



LOFTIS GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS ▪ BUSINESS ADVISORS



**Ronald McDonald
House Charities®**
New Mexico

Financial Statements
and
Independent Auditor's Report

December 31, 2018 and 2017

**Ronald McDonald House
Charities of New Mexico, Inc.
Table of Contents**

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-26

Independent Auditor's Report

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

We have audited the accompanying financial statements of Ronald McDonald House Charities of New Mexico, Inc. (RMHCNM) (a nonprofit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to RMHCNM'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 RMHCNM'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 New Mexico, 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.

Loftis Group ^{LLC}

Albuquerque, New Mexico
May 16, 2019

Financial Statements

**Ronald McDonald House
Charities of New Mexico, Inc.**
Statements of Financial Position
December 31,

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 309,418	\$ 469,073
Lodging and other fees receivable	58,321	31,438
Contributions receivable, current portion	260,223	57,053
Prepaid expenses	9,690	7,145
Total current assets	637,652	564,709
Contributions receivable, less current portion	220,627	222,886
Investments	4,043,743	4,275,149
Other assets	3,892	5,478
Property, furniture and equipment, net	3,810,750	3,917,080
Total assets	\$ 8,716,664	\$ 8,985,302
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 35,099	\$ 20,890
Accrued expenses	25,057	33,835
Deferred revenue	6,575	20,378
Total liabilities	66,731	75,103
Net assets		
Without donor restrictions		
Designated		
Reserves	1,000,000	1,000,000
Endowment	260,951	260,951
Total Designated	1,260,951	1,260,951
Undesignated	6,279,052	6,638,911
Total without donor restrictions	7,540,003	7,899,862
With donor restrictions	1,109,930	1,010,337
Total net assets	8,649,933	8,910,199
Total liabilities and net assets	\$ 8,716,664	\$ 8,985,302

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

**Ronald McDonald House
Charities of New Mexico, Inc.
Statement of Activities
For the Year Ended December 31, 2018**

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	2018 Totals	2017 <u>Totals</u>
Support, Revenue, and Gains				
Public support				
Contributions	\$ 828,745	\$ 294,075	\$ 1,122,820	\$ 1,116,862
In-kind contributions	264,829	9,172	274,001	290,487
Special events, net of direct benefit expenses of \$43,690	<u>139,776</u>	<u>-</u>	139,776	<u>157,006</u>
Total public support	1,233,350	303,247	1,536,597	1,564,355
Lodging fees	82,805	-	82,805	95,434
Other income	4,303	-	4,303	4,643
Investment income (loss)	(231,266)	-	(231,266)	490,243
Loss on disposal of assets	-	-	-	(1,138)
Net assets released from restriction	<u>203,654</u>	<u>(203,654)</u>	<u>-</u>	<u>-</u>
Total support, revenues, and gains	<u>1,292,846</u>	<u>99,593</u>	1,392,439	<u>2,153,537</u>
Expenses				
Program services	1,305,475	-	1,305,475	1,264,862
Supporting services				
Management and general	57,854	-	57,854	49,332
Fundraising	280,642	-	280,642	237,504
Unallocated payment to RMHC Global	<u>8,734</u>	<u>-</u>	8,734	<u>34,378</u>
Total expenses	<u>1,652,705</u>	<u>-</u>	1,652,705	<u>1,586,076</u>
Change in net assets	(359,859)	99,593	(260,266)	567,461
Net assets, beginning of year	<u>7,899,862</u>	<u>1,010,337</u>	8,910,199	<u>8,342,738</u>
Net assets, end of year	<u>\$ 7,540,003</u>	<u>\$ 1,109,930</u>	\$ 8,649,933	<u>\$ 8,910,199</u>

