Ronald McDonald House Charities of Central Pennsylvania

December 31, 2018 and 2017

Financial Statements and Independent Auditors' Report



RONALD McDONALD HOUSE CHARITIES OF CENTRAL PENNSYLVANIA DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ronald McDonald House Charities of Central Pennsylvania

We have audited the accompanying financial statements of Ronald McDonald House Charities of Central Pennsylvania (the "Organization"), 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Central Pennsylvania as of December 31, 2018 and 2017, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Concarnon, miller + Co., P.C.

Bethlehem, PA

May 16, 2019

RONALD McDONALD HOUSE CHARITIES OF CENTRAL PENNSYLVANIA STATEMENTS OF FINANCIAL POSITION

	December 31,			
	2018	2017		
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,262,301	\$ 1,039,392		
Contributions receivable	12,525	10,081		
Due from RMHC - Global	23,352	25,631		
Investments, at fair value	5,473,779	6,224,006		
Prepaid expenses	23,450	11,631		
Total Current Assets	7,795,407	7,310,741		
PROPERTY, FURNITURE AND EQUIPMENT, NET	3,876,219	4,042,999		
Total Assets	\$ 11,671,626	\$ 11,353,740		
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 6,942	\$ 7,202		
Accrued expenses	52,187	45,194		
Total Liabilities	59,129	52,396		
NET ASSETS				
Without donor restrictions				
Undesignated	7,496,716	9,202,586		
Board designated for endowment	2,306,956	849,489		
Board designated for expansion and capital improvements	1,297,575	272,575		
Total Net Assets Without Donor Restrictions	11,101,247	10,324,650		
With donor restrictions	511,250	976,694		
Total Net Assets	11,612,497	11,301,344		
Total Liabilities and Net Assets	\$ 11,671,626	\$ 11,353,740		

RONALD McDONALD HOUSE CHARITIES OF CENTRAL PENNSYLVANIA STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2018 (WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017)

	Without	With	Total			
	Donor Restrictions	Donor Restrictions	2018	2017		
REVENUES, GAINS AND	<u> </u>	Restrictions				
OTHER SUPPORT						
Contributions	\$ 1,396,543	\$ 5,000	\$ 1,401,543	1,327,790		
Fund-raising events, net of direct expenses of	Ψ 1,23 0,2 12	φ 2,000	4 1, 101,010	1,027,730		
\$172,537 and \$164,761, respectively	334,898		334,898	347,103		
Guest donations	12,170		12,170	18,975		
Donated goods and services	305,416		305,416	328,751		
Interest and dividend income	259,042	13,779	272,821	286,173		
Loss on disposal of fixed assets	(22,075)	,	(22,075)	(570)		
Miscellaneous	2,706		2,706	2,673		
Realized gain on investments	342,745	34,790	377,535	95,799		
Unrealized (loss) gain on investments	(868,182)	(17,109)	(885,291)	660,087		
, , 5	1,763,263	36,460	1,799,723	3,066,781		
Net assets released from restrictions	501,904	(501,904)	0	0		
Total Revenues, Gains and						
Other Support	2,265,167	(465,444)	1,799,723	3,066,781		
EXPENSES						
Program services - House						
and Family Rooms	1,089,496		1,089,496	1,036,479		
Program services - Grants	0		0	221,098		
Management and general	178,087		178,087	172,758		
Fund-raising	220,987		220,987	234,237		
Unallocated payments to RMHC-Global	0		0	40,046		
Total Expenses	1,488,570	0	1,488,570	1,704,618		
CHANGE IN NET ASSETS	776,597	(465,444)	311,153	1,362,163		
NET ASSETS, JANUARY 1	10,324,650	976,694	11,301,344	9,939,181		
NET ASSETS, DECEMBER 31	\$ 11,101,247	\$ 511,250	\$ 11,612,497	\$ 11,301,344		

