

RONALD MCDONALD HOUSE
CHARITIES OF OREGON AND
SOUTHWEST WASHINGTON

Audited Financial Statements

For the Years Ended
December 31, 2018 and 2017



MCDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Ronald McDonald House Charities
of Oregon and Southwest Washington

We have audited the accompanying financial statements of Ronald McDonald House Charities of Oregon and Southwest Washington (a nonprofit corporation), 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.

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 organization'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 organization'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 Oregon and Southwest Washington as of December 31, 2018 and 2017, and 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.

McDonald Jacobson, P.C.

Portland, Oregon
May 1, 2019

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,098,277	\$ 1,529,220
Accounts receivable	42,498	40,735
Pledges receivable	147,178	198,336
Prepaid expenses	47,308	57,209
Note receivable - current portion	14,421	15,203
Short-term investments	2,184,771	2,172,954
Total current assets	4,534,453	4,013,657
Investments	7,636,279	8,218,438
Pledges receivable, less current portion	-	33,333
Note receivable, less current portion	7,032	22,507
Bargain land lease contributions receivable, net	198,284	223,363
Property and equipment, net	4,859,968	3,946,959
 TOTAL ASSETS	 \$ 17,236,016	 \$ 16,458,257
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 86,337	\$ 24,057
Accrued expenses	109,831	111,635
Deferred revenue	10,189	11,950
Total current liabilities	206,357	147,642
Net assets:		
Without donor restrictions	12,293,614	12,630,354
With donor restrictions	4,736,045	3,680,261
Total net assets	17,029,659	16,310,615
 TOTAL LIABILITIES AND NET ASSETS	 \$ 17,236,016	 \$ 16,458,257

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON

STATEMENT OF ACTIVITIES
For the year ended December 31, 2018

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Public support:			
Gross revenue from special events	\$ 1,164,116	\$ -	\$ 1,164,116
Less direct benefit costs	<u>(249,774)</u>	<u>-</u>	<u>(249,774)</u>
Special events, net	914,342	-	914,342
Donations and grants	1,098,679	532,170	1,630,849
Promotions and third party	802,235	-	802,235
Bargain land lease contributions	-	43,796	43,796
Contributions in-kind	2,191,193	-	2,191,193
Net assets released from restrictions	<u>256,538</u>	<u>(256,538)</u>	<u>-</u>
Total public support	5,262,987	319,428	5,582,415
Revenues and other income:			
Program service revenue	122,515	-	122,515
Investment income, net	122,635	46,919	169,554
Realized/unrealized loss on investments	(336,744)	(174,003)	(510,747)
Other income	<u>16,920</u>	<u>-</u>	<u>16,920</u>
Total support and revenue	<u>5,188,313</u>	<u>192,344</u>	<u>5,380,657</u>
Expenses:			
Program services	4,295,826	-	4,295,826
Management and general	247,518	-	247,518
Fundraising	976,350	-	976,350
Unallocated payments to RMHC Global	<u>52,503</u>	<u>-</u>	<u>52,503</u>
Total expenses	<u>5,572,197</u>	<u>-</u>	<u>5,572,197</u>
Change in net assets from operations	(383,884)	192,344	(191,540)
Non-operating activities:			
Capital campaign - contributions	<u>47,144</u>	<u>863,440</u>	<u>910,584</u>
Change in net assets	(336,740)	1,055,784	719,044
Net assets:			
Beginning of year	<u>12,630,354</u>	<u>3,680,261</u>	<u>16,310,615</u>
End of year	<u>\$ 12,293,614</u>	<u>\$ 4,736,045</u>	<u>\$ 17,029,659</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON

