RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

YEARS ENDED DECEMBER 31, 2019 AND 2018

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BeachFleischman

Independent Auditors' Report

Board of Directors and Management
Ronald McDonald House Charities of Southern Arizona, Inc.
Tucson, Arizona

We have audited the accompanying financial statements of Ronald McDonald House Charities of Southern Arizona, Inc. (the Organization) which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Southern Arizona, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Beach Fleischman PC

Tucson, Arizona
June 10, 2020

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Current assets:		
Cash and cash equivalents	$ 1,210,075	$ 1,176,492
Accounts receivable	112,270	120,260
Investments	5,014,658	4,134,035
Prepaid expenses	7,286	7,949
Total current assets	6,344,289	5,438,736
Property and equipment, net	4,128,909	4,180,330
Investments whose use is limited	506,250	490,891
In-kind contribution receivable - land lease	621,984	638,352
Total assets	$ 11,601,432	$ 10,748,309

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	$ 17,789	$ 14,417
Accrued expenses and other liabilities	30,233	25,325
Total current liabilities	48,022	39,742
Total liabilities	48,022	39,742
Commitments and contingencies		
Net assets:		
Without donor restrictions	10,293,837	9,484,865
With donor restrictions	1,259,573	1,223,702
Total net assets	11,553,410	10,708,567
Total liabilities and net assets	$ 11,601,432	$ 10,748,309

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	Without donor restrictions	With donor restrictions	Total
Revenue and support:			
Public support:			
Bequests and legacies	$ 57,061	$ -	$ 57,061
Contributions	1,029,637	209,348	1,238,985
Special events	285,580	-	285,580
Program service fees	64,803	-	64,803
In-kind contributions	296,322	-	296,322
Grants	33,500	-	33,500
Other support	6,690	-	6,690
Total public support	1,773,593	209,348	1,982,941
Investment income, net	796,327	80,392	876,719
Net assets released from restrictions	253,869	(253,869)	-
	2,823,789	35,871	2,859,660
Expenses:			
Program services	1,510,592	-	1,510,592
General and administrative	167,581	-	167,581
Fundraising	336,644	-	336,644
	2,014,817	-	2,014,817
Change in net assets	808,972	35,871	844,843
Net assets, beginning	9,484,865	1,223,702	10,708,567
Net assets, ending	$ 10,293,837	$ 1,259,573	$ 11,553,410

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	Without donor restrictions	With donor restrictions	Total
Revenue and support:			
Public support:			
Bequests and legacies	$ 42,844	$ -	$ 42,844
Contributions	934,675	118,587	1,053,262
Special events	303,469	-	303,469
Program service fees	87,886	-	87,886
In-kind contributions	183,823	-	183,823
Grants	23,475	-	23,475
Other support	5,637	-	5,637
Total public support	1,581,809	118,587	1,700,396
Investment loss, net	(124,951)	(15,359)	(140,310)
Loss on disposal of assets	(13,807)	-	(13,807)
Net assets released from restrictions	109,384	(109,384)	-
	1,552,435	(6,156)	1,546,279
Expenses:			
Program services	1,216,473	-	1,216,473
General and administrative	144,450	-	144,450
Fundraising	353,076	-	353,076
	1,713,999	-	1,713,999
Change in net assets	(161,564)	(6,156)	(167,720)
Net assets, beginning	9,646,429	1,229,858	10,876,287
Net assets, ending	$ 9,484,865	$ 1,223,702	$ 10,708,567

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program services	General and administrative	Fundraising	Total expenses
Payroll	$ 461,007	$ 98,256	$ 138,154	$ 697,417
Benefits	87,657	20,180	33,012	140,849
Payroll taxes	34,122	7,260	10,166	51,548
	582,786	125,696	181,332	889,814
Conferences and meetings	137	5,319	2,172	7,628
Depreciation	248,786	1,536	2,397	252,719
Donor and volunteer recognition	7,546	507	4,000	12,053
Dues and subscriptions	3,886	845	1,446	6,177
House expense	337,023	-	14	337,037
Household supplies	31,204	-	-	31,204
Insurance	23,859	1,436	1,423	26,718
Miscellaneous expense	4,181	1,887	37,039	43,107
Office supplies	2,347	1,033	2,351	5,731
Postage	1,453	134	4,069	5,656
Printing and publication	5,336	1,476	5,479	12,291
Professional services	25,186	18,979	4,212	48,377
Promotions	12,043	1,141	86,847	100,031
Rent - land lease	16,091	108	169	16,368
Repairs and maintenance	46,980	618	196	47,794
Special event direct costs	91,700	-	166	91,866
Telephone	17,578	2,125	806	20,509
Travel and transportation	3,071	2,811	1,682	7,564
Utilities	49,399	1,930	844	52,173
	$ 1,510,592	$ 167,581	$ 336,644	$ 2,014,817

