

ELLIN & TUCKER

**RONALD MCDONALD HOUSE CHARITIES OF MARYLAND, INC.
AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**



RMHC[®]
Maryland

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December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ronald McDonald House Charities of Maryland, Inc.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Ronald McDonald House Charities of Maryland, Inc. and Subsidiary (collectively referred to as the Organization) which comprise the Consolidated Statements of Financial Position as of December 31, 2018 and 2017 and the related Consolidated Statements of Activities, Functional Expenses and Cash Flows for the years then ended and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 the significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITORS' REPORT, CONTINUED

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Maryland, Inc. and Subsidiary as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



ELLIN & TUCKER
Certified Public Accountants

Baltimore, Maryland
May 28, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Ronald McDonald House Charities of Maryland, Inc. and Subsidiary
December 31, 2018 and 2017

ASSETS

ASSETS	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 4,469,076	\$ 13,428,598
Restricted Cash	444,528	-
Investments (Note 2)	5,710,879	5,905,792
Pledges Receivable, Net (Note 3)	4,028,203	6,909,898
Other Receivables, Net of Allowance of \$10,000 and \$19,900 in 2018 and 2017, Respectively	149,985	72,041
Note Receivable (Note 5)	8,115,600	-
Prepaid Expenses and Other Assets	85,013	56,032
Property and Equipment, Net (Note 4)	<u>29,548,359</u>	<u>12,238,401</u>
 Total Assets	 <u>\$ 52,551,643</u>	 <u>\$ 38,610,762</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 2,800,945	\$ 2,783,524
Notes Payable (Note 6)	<u>11,251,848</u>	<u>-</u>
 Total Liabilities	 <u>14,052,793</u>	 <u>2,783,524</u>

COMMITMENTS (Note 7)

NET ASSETS		
Without Donor Restrictions	12,282,728	11,921,059
With Donor Restrictions (Note 8)	<u>26,216,122</u>	<u>23,906,179</u>
 Total Net Assets	 <u>38,498,850</u>	 <u>35,827,238</u>
 Total Liabilities and Net Assets	 <u>\$ 52,551,643</u>	 <u>\$ 38,610,762</u>

(See Independent Auditors' Report and Accompanying Notes)

CONSOLIDATED STATEMENTS OF ACTIVITIES
Ronald McDonald House Charities of Maryland, Inc. and Subsidiary
For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Contributions	\$ 1,275,326	\$ 74,493	\$ 1,349,819	\$ 1,453,773	\$ 17,581	\$ 1,471,354
Capital Campaign	-	2,305,800	2,305,800	-	7,505,525	7,505,525
Special Events, Net of Cost of Direct Benefits to Donors of \$413,812 and \$510,404, Respectively	1,273,361	-	1,273,361	1,079,446	-	1,079,446
Guest Fees	67,441	-	67,441	77,859	-	77,859
In-Kind Contributions	60,909	-	60,909	91,933	-	91,933
Net Assets Released from Restrictions	53,948	(53,948)	-	66,910	(66,910)	-
Total Revenues, Gains, and Other Support	2,730,985	2,326,345	5,057,330	2,769,921	7,456,196	10,226,117
EXPENSES						
Program Services	1,697,045	-	1,697,045	1,706,721	-	1,706,721
Management and General	315,766	-	315,766	271,266	-	271,266
Fundraising	237,017	-	237,017	229,477	-	229,477
Total Expenses	2,249,828	-	2,249,828	2,207,464	-	2,207,464
Change in Net Assets from Operations	481,157	2,326,345	2,807,502	562,457	7,456,196	8,018,653
INVESTMENT (LOSS) INCOME, NET (Note 2)	(119,488)	(16,402)	(135,890)	459,224	67,048	526,272
Change in Net Assets	361,669	2,309,943	2,671,612	1,021,681	7,523,244	8,544,925
NET ASSETS - BEGINNING OF YEAR	11,921,059	23,906,179	35,827,238	10,899,378	16,382,935	27,282,313
NET ASSETS - END OF YEAR	\$ 12,282,728	\$ 26,216,122	\$ 38,498,850	\$ 11,921,059	\$ 23,906,179	\$ 35,827,238