STATEMENT OF ACTIVITIES
For the year ended December 31, 2017

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Public support:			
Gross revenue from special events	\$ 1,133,602	\$ -	\$ 1,133,602
Less direct benefit costs	<u>(343,895)</u>	<u>-</u>	<u>(343,895)</u>
Special events, net	789,707	-	789,707
Donations and grants	1,071,744	85,674	1,157,418
Promotions and third party	806,429	-	806,429
Bargain land lease contributions	-	41,253	41,253
Contributions in-kind	1,726,654	-	1,726,654
Net assets released from restrictions	<u>690,156</u>	<u>(690,156)</u>	<u>-</u>
Total public support	5,084,690	(563,229)	4,521,461
Revenues and other income:			
Program service revenue	130,320	-	130,320
Investment earnings, net	83,376	33,805	117,181
Realized/unrealized gain on investments	631,372	285,173	916,545
Other income	<u>27,608</u>	<u>-</u>	<u>27,608</u>
Total support and revenue	<u>5,957,366</u>	<u>(244,251)</u>	<u>5,713,115</u>
Expenses:			
Program services	3,764,251	-	3,764,251
Management and general	193,262	-	193,262
Fundraising	835,866	-	835,866
Unallocated payments to RMHC Global	<u>60,465</u>	<u>-</u>	<u>60,465</u>
Total expenses	<u>4,853,844</u>	<u>-</u>	<u>4,853,844</u>
Change in net assets from operations	1,103,522	(244,251)	859,271
Non-operating activities:			
Capital campaign - contributions	<u>221,715</u>	<u>636,742</u>	<u>858,457</u>
Change in net assets	1,325,237	392,491	1,717,728
Net assets:			
Beginning of year	<u>11,305,117</u>	<u>3,287,770</u>	<u>14,592,887</u>
End of year	<u>\$ 12,630,354</u>	<u>\$ 3,680,261</u>	<u>\$ 16,310,615</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, taxes and benefits	\$ 1,497,381	\$ 166,085	\$ 463,297	\$ 2,126,763
Professional services	51,437	58,029	228,242	337,708
Donation box collection and maintenance	-	-	57,448	57,448
In-kind use of facility	1,290,706	-	-	1,290,706
House services and supplies	764,166	-	2,284	766,450
Land lease	68,875	-	-	68,875
Utilities	123,417	1,675	5,633	130,725
Depreciation and amortization	316,051	7,021	38,438	361,510
Repairs and maintenance	16,678	-	-	16,678
Insurance	34,339	2,149	7,706	44,194
Office and IT expenses	83,210	4,776	132,654	220,640
Other fundraising activities	-	-	249,774	249,774
Travel, conferences and meetings	19,345	2,209	20,685	42,239
Volunteer recruitment and management	15,215	3,679	12,062	30,956
Other operating expenses	15,006	1,895	7,901	24,802
	<u>4,295,826</u>	<u>247,518</u>	<u>1,226,124</u>	<u>5,769,468</u>
Less expenses included with revenue on statement of activities	-	-	(249,774)	(249,774)
Unallocated payments to RMHC Global	-	-	-	52,503
Total expenses	<u>\$ 4,295,826</u>	<u>\$ 247,518</u>	<u>\$ 976,350</u>	<u>\$ 5,572,197</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, taxes and benefits	\$ 1,294,270	\$ 123,725	\$ 411,406	\$ 1,829,401
Professional services	36,939	41,572	193,794	272,305
Donation box collection and maintenance	-	-	57,530	57,530
In-kind use of facility	1,215,661	-	-	1,215,661
House services and supplies	496,278	-	-	496,278
Land lease	67,365	-	-	67,365
Utilities	120,513	1,451	5,175	127,139
Depreciation and amortization	293,970	6,473	36,795	337,238
Repairs and maintenance	94,545	-	-	94,545
Insurance	30,162	2,119	6,230	38,511
Office and IT expenses	67,208	5,367	91,144	163,719
Other fundraising activities	-	-	343,895	343,895
Travel, conferences and meetings	17,162	2,992	17,188	37,342
Volunteer recruitment and management	12,686	9,069	11,975	33,730
Other operating expenses	17,492	494	4,629	22,615
	<u>3,764,251</u>	<u>193,262</u>	<u>1,179,761</u>	<u>5,137,274</u>
Less expenses included with revenue on statement of activities	-	-	(343,895)	(343,895)
Unallocated payments to RMHC Global	-	-	-	<u>60,465</u>
Total expenses	<u>\$ 3,764,251</u>	<u>\$ 193,262</u>	<u>\$ 835,866</u>	<u>\$ 4,853,844</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 719,044	\$ 1,717,728
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Cash from contributions restricted for capital improvements	(863,440)	(636,742)
Net realized and unrealized (gain) loss on investments	510,747	(916,545)
Donated construction materials and services	(335,558)	(34,890)
Depreciation and amortization	361,510	337,238
(Increase) decrease in:		
Accounts and pledges receivable	82,728	(38,616)
Prepaid expenses	9,901	20,206
Bargain land lease contributions receivable	25,079	26,111
Increase (decrease) in:		
Accounts payable and accrued expenses	60,476	(88,512)
Deferred revenue	(1,761)	11,950
Net cash flows from operating activities	568,726	397,928
Cash flows from investing activities:		
Purchase of property and equipment	(938,961)	(247,097)
Purchase of investments	(5,465,797)	(8,846,166)
Payments received on notes receivable	16,257	16,257
Proceeds from the sale of investments	5,525,392	8,160,869
Net cash flows from investing activities	(863,109)	(916,137)
Cash flows from financing activities:		
Cash from contributions restricted for capital improvements	863,440	636,742
Net cash flows from financing activities	863,440	636,742
Net change in cash and cash equivalents	569,057	118,533
Cash and cash equivalents - beginning of year	1,529,220	1,410,687
Cash and cash equivalents - end of year	\$ 2,098,277	\$ 1,529,220

