



Financial Statements  
December 31, 2019 and 2018

Ronald McDonald House Charities,  
Upper Midwest

# Ronald McDonald House Charities, Upper Midwest

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December 31, 2019 and 2018

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## Independent Auditor's Report

The Board of Directors  
Ronald McDonald House Charities, Upper Midwest  
Minneapolis, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of Ronald McDonald House Charities, Upper Midwest (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.

### 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 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 opinion.

**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, 2019 and 2018, 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota

July 16, 2020

Ronald McDonald House Charities, Upper Midwest  
Statements of Financial Position  
December 31, 2019 and 2018

	2019	2018
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,829,310	\$ 3,338,249
Accounts receivable, net	217,579	413,457
Operating investments	3,946,759	1,169,370
Promises to give, in-kind rent	287,772	280,389
Prepaid expenses	169,048	102,111
Other assets	33,261	56,185
<b>Total current assets</b>	<u>6,483,729</u>	<u>5,359,761</u>
<b>Noncurrent assets</b>		
Cash surrender value of life insurance policies	27,136	138,239
Promises to give, in-kind rent	730,456	239,658
Property and equipment, net	6,122,827	6,191,930
Endowment investments	8,687,848	7,691,006
<b>Total noncurrent assets</b>	<u>15,568,267</u>	<u>14,260,833</u>
<b>Total assets</b>	<u>\$ 22,051,996</u>	<u>\$ 19,620,594</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 180,376	\$ 231,404
Other liabilities	6,859	6,031
<b>Total current liabilities</b>	<u>187,235</u>	<u>237,435</u>
<b>Total liabilities</b>	<u>187,235</u>	<u>237,435</u>
<b>Net Assets</b>		
<b>Without donor restrictions</b>		
Undesignated	6,310,062	6,429,365
Board-designated operating reserve	5,589,860	4,221,754
Board-designated endowment	2,101,400	1,772,494
	<u>14,001,322</u>	<u>12,423,613</u>
<b>With donor restrictions</b>		
Purpose and time restricted	1,276,991	1,041,034
Accumulated investment gains on endowment	3,013,070	2,368,923
Perpetual in nature	3,573,378	3,549,589
	<u>7,863,439</u>	<u>6,959,546</u>
<b>Total net assets</b>	<u>21,864,761</u>	<u>19,383,159</u>
<b>Total liabilities and net assets</b>	<u>\$ 22,051,996</u>	<u>\$ 19,620,594</u>

See Notes to Financial Statements

Ronald McDonald House Charities, Upper Midwest  
Statements of Activities  
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions	\$ 4,281,756	\$ 802,039	\$ 5,083,795
Special events revenue	1,211,585	1,000	1,212,585
Room donations/fees	88,447	-	88,447
Third-Party reimbursements	104,802	-	104,802
Other income	145,568	12,703	158,271
Net assets released from restrictions pursuant to endowment spending-rate distribution formula	394,990	(394,990)	-
Net assets released from restrictions	555,996	(555,996)	-
Total revenue, support, and gains	<u>6,783,144</u>	<u>(135,244)</u>	<u>6,647,900</u>
Expenses and Losses			
Program services	4,940,141	-	4,940,141
Fundraising	548,206	-	548,206
Administration	403,032	-	403,032
Cost of direct benefits to donors	253,665	-	253,665
Total expenses and losses	<u>6,145,044</u>	<u>-</u>	<u>6,145,044</u>
Change in Net Assets From Operations	638,100	(135,244)	502,856
Investment Income, Net	939,609	1,039,137	1,978,746
Change in Net Assets	1,577,709	903,893	2,481,602
Net Assets, Beginning of Year	<u>12,423,613</u>	<u>6,959,546</u>	<u>19,383,159</u>
Net Assets, End of Year	<u>\$ 14,001,322</u>	<u>\$ 7,863,439</u>	<u>\$ 21,864,761</u>

