
***RONALD MCDONALD HOUSE
CHARITIES OF DENVER, INC.***
*FINANCIAL STATEMENTS
DECEMBER 31, 2018*

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Independent Auditors' Report

Board of Directors
Ronald McDonald House Charities of Denver, Inc.
Denver, Colorado

Report On The Financial Statements

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

Management's Responsibility For The Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 the Ronald McDonald House Charities of Denver, Inc. as of December 31, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of A Matter

As discussed in Note 1, the Ronald McDonald House Charities of Denver, Inc. adopted the provisions of the Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion was not modified with respect to this matter.

RubinBrown LLP

May 3, 2019

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2018 And 2017

Assets

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 517,785	\$ 980,907
Investments (Note 4)	4,547,929	3,414,389
Receivables:		
Net pledges receivable (Note 5)	35,442	22,960
Contributions receivable (Note 5)	195,802	—
Other receivables (Note 6)	89,734	185,950
Prepaid expenses	24,806	29,735
Inventory	303	42,797
Restricted cash equivalents (Note 3)	623,729	634,181
Restricted investments (Notes 3 and 4)	282,493	324,575
Total Current Assets	6,318,023	5,635,494
Beneficial Use Of Land (Note 9)	130,431	130,509
Property And Equipment		
Land	167,000	167,000
Buildings and improvements	27,000,505	26,561,380
Furnishings and equipment	700,195	564,311
	27,867,700	27,292,691
Less: Accumulated depreciation	6,833,258	6,113,592
Net Property And Equipment	21,034,442	21,179,099
Total Assets	\$ 27,482,896	\$ 26,945,102

Liabilities And Net Assets

Liabilities		
Accounts payable and accrued liabilities	\$ 184,692	\$ 71,200
Net Assets		
Without donor restrictions:		
Undesignated	2,426,405	1,932,257
Property and equipment	21,034,442	21,179,099
Board-designated maintenance fund (Note 11)	2,662,312	2,650,312
Total Without Donor Restrictions	26,123,159	25,761,668
With donor restrictions (Note 7)	1,175,045	1,112,234
Total Net Assets	27,298,204	26,873,902
Total Liabilities And Net Assets	\$ 27,482,896	\$ 26,945,102

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

STATEMENT OF ACTIVITIES For The Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues, Gains And Other Support			
Contributions	\$ 1,294,427	\$ 237,692	\$ 1,532,119
Sky High Hope Camp contributions	—	27,660	27,660
In-kind contributions (Note 1)	1,245,123	19,530	1,264,653
Guest donations	170,974	—	170,974
Special events revenue	474,973	—	474,973
Room revenue	920,073	—	920,073
Net assets released from restrictions (Note 7)	221,714	(221,714)	—
Total Operating Revenues, Gains And Other Support	4,327,284	63,168	4,390,452
Operating Expenses			
Program services:			
Ronald McDonald House	2,955,042	—	2,955,042
Scholarships and grants	3,206	—	3,206
Sky High Hope Camp	89,273	—	89,273
Family Room program	58,449	—	58,449
Total Program Services	3,105,970	—	3,105,970
Supporting services:			
Management and general	429,988	—	429,988
Fundraising	269,165	—	269,165
Cost of direct benefits to donors	51,228	—	51,228
Total Supporting Services	750,381	—	750,381
Total Operating Expenses	3,856,351	—	3,856,351
Changes In Net Assets Relating To Operations	470,933	63,168	534,101
Nonoperating Income And Expenses			
Investment loss (Note 4)	(67,065)	(357)	(67,422)
Loss on disposal of assets	(30,083)	—	(30,083)
Unallocated payments to RMHC Global	(12,294)	—	(12,294)
Total Nonoperating Income And Expenses	(109,442)	(357)	(109,799)
Change In Total Net Assets	361,491	62,811	424,302
Net Assets At Beginning Of Year	25,761,668	1,112,234	26,873,902
Net Assets At End Of Year	\$ 26,123,159	\$ 1,175,045	\$ 27,298,204