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

I. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Ronald McDonald House Charities of Oregon and Southwest Washington (RMHC or the Organization) is a non-profit corporation, incorporated in 1982 under the laws of the State of Oregon. RMHC's House Program, its cornerstone program, provides temporary lodging, comfort, family based activities and general support for families of seriously ill and injured children who are being treated at medical facilities in the communities of Portland and Bend, Oregon.

RMHC operates three residential facilities, in Portland and Bend, as part of the House Program. A 25-room East House, located on the campus of Legacy Emanuel Medical Center in Northeast Portland, is owned by the Organization on leased land. A 25-room West House Waterfront, located on the fifth floor of the Marriott Residence Inn RiverPlace, is under a management agreement with Oregon Health and Science University. RMHC also operates a 6-room Bend House located on the campus of St. Charles Hospital, which is owned by the Organization on leased land.

In 2018, these three houses supported over 2,740 families, and 2,750 children.

The RMHC Hospitality Cart Program operates at Randall Children's Hospital, Doernbecher Children's Hospital, and Salem Hospital. This in-hospital program supports children and families by providing free food, refreshments, and comfort care items on a fully stocked cart that travels between the hospital's neonatal ICU, pediatric ICU, and acute-care floors. This program is staffed 100% by volunteers.

In 2018, the three Hospitality carts served 7,283 children and family members.

The principal sources of revenue for RMHC are donations from individuals, businesses and organizations. McDonald's Corporation, together with its local franchisees, contributes to RMHC through national and local promotions, and facilitates donations from their customers through the donation box program and other initiatives. Additionally, state insurance programs are billed if insurance coverage is available; however, insurance is not required.

Basis of Accounting

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

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2018 and 2017

I. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Net Assets

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

- *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* - Net assets subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. 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.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents included with investments are considered investments.

Accounts Receivable

Accounts receivable from insurance billings and hospital partners are reported at the amount management expects to collect on balances outstanding at year-end. Management provides for potentially uncollectible amounts through a valuation allowance based on its assessment of the current status of individual accounts. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial.

Pledges Receivable

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Organization is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Short-Term Investments

Short-term investments are comprised of money market funds and certificates of deposit, which are classified as held-to-maturity and are carried at their fair value based on the quoted market prices. Net realized and unrealized gains and losses on short-term investments are recorded in the statement of activities. For purpose of determining realized gains and losses, the cost of securities sold is based on specific identification.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2018 and 2017

1. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Investments

All investments are recorded at fair value, based on quoted market prices. Any unrealized gain or loss related to holding investments is recorded in the statement of activities. Donor-restricted investment income earned on net assets with perpetual donor restrictions is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the investment income is recognized. All other donor-restricted investment income is reported as an increase in net assets with donor restrictions and classified according to the nature of the restriction. Interest and dividend income is accrued as earned and reported net of investment advisory fees.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment purchased are recorded at cost. Projects that were started, but not completed at the end of each year are included in construction in progress. Donated assets are reflected as contributions at their estimated values on the date received. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, generally 39 years for buildings, 10 to 30 years for building improvements, and 3 to 10 years for furniture, equipment and vehicles. Repairs and maintenance are charged to expense when incurred.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount, or fair value less costs to sell.