Ronald McDonald House Charities, Upper Midwest  
Statements of Activities  
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions	\$ 5,280,297	\$ 69,564	\$ 5,349,861
Special events revenue	1,021,030	20,560	1,041,590
Room donations/fees	96,403	-	96,403
Third-Party reimbursements	42,616	-	42,616
Other income	199,829	22,852	222,681
Net assets released from restrictions pursuant to endowment spending rate distribution formula	337,291	(337,291)	-
Net assets released from restrictions	476,961	(476,961)	-
Total revenue, support, and gains	7,454,427	(701,276)	6,753,151
Expenses and Losses			
Program services	4,589,509	-	4,589,509
Fundraising	519,290	-	519,290
Administration	400,869	-	400,869
Costs of direct benefits to donors	224,313	-	224,313
Total expenses and losses	5,733,981	-	5,733,981
Change in Net Assets From Operations	1,720,446	(701,276)	1,019,170
Investment Income, Net	(227,704)	(461,332)	(689,036)
Change in Net Assets	1,492,742	(1,162,608)	330,134
Net Assets, Beginning of Year	10,930,871	8,122,154	19,053,025
Net Assets, End of Year	\$ 12,423,613	\$ 6,959,546	\$ 19,383,159

**Ronald McDonald House Charities, Upper Midwest**  
**Statements of Functional Expenses**  
**Year Ended December 31, 2019**

	Program Services			Cost of		
	Lodging and Other Subsidies	Family Services	Volunteer Services	Direct Benefits to Donors	Administration	Total
<b>Expenses</b>						
Salaries and benefits	\$ 1,487,513	\$ 90,885	\$ 425,196	\$ 347,705	\$ 235,989	\$ 2,587,288
Insurance expense	58,996	623	2,126	1,746	17,179	80,670
Supplies and food	912,890	577	366	880	1,487	916,200
Professional and consulting	16,912	-	-	-	65,989	82,901
Bank fees	-	-	-	57,154	3,877	61,031
Utilities	150,948	251	560	2,440	1,867	156,066
Postage and printing	18,176	5,535	1,040	44,554	7,800	77,105
Facilities expense	466,386	1,284	1,494	3,781	2,201	475,146
House operations	614,108	22,814	1,432	2,469	4,154	644,977
Event expense	323	2,027	175	11,665	75	14,265
Books and staff development	4,747	601	2,118	1,644	5,473	14,583
Donor directed gifts	-	-	-	5,000	-	5,000
Recognition expense	1,753	144	2,978	1,017	427	6,319
Marketing	-	2,076	-	1,461	-	3,537
Mileage	2,490	267	850	2,334	1,623	7,564
Computer - software	32,475	2,549	9,279	9,532	12,250	66,085
Direct benefit to donors	-	-	-	-	-	253,665
Loss on disposal of fixed asset	79,322	-	-	-	-	79,322
Unallocated payments to						
RMHC Global	-	-	-	-	109,444	109,444
Canister collection expense	-	-	-	90,641	-	90,641
Depreciation	461,031	42,641	12,183	54,824	42,641	613,320
<b>Total expenses by function</b>	<b>4,308,070</b>	<b>172,274</b>	<b>459,797</b>	<b>638,847</b>	<b>512,476</b>	<b>6,345,129</b>
<b>Less expenses included with revenues on the statement of activities</b>						
Unallocated payments to						
RMHC Global	-	-	-	-	(109,444)	(109,444)
Canister collection expenses	-	-	-	(90,641)	-	(90,641)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 4,308,070</b>	<b>\$ 172,274</b>	<b>\$ 459,797</b>	<b>\$ 548,206</b>	<b>\$ 403,032</b>	<b>\$ 6,145,044</b>