RONALD McDONALD HOUSE CHARITIES OF CENTRAL PENNSYLVANIA STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions		With Donor strictions		Total
REVENUES, GAINS AND					
OTHER SUPPORT					
Contributions	\$ 1,295,290	\$	32,500	\$	1,327,790
Fund-raising events, net of direct			,		, ,
expenses of \$164,761	347,103				347,103
Guest donations	18,975				18,975
Donated goods and services	328,751				328,751
Interest and dividend income	238,397		47,776		286,173
Loss on disposal of fixed assets	(570)		,		(570)
Miscellaneous	2,673				2,673
Realized gain on investments	79,805		15,994		95,799
Unrealized gain on investments	549,886		110,201		660,087
Ç	2,860,310	-	206,471		3,066,781
Net assets released from restrictions	27,416		(27,416)		0
Total Revenues, Gains and		-			
Other Support	2,887,726		179,055		3,066,781
EXPENSES					
Program services - House					
and Family Rooms	1,036,479				1,036,479
Program services - Grants	221,098				221,098
Management and general	172,758				172,758
Fund-raising	234,237				234,237
Unallocated payments to RMHC-Global	40,046				40,046
Total Expenses	1,704,618		0		1,704,618
CHANGE IN NET ASSETS	1,183,108		179,055		1,362,163
NET ASSETS, JANUARY 1	9,141,542		797,639		9,939,181
NET ASSETS, DECEMBER 31	\$ 10,324,650	\$	976,694	_\$_	11,301,344

RONALD McDONALD HOUSE CHARITIES OF CENTRAL PENNSYLVANIA STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018 (WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017)

	Progra	m Services		Supportin	g Serv	vices			
			N	Aanagement					
	Hot	use and		and	and Fu		To	tal	
	Famil	ly Rooms		General		raising	2018		2017
Salaries	\$	345,505	\$	62,665	\$	156,380	\$ 564,550	\$	512,556
Payroll taxes		32,680		5,927		14,792	53,399		46,718
Employee benefits		27,451		5,256		14,218	46,925		48,795
House supplies		48,674					48,674		35,545
Laundry		9,443					9,443		12,824
Insurance		13,254		6,528			19,782		19,613
Cleaning		2,592		81		27	2,700		2,700
Utilities		41,924		1,310		437	43,671		42,072
Maintenance and repairs		43,818		1,369		457	45,644		46,670
Contract services		39,598		1,238		412	41,248		28,571
Dues and subscriptions		1,158		463		695	2,316		3,683
General and administrative		7,945		7,945			15,890		11,177
Grants							0		202,625
Travel		9,777		1,629		4,889	16,295		5,779
Meetings and seminars		5,011		845		181	6,037		3,715
Office supplies		5,585		2,793		2,793	11,171		6,726
Donated materials		258,734		28,748			287,482		308,395
Telephone		6,422		1,300		406	8,128		7,958
Postage		3,758		2,818		12,213	18,789		24,347
Marketing		8,944		745		8,944	18,633		43,020
Professional fees		4,857		41,285		2,429	48,571		53,033
Volunteer recognition		7,806					7,806		9,260
Depreciation		164,560		5,142		1,714	171,416		171,328
Canister collection							0		17,462
•	\$	1,089,496	\$	178,087	\$	220,987	\$ 1,488,570	\$	1,664,572

RONALD McDONALD HOUSE CHARITIES OF CENTRAL PENNSYLVANIA STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

		Program	ogram Services			Supporting Services				
					M	Management				
	H	ouse and				and		Fund-		
	Fan	ily Rooms		Grants		General	raising			Total
Salaries	\$	300,358	\$	13,326	\$	56,894	\$	141,978	\$	512,556
Payroll taxes		27,376		1,215		5,186		12,941		46,718
Employee benefits		27,081		1,464		5,465		14,785		48,795
House supplies		35,545								35,545
Laundry		12,824								12,824
Insurance		13,141				6,472				19,613
Cleaning		2,592				81		27		2,700
Utilities		40,390				1,262		420		42,072
Maintenance and repairs		44,803				1,400		467		46,670
Contract services		27,428				857		286		28,571
Dues and subscriptions		1,841				737		1,105		3,683
General and administrative		5,588				5,589				11,177
Grants				202,625						202,625
Travel		3,467				578		1,734		5,779
Meetings and seminars		3,083				521		111		3,715
Office supplies		3,295		67		1,682		1,682		6,726
Donated materials		277,555				30,840				308,395
Telephone		6,286		80		1,194		398		7,958
Postage		4,139		730		3,652		15,826		24,347
Marketing		20,649				1,721		20,650		43,020
Professional fees		5,303		1,591		43,487		2,652		53,033
Volunteer recognition		9,260								9,260
Depreciation		164,475				5,140		1,713		171,328
Canister collection								17,462		17,462
	\$	1,036,479	\$	221,098	\$	172,758	\$	234,237	\$	1,664,572