Contributions In-Kind

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would be purchased if not provided by donation. These donated services are recognized at fair value. Donations of property, equipment, materials and other assets, including donated facility usage, are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2018 and 2017

I. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Contributions In-Kind, Continued

During the years ended December 31, 2018 and 2017, the Organization recorded the following in-kind contributions:

	<u>2018</u>	<u>2017</u>
Programs	\$ 549,077	\$ 352,912
Special events	15,852	123,191
Property and equipment	335,558	34,890
Donated facility *	<u>1,290,706</u>	<u>1,215,661</u>
Total contributions in-kind	<u>\$ 2,191,193</u>	<u>\$ 1,726,654</u>

*The Organization received donated facility usage for the West House Waterfront residential location.

In addition, in 2018 and 2017, the Organization received over 24,000 and 20,000 hours, respectively, of volunteer service from volunteers who assist in various capacities, including house operations, family centered programming, fundraising and management oversight by the Board of Trustees. No amounts have been reflected in the financial statements related to these donated services as they do not meet the criteria cited above.

Donations of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about the duration these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Income Tax Status

Ronald McDonald House Charities is a nonprofit corporation exempt from income tax under section 501(c)(3) of the Internal Revenue Code and applicable state law. Based on certain tax law changes, the Organization may be subject to unrelated business income tax. Any provision for income taxes associated with these changes is estimated to be immaterial. The Organization has no other activities subject to unrelated business income tax. The Organization is not a private foundation.

The Organization follows the provisions of FASB ASC Topic 740 *Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2018 and 2017

I. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy, depreciation, insurance and utilities, which are allocated on a square footage basis, as well as salaries and related costs, professional services, office expenses, information technology, and other, which are allocated on the basis of estimates of time and effort.

Change in Accounting Principle

The Organization has implemented Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Update modified net asset classification and enhances disclosures regarding liquidity and availability of resources and functional expense reporting. The Update has been applied retrospectively to all periods presented.

Annuities

Any annuities held by the Organization are fully reinsured; as such, no liability has been recorded in the financial statements.

Advertising

Advertising expenditures are expensed when incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

The Organization has evaluated all subsequent events through May 1, 2019, the date the financial statements were available to be issued.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2018 and 2017

2. AVAILABLE RESOURCES AND LIQUIDITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its primary operations to be general expenditures. It excludes financial assets with donor or other restrictions limiting their use.

	Total Financial Assets	Donor Restricted	Board Restricted	Available for General Expenditure
Financial assets at year-end:				
Cash and cash equivalents	\$ 2,098,277	\$ 1,136,216	\$ -	\$ 962,061
Accounts receivable	42,498	-	-	42,498
Pledges receivable	147,178	68,334	-	78,844
Note receivable	14,421	-	-	14,421
Short-term investments	2,184,771	-	1,307,496	877,275
Investments	<u>7,636,279</u>	<u>2,428,125</u>	<u>5,208,154</u>	<u>-</u>
Total financial assets at year-end	<u>\$ 12,123,424</u>	<u>\$ 3,632,675</u>	<u>\$ 6,515,650</u>	<u>\$ 1,975,099</u>

The Organization's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. While the corpus of the donor-restricted endowments is not available for general use, the income from donor-restricted endowments is restricted until appropriated by the Board for general expenditure and subject to the annual spending rate of 4%. The Board-designated endowment of \$5.2 million is also subject to the annual spending rate of 4% as described in Note 11. The Organization does not intend to use funds from the board-designated endowment (other than amounts appropriated for general expenditure as a part of the annual budget approval and appropriation by the Organization's Board), but these amounts could be made available, if necessary, with a Board vote.

Within short-term investments, the Board has designated \$1.3 million to support building maintenance and special projects. The Organization's intent is to use these funds for large one-time expenses outside the realm of operations. However, the funds could also be made available for general expenditure with a Board vote.

As a part of the Organization's liquidity management plan, it may invest cash in excess of its operating reserve requirements in short-term investments or the endowment to maximize earnings.