(See Independent Auditors' Report and Accompanying Notes)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Ronald McDonald House Charities of Maryland, Inc. and Subsidiary
For the Year Ended December 31, 2018

	Program Services	Supporting Services			Total
		Management and General	Fund Raising	Total	
Salaries	\$ 638,649	\$ 54,804	\$ 136,121	\$ 190,925	\$ 829,574
Employee Benefits	64,547	5,514	14,416	19,930	84,477
Payroll Taxes	49,107	3,992	10,335	14,327	63,434
Total Salaries and Related Expenses	752,303	64,310	160,872	225,182	977,485
Bad Debt Expenses	-	85,600	-	85,600	85,600
Bank Charges	-	54,733	-	54,733	54,733
Cleaning Services	70,345	-	-	-	70,345
Conferences and Meetings	7,123	5,675	204	5,879	13,002
Dues and Subscriptions	5,500	-	781	781	6,281
Family Support Services	23,023	-	-	-	23,023
House Supplies	43,723	3,598	274	3,872	47,595
Insurance	28,851	4,831	-	4,831	33,682
Lease	50,000	-	-	-	50,000
Maintenance and Repairs	58,132	1,378	177	1,555	59,687
Marketing and Public Relations	42,081	-	17,274	17,274	59,355
Operating	148,922	1,476	-	1,476	150,398
Postage, Printing and Publishing	19,367	-	15,557	15,557	34,924
Professional Development	15,326	-	-	-	15,326
Professional Fees	1,270	66,173	-	66,173	67,443
Special Events	-	-	40,385	40,385	40,385
Telephone	10,729	3,575	-	3,575	14,304
Transportation and Parking	72,012	-	-	-	72,012
Utilities	83,096	246	367	613	83,709
Total Expenses before Depreciation	1,431,803	291,595	235,891	527,486	1,959,289
Depreciation and Amortization	265,242	24,171	1,126	25,297	290,539
Total Expenses	\$ 1,697,045	\$ 315,766	\$ 237,017	\$ 552,783	\$ 2,249,828

(See Independent Auditors' Report and Accompanying Notes)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Ronald McDonald House Charities of Maryland, Inc. and Subsidiary
For the Year Ended December 31, 2017

	Program Services	Supporting Services			Total
		Management and General	Fund Raising	Total	
Salaries	\$ 560,462	\$ 125,619	\$ 112,457	\$ 238,076	\$ 798,538
Employee Benefits	31,570	7,076	6,335	13,411	44,981
Payroll Taxes	40,791	9,143	8,184	17,327	58,118
Total Salaries and Related Expenses	632,823	141,838	126,976	268,814	901,637
Bank Charges	-	28,172	-	28,172	28,172
Cleaning Services	65,979	-	-	-	65,979
Conferences and Meetings	7,179	5,599	1,439	7,038	14,217
Dues and Subscriptions	5,429	-	-	-	5,429
Family Support Services	31,334	-	-	-	31,334
House Supplies	42,886	5,868	-	5,868	48,754
Insurance	25,277	4,813	-	4,813	30,090
Lease	50,000	-	-	-	50,000
Maintenance and Repairs	56,261	1,054	1,983	3,037	59,298
Marketing and Public Relations	28,800	-	34,657	34,657	63,457
Operating	180,721	2,192	-	2,192	182,913
Postage, Printing and Publishing	15,502	-	12,183	12,183	27,685
Professional Development	4,496	-	-	-	4,496
Professional Fees	-	76,561	-	76,561	76,561
Special Events	-	-	50,075	50,075	50,075
Telephone	11,159	3,719	-	3,719	14,878
Transportation and Parking	58,520	-	-	-	58,520
Utilities	87,625	259	387	646	88,271
Total Expenses before Depreciation	1,303,991	270,075	227,700	497,775	1,801,766
Depreciation and Amortization	402,730	1,191	1,777	2,968	405,698
Total Expenses	\$ 1,706,721	\$ 271,266	\$ 229,477	\$ 500,743	\$ 2,207,464

