

**RONALD MCDONALD HOUSE
OF ROCHESTER, MINNESOTA, INC.**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

**RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
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YEARS ENDED DECEMBER 31, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ronald McDonald House
Rochester, Minnesota

We have audited the accompanying financial statements of Ronald McDonald House (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses 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.

Board of Trustees
Ronald McDonald House of Rochester, Minnesota, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House 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.

Other Matters

Change in Accounting Principle

As discussed in Note 16 to the financial statements, the Organization has adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The adoption of this standard did not have a significant impact on the Organization's reported historical revenue. Our opinion is not modified with respect to that matter.

As described in Note 16, the Organization adopted Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. The accounting change has not been retrospectively applied to prior periods presented but applied prospectively. Our opinion is not modified with respect to that matter.



CliftonLarsonAllen LLP

Austin, Minnesota
March 18, 2020

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,040,314	\$ 7,919,421
Contributions Receivable, Net	36,259	51,313
Other Receivables	260	589
Materials for Resale	10,695	9,518
Prepaid Expenses	36,916	27,943
Total Current Assets	1,124,444	8,008,784
NONCURRENT ASSETS		
Contributions Receivable, Net	29,773	46,580
Investments	5,493,356	5,184,377
Charitable Trust Split-Interest Agreement	188,619	174,006
Property and Equipment, Net	18,732,934	11,869,929
Total Noncurrent Assets	24,444,682	17,274,892
 Total Assets	 \$ 25,569,126	 \$ 25,283,676
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 224,476	\$ 779,137
Accrued Expenses	29,019	25,999
Deferred Revenue	53,116	88,500
Total Current Liabilities	306,611	893,636
NET ASSETS		
Net Assets Without Donor Restrictions	24,696,595	20,361,615
Net Assets With Donor Restrictions	565,920	4,028,425
Total Net Assets	25,262,515	24,390,040
 Total Liabilities and Net Assets	 \$ 25,569,126	 \$ 25,283,676

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 2,122,641	\$ 62,000	\$ 2,184,641
Special Event Revenue	399,930	-	399,930
Room Donations	95,318	-	95,318
Gain on Sales or Other Dispositions of Assets	(35,219)	-	(35,219)
Other Income	7,881	-	7,881
Net Assets Released from Restrictions	3,524,505	(3,524,505)	-
Total Revenues and Other Support	6,115,056	(3,462,505)	2,652,551
EXPENSES			
Program Services	2,301,080	-	2,301,080
Management and General	163,685	-	163,685
Fundraising	191,829	-	191,829
Cost of Direct Benefits to Donors	48,072	-	48,072
Total Expenses	2,704,666	-	2,704,666
CHANGE IN NET ASSETS FROM OPERATIONS	3,410,390	(3,462,505)	(52,115)
NONOPERATING ACTIVITIES			
Change in Value of Split-Interest Agreement	19,765	-	19,765
Investment Income, Net	904,825	-	904,825
Total Nonoperating Activities	924,590	-	924,590
CHANGES IN NET ASSETS	4,334,980	(3,462,505)	872,475
Net Assets - Beginning of Year	20,361,615	4,028,425	24,390,040
NET ASSETS - END OF YEAR	\$ 24,696,595	\$ 565,920	\$ 25,262,515

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 1,532,545	\$ 4,422,542	\$ 5,955,087
Special Events Revenue	406,100	-	406,100
Room Donations	89,603	-	89,603
Other Income	9,985	-	9,985
Net Assets Released from Restrictions	6,808,878	(6,808,878)	-
Total Revenues and Other Support	<u>8,847,111</u>	<u>(2,386,336)</u>	<u>6,460,775</u>
EXPENSES			
Program Services	1,497,906	-	1,497,906
Management and General	147,898	-	147,898
Fundraising	313,976	-	313,976
Cost of Direct Benefits to Donors	50,356	-	50,356
Total Expenses	<u>2,010,136</u>	<u>-</u>	<u>2,010,136</u>
CHANGE IN NET ASSETS FROM OPERATIONS	6,836,975	(2,386,336)	4,450,639
NONOPERATING ACTIVITIES			
Change in Value of Split-Interest Agreement	(9,146)	-	(9,146)
Investment Income, Net	(440,159)	-	(440,159)
Total Nonoperating Activities	<u>(449,305)</u>	<u>-</u>	<u>(449,305)</u>
CHANGE IN NET ASSETS	6,387,670	(2,386,336)	4,001,334
Net Assets - Beginning of Year	<u>13,973,945</u>	<u>6,414,761</u>	<u>20,388,706</u>
NET ASSETS - END OF YEAR	<u>\$ 20,361,615</u>	<u>\$ 4,028,425</u>	<u>\$ 24,390,040</u>