RONALD MCDONALD HOUSE CHARITIES
OF OREGON AND SOUTHWEST WASHINGTON
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2018 and 2017

3. ACCOUNTS AND PLEDGES RECEIVABLE

Accounts and pledges receivable are unsecured and consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Insurance billing and hospital partners	\$ 42,498	\$ 15,935
Other receivables	<u>-</u>	<u>24,800</u>
Total accounts receivable	42,498	40,735
Pledges receivable - due within one year	147,178	198,336
Pledges receivable - due in two to five years	<u>-</u>	<u>33,333</u>
Total accounts and pledges receivables	<u>\$ 189,676</u>	<u>\$ 272,404</u>

4. NOTE RECEIVABLE

The Central Oregon chapter entered into a property sale agreement with an original amount of \$138,375. Under the terms of the agreement, the Organization will receive monthly payments in the amount of \$1,355 including interest at 3.29% through June 2020. Future principal payments are as follow:

	<u>2018</u>	<u>2017</u>
Current portion	\$ 14,421	\$ 15,203
Long-term portion	<u>7,032</u>	<u>22,507</u>
	<u>\$ 21,453</u>	<u>\$ 37,710</u>

5. SHORT-TERM INVESTMENTS

Short-term investments at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Certificates of deposit	\$ 2,067,701	\$ 2,163,453
Money market funds	<u>117,070</u>	<u>9,501</u>
Total short-term investments	<u>\$ 2,184,771</u>	<u>\$ 2,172,954</u>

Certificates of deposit are recorded at the value reported by the bank, which approximates market value. Interest earned on the certificates ranges from 1.55% to 2.8% at December 31, 2018 and 1.25% to 1.9% at December 31, 2017. The certificates mature at various dates through September 2020 and are expected to be held to maturity. Money market funds are expected to be held for over ninety days and are considered to be short-term investments.

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6. INVESTMENTS

Long-term investments are summarized as follows at December 31, 2018 and 2017:

	2018	2017
Endowment:		
Money market funds	\$ 494,123	\$ 278,286
Fixed income	2,676,443	2,484,016
Mutual funds and other investments	4,204,228	5,175,550
Beneficial interest in assets held	261,485	280,586
Total long-term investments	\$ 7,636,279	\$ 8,218,438

Long-term investments consist of the endowment funds (see Note 11) and other investments with maturities greater than one year. Such investments are carried at fair value.

The Organization has a fund with Oregon Community Foundation (OCF) under OCF's Endowment Partners Program. The Organization's fund is pooled with other assets managed by OCF and is invested in debt, equity and other securities which are reflected at fair value. Under the terms of the agreement, variance power has been granted to OCF; however, the Organization is the beneficiary of the fund and the transfer is reciprocal in nature. Accordingly, OCF recognizes the fund as a liability on its statement of financial position. Also under the terms of the agreement, OCF shall distribute not less than annually, a percentage of the fair value of the fund as determined by the board of directors of OCF. However, in no event will the percentage be less than a reasonable rate of return. OCF may make additional distributions from the fund to the Organization upon a majority vote of all of the directors of the Organization, if, in the sole judgment of the board of OCF, the requested distribution is consistent with the objectives and purposes of the Organization. The beneficial interest in assets and are included in endowment net assets (Note 11).

7. BARGAIN LAND LEASES

Commencing on June 1, 1995, RMHC was given a significant lease concession by Legacy Emanuel Hospital and Health Center, when a member of the Board of Directors is employed, for the approximately 1.5 acres of land that the East House occupies. The agreement stipulates land lease costs will be \$1 per year through 2025. RMHC may extend the term of the lease for ten additional years under the same terms. RMHC intends to exercise this option. The agreement also stipulates that the terms of the bargain lease apply as long as the property is used for the stated charitable purpose. Should the property be used for any other purpose, the yearly lease amount would be equal to 10% of the current fair market value of the property.

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7. BARGAIN LAND LEASES, Continued

The lessor entered into the lease in continued recognition of their partnership and therefore, the value of the benefit is recognized on the financial statements. Accounting principles generally accepted in the United States of America (GAAP) require that the present value of the estimated future lease payments which will not be paid be recorded as a contribution in the year received. Additionally, GAAP requires that the fair value of each year's land lease be recorded as an expense, that the initial contribution be amortized over its term, and that an additional contribution be recorded annually which represents the approximate interest increase in the initial contribution.

An appraisal established a market value of \$355,000 for the property, as of June 1, 1995. The estimated inflation rate, which the property is subject to during the period June 1, 1995 through May 31, 2035, is 2.5%. The future estimated lease payments are discounted at the one-year Treasury Bill discount rate at the June 22, 1995 auction, of 5.22%. The present value of the estimated future lease payments of \$847,340 was recorded on the statement of financial position as bargain land lease contribution receivable.