(See Independent Auditors' Report and Accompanying Notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS
Ronald McDonald House Charities of Maryland, Inc. and Subsidiary
For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING ACTIVITIES		
Changes in Net Assets	\$ 2,671,612	\$ 8,544,925
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	290,539	405,698
Loss (Gain) on Investments, Net	402,597	(402,507)
Contributions Restricted for Long-Term Purposes	(2,195,138)	(7,420,232)
Net Changes in:		
Restricted Cash	(444,528)	-
Pledges and Other Receivables	(93,607)	(52,425)
Prepaid Expenses and Other Assets	(28,981)	24,343
Accounts Payable and Accrued Expenses	17,421	2,464,895
	<u>619,915</u>	<u>3,564,697</u>
Net Cash Provided by Operating Activities		
INVESTING ACTIVITIES		
Purchases of Investments	(796,311)	(3,167,491)
Sales of Investments	588,627	112,830
Expenditures for Property and Equipment	(17,567,058)	(8,091,926)
	<u>(17,774,742)</u>	<u>(11,146,587)</u>
Net Cash Used in Investing Activities		
FINANCING ACTIVITIES		
Collections of Contributions Restricted for Long-Term Purposes	5,092,496	7,469,085
Issuance of Note Receivable	(8,115,600)	-
Proceeds from Notes Payable	11,720,000	-
Loan Origination Fees	(501,591)	-
	<u>8,195,305</u>	<u>7,469,085</u>
Net Cash Provided by Financing Activities		
Net Change in Cash and Cash Equivalents	(8,959,522)	(112,805)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>13,428,598</u>	<u>13,541,403</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,469,076</u>	<u>\$ 13,428,598</u>

(See Independent Auditors' Report and Accompanying Notes)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

NATURE OF ACTIVITIES

Ronald McDonald House Charities of Maryland, Inc. (RMH) (formerly Ronald McDonald House Charities of Baltimore, Inc.) is a not-for-profit organization that provides a home away from home for seriously ill children and their families.

Hope Has a New Address: RMH 2.0, Inc. (RMH 2.0) was formed in 2018 for the purpose of the construction of the new house (Note 13). RMH is the sole member of RMH 2.0.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of RMH and RMH 2.0. All significant intercompany transactions and balances have been eliminated in consolidation.

ACCOUNTING STANDARDS CODIFICATION

All references in the consolidated financial statements to the Codification refer to the Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (GAAP) issued by the Financial Accounting Standards Board (FASB). The Codification is the single source of authoritative GAAP in the United States.

NEW ACCOUNTING STANDARD ADOPTED

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The Organization has adopted this ASU as of and for the year ended December 31, 2018 with retrospective application for the consolidated financial statements for the year ended December 31, 2017. As a result, the Organization changed its presentation of its net asset classes and expanded the disclosures as required by the ASU. In addition, the investment expenses are netted against investment return in the accompanying Consolidated Statements of Activities.

BASIS OF ACCOUNTING AND PRESENTATION

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. Under the accrual basis of accounting, revenue and other support are recorded when earned and expenses are recorded when incurred. Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions.

(See Independent Auditors' Report)

REVENUE RECOGNITION

Pledges and contributions are recorded when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions received and unconditional promises to give are measured at their fair values and reported as support within net assets with donor restrictions or net assets without donor restrictions depending on the existence and nature of any donor restrictions.

USE OF ESTIMATES

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

SUBSEQUENT EVENTS

The Organization has evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through May 28, 2019, the date the consolidated financial statements were available to be issued.

FUNCTIONAL EXPENSES

Functional expenses have been allocated between program and supporting services based on an analysis of personnel time and space utilized for the related activities.

CASH AND CASH EQUIVALENTS

The Organization maintains its cash in bank deposit accounts and money market funds which, at times, may exceed federally insured limits. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Organization considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

RESTRICTED CASH

In accordance with the loan agreements to finance the construction of the new house, the Organization was required to establish reserve accounts. The funds are used to pay certain asset management and servicing fees.