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

**Ronald McDonald House
Charities of New Mexico, Inc.
Statement of Activities
For the Year Ended December 31, 2017**

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Totals</u>
Support, Revenue, and Gains			
Public support			
Contributions	\$ 899,737	\$ 217,125	\$ 1,116,862
In-kind contributions	281,224	9,263	290,487
Special events, net of direct benefit expenses of \$42,089	<u>157,006</u>	<u>-</u>	<u>157,006</u>
Total public support	1,337,967	226,388	1,564,355
Lodging fees	95,434	-	95,434
Other income	4,643	-	4,643
Investment income	415,964	74,279	490,243
Loss on disposal of assets	(1,138)	-	(1,138)
Net assets released from restriction	<u>237,483</u>	<u>(237,483)</u>	<u>-</u>
Total support, revenues, and gains	<u>2,090,353</u>	<u>63,184</u>	<u>2,153,537</u>
Expenses			
Program services	1,264,862	-	1,264,862
Supporting services			
Management and general	49,332	-	49,332
Fundraising	237,504	-	237,504
Unallocated payment to RMHC Global	<u>34,378</u>	<u>-</u>	<u>34,378</u>
Total expenses	<u>1,586,076</u>	<u>-</u>	<u>1,586,076</u>
Change in net assets	504,277	63,184	567,461
Net assets, beginning of year	<u>7,395,585</u>	<u>947,153</u>	<u>8,342,738</u>
Net assets, end of year	<u>\$ 7,899,862</u>	<u>\$ 1,010,337</u>	<u>\$ 8,910,199</u>

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

**Ronald McDonald House
Charities of New Mexico, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2018**

	Program	Management and General	Fundraising	Unallocated Affiliate Payments	2018 Totals	2017 Totals
Salaries and wages	\$ 496,659	\$ 40,527	\$ 101,317	\$ -	\$ 638,503	\$ 558,908
Supplies	212,862	193	1,927	-	214,982	247,004
Depreciation	208,445	2,127	2,127	-	212,699	220,185
Direct mail services	20,625	-	61,873	-	82,498	82,045
Employee benefits	56,322	6,257	15,645	-	78,224	66,261
Rent and lease	71,245	74	147	-	71,466	68,238
Contract services	21,197	344	39,576	-	61,117	35,019
Payroll taxes	36,245	2,753	6,881	-	45,879	40,254
Utilities	44,287	225	449	-	44,961	43,333
Repairs and maintenance	41,130	1,018	2,471	-	44,619	39,868
Insurance	27,404	765	1,865	-	30,034	23,349
Professional fees	19,487	1,323	3,306	-	24,116	27,673
Special events	-	-	23,452	-	23,452	23,000
Bank charges	776	55	14,523	-	15,354	16,847
Conferences and meetings	14,613	-	-	-	14,613	20,879
Miscellaneous	11,509	1,177	39	-	12,725	10,892
Telephone	7,019	533	1,333	-	8,885	9,735
Unallocated payments to RMHC Global	-	-	-	8,734	8,734	34,378
Postage	3,320	252	1,300	-	4,872	5,468
Travel	4,630	-	-	-	4,630	3,120
Volunteers	4,530	-	-	-	4,530	3,845
Printing	3,045	231	578	-	3,854	3,219
Advertising	-	-	1,833	-	1,833	-
Public relations	125	-	-	-	125	2,556
Total expenses	\$ 1,305,475	\$ 57,854	\$ 280,642	\$ 8,734	\$ 1,652,705	\$ 1,586,076

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

**Ronald McDonald House
Charities of New Mexico, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2017**

	Program	Management and General	Fundraising	Unallocated Affiliate Payments	Totals
Salaries and wages	\$ 441,515	\$ 33,541	\$ 83,852	\$ -	\$ 558,908
Supplies	245,480	144	1,380	-	247,004
Depreciation	216,882	1,101	2,202	-	220,185
Direct mail services	20,511	-	61,534	-	82,045
Employee benefits	47,708	5,301	13,252	-	66,261
Rent and lease	68,066	57	115	-	68,238
Contract services	17,759	340	16,920	-	35,019
Payroll taxes	31,800	2,415	6,039	-	40,254
Utilities	42,683	217	433	-	43,333
Repairs and maintenance	35,658	1,217	2,993	-	39,868
Insurance	21,445	555	1,349	-	23,349
Professional fees	21,862	1,660	4,151	-	27,673
Special events	-	-	23,000	-	23,000
Bank charges	862	50	15,935	-	16,847
Conferences and meetings	20,879	-	-	-	20,879
Miscellaneous	8,171	1,667	1,054	-	10,892
Telephone	7,691	584	1,460	-	9,735
Unallocated payments to RMHC Global	-	-	-	34,378	34,378
Postage	3,826	290	1,352	-	5,468
Travel	3,120	-	-	-	3,120
Volunteers	3,845	-	-	-	3,845
Printing	2,543	193	483	-	3,219
Public relations	2,556	-	-	-	2,556
Total expenses	<u>\$ 1,264,862</u>	<u>\$ 49,332</u>	<u>\$ 237,504</u>	<u>\$ 34,378</u>	<u>\$ 1,586,076</u>