The Bend location holds a bargain land lease agreement with St. Charles Medical Center, an unrelated nonprofit organization. Under terms of the agreement the Organization rents approximately 2.5 acres of land on which their building is located for \$100 per year through 2025. The present value of the estimated future lease payments of \$209,850 was recorded on the statement of financial position as bargain land lease contribution receivable at lease inception in 1995.

The unamortized contributions receivable is as follows at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
East House:		
Bargain land lease contribution receivable	\$ 847,340	\$ 847,340
Less accumulated amortization	<u>698,023</u>	<u>679,939</u>
	<u>149,317</u>	<u>167,401</u>
Bend House:		
Bargain land lease contributions receivable	\$ 209,580	\$ 209,850
Less accumulated amortization	<u>160,613</u>	<u>153,888</u>
	<u>48,967</u>	<u>55,962</u>
Bargain land lease contribution receivable, net	<u>\$ 198,284</u>	<u>\$ 223,363</u>

The fair value of the land lease expense was \$68,875 and \$67,365 in 2018 and 2017, respectively. The contribution income from the bargain land leases recognized was \$43,796 and \$41,253 in 2018 and 2017, respectively. The amount of net assets released from restriction for the expiration of time was \$25,079 and \$26,111 in 2018 and 2017, respectively.

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8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2018 and 2017:

	2018	2017
Buildings	\$ 6,612,103	\$ 6,421,742
Construction in progress	1,080,142	59,696
Furniture and equipment	1,090,840	1,027,129
Collectibles	32,160	32,160
	<u>8,815,245</u>	<u>7,540,727</u>
Less accumulated depreciation	<u>3,955,277</u>	<u>3,593,768</u>
Property and equipment, net	<u>\$ 4,859,968</u>	<u>\$ 3,946,959</u>

Collectibles consist of twenty-four donated paintings that are capitalized at the average fair market value at the date the items were contributed.

Construction in progress:

South Waterfront Ronald McDonald House: In partnership with OHSU, a new South Waterfront Ronald McDonald House was built to replace the West Ronald McDonald House in Portland, Oregon. The South Waterfront House is a 38-room house providing a "home away from home" for critically ill children and their families and is located at the Rood Family Pavilion, owned by OHSU. The furnishings of the South Waterfront House are owned by the Organization and the amount spent through December 31, 2018 is included above in construction in progress. The South Waterfront House opened on January 23, 2019.

The Rood Family Pavilion includes an additional 38 guest rooms dedicated to adult patient families. RMHC has entered into a cost sharing and monthly fee agreement with OHSU to operate the Rood Family Pavilion, including the 38 adult guest rooms. Guest rooms opened on April 1, 2019.

Springfield Ronald McDonald House: In partnership with PeaceHealth, a new Ronald McDonald House will be built in Springfield, Oregon. The Springfield House is a 10 room house providing a "home away from home" for critically ill children and their families and is located at the Heartfelt House, owned by PeaceHealth. The furnishings of the Springfield House are owned by the Organization and the amount spent through December 31, 2018 is included above in construction in progress. The Springfield House has a planned opening date of July 30, 2019.

The Heartfelt House includes an additional 10 guest rooms dedicated to adult patient families. RMHC has entered into a cost sharing and monthly fee agreement with PeaceHealth to operate the Heartfelt House, including the 10 adult guest rooms. Adult guest rooms are planned to be opened on July 30, 2019.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED
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9. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following at December 31, 2018 and 2017:

	2018	2017
Undesignated	\$ 794,144	\$ 1,522,403
Board designated - endowment (Note 11)	5,208,154	5,605,792
Board designated - building fund	844,253	955,200
Board designated - special project	587,095	600,000
Property and equipment, net	4,859,968	3,946,959
Total net assets without donor restrictions	\$ 12,293,614	\$ 12,630,354

The Board of Trustees reviews significant major gifts and, when appropriate, designates them to the endowment fund. Board designated amounts are invested in marketable securities with the net assets with donor restrictions (see Note 10) and are tracked separately.