(See Independent Auditors' Report)

DEPRECIATION

Depreciation is provided on the straight-line method over the estimated useful lives of the related assets. It is the Organization's policy to capitalize property and equipment greater than \$2,500. Lesser amounts are expensed.

VALUATION OF LONG-LIVED ASSETS

The Organization accounts for the valuation of long-lived assets under the Codification for the impairment or disposal of long-lived assets. The Codification requires long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to the 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 estimated fair value of the assets. Assets to be disposed are reportable at the lower of the carrying amount of fair value, less costs to sell.

DONATED GOODS AND SERVICES

The Organization receives a significant amount of donated services from unpaid volunteers who assist with clerical and resident comfort activities. Donated goods and services with an identifiable value have been recognized in the Consolidated Statements of Activities.

INCOME TAXES

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization follows the provisions of Accounting for Uncertainty in Income Taxes under the Income Taxes Topic of the Codification. The Codification requires the evaluation of tax positions, which include maintaining its tax-exempt status and the taxability of any unrelated business income, and does not allow recognition of tax positions which do not meet a "more-likely-than-not" threshold of being sustained by the applicable tax authority. Management does not believe it has taken any tax positions that would not meet this threshold.

INVESTMENTS

Investments are reported at fair value in the Consolidated Statements of Financial Position. Realized and unrealized gains and losses are included in the change in net assets. See Note 2 for a discussion of fair value measurements.

(See Independent Auditors' Report)

RISKS AND UNCERTAINTIES

The Organization invests in various investment securities, which are exposed to various risks, such as interest rate, credit and overall volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could materially affect the amounts reported in the Consolidated Statements of Financial Position.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 VALUATION OF INVESTMENTS

Investments at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Cash Equivalents	\$ 155,090	\$ 39,785
Mutual Funds	5,322,374	5,532,876
Common Stocks	233,415	333,131
Total	<u>\$ 5,710,879</u>	<u>\$ 5,905,792</u>

The Fair Value Measurements and Disclosures Topic of the Codification establishes a hierarchal disclosure framework, which prioritizes and ranks the level of market price observability used in measuring investments and other financial instruments at fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

- Level 2 Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;

 - Quoted prices for identical or similar assets or liabilities in inactive markets;

(See Independent Auditors' Report)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Ronald McDonald House Charities of Maryland, Inc. and Subsidiary

Inputs other than quoted prices that are observable for the asset or liability;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Below is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at December 31, 2018 and 2017.

Mutual Funds and Common Stocks: Valued at quoted prices in an active market.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2018 and 2017:

	Level 1 and Total	
	2018	2017
Mutual Funds:		
Emerging Markets	\$ 36,865	\$ 45,323
Fixed Income	3,075,550	3,179,724
Bond Funds	596,050	559,857
International	522,841	611,904
Large Cap Growth	127,519	219,949
Large Cap Value	615,315	565,263
Mid Cap Growth	162,336	166,829
Mid Cap Value	100,782	103,681
Small Cap Growth	84,744	79,513
Small Cap Value	372	833

(See Independent Auditors' Report)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Ronald McDonald House Charities of Maryland, Inc. and Subsidiary

	Level 1 and Total	
	2018	2017
Common Stocks:		
Small Cap Value	87,795	100,210
Large Cap Core	145,620	230,802
Large Cap Growth	-	2,119
	-	2,119
Investment Securities, at Fair Value	<u>\$ 5,555,789</u>	<u>\$ 5,866,007</u>

Cash equivalents are excluded from the fair value hierarchy as cash equivalents are generally measured at cost. As such, short-term investments of \$155,090 and \$39,785 held in the Organization's investment portfolio at December 31, 2018 and 2017, respectively, have been excluded from this table.

