

**Financial Statements**

**RONALD MCDONALD HOUSE OF SCRANTON, INC.**

***For the years ended December 31, 2017 & 2016  
with Independent Auditors' Report***

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## CERTIFIED PUBLIC ACCOUNTANTS

Thomas P. Rainey, CPA  
Richard P. Rainey, CPA

### Independent Auditor's Report

Board of Directors  
Ronald McDonald House of Scranton, Inc.

We have audited the accompanying financial statements of the Ronald McDonald House of Scranton, Inc. (the "Organization"), a nonprofit organization, which comprise the statement of financial position as of December 31, 2017 & 2016, and the related statements of activities, functional expenses, and cash flows for the year 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 the 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 opinions on these financial statements based on our audit. We conducted our audit 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Scranton, Pennsylvania  
July 23, 2018

**RONALD MCDONALD HOUSE OF SCRANTON, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 370,850	\$ 341,557
Contributions receivable	-	11,108
Investments, at fair value	2,308,447	1,336,965
Prepaid expenses	5,500	5,606
Total Current Assets	2,684,797	1,695,236
<b>PROPERTY AND EQUIPMENT, NET</b>	1,402,332	1,299,654
<b>INVESTMENTS, RESTRICTED, AT FAIR VALUE</b>	1,807,284	1,947,522
Total Assets	\$ 5,894,412	\$ 4,942,412
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ -	\$ -
Deferred revenue	5,350	4,740
Total Liabilities	5,350	4,740
<b>NET ASSETS</b>		
Unrestricted	3,962,640	2,813,730
Temporarily restricted, accumulated earnings on endowment expendalbe to support operatons	1,395,172	1,592,692
Permanently restricted, investment in peretuity, the income of which is expendalbe to support operatons	531,250	531,250
Total Net Assets	5,889,062	4,937,672
Total Liabilities and Net Assets	\$ 5,894,412	\$ 4,942,412

*See Notes to Financial Statements and Independent Auditor's Report*

**RONALD MCDONALD HOUSE OF SCRANTON, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>		
<b>SUPPORT AND REVENUE</b>		
Special events	\$ 270,459	\$ 219,354
Contributions	472,280	248,240
Contributed services and supplies	-	-
Miscellaneous income	2,498	3,997
Interest and dividend income	83,490	89,680
Net unrealized (losses) gains on investments	118,762	(66,226)
Net realized (losses) gains on investments	179,297	134,331
Total support and revenue	1,126,787	629,376
<b>OPERATING EXPENSES:</b>		
Program expenses	485,247	430,879
Management and general	55,865	48,702
Fundraising	163,485	88,700
Total operating expenses	704,597	568,281
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>	422,190	61,095
<b>CHANGE IN PERMANENTLY RESTRICTED NET ASSETS:</b>		
Net unrealized (losses) gains on investments	529,200	57,280
<b>INCREASE/(DECREASE) IN NET ASSETS</b>	951,390	118,375
<b>NET ASSETS, BEGINNING</b>	4,937,672	4,819,297
<b>NET ASSETS, ENDING</b>	\$ 5,889,062	\$ 4,937,672

*See Notes to Financial Statements and Independent Auditor's Report*

**RONALD MCDONALD HOUSE OF SCRANTON, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	951,390	118,375
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities		
Depreciation	125,598	99,479
In-kind contribution of property and equipment	-	-
Change in value of investments	(647,962)	66,226
Realized (gain) loss on investments	(179,297)	(134,331)
(Increase)/decrease in operating assets		
Contributions receivable	11,108	24,642
Prepaid expenses	106	(2,431)
Increase/(decrease) in operating liabilities		
Accounts payable	-	-
Deferred revenue	610	2,504
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	261,552	174,464
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	896,789	255,597
Purchases of investments	(900,775)	(310,682)
Purchases of property and equipment	(228,273)	(33,707)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(232,259)	(88,792)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	29,293	85,672
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	341,558	255,886
<b>ENDING CASH AND CASH EQUIVALENTS</b>	370,850	341,558

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

**NON CASH OPERATING ACTIVITIES**

In-kind contribution of services and supplies	\$ -	\$ -
In-kind contribution of property and equipment	-	-
	\$ -	\$ -