See Notes to Financial Statements

**Ronald McDonald House Charities, Upper Midwest**  
Statements of Functional Expenses  
Year Ended December 31, 2018

	Program Services			Cost of		
	Lodging and Other Subsidies	Family Services	Volunteer Services	Fundraising	Administration	Direct Benefits to Donors
						Total
<b>Expenses</b>						
Salaries and benefits	\$ 1,497,068	\$ 59,750	\$ 369,321	\$ 282,276	\$ 196,068	\$ -
Insurance expense	33,083	500	2,040	1,316	-	-
Supplies and food	762,866	1,342	1,719	1,135	2,370	-
Professional and consulting	11,001	-	-	-	88,552	-
Bank fees	-	-	-	66,362	3,834	-
Utilities	153,096	200	480	1,830	4,754	-
Postage and printing	11,235	888	1,428	47,653	8,664	-
Facilities expense	458,556	-	-	-	8,469	-
House operations	638,665	12,657	640	1,413	6,022	-
Event expense	483	69	-	18,182	-	-
Books and staff development	2,624	-	2,296	1,560	4,466	-
Donor directed gifts	-	-	-	5,920	2,225	-
Recognition expense	1,555	569	3,886	1,154	1,170	-
Marketing	-	-	-	1,257	-	-
Mileage	2,514	591	377	4,662	1,966	-
Computer - software	14,364	2,567	11,195	31,579	31,094	-
Direct benefit to donors	-	-	-	-	-	224,313
Loss on disposal of fixed asset	30,678	-	-	-	-	-
Unallocated payments to						
RMHC Global	-	-	-	-	106,733	-
Canister collection expense	-	-	-	96,635	-	-
Depreciation	446,215	41,215	11,776	52,991	41,215	-
<b>Total expenses by function</b>	<b>4,064,003</b>	<b>120,348</b>	<b>405,158</b>	<b>615,925</b>	<b>507,602</b>	<b>224,313</b>
						<b>5,937,349</b>
<b>Less expenses included with revenues</b>						
on the statement of activities						
Unallocated payments to						
RMHC Global	-	-	-	-	(106,733)	-
Canister collection expenses	-	-	-	(96,635)	-	-
<b>Total expense section included in the</b>						
<b>expense section on the statement</b>						
<b>of activities</b>	<b>\$ 4,064,003</b>	<b>\$ 120,348</b>	<b>\$ 405,158</b>	<b>\$ 519,290</b>	<b>\$ 400,869</b>	<b>\$ 224,313</b>
						<b>\$ 5,733,981</b>

See Notes to Financial Statements

# Ronald McDonald House Charities, Upper Midwest

## Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 2,481,602	\$ 330,134
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	613,320	593,412
Realized and unrealized (gain) loss on operating investments	(639,423)	148,943
Loss on disposal of property and equipment	79,322	30,678
In-kind contributions - capital projects	(128,374)	(19,454)
Change in promises to give, in-kind rent	(498,181)	278,753
Contributions restricted to endowment	(11,086)	(24,440)
Change in cash surrender value of life insurance policies	(10,061)	(8,488)
Endowment net investment return	(1,368,043)	610,439
Change in operating assets and liabilities		
Accounts receivable	195,878	(120,635)
Promises to give	-	67,690
Prepaid expenses	(66,937)	(82,895)
Other assets	22,924	-
Accounts payable and accrued expenses	(51,028)	34,388
Other liabilities	828	7,273
Net Cash from Operating Activities	620,741	1,845,798
Cash Flows from Investing Activities		
Purchase of operating investments	(2,137,966)	(557,506)
Proceeds from life insurance policy	121,164	-
Purchase of property and equipment	(495,165)	(366,432)
Withdrawal from cash restricted to capital projects	-	10,111
Withdrawal from endowment	371,201	289,999
Net Cash used for Investing Activities	(2,140,766)	(623,828)
Cash Flows from Financing Activities		
Collection of contributions restricted to endowment	11,086	24,440
Net Cash from Financing Activities	11,086	24,440
Net Change in Cash and Cash Equivalents	(1,508,939)	1,246,410
Cash and Cash Equivalents, Beginning of Year	3,338,249	2,091,839
Cash and Cash Equivalents, End of Year	\$ 1,829,310	\$ 3,338,249
Supplemental Disclosures of Cash Flow Information		
Stock donations	\$ 28,764	\$ 36,720

## **Note 1 - Principal Activity and Significant Accounting Policies**

### **Organization**

Ronald McDonald House Charities, Upper Midwest (RMHC-UM, the Organization, or the House) is a nonprofit organization which owns and operates the Ronald McDonald House of the Twin Cities that provides a supportive community for families with seriously ill, injured or disabled children that increases children's access to health care services.

The Ronald McDonald House provides a home-away-from-home for families who have children being treated for life-threatening illness, injury, or disease. Several different program areas support the mission of RMHC-UM:

#### Lodging and Other Subsidies

The Lodging program is responsible for the maintenance and staffing of the Ronald McDonald House – Oak Street facility and three locations located within hospitals in the Twin Cities. At Oak Street, RMHC-UM subsidizes the cost of accommodating up to 48 families staying at the House each day who live farther than 40 miles from the Twin Cities. RMHC-UM does not request a set fee from guests, but, when able to, bills counties for Children's Special Health Care Services Fund.

