RMHCBA plans to formalize internal limitations on the use of cash and investments for purposes of establishing long-term operating reserves, property repair and replacement reserves, and/or a board-designated endowment.

In addition, as discussed in Note 8, RMHCBA holds a balance outstanding on a note payable for which principal payments are scheduled based on the timing of donor pledge payments.