RONALD McDONALD HOUSE CHARITIES OF CENTRAL PENNSYLVANIA STATEMENTS OF CASH FLOWS

	Years Ended December 31,			
	2018	2017		
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	\$ 311,153	\$ 1,362,163		
Adjustments to reconcile change in net assets to net				
cash provided by operating activities				
Depreciation	171,416	171,328		
Realized gain on investments	(377,535)	(95,799)		
Unrealized loss (gain) on investments	885,291	(660,087)		
Loss on disposal of assets	22,075	570		
Changes in assets and liabilities				
Contributions receivable	(2,444)	60,190		
Due from RMHC - Global	2,279	(20,177)		
Prepaid expenses	(11,819)	2,197		
Accounts payable	(260)	(10,250)		
Accrued expenses	6,993	3,695		
Net Cash Provided by Operating Activities	1,007,149	813,830		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	3,988,358	1,728,600		
Purchases of investments	(3,745,887)	(2,564,347)		
Purchases of property, furniture and equipment	(26,711)	(29,540)		
Net Cash Provided by (Used in) Investing Activities	215,760	(865,287)		
NET INCREASE (DECREASE) IN CASH AND				
CASH EQUIVALENTS	1,222,909	(51,457)		
CASH AND EQUIVALENTS, JANUARY 1	1,039,392	1,090,849		
CASH AND EQUIVALENTS, DECEMBER 31	\$ 2,262,301	\$ 1,039,392		
SUPPLEMENTAL DISCLOSURE OF NONCA	SH ACTIVITY	, -		
NON CASH OPERATING ACTIVITIES				
In-kind contribution of goods and services	\$ 305,416	\$ 328,751		
In-kind contribution for fund-raising activities	\$ 73,098	\$ 74,152		

NOTE 1 Nature and Purpose of the Organization

Ronald McDonald House Charities of Central Pennsylvania (the "Organization") is a nonprofit organization which provides temporary lodging, accommodations and other assistance to pediatric patients and their families during treatment at the Penn State Milton S. Hershey Medical Center. The Organization's main sources of revenue include local and national fund-raisers sponsored by McDonald's, contributions from businesses, foundations, individuals and service organizations, and fund-raising events.

NOTE 2 Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Organization are prepared on the accrual basis of accounting, in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions or law. The governing board has designated, from net assets without donor restrictions, net assets for an endowment and net assets for various expansion and capital improvement projects.

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include cash and money market funds.

Concentration of Credit Risk

The Organization may be subject to credit risk on its cash and cash equivalent assets, which are placed with high credit-quality financial institutions. The Federal Deposit Insurance Corporation ("FDIC") coverage is \$250,000 for all accounts. From time to time, the Organization may have amounts on deposit in excess of the FDIC limits. Cash balances exceeded the levels of deposit insurance by approximately \$657,000 at December 31, 2018.

NOTE 2 Summary of Significant Accounting Policies (Continued)

Contributions Receivable

Contributions receivable primarily represent amounts expected to be received from donors. The Organization uses the allowance method to determine uncollectible contributions. Any allowance would be based on management's analysis of specific balances and recent collection history. In the opinion of management, all of the contributions receivable are considered to be realizable at the amount stated in the accompanying statements of financial position and no allowance for uncollectible accounts was considered necessary at December 31, 2018 and 2017.

Valuation of Investments in Securities at Fair Value

The Organization complies with the provisions of FASB ASC 820, *Fair Value Measurements*. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
- **Level 2** Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- **Level 3** Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Property, Furniture and Equipment

Donations of property, furniture and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

NOTE 2 Summary of Significant Accounting Policies (Continued)

Property, Furniture and Equipment (Continued)

Property, furniture and equipment are carried at cost, less accumulated depreciation. Maintenance and repairs which neither materially add to the value of property nor appreciably prolong its life are charged to expense. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Related gains or losses from such transactions are credited or charged to income.