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program services	General and administrative	Fundraising	Total expenses
Payroll	$ 389,533	$ 91,000	$ 167,824	$ 648,357
Benefits	70,893	15,444	26,904	113,241
Payroll taxes	29,505	6,853	12,662	49,020
	489,931	113,297	207,390	810,618
Conferences and meetings	422	6,747	2,832	10,001
Depreciation	196,392	1,317	2,059	199,768
Donor and volunteer recognition	11,771	468	2,840	15,079
Dues and subscriptions	2,405	26	2,469	4,900
House expense	100,278	-	212	100,490
Household supplies	37,344	-	-	37,344
Insurance	24,327	1,428	2,413	28,168
Miscellaneous expense	23,609	467	24,089	48,165
Office supplies	2,446	2,014	1,119	5,579
Postage	1,181	48	3,330	4,559
Printing and publication	5,499	1,592	4,297	11,388
Professional services	45,193	9,925	4,023	59,141
Promotions	9,181	1,068	90,742	100,991
Rent - land lease	16,091	108	169	16,368
Repairs and maintenance	48,285	58	90	48,433
Special event direct costs	125,582	-	-	125,582
Telephone	14,727	802	1,159	16,688
Travel and transportation	7,406	4,720	3,272	15,398
Utilities	54,403	365	571	55,339
	$ 1,216,473	$ 144,450	$ 353,076	$ 1,713,999

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 844,843	$ (167,720)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Donated securities	(6,306)	(25,237)
Loss on disposal of assets	-	13,807
Net realized and unrealized (gains) losses on investments	(790,652)	227,271
Depreciation	252,719	199,768
Donated equipment	(37,838)	(101,715)
Rent - land lease	16,368	16,368
Changes in operating assets and liabilities:		
Accounts receivable	7,990	(106,716)
Bequest receivable	-	87,500
Prepaid expenses	663	576
Accounts payable	3,372	2,658
Accrued expenses and other liabilities	4,908	5,300
Net adjustments	(548,776)	319,580
Net cash provided by operating activities	296,067	151,860
Cash flows from investing activities:		
Purchases of property and equipment	(163,460)	(519,293)
Purchases of investments	(982,150)	(1,525,694)
Proceeds from sale of investments	883,126	1,751,160
Net cash used in investing activities	(262,484)	(293,827)
Net increase (decrease) in cash and cash equivalents	33,583	(141,967)
Cash and cash equivalents, beginning	1,176,492	1,318,459
Cash and cash equivalents, ending	$ 1,210,075	$ 1,176,492

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Description of organization and summary of significant accounting policies:

Organization:

Ronald McDonald House Charities of Southern Arizona, Inc. (the Organization) is a nonprofit corporation operating in Arizona under a license agreement to RMHC Global. The mission of the Organization is to nurture the health and well-being of children and their families. In Southern Arizona, the primary programs are the Ronald McDonald House, which provides a home-away-from-home for families with critically ill children; a Ronald McDonald Family Room at Banner's Diamond Children's Medical Center, to give families of pediatric patients a place to rest and regroup; and the Ronald McDonald Care Mobile, which provides dental care for children in underserved communities in Cochise County. The Organization's primary funding comes from public contributions. Therefore, the Organization's viability is dependent upon the strength and support provided to the not-for-profit industry, and the Organization's ability to collect on its contracts.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 financial statements and the reported amounts of revenues, support and gains and expenses during the reporting period. Actual results could differ materially from such estimates and assumptions.

Net assets:

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

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor restrictions.