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

**Ronald McDonald House
Charities of New Mexico, Inc.**
Statements of Cash Flows
For the Years Ended December 31,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Cash received from contributions	\$ 923,295	\$ 1,104,957
Cash received from special events	183,466	157,006
Cash received from lodging revenues	55,922	94,978
Other cash receipts	4,303	-
Interest and dividends received	142,565	155,354
Cash paid to employees and suppliers	<u>(1,234,282)</u>	<u>(1,061,683)</u>
Net cash provided (used) by operating activities	<u>75,269</u>	<u>450,612</u>
Cash flows from investing activities		
Cash paid for House renovations, furniture and equipment	(6,648)	(31,990)
Purchases of investments	(935,486)	(1,390,181)
Proceeds from the sales and maturities of investments	<u>806,731</u>	<u>1,045,557</u>
Net cash used by investing activities	<u>(135,403)</u>	<u>(376,614)</u>
Cash flows from financing activities		
Cash contributions restricted for endowment	<u>200</u>	<u>300</u>
Net cash provided by financing activities	<u>200</u>	<u>300</u>
Net increase (decrease) in cash and cash equivalents	(59,934)	74,298
Cash and cash equivalents, beginning of year	<u>469,073</u>	<u>394,775</u>
Cash and cash equivalents, end of year	<u>\$ 409,139</u>	<u>\$ 469,073</u>

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

**Ronald McDonald House
Charities of New Mexico, Inc.
Statements of Cash Flows – continued
For the Years Ended December 31,**

	<u>2018</u>	<u>2017</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	<u>\$ (260,266)</u>	<u>\$ 567,461</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	212,699	220,185
Net realized and unrealized gain on investments	360,161	(350,610)
Amortization of discounts on long-term contributions receivable	(9,172)	(9,351)
Contributions restricted for endowment	(200)	(300)
In-kind land use	11,500	11,500
Loss on disposal of assets	-	1,138
Changes in assets and liabilities		
Lodging and other fees receivable	(26,883)	(456)
Contributions receivable	(203,239)	(13,348)
Accrued investment income	-	2,820
Prepaid expenses	(2,545)	(1,259)
Other assets	1,586	(406)
Accounts payable	14,209	2,797
Accrued expenses	(8,778)	63
Deferred revenue	(13,803)	20,378
Total adjustments	<u>335,535</u>	<u>(116,849)</u>
Net cash provided (used) by operating activities	<u>\$ 75,269</u>	<u>\$ 450,612</u>

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

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

1) Summary of Significant Accounting Policies

Organization Activity

Ronald McDonald House Charities of New Mexico, Inc., (RMHCNM) is a nonprofit corporation established in 1982 under the laws of the state of New Mexico. RMHCNM supports the well-being of children through the following programs:

New Mexico Ronald McDonald House (the "House") – As the cornerstone program, the House provides temporary lodging, comfort and support for families of seriously ill and injured children who are being treated at Albuquerque medical facilities. The thirty room facility is on the campus of the University of New Mexico.

Ronald McDonald Family Rooms (the "Family Rooms") – RMHCNM operates three Family Rooms which extend the comfort of the House to a hospital setting. The Family Rooms are located inside the University of New Mexico's Children's Hospital, Presbyterian Hospital, in downtown Albuquerque, and CHRISTUS St. Vincent hospital in Santa Fe. Located just steps from neonatal and pediatric intensive care units, these respite spaces provide families of critically ill children a place to rest, get something to eat and even do laundry. Additionally, the Family Room at Presbyterian Hospital includes four overnight sleep rooms to allow families to stay within steps of their child's hospital bed.