Included within the Lodging program are the following three programs that serve families who do not have to live more than 40 miles away from the Twin Cities:

*The Ronald McDonald House – Chicago Avenue (or House Inside Hospital) serves families whose child is receiving treatment in an Intensive Care Unit at Children's Minnesota, Minneapolis. For families in need of overnight lodging, the House offers 15 private rooms, each with its own bathroom.*

*The Ronald McDonald Family Room at Gillette Children's Specialty Healthcare in St. Paul provides a home-like setting for families of a child who is receiving medical treatment for a serious condition or disability. The facility provides four private rooms and bathrooms.*

*The Ronald McDonald Family Room – St. Paul serves families whose children are receiving treatment in an Intensive Care Unit at Children's Minnesota, St. Paul. For families in need of overnight lodging, the facility offers four private rooms, each with its own bathroom.*

#### Family Services

A variety of supportive services are provided to help ease the burden associated for families coping with pediatric illness. There are morning programs, after school programs, and summer programs available for RMHC-UM residents. A full-time K-12 Minneapolis Public School's Alternative School is available for siblings and children who are patients while staying at RMHC-UM.

## Ronald McDonald House Charities, Upper Midwest

Notes to Financial Statements  
December 31, 2019 and 2018

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### Volunteer Services

Volunteers are an integral part of how RMCH-UM's mission is executed resourcefully and according to nonprofit service industry best practices. Through evaluation according to industry standards, RMHC-UM's Volunteer Department successfully became certified in 2018 as a Service Enterprise recognizing the agency's robust volunteer engagement and operational significance. Notably, RMHC-UM's Cooks for Kids meal program has engaged groups of volunteers to provide dinner nightly and brunch each weekend across all sites (36 meals per week). RMHC-UM families continue to report the meal program as one of the most appreciated services offered. Cross-department collaboration occurs to ensure volunteers productively support needs of all departments (i.e. internships, admin support, room refreshers, meal hosts, etc.). In 2019, over 10,000 unique volunteers served more than 72,000 hours of service at the agency's four locations and in support of fundraising efforts.

The Organization has an independently operated license agreement with Ronald McDonald House Charities, Global (RMHC Global). RMHC Global receives 25% of canister income after expenses incurred for providing and maintaining the canisters in the restaurants.

### **Cash and Cash Equivalents**

RMHC-UM considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of RMHC-UM are excluded from this definition.

### **Receivables and Credit Policies**

Accounts receivable consist primarily of uncollateralized obligations due from county medical assistance billed on a monthly basis while families are still in the facility and amounts due for coverage of operating expenses of programs. Receivables do not bear any interest on unpaid balances. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. RMHC-UM also occasionally bills insurance companies if there is coverage and it will not adversely impact the families' other medical benefits.

Management determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. At December 31, 2019 and 2018, the allowance was \$0 and \$4,260, respectively.

### **Promises to Give**

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2019 and 2018, all promises to give were determined to be fully collectible.

### **Promises to Give – In-Kind Rent**

In-kind rent promises to give are reported as a contribution receivable and net assets with donor restrictions at the lower of fair rental value of the property or the fair value of the property at the time the unconditional promise to give is received. Promises to give for in-kind rent are released from restriction and an expense recorded on a straight-line basis over the life of the agreements. The terms of the agreements are included in Note 5.

### **Property and Equipment**

Property and equipment additions over \$3,500 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 25 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

RMHC-UM reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. RMHC-UM has determined that there were no indications of impairment during the years ended December 31, 2019 and 2018.

### **Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

## 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 (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for an operating reserve and Board-designated endowment.

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) 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. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

## Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

For the years ended December 31, 2019 and 2018, canister donation revenue is recorded at gross revenue. Canister collection expenses of \$90,600 and \$96,600 and unallocated payments to RMHC Global of \$109,300 and \$106,700 are reported separately as a reduction of this revenue on the statement of activities. \$18,300 and \$16,100 was payable to RMHC Global as of December 31, 2019 and 2018, respectively. \$72,000 and \$63,600 was receivable from RMHC Global as of December 31, 2019 and 2018.

## Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to RMHC-UM's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets, or (b) specialized skills are performed by people with those skills and would otherwise be purchased by RMHC-UM. Contributed goods are reflected as support and expenses in the financial statements at their respective fair values at the date of donation.

### **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 financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation which are allocated on a square footage basis, as well as salaries and benefits, insurance expense, professional and consulting, facilities expenses, marketing, utilities, and other, which are allocated on the basis of estimates of time and effort.

### **Income Taxes**

Ronald McDonald House Charities, Upper Midwest is organized as a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Financial Instruments and Credit Risk**

RMHC-UM manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, RMHC-UM has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due organizations and individuals supportive of RMHC-UM's mission. Investments are made by diversified investment managers whose performance is monitored by management and the Finance Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance Committee believe that the investment policies and guidelines are prudent for the long-term welfare of RMHC-UM.

## Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

## Change in Accounting Policy

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Organization's financial statements reflect the application of ASC 606 guidance beginning in 2018. No cumulative-effect adjustment in net assets was recorded because the adoption of ASU 2014-09 did not significantly impact the Organization's reported historical revenue.

Additionally, in June 2018, FASB issued Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as an exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. The implementation of this standard had no impact on the financial statements.

## Note 2 - Liquidity and Availability

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization strives to maintain liquid financial assets sufficient to cover 150 days of general expenditures, approximately \$1,611,000 and \$1,565,000 as of December 31, 2019 and 2018, respectively. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds and other short-term investments.

For purposes of analyzing resources available to meet general expenditures over a five-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures. In addition to financial assets available to meet general expenditures over the next five months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

# Ronald McDonald House Charities, Upper Midwest

Notes to Financial Statements

December 31, 2019 and 2018

As of December 31, 2019 and 2018, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

	2019	2018
Cash and cash equivalents	\$ 1,829,310	\$ 3,338,249
Accounts receivable, net	217,579	413,457
Operating investments	3,946,759	1,169,370
	<u>\$ 5,993,648</u>	<u>\$ 4,921,076</u>

Endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from the donor-restricted endowments is for general use. Donor-restricted endowment funds are not available for general expenditure.

A Board-designated endowment of \$2,101,400 and \$1,772,494, as of December 31, 2019 and 2018, respectively, is subject to the same investment policy that the donor-restricted endowment is subject to for the years ended. While the Organization does not intend to spend from this endowment, these amounts can be made available if necessary.

## Note 3 - Fair Value Measurements

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that RMHC-UM can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, RMHC-UM develops inputs using the best information available in the circumstances.

# Ronald McDonald House Charities, Upper Midwest

Notes to Financial Statements

December 31, 2019 and 2018

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to RMHC-UM's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of RMHC-UM's investment assets are classified within Level 1 because they are comprised of marketable equity securities, mutual funds, and municipal bonds with readily determinable fair values based on daily redemption values. RMHC-UM invests in corporate bonds that are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at December 31, 2019:

	Fair Value Measurements at Report Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Operating investments				
Money market (at cost)	\$ -	\$ -	\$ -	\$ 81,533
Corporate bonds	-	62,429	-	62,429
Marketable equity securities	997,707	-	-	997,707
Mutual funds	2,805,090	-	-	2,805,090
	<u>\$ 3,802,797</u>	<u>\$ 62,429</u>	<u>\$ -</u>	<u>\$ 3,946,759</u>
Endowment investments				
Money market (at cost)	\$ -	\$ -	\$ -	\$ 177,593
Corporate bonds	-	137,453	-	137,453
Marketable equity securities	6,176,102	-	-	6,176,102
Mutual funds	2,196,700	-	-	2,196,700
	<u>\$ 8,372,802</u>	<u>\$ 137,453</u>	<u>\$ -</u>	<u>\$ 8,687,848</u>

# Ronald McDonald House Charities, Upper Midwest

Notes to Financial Statements

December 31, 2019 and 2018

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at December 31, 2018:

	Fair Value Measurements at Report Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Operating investments				
Money market (at cost)	\$ -	\$ -	\$ -	\$ 46,354
Corporate bonds	-	1,862	-	1,862
Municipal bonds	14,720	-	-	14,720
Marketable equity securities	701,104	-	-	701,104
Mutual funds	405,330	-	-	405,330
	<u>\$ 1,121,154</u>	<u>\$ 1,862</u>	<u>\$ -</u>	<u>\$ 1,169,370</u>
Endowment investments				
Money market (at cost)	\$ -	\$ -	\$ -	\$ 238,293
Corporate bonds	-	14,518	-	14,518
Marketable equity securities	5,467,616	-	-	5,467,616
Mutual funds	1,970,579	-	-	1,970,579
	<u>\$ 7,438,195</u>	<u>\$ 14,518</u>	<u>\$ -</u>	<u>\$ 7,691,006</u>

## Note 4 - Property and Equipment

Property and equipment consists of the following at December 31, 2019 and 2018:

	2019	2018
Land	\$ 1,197,489	\$ 1,197,489
Buildings	11,980,544	11,773,813
Furniture and fixtures	1,701,713	1,660,058
Computers and software	368,784	338,337
Vehicles	68,281	68,281
	<u>15,316,811</u>	<u>15,037,978</u>
Less accumulated depreciation	<u>(9,193,984)</u>	<u>(8,846,048)</u>
	<u>\$ 6,122,827</u>	<u>\$ 6,191,930</u>

# Ronald McDonald House Charities, Upper Midwest

Notes to Financial Statements

December 31, 2019 and 2018

Depreciation expense totaled approximately \$613,000 and \$593,000 for the years ended December 31, 2019 and 2018, respectively.