- *Net assets 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

1. Description of organization and summary of significant accounting policies (continued):

Adoption of new accounting standards:

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." Topic 606 and all related Accounting Standards Updates supersedes previous revenue recognition requirements and establishes a core principle requiring the recognition of revenue to depict the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services in exchange transactions. The new rule requires an entity to (1) identify the contract, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations, and (5) recognize revenue based on a point in time or over time. The Organization adopted Topic 606 as of January 1, 2019.

The Organization also adopted ASU No. 2018-08, "Not-for-Profit Entities (Topic 958)" to clarify the scope and accounting guidance for contributions made and received. ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions. The standard effectively excludes contributions from the requirements of Topic 606. The Organization adopted ASU 2018-08 as of January 1, 2019. The revenue recognition practices under ASU 2018-08 do not different significantly from prior practices, and there was no adjustment to net assets as a result of the adoption.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)". ASU 2016-01 requires all investments be measured at fair value, clarified certain investment disclosures and provides prescribed measurement for equity investments without readily determinable fair values. Effective January 1, 2019, the Organization adopted ASU 2016-01 utilizing the retrospective method. There was no effect on net assets or the change in net assets for any period presented related to the adoption.

Revenues and support:

Contributions are considered non-exchange transactions and are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Revenues from special events and program service fees are recognized at a point in time when the event or program has occurred.

1. Description of organization and summary of significant accounting policies (continued):

Revenues and support (continued):

Support arising from donated goods and services is considered a non-exchange transaction and is recognized in the financial statements at its fair value. Donated services are recognized when the services received meet one of the following criteria:

(a) create or enhance nonfinancial assets
(b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization, the fair value of all these services may not be reflected in the financial statements because the above criteria are not met.

The Organization recorded contributed services and materials support and related expenses of $296,322 and $183,823, of which $0 and $101,715 were capitalized as property and equipment during the year ended December 31, 2019 and 2018.

Cash and cash equivalents:

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

All cash and cash equivalents are placed with various credit institutions. At times, such amounts may be in excess of the FDIC insurance limits; however, management does not believe they are exposed to any significant credit risk on cash and cash equivalents.

Investments:

Investments are carried at fair value. Donated investments are recorded at fair value at the date of gift. Investment gains and losses are included in the changes in net assets in the accompanying statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor-imposed stipulations or legal requirements net of related investment fees. Realized gains or losses on disposition of investments are recorded on a trade date basis using the specific identification method. Dividends and interest income are accrued when earned. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary.

Fair value measurements:

Fair value is defined as the price to sell an asset or transfer a liability between market participants as of the measurement date. Fair value measurements assume the asset or liability is exchanged in an orderly manner; the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and that the market participants are independent, knowledgeable, able and willing to transact an exchange. GAAP also clarifies that the reporting entity's nonperformance risk (credit risk) should be considered in valuing liabilities.

1. Description of organization and summary of significant accounting policies (continued):

Fair value measurements (continued):

GAAP establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. 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 fair value for qualifying alternative investments is determined based on the investment's net asset value as a practical expedient. Considerable judgment is required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value.

Accounts receivable:

Accounts receivable consists principally of uncollateralized amounts due from governmental agencies and unconditional promises to give from donors. The Organization considers amounts over 30 days to be past due. Receivable balances are considered fully collectible by management; therefore, no allowance for doubtful accounts has been provided.

Property, equipment, and depreciation:

Property and equipment are stated at cost except for donated equipment, which is recorded at its fair market value at the date of gift. Property and equipment with a value of greater than or equal to $1,000 and a useful life of more than one year is capitalized. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets.

Buildings and building improvements	7 - 40 years
Equipment	3 - 7 years
Furniture and fixtures	5 - 7 years
Vehicles	5 years

Functional allocation of expenses:

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include depreciation, repairs and maintenance, and utilities, which are allocated on a square footage basis, as well as payroll, benefits and payroll taxes, which are allocated on the basis of estimates of time and effort.

Advertising:

Advertising costs are expensed as incurred. Total advertising expense was $87,143 and $85,179 for 2019 and 2018.

1. Description of organization and summary of significant accounting policies (continued):

Income taxes:

The Organization is exempt from income taxes under both Federal Internal Revenue Code Section §501(c)(3) and Arizona income tax laws, and is classified as other than a private foundation under Internal Revenue Code Section §509(a)(1). Income from certain activities not directly related to the Organization's tax-exempt purpose, however, may be subject to taxation as unrelated business taxable income (UBTI).