Investment income (loss) for the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
Dividends and Interest	\$ 287,340	\$ 142,163
Net Realized Gain on Sale of Investments	103,946	203,014
Unrealized (Depreciation) Appreciation on Investments	(506,543)	199,493
	(115,257)	544,670
Less: Investment Fees	20,633	18,398
	<u>\$ (135,890)</u>	<u>\$ 526,272</u>

NOTE 3 PLEDGES RECEIVABLE

Pledges receivable represent unconditional promises to give from donors. Pledges receivable at December 31, 2018 were as follows:

Amounts Due in Less than One Year	\$ 2,811,923
Amounts Due in One to Five Years	1,316,280
Amounts Due in More than Five Years	75,000
Total Commitment	4,203,203

(See Independent Auditors' Report)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Ronald McDonald House Charities of Maryland, Inc. and Subsidiary

Less: Allowance for Uncollectibility	95,000
Less: Present Value of Money Discount	<u>80,000</u>
Pledges Receivable, Net	<u><u>\$ 4,028,203</u></u>

Pledges which are due in more than one year are reflected at the present value of expected future cash flows using a discount rate of 3%.

NOTE 4 **PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2018 and 2017 consisted of the following:

	2018	2017
Building and Building Improvements	\$ 6,500,113	\$ 6,504,521
Furniture and Office Equipment	148,345	138,265
Automotive Equipment	71,702	71,702
Playground	199,250	199,250
New House Construction in Progress	<u>28,050,899</u>	<u>10,497,514</u>
	34,970,309	17,411,252
Less: Accumulated Depreciation	<u>5,421,950</u>	<u>5,172,851</u>
Total	<u><u>\$ 29,548,359</u></u>	<u><u>\$ 12,238,401</u></u>

Construction of the new house was in progress at December 31, 2018 and placed into service in April 2019. The existing building and building improvements were sold in May 2019 for \$1,450,000.

NOTE 5 **NOTE RECEIVABLE**

In July 2018, the Organization entered into a loan agreement with RMH Baltimore Investment Fund, LLC to facilitate the tax credit transactions used to fund the construction of the new house (Note 13). The note receivable at December 31, 2018 is interest only at 1% with quarterly payments through December 2025. Effective March 2026, interest and principal payments of approximately \$93,000 will be due in quarterly installments through maturity in September 1, 2050.

(See Independent Auditors' Report)

NOTE 6 **NOTES PAYABLE**

Notes payable as of December 31, 2018 consisted of:

Note Payable, interest only at .739% through March 1, 2026, then quarterly payments of \$48,861 until maturity in December 2056, collateralized by new house	\$ 5,410,400
Note Payable, interest only at .739% through March 1, 2026, then quarterly payments of \$20,858 until maturity in December 2056, collateralized by new house	2,309,600
Note Payable, interest only at .739% through March 1, 2026, then quarterly payments of \$24,430 until maturity in December 2056, collateralized by new house	2,705,200
Note Payable, interest only at .739% through March 1, 2026, then quarterly payments of \$11,693 until maturity in December 2056, collateralized by new house	1,294,800
	11,720,000
Less: Loan Origination Fees, Net of Accumulated Amortization of \$33,439	468,152
	\$ 11,251,848

Future principal payments on notes payable are as follows:

Year Ended December	2019	\$ -
	2020	-
	2021	-
	2022	-
	2023	-
	Thereafter	11,720,000
		\$ 11,720,000

NOTE 7 **COMMITMENTS**

The Organization has a ground lease with the City of Baltimore to lease the land located at the new house for \$1 per year through July 2066 with an option to extend for an additional 25 years. The Organization has recorded the fair value of this rent of approximately \$50,000 as in-kind contributions revenue and lease expense for the years ended December 31, 2018 and 2017. As part of the lease, the Organization has committed to construct improvements to the neighboring properties of the new house as specified in the agreement.