The Organization 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. The Organization 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 value.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 39 years.

Revenue Recognition

Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restriction. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

Contributed Items and Services

Numerous volunteers have donated significant amounts of time to the Organization. The value of these contributed services is not reported in the financial statements since the criteria for recognition has not been met.

In-kind contributions meeting the requirements for recognition in the financial statements are recorded as income at their fair market value at the date of receipt. A substantial portion of the in-kind contributions are for the operation of the Ronald McDonald House. These items are reported as revenue and expense and total \$305,416 and \$328,751 for the years ended December 31, 2018 and 2017, respectively. Significant additional goods and services were donated for the comfort of the House and Family Room guests. However, these amounts have not been recorded in the financial statements since the criteria for recognition have not been met.

The Organization receives in-kind contributions related to their fund-raising events. These items are reported as fund-raising event revenue and expense and total \$73,098 and \$74,152 for the years ended December 31, 2018 and 2017, respectively.

NOTE 2 Summary of Significant Accounting Policies (Continued)

Contributed Items and Services (Continued)

Donated assets are recorded at fair market value on the date of donation. No such donated assets were received during the years ended December 31, 2018 and 2017.

Functional Expenses

The statements of functional expenses report certain categories of expenses that are attributable to one or more program or supporting function of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: depreciation, maintenance and repairs, contract services, and utilities, which are allocated on a square footage basis; and salaries and wages, payroll taxes and employee benefits, which are allocated on the basis of estimates of time and effort. The remaining expenses are allocated based on historical estimates of usage between program and support functions.

Income Taxes

No provision for income taxes has been made in the financial statements since the Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. However, income from activities not directly related to the Organization's taxexempt purpose, if any, would be subject to taxation as unrelated business income.

The Organization complies with the guidance for uncertainty in income taxes using the provisions of FASB ASC 740, *Income Taxes*. Using that guidance tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by tax authorities. As of December 31, 2018 and 2017, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Liquidity

The Organization has \$7,795,407 of financial assets available to meet cash needs for general expenditures within one year of the statement of financial position date, as noted in the current assets section of the statement. Except for the donor restricted balance held in investments (as described in Note 6), none of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

NOTE 2 Summary of Significant Accounting Policies (Continued)

Liquidity (Continued)

The Organization maintains financial assets, consisting of cash and short-term investments, on hand to meet its normal operating expenses based on its annual budget. Operating expenses are compared to budgeted expenses on a monthly basis and financial assets on hand are adjusted as necessary. As more fully described in Note 9, the Organization also has a committed line of credit in the amount of \$500,000, which it could draw upon in the event of an unanticipated liquidity need.

In addition, although the Organization does not intend to spend from its board-designated endowment, other than amounts appropriated from general expenditure as part of its annual budget approval and appropriation, amounts from its board designated endowment could be made available if necessary.

NOTE 3 Investments

The Organization's investments are recorded at fair value and have been categorized based upon a fair value hierarchy in accordance with FASB ASC 820 (see Note 2). All investments held at December 31, 2018 and 2017 are summarized as follows:

	 Investn	r 31, 2018			
	Level 1	Level 2	Level 3		Total
Without donor restrictions:					
Bond mutual fund	\$ 1,561,067	\$ 0	\$ 0	\$	1,561,067
Equity mutual funds	3,406,462				3,406,462
	 4,967,529	0	0		4,967,529
With donor restrictions:					
Equity mutual funds	2,077				2,077
Equity security	504,173				504,173
	506,250	0	0		506,250
	\$ 5,473,779	\$ 0	\$ 0	\$	5,473,779

NOTE 3 Investments (Continued)

	 Investm	ents at	: Fair Valu	e as of	December	· 31, :	2017
	Level 1	L	evel 2	I	Level 3		Total
Without donor restrictions:							
Bond mutual fund	\$ 1,371,558	\$	0	\$	0	\$	1,371,558
Equity mutual funds	3,866,062						3,866,062
	5,237,620		0		0		5,237,620
With donor restrictions:							
Equity mutual funds	480,136						480,136
Equity security	506,250						506,250
	 986.386		0		0		986,386
	\$ 6,224,006	\$	0	\$	0	\$	6,224,006

Generally, for all equities and mutual funds, fair value is determined by reference to quoted market prices and other relevant information generated by market transactions.