From time to time, the Organization may be subject to penalties and interest assessed by various taxing authorities, which are classified as general and administrative expenses if they occur.

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to December 31, 2019 through June 10, 2020, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Liquidity and availability of financial assets:

The following reflects the Organization's financial assets for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date:

	2019	2018
Cash and cash equivalents	$ 1,210,075	$ 1,176,492
Accounts receivable	112,270	120,260
Investments	5,520,908	4,624,926
Total financial assets	6,843,253	5,921,678
Contractual or donor-imposed restrictions:		
Endowment funds	(506,250)	(490,891)
Other donor restrictions	(753,323)	(732,811)
	$ 5,583,680	$ 4,697,976

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.

3. Investments:

	2019	2018
Fixed income securities	$ 1,894,026	$ 1,792,692
U.S. equities	2,488,288	1,890,897
International equities	828,361	668,617
Campbell fund trust	189,790	172,644
Other	120,443	100,076
Total investments at fair value	5,520,908	4,624,926
Less investments whose use is limited:		
Endowments	506,250	490,891
	$ 5,014,658	$ 4,134,035

Net investment income (loss) for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Interest and dividends	$ 137,698	$ 138,080
Net realized and unrealized gains on investments	790,652	(227,271)
Investment expense	(51,631)	(51,119)
Investment income (loss), net	$ 876,719	$ (140,310)

4. Fair value measurements:

The fair value of assets measured on a recurring basis is as follows as of December 31:

	2019	2018
Investments at level 1:		
Fixed income securities	$ 1,894,026	$ 1,792,692
U.S. equities	2,488,288	1,890,897
International equities	828,361	668,617
Other	120,443	100,076
Investments measured at net asset value:		
Campbell fund trust	189,790	172,644
	$ 5,520,908	$ 4,624,926

4. Fair value measurements (continued):

The fair value of the level 1 investments above have been measured on a recurring basis using the market approach and priced based on quoted market information.

The investment in the Campbell fund trust is valued based on its net asset value. The fund primarily invests and reinvests in futures contracts. The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient as of December 31, 2019 and 2018.

December 31, 2019	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Campbell fund trust	$ 189,790	-	Monthly	5 days prior to month end

December 31, 2018	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Campbell fund trust	$ 172,644	-	Monthly	5 days prior to month end

5. Property and equipment:

	2019	2018
Buildings and building improvements	$ 5,368,646	$ 5,343,265
Equipment	200,457	165,178
Furniture and fixtures	401,490	367,711
Vehicles	52,959	52,959
Construction in progress	105,066	-
	6,128,618	5,929,113
Less accumulated depreciation	1,999,709	1,748,783
	$ 4,128,909	$ 4,180,330

6. In-kind contribution receivable - land lease:

The Organization is leasing the land upon which the current facility has been built. The lease term is 50 years at an annual rental of $1. The fair market value of the land at inception was approximately $818,400. Annual amortization of the lease value is $16,368. The contribution has been recorded as donor restricted support to reflect the use restriction of the land to the operation of the Ronald McDonald House for the 50-year lease term. The Organization will release $16,368 to net assets without donor restrictions annually over the 50-year lease term. As of December 31, 2019 and 2018, the remaining in-kind contribution receivable for the land lease is $621,984 and $638,352.

7. Net assets with donor restrictions:

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

	2019	2018
Subject to expenditure for specified purpose:		
Family fund	$ 11,574	$ 6,300
Lactation room	-	14,228
Care Mobile	37,399	62,233
Kitchen remodel	68,279	-
Other	14,087	11,698
	131,339	94,459
Subject to the passage of time:		
Land lease	621,984	638,352
	753,323	732,811
Endowments:		
Subject to the Organization's endowment spending policy and appropriation:		
General use	506,250	506,250
Underwater endowments	-	(15,359)
	$ 1,259,573	$ 1,223,702

8. Endowments:

The Organization's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Changes in endowment net assets with donor restrictions for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Endowment net assets, beginning of year	$ 490,891	$ 506,250
Investment return, net	80,392	(15,359)
Appropriation of endowment assets pursuant to spending policy	(65,033)	-
Endowment net assets, end of year	$ 506,250	$ 490,891

8. Endowments (continued):

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no underwater endowments at December 31, 2019. At December 31, 2018, funds with original gift value of $506,250, fair value of $490,891, and deficiency of $15,359 was reported in net assets with donor restrictions. This deficiency resulted from unfavorable market conditions that occurred near year end.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment fund while seeking to maintain the original value of any contributions to the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the board of directors, the endowment assets are invested with a growth and income style of investing in a portfolio comprised of cash, fixed income securities, equities and mutual funds. Investment income is appropriated for expenditure in the year earned, and is, therefore, included in net assets without donor restrictions.