(See Independent Auditors' Report)

NOTE 8 **NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at December 31, 2018 and 2017 are as follows:

	2018	2017
Subject to Expenditure for Specified Purpose:		
New House Construction	\$ 25,632,036	\$ 23,326,236
Family Expenses	54,216	25,947
Vending Product	18,412	-
Subject to Organization's Spending Policy and Appropriation:		
Investment in Perpetuity (Including Amounts Greater than Original Gift Amounts of \$481,250), Which, Once Appropriated, is Expendable to Support:		
Any Activities of the Organization	511,458	553,996
Total	<u>\$ 26,216,122</u>	<u>\$ 23,906,179</u>

NOTE 9 **ENDOWMENT FUNDS**

The Organization's endowment consists of one donor-restricted endowment fund established to provide a source of income for ongoing operating expenses. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW

The Organization is subject to the Maryland Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Directors of the Organization has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(See Independent Auditors' Report)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Ronald McDonald House Charities of Maryland, Inc. and Subsidiary

- (1) Duration and preservation of the fund
- (2) Purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) Possible effect of inflation and deflation
- (5) Expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) Investment policies of the Organization

ENDOWMENT FUND COMPOSITION BY TYPE OF FUND AS OF DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds:			
Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity by Donor	\$ -	\$ 481,250	\$ 481,250
Accumulated Investment Gains	-	30,208	30,208
	<u>\$ -</u>	<u>\$ 511,458</u>	<u>\$ 511,458</u>

ENDOWMENT FUND COMPOSITION BY TYPE OF FUND AS OF DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds:			
Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity by Donor	\$ -	\$ 481,250	\$ 481,250
Accumulated Investment Gains	-	72,746	72,746
	<u>\$ -</u>	<u>\$ 553,996</u>	<u>\$ 553,996</u>

(See Independent Auditors' Report)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Ronald McDonald House Charities of Maryland, Inc. and Subsidiary

CHANGES IN ENDOWMENT FUNDS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Funds, January 1, 2017	\$ -	\$ 512,224	\$ 512,224
Investment Return, Net	-	67,048	67,048
Appropriation of Endowment Assets Expenditure	<u>-</u>	<u>(25,276)</u>	<u>(25,276)</u>
Endowment Funds, December 31, 2017	-	553,996	553,996
Investment Return, Net	-	(16,402)	(16,402)
Appropriation of Endowment Assets for Expenditure	<u>-</u>	<u>(26,136)</u>	<u>(26,136)</u>
Endowment Funds, December 31, 2018	<u>\$ -</u>	<u>\$ 511,458</u>	<u>\$ 511,458</u>

UNDERWATER ENDOWMENT FUNDS

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2018 and 2017.

RETURN OBJECTIVES AND RISK PARAMETERS

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for operating expenses while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner intended to produce results which exceed the price and yield results of a composite index that is a weighted blend of the indices which reflects the Organization's target asset allocation while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return, before appropriation of expenditures, of approximately 5% in excess of the Consumer Price Index annually. Actual returns in any given year may vary from this amount.

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STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objective, the Organization relies on a total return strategy in which investment returns are achieved through 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 parameters.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

The Organization has a policy of appropriating for distribution each year up to 5% of its endowment fund's average fair value as of year end for the preceding three years in which the distribution is planned. In establishing this policy, the Organization considered 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 rate of the Consumer Price Index plus 5% annually. The Organization generally does not permit spending from underwater endowment funds when the funds are underwater.

NOTE 10 RETIREMENT PLAN

The Organization maintains a 401(k) retirement plan for eligible employees. During 2018 and 2017, the Organization's contribution to the plan was \$24,641 and \$20,260, respectively.

NOTE 11 RELATED PARTY TRANSACTIONS

Ronald McDonald House Charities (RMHC) is a system of independent, separately registered public benefit organizations, referred to as "Chapters" within the global organization. The Organization is an independent operating Chapter within the RMHC system. Each Chapter is licensed by McDonald's Corporation and Ronald McDonald House Charities, Inc. to use RMHC related trademarks in conjunction with fundraising activities and the operation of its programs; the License Agreement also sets standards of operations for programs, governance, finance, branding and reporting.