The main sources of revenue and support are from contributions, special events, lodging fees and investment income.

A volunteer board of trustees directs the activities of RMHCNM through professional management.

Basis of Presentation

The financial statements of RMHCNM have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require RMHCNM to report information regarding its financial position and activities according to the following net asset classifications:

- *Net assets without donor restriction:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of RMHCNM. These net assets may be used at the discretion of management and the board of directors.

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

1) Summary of Significant Accounting Policies — continued

Basis of Presentation - continued

- *Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of RMHCNM or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents

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

Investments

Investments in equity securities with readily-determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Advertising Costs

Advertising costs are expensed as incurred.

Support

RMHCNM reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

1) Summary of Significant Accounting Policies — continued

Contributed Materials and Services

RMHCNM recognizes contributed services if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. Recognized contributed services and donated materials are recorded at the estimated fair value on the date of donation. RMHCNM received the following contributed services, materials, and assets during the years ended December 31:

	<u>2018</u>	<u>2017</u>
House and Family Room supplies	\$ 157,175	\$ 175,546
Family room space	56,738	56,738
Fundraiser supplies and advertising	23,452	23,160
Courier services - fundraising	16,080	16,080
Land use	9,336	9,351
Other professional administrative services	<u>11,220</u>	<u>9,612</u>
Total	<u>\$ 274,001</u>	<u>\$ 290,487</u>

RMHCNM also receives a significant amount of donated services from volunteers for program and fundraising activities. The value of these services has not been recorded as the services do not meet the recognition criteria of FASB ASC 958-10-20, *Accounting for Contributions Received and Contributions Made*.

Income Taxes

RMHCNM is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as an organization that is not a private foundation.

The Financial Accounting Standards Board (FASB) issued FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, which provides guidance on how to measure and account for various tax positions. RMHCNM determined no material unrecognized tax benefits or liabilities exist as of December 31, 2018 and 2017. If applicable, RMHCNM will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of December 31, 2018 and 2017, RMHCNM had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. RMHCNM does not anticipate any significant changes to unrecognized tax benefits over the next year.

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

1) Summary of Significant Accounting Policies — continued

Income Taxes - continued

Management of RMHCNM believes its activities allow it to continue to be classified as an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and has not identified any activities subject to unrelated business income tax. RMHCNM files federal Form 990, *Return of Organization Exempt from Income Tax*, with the Internal Revenue Service and copies of Form 990 with states in which RMHCNM is registered. The statute of limitations for examination of RMHCNM's returns expires three years from the due date of the return or the date filed, whichever is later. RMHCNM's returns for the years ended December 31, 2015 through 2017, are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2018, will expire in May 2022.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program and supporting services benefited. Significant allocations are determined by management on an equitable basis, as detailed below:

Expense	Method of Allocation
Salaries and wages	Time spent
Depreciation	Square footage
Direct mail services	Specific identification
Land lease	Square footage
Employee benefits	Time spent

Use of Estimates

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

Contributions and Lodging Fees Receivable

Contributions and lodging fees receivable are stated at unpaid balances, less an allowance for doubtful accounts. Management estimates the adequacy of the allowance for uncollectible receivables based on historical collections, specific impaired receivables, and other situations that may affect the collection of the receivables. Receivables are charged off in the period in which management determines the receivable is uncollectable. As of December 31, 2018 and 2017,

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

1) Summary of Significant Accounting Policies — continued

Contributions and Lodging Fees Receivable - continued

management estimates all receivables to be fully collectible; therefore, no provision for an allowance for uncollectible receivables has been recorded.

Property, Furniture and Equipment

Property, furniture, and equipment are stated at cost. Property, furniture and equipment that are received by donation are recorded at the estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, RMHCNM reports the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. RMHCNM reclassifies restricted net assets to unrestricted net assets at that time. Purchased or donated property, furniture and equipment in excess of \$5,000 is capitalized and depreciated. Depreciation is calculated on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, which range from three to forty years.

Subsequent Events

Subsequent events have been evaluated through May 16, 2019, which is the date the financial statements were available to be issued. Management believes that there are no material subsequent events that have arisen that would require accrual.

New Accounting Pronouncement

FASB has issued 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. RMHCNM has adjusted the presentation of these statements accordingly.