9. Net assets without donor restrictions:

Net assets without donor restrictions at December 31, 2019 and 2018 is as follows:

	2019	2018
Undesignated	$ 6,164,928	$ 5,304,535
Investment in property and equipment, net	4,128,909	4,180,330
	$ 10,293,837	$ 9,484,865

10. Special events:

Special event activities for the year ended December 31, 2019 are:

	Revenue	Direct Donor Benefit Costs	Indirect Expenses	Net
Ronald McDonald House Party	$ 204,430	$ 60,117	$ 8,177	$ 136,136
Walk for Kids	81,150	31,749	3,246	46,155
	$ 285,580	$ 91,866	$ 11,423	$ 182,291

10. Special events (continued):

Special event activities for the year ended December 31, 2018 are:

	Revenue	Direct Donor Benefit Costs	Indirect Expenses	Net
Ronald McDonald House Party	$ 211,607	$ 88,240	$ 8,464	$ 114,903
Walk for Kids	91,862	37,342	3,674	50,846
	$ 303,469	$ 125,582	$ 12,138	$ 165,749

Special event expenses reported above for each of the years ended December 31, 2019 and 2018 include direct donor benefit costs allocated to program activities and other indirect expenses allocated to fundraising activities as reported on the statements of functional expenses.

11. Joint cost allocations:

During the year ended December 31, 2019, the Organization incurred joint costs of $63,293 for informational materials that included fundraising appeals. The Organization allocated $15,823 to program expense and $47,470 to fund-raising expenses.

During the year ended December 31, 2018, the Organization incurred joint costs of $57,786 for informational materials that included fundraising appeals. The Organization allocated $14,447 to program expense and $43,339 to fund-raising expenses.

12. Simplified employee pension plan:

The Organization contributes to a simplified employee pension plan for its employees who are over the age of 21. The Organization provides discretionary contributions each year to all eligible employees who received at least $5,000 in compensation for the current calendar year and in a previous year. Contributions to the plan for the years ended December 31, 2019 and 2018 were $16,128 and $14,609.

13. Related party transactions:

During the years ended December 31, 2019 and 2018, the Organization paid $13,650 and $21,137 to Nextrio for IT services and equipment. Nextrio also provided in-kind computer consulting services totaling $15,340 and $12,959 for the years ended December 31, 2019 and 2018. A founder of Nextrio is a board member of the Organization.

13. Related party transactions (continued):

During the years ended December 31, 2019 and 2018, the Organization received $85,709 and $97,562 in support and contributions from the McDonald's of Southern Arizona Operator's Association and from three operators of local McDonald's restaurants. The three operators are members of the Organization's Board of Directors.

14. Pending pronouncement:

In February 2016, the FASB issued ASU 2016-02 “Leases.” ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for reporting periods beginning after December 15, 2020, with early adoption permitted.

Management is currently evaluating the effect that this standard will have on the financial statements.

15. Subsequent event:

The COVID-19 outbreak in the United States has caused business disruption. The extent of the COVID-19 impact on operational and financial performance will depend on certain developments, including duration and spread of the outbreak, impact on donors, other funding sources, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial statements is uncertain.

In April 2020, the Organization was granted an unsecured Paycheck Protection Program (PPP) loan from Vantage West Credit Union in the amount of $160,700, pursuant to the CARES Act (the Act). The loan matures in April 2022 and bears interest at a rate of 1%, and is payable monthly commencing in November 2020. The loan may be prepaid by the Borrower at any time prior to maturity with no prepayment penalties. Funds from the Loan may only be used for payroll costs, rent, utilities and interest, as defined under the Act. The Organization intends to use the entire loan amount for covered expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for covered expenses as described in the Act.