Ronald McDonald House Charities, Inc. (RMHC Global), a separately registered nonprofit organization, ensures delivery of the mission across the globe. As a center of excellence, RMHC Global builds and sustains a robust infrastructure of support to the network of Chapters, including operations, licensing and compliance, finance, risk management, communications, marketing and development. The Organization incurs a fee of 25% related to revenues from all national fundraising efforts facilitated by RMHC Global, as defined by the License Agreement. Prior to 2018, RMH received revenues from national fundraising efforts directly from the third party collection agency and remitted the 25% fee to RMHC Global. Funds remitted to RMHC Global totaled \$54,308 for the year ended December 31, 2017. Effective in 2018, RMHC Global receives all national fundraising revenues and remits to RMH

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its portion of contributions, net of the 25% fee. During the year ended December 31, 2018, the Organization received \$251,196 from RMHC Global from these revenue streams.

NOTE 12 SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year ended December 31, 2018 for interest was \$32,238 and was capitalized to New House Construction in Progress.

NOTE 13 NEW HOUSE TRANSACTION

In 2018, the Organization entered into a series of complex transactions designed to provide funding to construct the new house. The transactions allowed other unrelated parties to utilize federal and state new market tax credits, which could not be utilized by the Organization. These credits are subject to recapture to the extent the Organization does not meet certain performance standards. The requirements include various economic and community impacts that will respond to the needs of the surrounding community, as specified in the agreement.

Accordingly, the unrelated parties entered into debt, lease and other agreements designed to protect their financial interest in the transaction and which incentivized the Organization to meet performance standards during the compliance period. Conversely, the Organization negotiated provisions in the agreements which provide options to relieve the Organization of these significant obligations upon expiration of the compliance period. The compliance period expires in May 2025.

NOTE 14 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's financial assets available to meet cash needs for general expenditures within one year of the Consolidated Statements of Financial Position date are as follows:

	2018	2017
Cash and Cash Equivalents	\$ 4,469,076	\$ 13,428,598
Investments	5,710,879	5,905,792
Pledges Receivable	4,028,203	6,909,898
Other Receivables	149,985	72,041
Total Financial Assets	14,358,143	26,316,329
Receivables Scheduled to be Collected in More than One Year	(1,391,280)	(3,885,060)

(See Independent Auditors' Report)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
Ronald McDonald House Charities of Maryland, Inc. and Subsidiary

	2018	2017
Contractual or Donor-Imposed Restrictions:		
Endowment Funds	(511,458)	(553,996)
Donor Contributions Restricted to Specific Purposes	(25,704,664)	(23,352,183)
Property and Equipment Not Placed in Service as of Year End Included in Donor Contributions Restricted to Specific Purposes	25,632,036	23,326,236
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 12,382,777	\$ 21,851,326

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, management performs a periodic review of the cash flow projections. The Organization also has investments of \$5,710,879, which could be liquidated if cash flow needs arise. Additionally, the Organization has Board-designated net assets without donor restrictions that could be made available for current operations if necessary.

(See Independent Auditors’ Report)



SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
 Ronald McDonald House Charities of Maryland, Inc.

We have audited the consolidated financial statements of Ronald McDonald House Charities of Maryland, Inc. and Subsidiary as of and for the years ended December 31, 2018 and 2017, and our report thereon dated May 28, 2019, which expressed an unmodified opinion on those consolidated financial statements, appears on Pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Statements of Financial Position and Activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

ELLIN & TUCKER
 Certified Public Accountants

Baltimore, Maryland
 May 28, 2019

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
Ronald McDonald House Charities of Maryland, Inc. and Subsidiary
December 31, 2018