*See Notes to Financial Statements and Independent Auditor's Report*

**RONALD MCDONALD HOUSE OF SCRANTON, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 146,720	\$ 30,890	\$ 34,413	\$ 212,023
Payroll taxes	12,668	2,667	2,971	18,306
Employee benefits	28,235	5,944	6,622	40,802
House administration	15,236	3,208	3,574	22,018
Food service and supplies	27,415	-	-	27,415
Housekeeping and linens	6,173	325	-	6,498
Insurance	19,754	1,040	-	20,794
Utilities	15,555	819	-	16,374
Maintenance and repairs	25,102	1,321	-	26,423
Travel	4,227	528	528	5,283
Telephone	3,994	499	499	4,992
Advertising	17,688	931	-	18,619
Professional fees	7,838	413	-	8,250
Volunteer recognition	10,252	-	-	10,252
Depreciation	119,318	6,280	-	125,598
Miscellaneous	626	241	96	963
Family room	16,288	-	-	16,288
Internet Fees	3,609	760	847	5,216
Transportation	4,550	-	-	4,550
Fundraising	-	-	113,935	113,935
Total	\$ 485,247	\$ 55,865	\$ 163,485	\$ 704,598

*See Notes to Financial Statements and Independent Auditor's Report*



**RONALD MCDONALD HOUSE OF SCRANTON, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2016			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 116,151	\$ 24,454	\$ 27,243	\$ 167,848
Payroll taxes	10,390	2,187	2,437	15,014
Employee benefits	26,468	5,573	6,208	38,249
House administration	14,044	2,957	3,294	20,295
Food service and supplies	16,472	-	-	16,472
Housekeeping and linens	9,503	500	-	10,003
Insurance	18,013	948	-	18,962
Utilities	17,519	922	-	18,441
Maintenance and repairs	23,163	1,219	-	24,382
Travel	7,123	890	890	8,904
Telephone	4,440	555	555	5,550
Advertising	14,333	754	-	15,087
Professional fees	7,168	377	-	7,545
Volunteer recognition	29,895	-	-	29,895
Depreciation	94,505	4,974	-	99,479
Miscellaneous	2,233	859	344	3,436
Family room	8,186	-	-	8,186
Internet Fees	7,276	1,532	1,707	10,515
Transportation	3,997	-	-	3,997
Fundraising	-	-	46,023	46,023
Total	\$ 430,879	\$ 48,702	\$ 88,700	\$ 568,283

*See Notes to Financial Statements and Independent Auditor's Report*

**RONALD MCDONALD HOUSE OF SCRANTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF THE ORGANIZATION**

The Ronald McDonald House of Scranton, Inc. (the "Organization") is a not-for-profit corporation that provides housing and assistance for families with seriously ill or injured children in area medical facilities. The Organization's main sources of revenues are from donations and various fundraising events.

**Basis of Accounting**

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

**Basis of Presentation**

Under ASC 958, the Organization is required to report information about its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- *Unrestricted* – Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.
- *Temporarily Restricted* – Net assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the Organization pursuant to those stipulations.
- *Permanently Restricted* – Net assets held in perpetuity, the income of which is to be used for unrestricted purposes.

**Revenue and Expense Recognition**

Revenue from contributions and fund-raising events is recorded when cash is received or an unconditional promise to give is made. In-kind contributions are recognized as income when the donated asset is actually received. Expenses are recorded when incurred.

**Contributions and Promises to Give**

Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. All contributions receivable at December 31, 2016 and 2015 are expected to be collected within one year. Conditional promises to give are not included as support until the conditions are substantially met.

The Organization uses the allowance method to determine uncollectible contributions. Any allowance would be based on management's analysis of specific promises made and the historical activity of such contributions. In the opinion of management, all the contributions receivable is realizable at the amounts stated in the accompanying statements of financial position and no allowance for uncollectible accounts was considered necessary.

**Expense Allocation**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Property and Equipment**

Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions 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 and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over useful lives ranging from 5 to 40 years.

**Valuation of Investments in Securities at Fair Value**

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

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

**Level 1** – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments

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and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

**Level 2** – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3** – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

**Contributed Services and Supplies**

In-kind contributions of services and supplies meeting the requirements for recognition in the financial statements are recorded as income at their fair market value on the date of receipt.

Contributed services and supplies are for the operation of the Ronald McDonald House and in support of its programs. Such contributions totaled \$0 and \$0, for the years ended December 31, 2017 and 2016, respectively.

A substantial number of volunteers have donated significant amounts of their time to the Organization primarily for the operation of its various programs. No amounts have been included in the financial statements for these services since the recognition criteria are not met.

**Cash and Cash Equivalents**

Cash and cash equivalents include checking accounts, certificates of deposit, and money market mutual funds which are maintained at several financial institutions and major brokerage firms.