Investment securities 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 value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

The composition of investment income on the Organization's investment portfolio is as follows:

	 Decem	ıber 3	31 ,
	2018		2017
Interest and dividend income	\$ 272,821	\$	286,173
Realized/unrealized gain (loss)	(507,756)		755,886
	\$ (234,935)	\$	1,042,059

NOTE 4 Property, Furniture and Equipment

	 Decem	iber 3	51,
	2018		2017
Land	\$ 305,891	\$	305,891
Building and improvements	5,745,488		5,783,393
Furniture and fixtures	489,806		495,576
Equipment	231,270		213,758
Family room furniture	 33,055		33,055
	6,805,510		6,831,673
Less accumulated depreciation	 2,929,291		2,788,674
	\$ 3,876,219	\$	4,024,999

NOTE 4 Property, Furniture and Equipment (Continued)

Depreciation expense for the years ended December 31, 2018 and 2017 was \$171,416 and \$171,328, respectively.

NOTE 5 Endowments

The Organization received a contribution of 10,000 shares of McDonald's Corporation stock in 1993. The contribution was recorded at \$506,250, the fair market value at the date of acquisition. In accordance with the donor's restriction, which requires the principal to be held in perpetuity for the benefit of the Ronald McDonald House, the original value of the stock is reported as net assets with donor restrictions. Interest, dividends, gains and losses are restricted for House operating expenses and therefore, also reported as net assets with donor restrictions until appropriated.

In addition, the Organization's Board of Directors established a separate endowment fund during the year ended December 31, 2013. All contributions provided by donors which have been solicited for the endowment may be held in perpetuity. The Board has also elected to classify certain unrestricted funds as endowment funds which will be board designated in perpetuity. The Board will be responsible for distributing any investment income produced by the endowment fund while maintaining the original principal balance of contributions to the endowment fund.

Endowment Return Objectives, Risk Parameters and Strategies

The Organization has adopted investment and spending policies, approved by the Board of Trustees, which govern both of the Organization's endowments. The primary objective of these policies is to produce a total return which will permit maximum support for the general operating fund of the Organization to the extent that it is consistent with (a) prudent management of investments, (b) preservation of principal and (c) potential for long-term asset growth.

Spending Policy

On an at least annual basis, the Finance Committee of the Board shall recommend to the Board an amount to be transferred from the income and/or gain of the endowment funds to the general operating fund of the Organization. No such distribution of income and/or gain shall decrease the total market value of the endowment fund below 110% of the original contributions balance. At the same time, an amount no greater than 6% of the total market value of the endowment fund may be distributed in a given calendar year.

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

NOTE 5 Endowments (Continued)

	Without Donor Restrictions						
Endowment net assets at							
December 31, 2016	\$	525,534	\$	777,974	\$	1,303,508	
Contributions		206,434				206,434	
Investment Income							
Interest & dividends		32,274		47,776		80,050	
Unrealized gain		74,443		110,201		184,644	
Realized gain		10,804		15,994		26,798	
Total investment income		117,521		173,971		291,492	
Endowment net assets at		· · · · · · · · · · · · · · · · · · ·		<u> </u>			
December 31, 2017	\$	849,489	\$	951,945	\$	1,801,434	
Contributions		408,500				408,500	
Additional designation		1,045,533				1,045,533	
Investment Income							
Interest & dividends		14,670		13,779		28,449	
Unrealized loss		(170,426)		(17,109)		(187,535)	
Realized gain		159,190		34,790		193,980	
Total investment income		3,434		31,460		34,894	
Appropriations				(477,155)		(477,155)	
Endowment net assets at							
December 31, 2018	\$	2,306,956	\$	506,250	\$	2,813,206	