	<u>ASSETS</u>			
<u>ASSETS</u>	<u>RMH</u>	<u>RMH 2.0</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash and Cash Equivalents	\$ 3,860,105	\$ 608,971	\$ -	\$ 4,469,076
Restricted Cash	-	444,528	-	444,528
Investments	5,710,879	-	-	5,710,879
Pledges Receivable, Net	4,028,203	-	-	4,028,203
Other Receivables, Net of Allowance of \$10,000	149,985	-	-	149,985
Note Receivable	8,115,600	-	-	8,115,600
Prepaid Expenses and Other Assets	86,513	-	(1,500)	85,013
Property and Equipment, Net	2,401,688	27,146,671	-	29,548,359
Total Assets	<u>\$ 24,352,973</u>	<u>\$ 28,200,170</u>	<u>\$ (1,500)</u>	<u>\$ 52,551,643</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>LIABILITIES</u>				
Accounts Payable and Accrued Expenses	\$ 2,782,894	\$ 19,551	\$ (1,500)	\$ 2,800,945
Notes Payable	-	11,251,848	-	11,251,848
Total Liabilities	<u>2,782,894</u>	<u>11,271,399</u>	<u>(1,500)</u>	<u>14,052,793</u>
<u>NET ASSETS</u>				
Without Donor Restrictions	20,985,993	(8,703,265)	-	12,282,728
With Donor Restrictions	584,086	25,632,036	-	26,216,122
Total Net Assets	<u>21,570,079</u>	<u>16,928,771</u>	<u>-</u>	<u>38,498,850</u>
Total Liabilities and Net Assets	<u>\$ 24,352,973</u>	<u>\$ 28,200,170</u>	<u>\$ (1,500)</u>	<u>\$ 52,551,643</u>

(See Independent Auditors' Report on Supplementary Information)

	RMH			RMH 2.0			Eliminations	Consolidated
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total		
REVENUES, GAINS, AND OTHER SUPPORT								
Contributions	\$ 1,275,326	\$ 74,493	\$ 1,349,819	\$ -	\$ -	\$ -	\$ -	\$ 1,349,819
Capital Campaign	-	2,305,800	2,305,800	-	-	-	-	2,305,800
Special Events, Net of Cost of Direct Benefits to Donors of \$413,812	1,273,361	-	1,273,361	-	-	-	-	1,273,361
Guest Fees	67,441	-	67,441	-	-	-	-	67,441
In-Kind Contributions	60,909	-	60,909	-	-	-	-	60,909
Intercompany Contributions (Note 1)	4,610,613	-	4,610,613	21,602,345	-	21,602,345	(26,212,958)	-
Net Assets Released from Restrictions	53,948	(53,948)	-	-	-	-	-	-
Total Revenues, Gains, and Other Support	7,341,598	2,326,345	9,667,943	21,602,345	-	21,602,345	26,212,958	5,057,330
EXPENSES								
Program Services	1,687,022	-	1,687,022	10,023	-	10,023	-	1,697,045
Management and General	262,828	-	262,828	52,938	-	52,938	-	315,766
Fundraising	237,017	-	237,017	-	-	-	-	237,017
Intercompany Contribution Expense (Note 1)	21,602,345	-	21,602,345	4,610,613	-	4,610,613	(26,212,958)	-
Total Expenses	23,789,212	-	23,789,212	4,673,574	-	4,673,574	(26,212,958)	2,249,828
Change in Net Assets from Operations	(16,447,614)	2,326,345	(14,121,269)	16,928,771	-	16,928,771	-	2,807,502
INVESTMENT LOSS, NET	(119,488)	(16,402)	(135,890)	-	-	-	-	(135,890)
Change in Net Assets	(16,567,102)	2,309,943	(14,257,159)	16,928,771	-	16,928,771	-	2,671,612
NET ASSETS - BEGINNING OF YEAR	11,921,059	23,906,179	35,827,238	-	-	-	-	35,827,238
Transfer of Net Assets With Donor Restrictions (Note 1)	25,632,036	(25,632,036)	-	(25,632,036)	25,632,036	-	-	-
NET ASSETS - END OF YEAR	\$ 20,985,993	\$ 584,086	\$ 21,570,079	\$ (8,703,265)	\$ 25,632,036	\$ 16,928,771	\$ -	\$ 38,498,850

(See Independent Auditors' Report on Supplementary Information)

NOTE 1 **INTERCOMPANY TRANSACTIONS**

During 2018, RMH 2.0 was formed for the purpose of construction of the new house. As a result, net assets with donor restrictions for construction of the new house totaling \$25,632,036 were transferred to RMH 2.0. These assets will be released from restriction when the building is placed into service in April 2019. In addition, construction in progress totaling \$21,602,345 was contributed by RMH to RMH 2.0, and RMH was reimbursed by RMH 2.0 for construction costs totaling \$4,610,613.

(See Independent Auditors' Report on Supplementary Information)