## Note 5 - Leases and Other Agreements

In July 2008, the Organization signed an agreement with Children's Health Care d/b/a Children's Hospitals and Clinics of Minnesota, to operate a Ronald McDonald House (RMHC-UM) within Children's Hospital in Minneapolis, Minnesota. Under the terms of the agreement, RMHC-UM and Children's Hospital worked cooperatively to raise the funds required to operate the RMHC-UM during the first five-year term of the agreement. The agreement was extended for two additional five-year periods, expiring in 2023. The future lease expense and related in-kind receivable is \$166,098 in 2020, 2021, 2022, and 2023.

In November 2010, the Organization signed an agreement with Gillette's Children's Specialty Healthcare, to operate a Ronald McDonald Family Room (RMFR) within Gillette Children's Hospital in St. Paul, Minnesota. Under the terms of the agreement, RMHC-UM and Gillette Children's Hospital worked cooperatively to raise the funds required to build out and furnish the space and to operate the RMFR during its first year of operation. The agreement was in place for a five-year period and expired during 2016. This agreement was extended for an additional five-year period, expiring in 2021. The future lease expense and related in-kind receivable is \$51,429 in 2020 and \$21,430 in 2021.

In July 2015, the Organization signed an agreement with Children's Health Care d/b/a Children's Hospitals and Clinics of Minnesota, to operate a Ronald McDonald Family Room (RMFR) within Children's Hospital in St. Paul, Minnesota. Under the terms of the agreement, RMHC-UM and Children's Hospital worked cooperatively to raise the funds required to build out and furnish the space and to operate the RMFR during its five years of operation. The agreement was extended for an additional five-year period, expiring in 2023. The future lease expense and related in-kind receivable is \$70,245 in 2020, 2021, 2022, and 2023.

RMHC-UM leases office equipment under operating leases expiring in January 2022. Total future payments under the equipment lease arrangement will be \$35,625. Rent expense for the years ending December 31, 2019 and 2018, under this lease was \$17,100 and \$5,742, respectively. Similar equipment was leased under a previous lease arrangement in 2016 and those rent payments totaled \$7,600 in 2018.

The Organization has various operating leases expiring at various dates through 2022.

Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2020	\$ 17,100
2021	17,100
2022	1,425
	<u>\$ 35,625</u>

#### **Note 6 - Endowment**

RMHC-UM's endowment (the Endowment) consists of approximately 36 individual funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain net assets without donor restrictions designated for endowment by the Board of Directors. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### **Interpretation of Relevant Law**

RMHC-UM's Board of Directors has interpreted the Minnesota 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. At December 31, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, RMHC-UM classifies net assets perpetual in nature based on (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts), and (c) accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment is classified as net assets with donor restrictions accumulated investment gains on investments until those amounts are appropriated for expenditure by RMHC-UM in a manner consistent with the standard of prudence prescribed by UPMIFA. RMHC-UM 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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Minnesota UPMIFA requires RMHC-UM to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2019 and 2018.

# Ronald McDonald House Charities, Upper Midwest

Notes to Financial Statements

December 31, 2019 and 2018

As of December 31, 2019 and 2018, RMHC-UM had the following endowment net asset composition by type of fund:

<u>December 31, 2019</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 3,573,378	\$ 3,573,378
Accumulated investment gains	-	3,013,070	3,013,070
Board-designated endowment funds	2,101,400	-	2,101,400
	<u>\$ 2,101,400</u>	<u>\$ 6,586,448</u>	<u>\$ 8,687,848</u>
 <u>December 31, 2018</u>			
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 3,549,589	\$ 3,549,589
Accumulated investment gains	-	2,368,923	2,368,923
Board-designated endowment funds	1,772,494	-	1,772,494
	<u>\$ 1,772,494</u>	<u>\$ 5,918,512</u>	<u>\$ 7,691,006</u>

## Investment and Spending Policies

During the year ended December 31, 2015, the Board of Directors approved an endowment spending policy for RMHC-UM. The Board of Directors of RMHC-UM recognizes its fiduciary responsibility to prudently manage its endowment fund (the Fund). The Fund is intended to benefit the Organization in perpetuity; therefore, the spending policy is intended to achieve a balance between preserving the purchasing power of the Endowment's principal and using the Fund to support the related programs.