**Concentration of Credit Risk**

The Organization may be subject to credit risk on its cash and cash equivalent assets, which are placed with high credit-quality financial institutions. The Federal Deposit Insurance Corporation (“FDIC”) coverage has been \$250,000 for substantially all depository accounts and unlimited coverage for certain qualifying and participant non-interest-bearing transaction accounts. The coverage was reduced on January 1, 2014 and the FDIC limit will return to \$250,000 for all accounts. From time to time, the Organization may have amounts on deposit in excess of the FDIC limits. Management believes the Organization is not exposed to any significant credit risk on its’ cash and cash equivalents.

**Income Taxes**

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

The Organization complies with guidance for uncertainty in income taxes using provisions of FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized

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in the financial statements when it is more-likely-than-not the position will be sustained upon examination by tax authorities.

As of December 31, 2017, and 2016, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization's tax years 2011 and forward remain open for examination by federal and state taxing authorities.

**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.

**Advertising**

Advertising costs are charged when incurred. Total advertising costs for the years ended December 31, 2017 and 2016 were \$18,619 and \$15,087, respectively.

**2. PROPERTY AND EQUIPMENT**

	<b>December 31,</b>	
	<b><u>2017</u></b>	<b><u>2015</u></b>
Land	\$ 134,000	\$ 134,000
Land improvements	83,847	83,847
Building	158,800	158,800
Building improvements	1,697,293	1,682,592
Furnishings and equipment	383,228	169,653
Vehicle	<u>66,650</u>	<u>66,650</u>
Total property & equipment	2,523,818	2,295,542
Less accumulated depreciation	<u>(1,121,486)</u>	<u>(995,889)</u>
Property & equipment (net)	<u><u>1,402,332</u></u>	<u><u>1,299,654</u></u>

Depreciation expense was \$125,598 and \$99,479 for the years ended December 31, 2017 and 2016, respectively.

**3. INVESTMENTS**

The Organization's investments are recorded at fair value and have been categorized based upon a fair value hierarchy, in accordance with FASB ASC 820 (see Note 2). All investments held at December 31, 2016 and 2015 are considered Level 1 investments and are summarized as follows:

	<b><u>2016</u></b>	<b><u>2015</u></b>
<b><i>Unrestricted:</i></b>		
Mutual Funds	\$ 2,308,447	\$ 1,336,965

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<i>Temporarily restricted:</i>		
McDonald's Corporation Stock	1,276,033	1,416,270
<i>Permanently restricted:</i>		
McDonald's Corporation Stock	<u>531,250</u>	<u>531,250</u>
Total investments	<u>\$ 4,115,730</u>	<u>\$ 3,284,487</u>

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

**4. ENDOWMENT**

The Organization received a contribution of 10,000 shares of McDonald's Corporation stock in 1993. The contribution was recorded at \$531,250, the fair market value at the date of acquisition. In accordance with the donor's restriction, which requires the principal to be held in perpetuity for the benefit of the Ronald McDonald House, the original value of the stock is reported as permanently restricted net assets. Gains and losses on the stock are restricted for House operating expenses and therefore, reported as temporarily restricted net assets until expensed. Dividend income derived from the stock is reported as unrestricted net assets in accordance with the terms of the donor's gift.

The following are the changes in the endowment net assets for the years ended December 31, 2017 and 2016:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets: December 31, 2015	\$ 1,358,990	\$ 531,250	\$ 1,890,240
Investment income			
Dividends	57,760	-0-	57,760
Appreciation	<u>57,280</u>	<u>-0-</u>	<u>57,280</u>
Total investment income	115,040	-0-	115,040
Appropriation of endowment assets for expenses	<u>(57,760)</u>	<u>-0-</u>	<u>(57,760)</u>
Endowment net assets at December 31, 2016	<u>\$ 1,416,270</u>	<u>\$ 531,250</u>	<u>\$ 1,947,520</u>
Investment income			
Dividends	57,760	-0-	57,760
Appreciation	<u>729,252</u>	<u>-0-</u>	<u>729,252</u>
Total investment income	787,012	-0-	787,012
Appropriation of endowment assets for expenses	<u>(927,249)</u>	<u>-0-</u>	<u>(927,249)</u>
Endowment net assets at December 31, 2017	<u>\$ 1,276,033</u>	<u>\$ 531,250</u>	<u>\$ 1,807,283</u>

**RONALD MCDONALD HOUSE OF SCRANTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**5. RESTRICTIONS ON NET ASSETS**

All temporarily restricted net assets represent gains and losses on investments that are restricted for House operating expenses.

**6. SUBSEQUENT EVENTS**

In accordance with FASB ASC 855, *Subsequent Events*, the Organization has evaluated events and transactions for potential recognition or disclosure in the financial statements through August 6, 2018, the date on which the financial statements were issued. No events or transactions have occurred that would require recognition or disclosure in the financial statements.