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions expiring consist of the following at December 31, 2018 and 2017:

	2018	2017
Balance of bargain land leases	\$ 198,284	\$ 223,363
South Waterfront House	1,750,183	688,742
East House construction and upgrades	20,310	23,826
Heartfelt House	149,676	-
Endowment earnings (Note 11)	719,973	904,494
Other	189,467	131,684
Total with donor restrictions, expiring	\$ 3,027,893	\$ 1,972,109

Net assets with donor restrictions without expirations consist of donations to the endowment fund totaling \$1,708,152 as of December 31, 2018 and 2017. Investment earnings from the endowment support the work of RMHC (also see Note 11).

Net assets with donor restrictions of approximately \$842,000 have been satisfied through capital improvements for the South Waterfront House and will be released when placed in service during January 2019 (see Note 8).

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NOTES TO FINANCIAL STATEMENTS, CONTINUED
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II. ENDOWMENT

RMHC's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of Ronald McDonald House Charities has interpreted Oregon's enacted Uniform Prudent Management of Institutional Funds Act (the Act or UPMIFA) as requiring the preservation of the fair 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, the Organization classifies as net assets with perpetual restrictions (a) the original value of gifts, including subsequent gifts, donated to the donor restricted endowment and (b) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with perpetual restrictions is classified as net assets with expiring restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the Act.

Interpretation of Relevant Law, Continued

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

- (1) The duration and preservation of the Organization
- (2) The purposes of the Organization and the donor-restricted Organization
- (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

The Organization classifies gift amounts received from donors that are restricted to the endowment fund as net assets with donor restrictions in perpetuity. If the market value of a donor-restricted endowment fund exceeds the original gift as a result of investment earnings, then the excess amount is classified within net assets with donor restrictions, until all or a portion of the excess is appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Funds designated by the Board of Trustees to function as an endowment are classified as net assets without donor restrictions.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2018 and 2017

II. ENDOWMENT, Continued

If the market value of an endowment is less than the original gift amount, the valuation difference is reflected in the financial statements as a reduction of net assets without donor restrictions.

Return Objectives and Risk Parameters

RMHC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various indexes while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 3% plus inflation, annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

RMHC has a policy of appropriating for distribution of 4% of the endowment fund's beginning of year corpus, after approval by the Board. Beginning in 2018, the policy has been updated to allow distribution of up to 4% of the fund balance. In establishing this policy, the Organization considers the long-term expected return on its endowment. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to grow at the average annual rate of inflation. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. In February 2018, the Board authorized a distribution of \$240,966 for 2018 which was recorded in 2018. In February 2017, the Board authorized a distribution of \$142,926 for 2016 which was recorded in 2017.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED
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II. ENDOWMENT, Continued

Endowment net asset composition by type of fund is as follows at December 31, 2018 and 2017:

	Unrestricted	With Expiring Donor Restrictions	With Perpetual Donor Restrictions	Total
December 31, 2018				
Donor-restricted	\$ -	\$ 719,973	\$ 1,708,152	\$ 2,428,125
Board-designated	5,208,154	-	-	5,208,154
Total Funds	<u>\$ 5,208,154</u>	<u>\$ 719,973</u>	<u>\$ 1,708,152</u>	<u>\$ 7,636,279</u>
December 31, 2017				
Donor-restricted	\$ -	\$ 904,494	\$ 1,708,152	\$ 2,612,646
Board-designated	5,605,792	-	-	5,605,792
	<u>\$ 5,605,792</u>	<u>\$ 904,494</u>	<u>\$ 1,708,152</u>	<u>\$ 8,218,438</u>

Changes in endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	Unrestricted	With Expiring Donor Restrictions	With Perpetual Donor Restrictions	Total
Endowment net assets -				
December 31, 2016	\$ 3,451,688	\$ 1,013,249	\$ 1,708,152	\$ 6,173,089
Contributions and transfers	1,265,240	474	-	1,265,714
Investment return:				
Investment income, net of fees	73,560	33,805	-	107,365
Change in value of investments	530,023	253,563	-	783,586
Change in beneficial interest	-	31,610	-	31,610
Appropriation of endowment assets				
for expenditure	(92,995)	(49,931)	-	(142,926)
Other transfer	378,276	(378,276)	-	-
Endowment net assets -				
December 31, 2017	5,605,792	904,494	1,708,152	8,218,438
Investment return:				
Investment income, net of fees	122,635	46,919	-	169,554
Change in value of investments	(336,744)	(154,902)	-	(491,646)
Change in beneficial interest	-	(19,101)	-	(19,101)
Appropriation of endowment assets				
for expenditure	(183,529)	(57,437)	-	(240,966)
Endowment net assets -				
December 31, 2018	<u>\$ 5,208,154</u>	<u>\$ 719,973</u>	<u>\$ 1,708,152</u>	<u>\$ 7,636,279</u>