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

STATEMENT OF ACTIVITIES For The Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues, Gains And Other Support			
Contributions	\$ 1,654,957	\$ 139,055	\$ 1,794,012
Sky High Hope Camp contributions	—	34,823	34,823
In-kind contributions (Note 1)	1,050,830	—	1,050,830
Guest donations	186,719	—	186,719
Special events revenue	488,975	54,440	543,415
Room revenue	653,073	—	653,073
Other revenue	5,170	—	5,170
Net assets released from restrictions (Note 7)	387,701	(387,701)	—
Total Operating Revenues, Gains And Other Support	4,427,425	(159,383)	4,268,042
Operating Expenses			
Program services:			
Ronald McDonald House	2,672,315	—	2,672,315
Scholarships and grants	109,472	—	109,472
Sky High Hope Camp	83,018	—	83,018
Family Room program	44,105	—	44,105
Total Program Services	2,908,910	—	2,908,910
Supporting services:			
Management and general	359,159	—	359,159
Fundraising	276,308	—	276,308
Cost of direct benefits to donors	46,973	—	46,973
Total Supporting Services	682,440	—	682,440
Total Operating Expenses	3,591,350	—	3,591,350
Changes In Net Assets Relating To Operations	836,075	(159,383)	676,692
Nonoperating Income And Expenses			
Investment income (Note 4)	243,551	11,108	254,659
Loss on disposal of assets	(15,261)	—	(15,261)
Unallocated payments to RMHC Global	(75,136)	—	(75,136)
Total Nonoperating Income And Expenses	153,154	11,108	164,262
Change In Total Net Assets	989,229	(148,275)	840,954
Net Assets At Beginning Of Year	24,772,439	1,260,509	26,032,948
Net Assets At End Of Year	\$ 25,761,668	\$ 1,112,234	\$ 26,873,902

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended December 31, 2018

	Program Services					Supporting Services					Total Expenses
	Ronald McDonald House	Scholarships And Grants	Sky High Hope Camp	Family Room Program	Total Program Services	Management And General	Fund-Raising	Cost Of Direct Benefits To Donors	Total Supporting Services		
Salaries	\$ 430,666	\$ —	\$ —	\$ 33,662	\$ 464,328	\$ 238,174	\$ 169,042	\$ —	\$ 407,216	\$ 871,544	
Payroll taxes	37,723	—	—	2,828	40,551	19,711	13,510	—	33,221	73,772	
Benefits	107,862	—	—	2,259	110,121	33,959	19,932	—	53,891	164,012	
Miscellaneous professional services	87,350	—	741	48	88,139	19,613	11,749	—	31,362	119,501	
Advertising	—	—	—	—	—	—	8,161	—	8,161	8,161	
Dues, subscriptions and licenses	1,320	—	350	—	1,670	5,890	5,356	—	11,246	12,916	
Community grants	—	—	—	—	—	—	—	—	—	—	
Scholarships	—	3,118	—	—	3,118	—	—	—	—	3,118	
Depreciation	799,847	—	—	—	799,847	16,710	2,236	—	18,946	818,793	
Rent expense	6,615	—	—	1	6,616	—	—	—	—	6,616	
Utilities	165,363	—	—	—	165,363	4,252	551	—	4,803	170,166	
Insurance	76,278	—	840	417	77,535	12,764	2,789	—	15,553	93,088	
Supplies and printing	58,451	—	3,387	286	62,124	2,092	2,998	—	5,090	67,214	
Repairs and maintenance	119,557	—	—	31	119,588	438	297	—	735	120,323	
Event expenses	—	—	—	—	—	—	—	51,228	51,228	51,228	
Sky High Hope Camp	—	—	57,865	—	57,865	—	—	—	—	57,865	
Telephone and postage	35,094	53	7	11	35,165	1,262	2,391	—	3,653	38,818	
Volunteers and donors	8,769	—	1,649	237	10,655	775	1,401	—	2,176	12,831	
Donated food and cleaning supplies	941,401	—	—	8,743	950,144	—	—	—	—	950,144	
Donated services	16,673	—	19,530	24	36,227	14,076	252	—	14,328	50,555	
Other	62,073	35	4,904	9,902	76,914	60,272	28,500	—	88,772	165,686	
Total Expenses	\$ 2,955,042	\$ 3,206	\$ 89,273	\$ 58,449	\$ 3,105,970	\$ 429,988	\$ 269,165	\$ 51,228	\$ 750,381	\$ 3,856,351	