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

2) Contributions Receivable

Contributions receivable consist of pledge receivables and the in-kind land lease receivable and are as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 269,300	\$ 66,225
Receivable in one to five years	46,000	46,000
Receivable in more than five years	<u>391,000</u>	<u>402,500</u>
Total contributions receivable	706,300	514,725
Less unamortized discount	<u>(225,450)</u>	<u>(234,786)</u>
Net contributions receivable	<u>\$ 480,850</u>	<u>\$ 279,939</u>

The amount of the in-kind land lease receivable included above is \$223,050 and \$225,214 as of December 31, 2018 and 2017, respectively, and is amortized at a 4% interest rate. RMHCNM also received a significant pledge receivable in 2018 of \$250,000 related to the Highlands House.

3) Investments

Investments consist of the following as of December 31:

	<u>2018</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized (Depreciation)</u>
Mutual funds	\$ 3,666,281	\$ 3,540,288	\$ (125,993)
Money market funds	<u>503,455</u>	<u>503,455</u>	<u>-</u>
Total investments	<u>\$ 4,169,736</u>	<u>\$ 4,043,743</u>	<u>\$ (125,993)</u>

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

3) Investments – continued

	2017		
	Cost	Fair Value	Unrealized Appreciation
Mutual funds	\$ 3,557,266	\$ 3,792,815	\$ 235,549
Money market funds	482,334	482,334	-
Total investments	\$ 4,039,600	\$ 4,275,149	\$ 235,549

Investment income (loss) from cash, cash equivalents, and investments is as follows for the years ended December 31:

	2018	2017
Interest and dividends	\$ 142,565	\$ 152,535
Net realized gains	5,493	131,226
Net unrealized gains (losses)	(365,654)	219,383
Investment expense	(13,670)	(12,901)
Total investment income	\$ (231,266)	\$ 490,243

Investment income (loss) is reported net of related investment expenses in the statement of activities. The amount of expenses netted with revenues was \$13,670 and \$12,902 for the years ended December 31, 2018 and 2017, respectively.

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

4) Property, Furniture and Equipment

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

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 6,184,740	\$ 6,184,740
Furniture and equipment	352,050	345,402
Land improvements	141,328	141,328
Christus St. Vincent Family Room	99,722	-
Ronald McDonald Family Room	59,086	59,086
Vehicle	<u>34,084</u>	<u>34,084</u>
Total property, furniture, and equipment	6,871,010	6,764,640
Less accumulated depreciation	<u>(3,060,260)</u>	<u>(2,847,560)</u>
Property, furniture, and equipment, net	<u>\$ 3,810,750</u>	<u>\$ 3,917,080</u>

5) Lease

RMHCNM leases land under an operating lease expiring in August 2057. The lease requires RMHCNM to pay \$1 per year with the remaining amount donated. The annual in-kind rent expense was \$11,500 for the years ended December 31, 2018 and 2017.

The future minimum rental commitments as of December 31, 2018, under the land lease are as follows:

<u>Year ending December 31</u>	<u>Cash</u>	<u>In-Kind</u>
2019	\$ 1	\$ 11,500
2020	1	11,500
2021	1	11,500
2022	1	11,500
Thereafter	35	402,500
	<u>\$ 39</u>	<u>\$ 448,500</u>

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

6) Employee Benefit Plans

RMHCNM provides a Section 403(b) retirement plan for eligible employees. Employees are eligible after one year of service. RMHCNM matches an employee's contributions up to 4% of the participating employee's compensation. Employer contributions to the retirement plan were approximately \$12,000 and \$15,000 for the years ended December 31, 2018 and 2017, respectively.