The Board of Directors affirms the following goals for its endowment spending policy:

- To preserve the charitable impact and intergenerational equity of donor funds;
- To protect the real value of endowment principal;
- To strive for reasonable stability and predictability of distributed amounts from year to year;
- To assure contributors that donated funds will be prudently managed to maintain the intended charitable impact of their donations; and
- To conceptually match the Endowment's proceeds with support of the capital replacement program of RMHC-UM.

A scheduled annual "Target Spend" will be calculated prior to each fiscal year. Upon approval by the Board of Directors, that amount will be released from the Endowment over the course of that fiscal year.

The annual Target Spend for a fiscal year will be 4% of the average fair market value of the Fund, according to the financial statements from the most recent 12 quarters. This calculation will be performed once a year, setting the Target Spend for the upcoming fiscal year's budget. The Finance Committee of the Board is charged with managing this process, including the following:

- To study and recommend the appropriate level of annual contribution needed to maintain, and replace when needed, the buildings and facilities owned and operated by RMHC-UM in carrying out its mission;
- To annually recommend to the Board the appropriate amount to adopt as its Endowment Target, reflecting the annual contributions described above;
- To set an appropriate annual date for the Target Spend calculation, as close to the end of the fiscal year as feasible, while still allowing time for Board action and inclusion in the budget process; and
- To perform the Target Spend calculation, and recommend the result for approval by the Board, subject to the following:

If, at the time of the calculation, the balance of the Endowment Fund is less than the Board-set Endowment Target, the Finance Committee will evaluate the situation and make a recommendation to the Board on: (1) whether or how the Target Spend for the following year should be modified when setting the budget, and (2) other recommended actions (whether financial or operational) which might be prudent, to address the reduced endowment.

The Board's chosen Target Spend will be transferred from the Endowment into operating accounts as operating income, except to the extent the transfer represents funds with specific donor restrictions.

# Ronald McDonald House Charities, Upper Midwest

Notes to Financial Statements

December 31, 2019 and 2018

Changes in endowment net assets for the year ending December 31, 2019 and 2018, are as follows:

December 31, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,772,494	\$ 5,918,512	\$ 7,691,006
Net investment return	328,906	1,039,137	1,368,043
Required allocation of investment earnings	-	12,703	12,703
Contributions	-	11,086	11,086
Appropriation of endowment assets pursuant to spending-rate policy	-	(394,990)	(394,990)
Endowment net assets, end of year	<u>\$ 2,101,400</u>	<u>\$ 6,586,448</u>	<u>\$ 8,687,848</u>
December 31, 2018			
Endowment net assets, beginning of year	\$ 1,898,749	\$ 6,692,695	\$ 8,591,444
Net investment return	(126,255)	(484,184)	(610,439)
Required allocation of investment earnings	-	22,852	22,852
Contributions	-	24,440	24,440
Appropriation of endowment assets pursuant to spending-rate policy	-	(337,291)	(337,291)
Endowment net assets, end of year	<u>\$ 1,772,494</u>	<u>\$ 5,918,512</u>	<u>\$ 7,691,006</u>

# Ronald McDonald House Charities, Upper Midwest

Notes to Financial Statements

December 31, 2019 and 2018

## Note 7 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes and periods as of December 31, 2019 and 2018:

	2019	2018
Subject to expenditure for specified purpose		
Children's family room St. Paul	\$ 226,485	\$ 350,145
Fundraising support	-	130,060
Room sponsorships	6,000	6,667
TC Gillette pantry	4,298	4,298
Appliances and linens	-	3,047
Food St. Paul sites	17,551	18,078
Pantry St. Paul sites	3,000	-
Oak grief services	-	3,000
Emergency fund	-	1,400
School/family services	1,429	2,292
Children's HIH storage unit	-	2,000
	<u>258,763</u>	<u>520,987</u>
Subject to the passage of time	<u>1,018,228</u>	<u>520,047</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Available for general use	3,013,070	2,368,923
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
General use	<u>3,573,378</u>	<u>3,549,589</u>
Total endowments	<u>6,586,448</u>	<u>5,918,512</u>
	<u>\$ 7,863,439</u>	<u>\$ 6,959,546</u>