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended December 31, 2017

	Program Services					Supporting Services					Total Expenses
	Ronald McDonald House	Scholarships And Grants	Sky High Hope Camp	Family Room Program	Total Program Services	Management And General	Fund-Raising	Direct Benefits To Donors	Cost Of Supporting Services	Total	
Salaries	\$ 361,823	\$ 11,868	\$ 9,890	\$ 29,109	\$ 412,690	\$ 163,794	\$ 142,057	\$ —	\$ 305,851	\$ 718,541	
Payroll taxes	32,383	994	828	2,460	36,665	14,078	11,628	—	25,706	62,371	
Benefits	74,453	1,018	848	2,059	78,378	22,466	15,614	—	38,080	116,458	
Miscellaneous professional services	43,296	—	—	—	43,296	20,223	56,491	—	76,714	120,010	
Advertising	—	—	—	—	—	—	8,390	—	8,390	8,390	
Dues, subscriptions and licenses	1,085	—	1,030	—	2,115	3,925	6,521	—	10,446	12,561	
Community grants	—	43,500	—	—	43,500	—	—	—	—	43,500	
Scholarships	—	51,625	—	—	51,625	—	—	—	—	51,625	
Depreciation	801,333	—	—	—	801,333	15,793	1,929	—	17,722	819,055	
Rent expense	6,615	—	—	1	6,616	—	—	—	—	6,616	
Utilities	164,570	—	—	—	164,570	4,269	564	—	4,833	169,403	
Insurance	70,541	183	993	372	72,089	7,620	2,400	—	10,020	82,109	
Supplies and printing	59,441	—	939	—	60,380	3,366	4,712	—	8,078	68,458	
Repairs and maintenance	132,477	—	—	—	132,477	295	270	—	565	133,042	
Event expenses	—	—	—	—	—	—	—	46,973	46,973	46,973	
Sky High Hope Camp	—	—	51,065	—	51,065	—	—	—	—	51,065	
Telephone and postage	22,635	82	27	5	22,749	874	1,661	—	2,535	25,284	
Volunteers and donors	4,170	162	34	395	4,761	—	2,240	—	2,240	7,001	
Donated food and cleaning supplies	852,126	—	9,023	—	861,149	38,150	—	—	38,150	899,299	
Donated services	15,518	—	6,490	—	22,008	13,992	264	—	14,256	36,264	
Other	29,849	40	1,851	9,704	41,444	50,314	21,567	—	71,881	113,325	
Total Expenses	\$ 2,672,315	\$ 109,472	\$ 83,018	\$ 44,105	\$ 2,908,910	\$ 359,159	\$ 276,308	\$ 46,973	\$ 682,440	\$ 3,591,350	