7) Net Assets

Net assets with donor restrictions consist of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Land lease contribution receivable	\$ 222,799	\$ 225,214
Highlands House	250,000	-
House operations	7,800	55,992
House renovations	-	100,000
Permanently restricted	<u>629,331</u>	<u>629,131</u>
Total temporarily restricted net assets	<u>\$ 1,109,930</u>	<u>\$ 1,010,337</u>

8) Availability and Liquidity

The following represents RMHCNM's financial assets at December 31:

	<u>2018</u>	<u>2017</u>
Financial assets at year end:		
Cash and equivalents	\$ 309,418	\$ 469,073
Receivables	539,171	311,377
Investments	<u>4,043,743</u>	<u>4,275,149</u>
Total financial assets	<u>4,892,332</u>	<u>5,055,599</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	1,109,930	1,010,337
Quasi endowment and reserves established by the board	<u>1,260,951</u>	<u>1,260,951</u>
Total financial assets	<u>2,370,881</u>	<u>2,271,288</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 2,521,451</u>	<u>\$ 2,784,311</u>

**Ronald McDonald House
Charities of New Mexico, Inc.
Notes to Financial Statements
December 31, 2018 and 2017**

8) Availability and Liquidity - continued

RMHCNM's goal is generally to maintain financial assets to meet eight months of operating expenses (approximately \$1 million). As part of its liquidity plan, excess cash may be invested in savings accounts and investments.

9) **Restricted Net Assets and Endowment**

Permanently restricted net assets consist of contributions for an endowment. The assets of the endowment consist of a portion of the total investments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Income earned on the original gift of \$528,500 to the endowment is restricted for House operations.

Management of RMHCNM has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent donor stipulations to the contrary. As a result of this interpretation, RMHCNM classifies as permanently restricted net assets 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 that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by RMHCNM in a manner consistent with the standard of prudence prescribed by UPMIFA.

The endowment policies of RMHCNM provide that an amount equal to 50% of the annual investment return, computed using a three-year moving average, may be distributed up to a maximum of 5% of total assets, with the remainder reinvested for future spending. Any income not spent in a given year can be reinvested for future spending. RMHCNM investment policies provide the following guidelines: except for obligations issued or guaranteed by the U.S. government or U.S. federal agency, no more than 5% of the investment portfolio shall be invested in the obligations of one issuer; all equities shall be listed on a major stock exchange; all fixed income securities are to be selected from issuers rated A or

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

8) Restricted Net Assets and Endowment — continued

better by Moody's or Standard and Poor's if managed; and all fixed income securities held directly are to be rated AAA. Permissible investments include securities of the U.S. government and its agencies, certificates of deposits, corporate obligations, common stocks, and mutual funds. The target rate of return is 5% over inflation as measured by the Consumer Price Index.

The endowment's net asset composition is as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Permanently restricted net assets		
Original endowment contribution	\$ 528,500	\$ 528,500
Subsequent endowment contributions	<u>100,831</u>	<u>100,631</u>
Total permanently restricted net assets	629,331	629,131
Unrestricted net assets		
Board-designated endowment funds	<u>260,951</u>	<u>260,951</u>
Total endowment funds	<u>\$ 890,282</u>	<u>\$ 890,082</u>

The changes in restricted and endowment net assets are as follows for the years ended December 31:

	<u>2018</u>		
	<u>Unrestricted</u>	<u>Donor Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 260,951	\$ 629,131	\$ 890,082
Contributions	-	200	200
Released from restriction	-	-	-
Endowment net assets, end of year	<u>\$ 260,951</u>	<u>\$ 629,331</u>	<u>\$ 890,282</u>

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

8) Restricted Net Assets and Endowment — continued

	2017		
	Unrestricted	Donor Restricted	Total
Endowment net assets, beginning of year	\$ 260,951	\$ 628,831	\$ 889,782
Investment return			
Interest and dividend income	-	22,518	22,518
Net appreciation (realized and unrealized)	-	51,761	51,761
Total investment income	-	74,279	74,279
Contributions	-	300	300
Released from restriction	-	(74,279)	(74,279)
Endowment net assets, end of year	\$ 260,951	\$ 629,131	\$ 890,082

9) **Net Assets Released from Restriction**

Net assets released from restriction consist of the following for the years ended December 31:

	2018	2017
House operations	\$ 192,154	\$ 225,983
In-kind land use	11,500	11,500
Total net assets released from restriction	\$ 203,654	\$ 237,483

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

10) Fair Value Measurements

The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure 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 as follows:

Level 1 Inputs – unadjusted quoted prices for identical assets or liabilities in active markets that the organization has the ability to access.