NOTE 6 Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

	December 31,			
	2018		2017	
Subject to expenditure for specific purpose:				
House operations	\$	5,000	\$	14,749
Capital expenditures		0		10,000
Subject to the Organization's appropriation:				
Original donor-restricted gift required to be				
maintained in perpetuity by donor		506,250		506,250
Accumulated gain		0		445,695
	\$	511,250	\$	976,694

NOTE 7 Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows:

	December 31,			
	2018		2017	
Purpose restrictions accomplished:				
House operations	\$	491,904	\$	7,750
Capital expenditures		10,000		17,516
Time restriction expired:				
Event held during the year		0		2,150
	\$	501,904	\$	27,416

NOTE 8 Net Assets without Donor Restrictions

The Organization's governing Board of Directors has designated net assets without donor restrictions for the following purposes:

	December 31,				
		2018	_	2017	
Board-designated endowment	\$	2,306,956	\$	849,489	
General capital reserve		272,575		272,575	
House renovation		500,000		0	
Expansion of family room at Hershey Medical		500,000		0	
Kiosk at Lancaster General Hospital		25,000		0	
	\$	3,604,531	\$	1,122,064	

NOTE 9 Line of Credit

The Organization has a \$500,000 unsecured line of credit available with a bank for operational purposes. The line of credit expires October 31, 2019. Interest on outstanding borrowings is payable at the bank's prime rate (5.5% at December 31, 2018). There were no borrowings against the line as of December 31, 2018 and 2017, respectively.

NOTE 10 Transactions with Related Entities

The Organization is a beneficiary of national fundraising efforts facilitated by Ronald McDonald House Charities, Inc. (RMHC Global). RMHC Global retains 25% of the funds from such efforts and remits the remaining proceeds to the Organization. During the years ended December 31, 2018 and 2017, the Organization received \$172,028 and \$123,578, respectively, from these revenue streams.

NOTE 10 Transactions with Related Entities (Continued)

Effective October 31, 2017, all donation box collection services were centralized under RMHC Global. From the date the Organization centralized, all collection revenue was sent to RMHC Global. The Organization now receives a monthly grant from RMHC Global, which represents 75% of the donation box collections for the month, net of 25% of the collection fees incurred.

During the years ended December 31, 2018 and 2017, the Organization's expense to RMHC-Global was \$0 and \$40,046, respectively. At December 31, 2018 and 2017, the Organization had \$23,352 and \$25,631, respectively, due from RMHC-Global.

NOTE 11 Retirement Plan

The Organization has a SIMPLE IRA plan available to employees who have received at least \$5,000 in compensation during any calendar year preceding the current calendar year. Under the provisions of the plan, a participating employee may elect a salary reduction up to the maximum amount allowable by law. The Organization matches the employee contribution up to a maximum of 3% of the employee's compensation. Employer contributions to the plan were \$11,880 and \$13,206 for the years ended December 31, 2018 and 2017, respectively.

NOTE 12 Change in Accounting Principle

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

- Unrestricted net asset class has been renamed Net Assets Without Donor Restrictions
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called Net Assets with Donor Restrictions
- The financial statements include a disclosure about liquidity and availability of resources (Note 2)
- Investment expenses are included in net investment return

NOTE 13 Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on the prior year change in net assets.

NOTE 14 Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure in the financial statements through May 16, 2019, the date the financial statements were available to be issued. No events or transactions have occurred that would require recognition or disclosure in the financial statements.

NOTE 15 Recent Accounting Pronouncements

Revenue from Contracts with Customers

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

Clarifying Scope and the Accounting Guidance for Contributions

In June 2018, the FASB issued amended guidance to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This amended guidance distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. For contributions, the guidance in Subtopic 958-605, *Not-for-Profit Entities – Revenue Recognition*, should be followed. For exchange transactions, Topic 606, *Revenue from Contracts with Customers*, should be followed.

In addition, once a transaction is deemed to be a contribution, this amended guidance assists in determining whether a contribution is conditional or unconditional, and if unconditional, whether the transaction is donor-restricted for a limited purpose or timing. The guidance should be applied on a modified prospective basis. As a resource recipient, the guidance will be effective for the Organization for the year ended December 31, 2019. Early adoption is permitted.

NOTE 15 Recent Accounting Pronouncements (Continued)

Leases

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