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

STATEMENT OF CASH FLOWS For The Years Ended December 31, 2018 And 2017

	2018	2017
Cash Flows From Operating Activities		
Changes in net assets	\$ 424,302	\$ 840,954
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	818,793	819,055
Loss on disposal of property and equipment	—	15,261
Net realized and unrealized (gain) loss on investments	192,583	(174,811)
Dividends and capital gains reinvested	(90,075)	(79,848)
Donated property and equipment	(171,074)	—
Net discount amortization	78	78
Changes in operating assets:		
Contributions receivable	(195,802)	167,290
Pledges receivable	(12,482)	—
Other receivables	96,216	(155,116)
Prepaid expenses	4,929	2,333
Inventory	42,494	(555)
Changes in operating liabilities:		
Accounts payable and accrued liabilities	113,492	(22,271)
Net Cash Provided By Operating Activities	1,223,454	1,412,370
Cash Flows From Investing Activities		
Purchases of investments	(3,010,000)	(3,548,626)
Proceeds from sale of investments	1,816,034	2,955,614
Purchases of property and equipment	(503,062)	(44,404)
Transfer between cash and investments	—	(1,234,395)
Net Cash Used In Investing Activities	(1,697,028)	(1,871,811)
Net Decrease In Cash And Cash Equivalents	(473,574)	(459,441)
Cash And Cash Equivalents At Beginning Of Year	1,615,088	2,074,529
Cash And Cash Equivalents At End Of Year	\$ 1,141,514	\$ 1,615,088
Cash And Cash Equivalents		
Cash and cash equivalents	\$ 517,785	\$ 980,907
Restricted cash and cash equivalents	623,729	634,181
Cash And Cash Equivalents At End Of Year	\$ 1,141,514	\$ 1,615,088
Supplemental Cash Flow Information		
Noncash investing and financing activities:		
Gifts of property and equipment	\$ 171,074	\$ —

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 And 2017

1. Summary Of Significant Accounting Policies

General

Ronald McDonald House Charities of Denver, Inc. (RMHC-Denver) is a not-for-profit corporation established to operate facilities (the Ronald McDonald Houses) in Denver and Aurora, Colorado. The Ronald McDonald Houses provide temporary housing for seriously ill children and their families while children are receiving treatment at nearby hospitals.

RMHC-Denver's Family Room program offers families a place to rest and regroup at three Denver area hospitals. Services at the Ronald McDonald Family Room include a kitchen area, shower facilities, laundry facilities, internet access, a seating area and a quiet room.

RMHC-Denver's Community Grants program supported 501(c)(3) organizations and their programs that directly improve the health and well-being of children. In addition, the Scholarship Program offered scholarships to students from the community who faced limited access to educational and career opportunities.

Effective July 30, 2018, in an effort for RMHC-Denver to narrow its scope and focus resources on their core mission, the RMHC-Denver decided to end both the Community Grants and Scholarship Programs.

RMHC-Denver's Sky High Hope Camp (SHHC) is a residential mountain camp for children who have or have had cancer and their siblings. Campers, under close medical supervision, are allowed to participate in recreational activities and "just be a kid" with other children living with cancer. See Note 14 for further discussion of the subsequent transfer of operations of SHHC from RMHC-Denver.

RMHC-Denver's activities are supported primarily through contributions and special events.

Basis Of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

Notes To Financial Statements (Continued)

Financial Statement Presentation

Information regarding the financial position and activities of RMHC-Denver is reported based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified as net assets with donor restrictions and net assets without donor restrictions.

Contributions And Contributions Receivable

Contributions and grants, including unconditional promised to give due in future periods, are recognized as support in the period received. Conditional promises to give, which depend on specified future and uncertain events, are recognized as support when the conditions on which they depend are substantially met. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at net present value if expected to be collected in more than one year. Accordingly, an allowance for uncollectible pledges receivable of \$5,610 and \$4,000 is recorded at December 31, 2018 and 2017, respectively.

Contributed Property And Services

Contributed property and equipment are recorded at fair value on the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support when placed in service. Contributed goods and services are recorded as contributions and corresponding expenses at their estimated fair values on the date of donation. In-kind contributions for the years ended December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Services	\$ 50,555	\$ 36,264
Food, supplies and activities	950,144	899,299
Auction items	92,880	115,267
Property and equipment	171,074	—
Total In-Kind Contributions	\$ 1,264,653	\$ 1,050,830

RMHC-Denver pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist RMHC-Denver with specific programs and activities. RMHC-Denver received 55,694 and 59,886 volunteer hours in 2018 and 2017, respectively. No amounts have been reflected in the accompanying financial statements for volunteers' donated services unless they meet the criteria of recognition under generally accepted accounting principles.

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

Notes To Financial Statements *(Continued)*

Cash And Cash Equivalents

For purposes of the statement of cash flows, RMHC-Denver considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values, and all investments in debt securities are stated at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the statement of activities.