Level 2 Inputs – include:

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

Level 3 Inputs – unobservable inputs which reflect the organization's own assumptions about the assumptions market participants would use in pricing the asset or liability.

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

10) Fair Value Measurements — continued

The following table summarizes the assets of RMHCNM measured at fair value on a recurring basis as of:

	Fair Value Measurements at December 31, 2018 Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds				
Diversified equity	\$ 151,135	\$ 151,135	\$ -	\$ -
Domestic large cap value	334,311	334,311	-	-
Domestic large growth	262,069	262,069	-	-
Domestic large core equity	217,057	217,057	-	-
Domestic small/mid cap	204,050	204,050	-	-
Domestic mid cap equity	455,065	455,065	-	-
Emerging markets	114,583	114,583	-	-
Foreign large growth	195,247	195,247	-	-
International equity	269,910	269,910	-	-
International multi-cap value	194,177	194,177	-	-
Intermediate-term bonds	176,084	176,084	-	-
Domestic government bonds - AAA rated	545,974	545,974	-	-
Domestic government bonds - B rated	172,383	172,383	-	-
Domestic government bonds - TIPS	40,519	40,519	-	-
Multi-manager real estate income	207,724	207,724	-	-
Money market funds	503,455	503,455	-	-

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

10) Fair Value Measurements — continued

	Fair Value Measurements at December 31, 2017 Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds				
Diversified equity	\$ 164,091	\$ 164,091	\$ -	\$ -
Domestic large cap value	256,155	256,155	-	-
Domestic large growth	270,622	270,622	-	-
Domestic large core equity	220,413	220,413	-	-
Domestic small/mid cap	215,593	215,593	-	-
Domestic mid cap equity	612,906	612,906	-	-
Emerging markets	139,577	139,577	-	-
International equity	557,074	557,074	-	-
International multi-cap value	235,962	235,962	-	-
Intermediate-term bonds	177,309	177,309	-	-
Domestic government bonds - AA rated	532,061	532,061	-	-
Domestic government bonds - TIPS	39,015	39,015	-	-
Multi-manager real estate income	198,571	198,571	-	-
Strategic Income Opportunities Fund	173,466	173,466	-	-
Money market funds	482,334	482,334	-	-

**Ronald McDonald House
Charities of New Mexico, Inc.**
Notes to Financial Statements
December 31, 2018 and 2017

11) Expense Ratios

The following represents the ratio of program and supporting expenses to total expenses for the years ended December 31:

	2018	2017
Program services	80%	80%
Supporting services		
Management and general	3%	3%
Fundraising	16%	15%
Unallocated payment to RMHC Global	1%	2%
Total supporting services	20%	17%
Total percentages	100%	97%

12) Special Events

RMHCNM has fundraising activities that are classified as special events. This revenue is presented net of direct benefit expenses in the financial statements. Below are the summaries of the significant special events:

For the year ended December 31, 2018:

	Revenues	Direct benefit expenses	Net
Girls Night Out	\$ 97,415	\$ 25,010	\$ 72,405
Swing Fore the House	65,315	14,908	50,407
Other	20,736	3,772	16,964
Total	\$ 183,466	\$ 43,690	\$ 139,776

For the year ended December 31, 2017:

	Revenues	Direct benefit expenses	Net
Girls Night Out	\$ 108,236	\$ 25,468	\$ 82,768
Swing Fore the House	65,171	11,892	53,279
Other	25,688	4,729	20,959
Total	\$ 199,095	\$ 42,089	\$ 157,006

**Ronald McDonald House
Charities of New Mexico, Inc.
Notes to Financial Statements
December 31, 2018 and 2017**

13) Commitment

On January 24, 2019, RMHCNM committed to a lease agreement for a second house to be built near Presbyterian Hospital. The agreement required RMHCNM to provide funding of \$3,750,000, to be placed in escrow, for the base rent for the initial fifteen year lease term. The initial lease term shall be automatically extended without payment if an allocation of New Market Tax Credits are received. The extended period will be based on the square footage of the leased premises divided by the square footage of the building. This period is estimated to be 9.5 years. RMHCNM funded the escrow account by withdrawing \$2,750,000 of its investment balance and obtaining financing of \$1,000,000.