# Ronald McDonald House Charities, Upper Midwest

Notes to Financial Statements

December 31, 2019 and 2018

Net assets were released from donor restrictions as follows during the years ended December 31, 2019 and 2018:

	2019	2018
Expiration of time restrictions	\$ 287,772	\$ 278,753
Satisfaction of purpose restrictions		
Children's HIH Minneapolis	-	23,163
Children's St. Paul	123,661	-
Room sponsorships	6,667	6,667
Marketing projects	-	24,539
Capital projects	-	10,111
Appliances and linens	-	2,600
Fundraising support	130,060	116,320
Children's HIH appliances	3,047	-
Children's HIH storage unit	2,000	-
Pantry St. Paul sites	527	500
Emergency fund	1,400	-
School/family services	862	14,308
	<u>\$ 555,996</u>	<u>\$ 476,961</u>

# Ronald McDonald House Charities, Upper Midwest

Notes to Financial Statements

December 31, 2019 and 2018

## Note 8 - Donated Professional Services and Materials

RMHC-UM received donated professional services and materials as follows during the years ended December 31, 2019 and 2018:

	2019	2018
Rent	\$ 785,954	\$ -
Food donation	590,982	366,052
Renovation assets	128,374	19,454
Utilities	11,509	15,000
House supplies	699,204	664,594
Entertainment tickets	93,719	135,601
Legal fees	7,734	3,375
House maintenance	2,085	71,591
Furniture	-	6,745
Vehicles	-	11,000
Toys	99,588	147,877
Other	25,203	60,000
	<u>\$ 2,444,352</u>	<u>\$ 1,501,289</u>

Net assets released from restriction for in-kind rent for the years ended December 31, 2019 and 2018, was \$287,772 and \$278,753, respectively.

Volunteers contributed approximately 74,500 and 68,000 hours of service to Ronald McDonald House Charities during the years ended December 31, 2019 and 2018, respectively.

# Ronald McDonald House Charities, Upper Midwest

Notes to Financial Statements

December 31, 2019 and 2018

## Note 9 - Special Events

Net special event revenue consisted of the following for the years ended December 31, 2019 and 2018:

2019	Revenue	Contributions	Gross Special Event Revenue	Direct Expenses	Net Special Event Revenue
The Classic	\$ 27,587	\$ 137,388	\$ 164,975	\$ 32,848	\$ 132,127
Annual Gala	57,420	604,664	662,084	178,945	483,139
Brew Love	24,305	104,526	128,831	31,126	97,705
RBC Race	-	206,870	206,870	9,797	197,073
Skate with Greats	7,950	41,875	49,825	949	48,876
	<u>\$ 117,262</u>	<u>\$ 1,095,323</u>	<u>\$ 1,212,585</u>	<u>\$ 253,665</u>	<u>\$ 958,920</u>
2018					
The Classic	\$ 32,200	\$ 134,280	\$ 166,480	\$ 38,988	\$ 127,492
Annual Gala	57,200	469,318	526,518	144,118	382,400
Brew Love	32,550	85,917	118,467	34,955	83,512
RBC Race	-	157,062	157,062	5,106	151,956
Skate with Greats	47,000	26,063	73,063	1,146	71,917
	<u>\$ 168,950</u>	<u>\$ 872,640</u>	<u>\$ 1,041,590</u>	<u>\$ 224,313</u>	<u>\$ 817,277</u>

## Note 10 - Employee Benefits

RMHC-UM sponsors a 401(k) defined contribution retirement plan, which matches contributions at 100% of the first 4% of an employee's salary contributed to the plan. RMHC-UM also contributes a discretionary amount allocated to participating employees employed at year end. Expenses under this plan were \$58,200 and \$47,900 for the years ended December 31, 2019 and 2018, respectively.

## Note 11 - Subsequent Events

### Investments

Subsequent to year-end, the United States and global markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic. The Organization is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The Organization's financial statements do not include adjustments to fair value of investments that have resulted from these declines.

### **General Operations**

Subsequent to year-end, the Organization has been impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Organization's net assets, cash flows, and activities is not known.

Ronald McDonald House Charities, Upper Midwest has signed a lease agreement with an additional health partner to open and operate a Ronald McDonald House in the fall of 2020. Under the agreement RMHC will provide lodging and services to families whose critically ill and injured children who are receiving care, similar to the services RMHC provides to families at its four existing Ronald McDonald House programs. The lease term is for five years with options to extend.

RHThe Organization has evaluated subsequent events through July 16, 2020, the date which the financial statements were issued.