Accounts Receivable

RMHC-Denver reviews accounts receivable for collectability at year end. The allowance method is used to determine the uncollectible amounts. The allowance is based upon prior years' experience and management's analysis of subsequent collections.

Inventory

Inventory consists of donated auction items that have not yet been sold. These contributed items are recorded at their estimated fair value at the date of receipt.

Property And Equipment

Furniture, fixtures and equipment are carried at cost and depreciated over their estimated useful lives of 3 to 15 years for furniture and equipment and 40 years for buildings. Capitalization of expenditures is based on costs and useful lives. Donated property and equipment is recorded as estimated fair market value at the date of donation. Repairs and maintenance are charged to operations when incurred. Property is capitalized only if it has a cost greater than \$5,000 per asset invoice or group. Depreciation expense is computed using the straight-line method over the estimated useful lives.

RMHC-Denver evaluates its long-lived assets for any events or changes in circumstances which indicate that the carrying amount of such assets may not be fully recoverable. RMHC-Denver evaluates the recoverability of long-lived assets by measuring the carrying amount of such assets against the estimated undiscounted future cash flows associated with them. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. At December 31, 2018 and 2017, no impairment losses have been recognized.

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

Notes To Financial Statements *(Continued)*

Concentrations Of Credit Risk

Financial instruments which potentially subject RMHC-Denver to concentrations of credit risk consist principally of cash, cash equivalents and investments.

RMHC-Denver maintains cash balances with multiple financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. RMHC-Denver believes it is not exposed to any significant credit risk on its cash balances.

Investment managers that have been identified and utilized by RMHC Global through its McDonald's Charities Investment Program are engaged by RMHC-Denver Board of Directors to make investments, and the investments are monitored by the Board. Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of RMHC-Denver.

Use Of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Functional Allocation Of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Expenses directly attributable to a specific functional area of RMHC-Denver are reported as expenses of those functional areas. Certain other costs that benefit multiple functional areas have been allocated across Programs and Other Supporting Services as determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method Of Allocation
Salaries and benefits	Estimates of time and effort
Depreciation	Square footage
Utilities	Square footage
Insurance	Square footage

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

Notes To Financial Statements (*Continued*)

Net Assets

Net assets, operating revenues, gains and other support, and nonoperating income 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 without donor restrictions are available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, a certain funds to be used at the board's discretion.
- ***Net Assets With Donor Restrictions*** - Net assets with donor restrictions are subject to donor- or certain grantor-imposed restrictions. Contributions restricted by donors are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Income Taxes

RMHC-Denver has received a determination letter from the Internal Revenue Service for exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Therefore, no income tax liability was recorded for the years ended December 31, 2018 or 2017.

Advertising and Promotion

RMHC-Denver's advertising and promotion expenses relate to the purchase of air time for the annual Ronald McDonald House Radiothon. The purchase of the air time is expensed as incurred. During 2018 and 2017, advertising and promotion costs totaled \$8,161 and \$8,390, respectively.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on net earnings.

Change In Accounting Principle

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

Subsequent Events

RMHC-Denver has reviewed and considered subsequent events for disclosure in the financial statements through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. Availability And Liquidity

RMHC-Denver strives to maintain liquid financial assets sufficient to cover one year of general expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds and other investments.

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

Notes To Financial Statements (Continued)

The following table reflects RMHC-Denver's financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include a board-designated fund that is intended to fund maintenance and capital needs of the houses, as further discussed in Note 11. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year may also include net assets with donor restrictions.