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NOTES TO FINANCIAL STATEMENTS, CONTINUED
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12. RELATED PARTY TRANSACTIONS

The Organization pays to Global Ronald McDonald House Charities (Global) 25% of net revenue from donation box collections (Note 15) at McDonald's restaurants. The total amount paid during the years ended December 31, 2018 and 2017 was \$52,503 and \$60,465 respectively. In addition, Global made contributions to the Organization in the amounts of \$799,609 in 2018 and \$240,000 in 2017. Additionally, the Organization receives in-kind space from OHSU where a board member is employed (Note 1).

13. LEASE COMMITMENTS

The Organization leases equipment under various non-cancelable lease agreements which expire through 2023. Future minimum lease payments are as follows:

Year ending December 31, 2019	\$ 27,900
2020	27,900
2021	23,800
2022	14,800
2023	<u>11,400</u>
Total	<u>\$ 105,800</u>

14. CONCENTRATIONS OF CREDIT RISK

The Organization operates three residences in Oregon and receives a majority of its funding through fundraising initiatives in this geographic area. If fundraising activities were discontinued or compromised, it could have a significant adverse effect on the Organization.

The Organization maintains its cash balances in two financial institutions. Balances in each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. Balances in excess of insured limits were approximately \$2,045,100 and \$977,600 as of December 31, 2018 and 2017, respectively.

Investments, including short-term investments, are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

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15. DONATION BOX COLLECTIONS

The Organization provides donation boxes which are placed in local McDonald's restaurants. For the years ended December 31, 2018 and 2017, donation box collections were \$267,460 and \$322,475, respectively.

16. RETIREMENT PLAN

The Organization has a SIMPLE IRA retirement plan for its employees. All employees earning at least \$5,000 per year are eligible to participate after completing one month of employment. Eligible employees may make pre-tax contributions up to an amount defined by law. The Organization matches employee contributions up to a maximum of 3% of salary. For the years ended December 31, 2018 and 2017, RMHC contributed approximately \$38,900 and \$38,000, respectively.

17. FAIR VALUE MEASUREMENTS

Assets recorded at fair value in the statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

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17. FAIR VALUE MEASUREMENTS, Continued

Fair values of assets measured on a recurring basis at December 31, 2018 and 2017 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2018				
Investments:				
Fixed income:				
Corporate obligations	\$ -	\$2,325,218	\$ -	\$ 2,325,218
International mutual funds	351,225	-	-	351,225
Equities and other:				
Domestic mutual funds	2,807,458	-	-	2,807,458
International mutual funds	1,065,655	-	-	1,065,655
Real estate fund	331,115	-	-	331,115
Beneficial interest of assets held	-	-	261,485	261,485
 December 31, 2017				
Investments:				
Fixed income:				
Corporate obligations	\$ -	\$ 710,732	\$ -	\$ 710,732
Domestic mutual funds	1,385,236	-	-	1,385,236
International mutual funds	388,048	-	-	388,048
Equities:				
Domestic mutual funds	3,201,790	-	-	3,201,790
International mutual funds	1,440,868	-	-	1,440,868
Mutual funds	187,472	-	-	187,472
Real estate fund	345,420	-	-	345,420
Beneficial interest of assets held	-	-	280,586	280,586

The fair value equity securities is determined by reference to quoted market prices or other relevant market data as provided by the bank or broker.

The fair value for corporate debt securities are based on pricing models, quoted prices of securities with similar characteristics, yield curves, and other relevant economic measures.

Investments held at OCF in pooled funds are valued at the net asset value per unit as provided by OCF trustees. Net asset value is based on fair value of the underlying assets of the funds using quoted market prices when available determined using a market approach.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED
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17. FAIR VALUE MEASUREMENTS, Continued

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

Beneficial interest in assets held by OCF:

	2018	2017
Beginning balance	\$ 280,586	\$ 248,976
Change in value	(19,101)	31,610
Ending balance	\$ 261,485	\$ 280,586

The change in value is included in investment income as with donor restrictions on the statements of activities.