	<u>2018</u>
Financial assets at year end:	
Cash and cash equivalents	\$ 1,141,514
Contributions and pledges receivable	320,978
Investments	<u>4,830,422</u>
Total financial assets	\$ 6,292,914
Less amounts not available to be used within one year:	
Net assets with donor restrictions	\$ 1,175,045
Less net assets with purpose restrictions expected to be met in less than one year	(467,697)
Board-designated reserve	<u>2,662,312</u>
	<u>\$ 3,369,660</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 2,923,254</u>

3. Restricted Cash And Investments

Restricted cash and investments consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 623,729	\$ 634,181
Mutual funds	<u>282,493</u>	<u>324,575</u>
Total Restricted Cash And Investments	<u>\$ 906,222</u>	<u>\$ 958,756</u>

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

Notes To Financial Statements (Continued)

Restricted cash and investments are restricted to the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Cash received for future Sky High Hope Camp	\$ 282,494	\$ 324,575
Cash received for Coca-Cola purchases	67,084	70,453
Cash received for family entertainment	—	537
Cash received from RMHC Global	—	5,526
Cash received from EcoMedia	10,394	11,415
Permanent endowment (Note 7)	546,250	546,250
Total Restricted Cash And Investments	\$ 906,222	\$ 958,756

4. Investments

RMHC-Denver's investments, at fair value, consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 47,018	\$ 46,195
Certificates of deposit	2,964,533	1,765,572
Mutual funds:		
Bond funds	693,875	684,508
Equity funds	981,710	1,088,118
Global funds	143,286	154,571
Total Investments	\$ 4,830,422	\$ 3,738,964

RMHC-Denver's restricted or unrestricted investments consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Restricted investments	\$ 282,493	\$ 324,575
Unrestricted investments	4,547,929	3,414,389
Total Investments	\$ 4,830,422	\$ 3,738,964

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

Notes To Financial Statements (Continued)

Investment return consisted of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Net unrealized gain on investments	\$ (203,485)	\$ 162,114
Net realized gain on sale of investments	10,902	12,697
Interest and dividend income	125,161	79,848
Total Investment Return	\$ (67,422)	\$ 254,659

5. Pledges and Contributions Receivable

RMHC-Denver's gross pledges receivable of \$41,052 and \$26,960 at December 31, 2018 and 2017, respectively, consist of pledges of support for general operations. Management has recorded an allowance for doubtful accounts of \$5,610 and \$4,000 for the years ended December 31, 2018 and 2017, respectively, which is netted against the gross pledges receivable on the statement of financial position. Additionally, the contributions receivable of \$195,802 at December 31, 2018 consists of contributions received in 2019 relating to 2018 fundraising efforts. The contributions and pledges receivable are due in less than one year.

6. Other Receivables

RMHC-Denver's Medicaid receivable of \$58,033 and \$173,968 consists of billings for stays in 2018 and 2017, respectively. Management has recorded an allowance for doubtful accounts of \$5,409 and \$34,746 for the years ended December 31, 2018 and 2017, respectively. The Medicaid receivables are due in less than one year. The other remaining receivable related to canister collections amounted to \$37,110 and \$46,728 as of December 31, 2018 and 2017, respectively.

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

Notes To Financial Statements (Continued)

7. Net Assets With Donor Restrictions

RMHC-Denver's net assets with donor restrictions consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose or future period:		
Pledges and contributions receivable	\$ 77,238	\$ 22,960
Family Activity Fund	—	537
Coca-Cola	67,084	70,453
Aurora land use	130,431	130,509
Global	61,145	5,526
Sky High Hope Camp	282,494	324,575
EcoMedia	10,394	11,415
Other	9	9
Subject to the spending policy and appropriation:		
Investment held in perpetuity, the income of which is expendable to support operating expenses of RMHC-Denver	546,250	546,250
Total Net Assets With Donor Restrictions	\$ 1,175,045	\$ 1,112,234

Net assets totaling \$221,714 in 2018 and \$387,701 in 2017 were released from restrictions as a result of RMHC-Denver incurring expenditures satisfying the related restricted purposes or with the passage of time.

	<u>2018</u>	<u>2017</u>
Purpose restrictions accomplished	\$ 131,472	\$ 159,356
Time restrictions expired	90,242	227,345
	<u>\$ 221,714</u>	<u>\$ 386,701</u>

8. Endowment

RMHC-Denver's net assets with donor restrictions includes two donor-restricted endowment funds established for the operating expenses of RMHC-Denver. As required by generally accepted accounting principles, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

Notes To Financial Statements (*Continued*)

RMHC-Denver follows *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, issued by FASB. The State of Colorado adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective September 1, 2008.

RMHC-Denver has interpreted 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, RMHC-Denver classifies the following as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent 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 is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by RMHC-Denver in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, RMHC-Denver 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 purpose of RMHC-Denver 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 RMHC-Denver resources
- (7) The investment policies of RMHC-Denver

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

Notes To Financial Statements (*Continued*)

Following are the changes in the endowment net assets for the years ended December 31, 2018 and 2017:

	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets at December 31, 2016	\$ 546,250	\$ 546,250
Investment income	11,108	11,108
<u>Appropriation of endowment assets</u>	<u>(11,108)</u>	<u>(11,108)</u>
Endowment net assets at December 31, 2017	546,250	546,250
Investment loss	(357)	(357)
<u>Appropriation of endowment assets</u>	<u>357</u>	<u>357</u>
<u>Endowment net assets at December 31, 2018</u>	<u>\$ 546,250</u>	<u>\$ 546,250</u>

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires RMHC-Denver to retain as a fund of perpetual duration. At December 31, 2018 and 2017, there was no such deficiency.

Return Objectives And Risk Parameters

RMHC-Denver 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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to maximize utilization of investments in income-producing instruments which preserve principal, maximize income commensurate with risk, provide liquidity to help ensure adequate reserves and fit within RMHC-Denver's preference of acceptable principal and interest risk.

Strategies Employed For Achieving Objectives

To satisfy its long-term rate-of-return objectives, RMHC-Denver 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). RMHC-Denver targets a diversified asset allocation that places a greater emphasis on money market funds and bond funds to achieve its long-term return objectives within prudent risk constraints.

Spending Policy And How The Investment Objectives Relate To Spending Policy

RMHC-Denver has a policy of appropriating for distribution each year a prudent amount for the operating expenses of RMHC-Denver. This policy applies to restricted and unrestricted funds unless those funds have their own distribution requirements. In establishing the distribution policy, RMHC-Denver considers the long-term expected return on its endowment. This is consistent with RMHC-Denver'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 return. In determining the annual distribution to RMHC-Denver for operating expenses, the Board of Directors may make an exception to the distribution policy.

9. Leases

In 2006, RMHC-Denver entered into a lease agreement with HealthONE, whereby RMHC-Denver would lease from HealthONE certain land it owned. The initial term of the lease was for a 99-year term that ends in 2105, with an aggregate annual base rent of \$1.00. The fair value of the lease at the time of inception was approximately \$655,000. In connection with this lease agreement, RMHC-Denver discounted the value of the 99-year initial term of the lease and recorded a restricted contribution in 2014. The discount on the beneficial use of land was amortized by \$6,537 into contribution revenue with donor restrictions during both years ended December 31, 2018 and 2017. Additionally, for both years ended December 31, 2018 and 2017, \$6,616 of the restricted contribution was released from restriction as rent expense of \$6,616 was recognized. As of December 31, 2018 and 2017, the value of the beneficial use of land was \$130,431 and \$130,509, respectively.

10. Retirement Plan

Through 2016, RMHC-Denver sponsored a 403(b) defined contribution plan (the Plan) that covered substantially all employees. As of December 31, 2016, the Plan was terminated. Assets were allowed to remain in the Plan until June 30, 2017. To replace the defined contribution plan, the Board of Directors voted to establish a new benefit for employees in 2017. All active employees, full and part-time, receive a benefit equal to 5% of their year-to-date earnings in the last pay period of the year. RMHC-Denver contributions under this benefit totaled \$42,235 in 2018 and \$35,694 in 2017.

11. Board-Designated Funds

On March 26, 2002, RMHC-Denver Board of Directors voted to establish a reserve for maintenance and to fund the designated reserve at the rate of \$1,000 per month plus interest. On August 22, 2017, RMHC-Denver Board of Directors voted to establish a reserve for capital investment and to fund the reserve with \$2,500,000. At December 31, 2018 and 2017, the Board-designated funds totaled \$2,662,312 and \$2,650,312, respectively. These funds are invested in cash equivalents.

12. Fair Value Measurements

RMHC-Denver reports required types of financial instruments in accordance with fair value accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require RMHC-Denver to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting, depending on lock-up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 includes mutual funds, listed equities, listed derivatives and money market funds.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives.

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

Notes To Financial Statements (Continued)

Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds and distressed debt.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

No changes in the valuation methods were made during the years ended December 31, 2018 and 2017.

The following table summarizes the valuation of RMHC-Denver's investments on a recurring basis by the above fair value hierarchy levels as of December 31, 2018:

	<u>2018</u>	<u>Level 1</u>
Money market funds	\$ 47,018	\$ 47,018
Mutual funds:		
Bond funds - low-duration institutional funds	693,875	693,875
Equity funds:		
U.S. stock funds	471,547	471,547
International stock funds	308,926	308,926
U.S. targeted value	38,517	38,517
Emerging markets stock funds	162,719	162,719
Global funds	143,286	143,286
Investments subject to leveling	1,865,888	1,865,888
Deposits not subject leveling	2,964,534	—
Total Investments	\$ 4,830,422	\$ 1,818,870

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Notes To Financial Statements (Continued)

The following table summarizes the valuation of RMHC-Denver's investments on a recurring basis by the above fair value hierarchy levels as of December 31, 2017:

	<u>2017</u>	<u>Level 1</u>
Money market funds	\$ 46,195	\$ 46,195
Mutual funds:		
Bond funds - low-duration institutional funds	684,508	684,508
Equity funds:		
U.S. stock funds	562,241	562,241
International stock funds	384,362	384,362
U.S. targeted value	43,735	43,735
Emerging markets stock funds	97,780	97,780
Global funds	154,571	154,571
Investments subject to leveling	1,973,392	1,973,392
Deposits not subject leveling	1,765,572	—
Total Investments	\$ 3,738,964	\$ 1,973,392

13. Related Party Transactions

RMHC-Denver remits 25% of the proceeds from certain fundraising activities to RMHC Global. During the years ended December 31, 2018 and 2017, total donations to RMHC Global recognized were \$12,294 and \$75,136, respectively. As of December 31, 2018 and 2017, RMHC-Denver owed RMHC Global \$1,906 and \$25,862, respectively. These amounts are included in accounts payable at year end.

RMHC Global also makes donations to RMHC-Denver throughout the year. These gifts totaled \$442,817 and \$266,397 for the years ended December 31, 2018 and 2017, respectively.

During 2018, architectural services relating to the remodel of a kitchen at the Denver House were provided by a business partially controlled by a member of the Board of Directors of RMHC-Denver. Payments to this related party during 2018 totaled \$64,054.

RONALD MCDONALD HOUSE CHARITIES OF DENVER, INC.

Notes To Financial Statements (Continued)

14. Subsequent Event

Similar to the decision to end the Community Grants and Scholarship Programs, effective January 11, 2019, all operations and \$250,000 of net assets restricted for the SHHC were transferred to another not-for-profit organization. The remaining \$19,747 of net assets restricted SHHC were transferred on March 29, 2019.

Net assets restricted for SHHC (Audited) - December 31, 2017	\$ 324,575
2018 Contributions with donor restrictions	27,660
2018 Donated services	19,530
2018 SHHC program services expenses	<u>(89,271)</u>
Net assets restricted for SHHC (Audited) - December 31, 2018 (see Note 7)	\$ 282,494
Initial asset transfer to other not-for-profit on January 11, 2019	(250,000)
2019 Contributions with donor restrictions	104
2019 SHHC program services expenses through March 29, 2019	<u>(12,851)</u>
Remaining assets transferred to other not-for-profit on March 29, 2019	<u>\$ 19,747</u>