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 872,475	\$ 4,001,334
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	468,641	177,649
Realized and Unrealized (Gain) Loss on Investments	(864,309)	937,292
Loss on Sales or Other Dispositions of Assets	35,219	-
Donation of Property and Equipment	-	(399,920)
Change in Value of Charitable Trust Split-Interest Agreement	(19,765)	9,146
Contributions Received for Long-Term Purposes	(238,739)	(4,298,035)
(Increase) Decrease in Assets:		
Pledges Receivable	31,861	964,565
Employee Advances	329	(589)
Materials for Resale	(1,177)	8,875
Prepaid Expenses	(8,973)	(12,223)
Increase (Decrease) in Liabilities:		
Accounts Payable	(554,661)	749,464
Accrued Expenses	3,020	621
Deferred Revenue	(35,384)	3,750
Net Cash Provided (Used) by Operating Activities	(311,463)	2,141,929
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(7,366,866)	(6,526,064)
Purchase of Investments	(11,998)	(168,444)
Proceeds from Sale of Investments	567,329	24,503
Net Cash Used by Investing Activities	(6,811,535)	(6,670,005)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of Contributions Restricted for Long-Term Purposes:		
Capital Campaign	238,739	4,298,035
Cash for Charitable Trust Split-Interest Agreement	5,152	11,662
Net Cash Provided by Financing Activities	243,891	4,309,697
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,879,107)	(218,379)
Cash and Cash Equivalents - Beginning of Year	7,919,421	8,137,800
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,040,314	\$ 7,919,421
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
In-Kind Contributions of Materials and Services	\$ -	\$ -

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services	Management and General	Fundraising			Total
			Fundraising	Love and Hope Campaign	Cost of Direct Benefits to Donors	
Salaries	\$ 718,934	\$ 87,675	\$ 70,140	\$ -	\$ -	\$ 876,749
Benefits	87,064	10,618	8,494	-	-	106,176
Payroll Taxes	58,975	7,192	5,754	-	-	71,921
Total Salaries and Related Expenses	<u>864,973</u>	<u>105,485</u>	<u>84,388</u>	-	-	<u>1,054,846</u>
Cleaning Services and Supplies	73,918	-	-	-	-	73,918
Depreciation	468,641	-	-	-	-	468,641
Development	10,480	2,329	10,480	-	-	23,289
Direct Mail	-	-	20,779	-	-	20,779
Dues	214	1,286	643	-	-	2,143
Family Support Services and Supplies	236,196	-	-	-	-	236,196
Insurance	46,803	2,463	-	-	-	49,266
Licenses	474	-	-	-	-	474
Linen Service	6,520	-	-	-	-	6,520
Maintenance and Repairs	286,985	-	-	-	-	286,985
Meetings, Education, and Training	6,114	1,528	-	-	-	7,642
Office Supplies	7,160	1,263	-	-	-	8,423
Postage	3,142	209	838	222	-	4,411
Printing	11,852	741	2,222	-	-	14,815
Professional Fees	56,800	18,933	-	3,268	-	79,001
Scholarships	3,250	-	-	-	-	3,250
Special Events Expense	-	-	58,793	-	48,072	106,865
Technology	38,470	7,213	2,404	-	-	48,087
Telephone	3,719	77	77	-	-	3,873
Utilities	145,774	7,672	-	-	-	153,446
Volunteer Resources and Recognition	15,109	-	-	3,810	-	18,919
Other	14,486	14,486	3,219	686	-	32,877
Total	<u>\$ 2,301,080</u>	<u>\$ 163,685</u>	<u>\$ 183,843</u>	<u>\$ 7,986</u>	<u>\$ 48,072</u>	<u>\$ 2,704,666</u>

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising			Total
			Fundraising	Love and Hope Campaign	Cost of Direct Benefits to Donors	
Salaries	\$ 542,206	\$ 66,123	\$ 52,898	\$ 136,077	\$ -	\$ 797,304
Benefits	71,748	8,750	7,000	-	-	87,498
Payroll Taxes	43,508	5,306	4,245	9,452	-	62,511
Total Salaries and Related Expenses	<u>657,462</u>	<u>80,179</u>	<u>64,143</u>	<u>145,529</u>	<u>-</u>	<u>947,313</u>
Cleaning Services and Supplies	46,200	-	-	-	-	46,200
Depreciation	177,649	-	-	-	-	177,649
Development	3,735	830	3,735	-	-	8,300
Direct Mail	-	-	12,265	-	-	12,265
Dues	253	1,519	759	-	-	2,531
Family Support Services and Supplies	160,614	-	-	-	-	160,614
Insurance	41,691	2,194	-	-	-	43,885
Licenses	516	-	-	-	-	516
Linen Service	7,104	-	-	-	-	7,104
Maintenance and Repairs	86,558	-	-	-	-	86,558
Meetings, Education, and Training	17,382	4,345	-	-	-	21,727
Office Supplies	34,129	6,023	-	114	-	40,266
Postage	5,492	366	1,465	2,574	-	9,897
Printing	9,942	621	1,864	7,923	-	20,350
Professional Fees	65,622	21,874	-	12,517	-	100,013
Scholarships	3,250	-	-	-	-	3,250
Special Events Expense	-	-	49,777	-	50,356	100,133
Technology	53,862	10,099	3,366	-	-	67,327
Telephone	7,626	159	159	-	-	7,944
Utilities	91,384	4,810	-	-	-	96,194
Volunteer Resources and Recognition	12,557	-	-	-	-	12,557
Other	14,878	14,879	3,305	4,481	-	37,543
Total	<u>\$ 1,497,906</u>	<u>\$ 147,898</u>	<u>\$ 140,838</u>	<u>\$ 173,138</u>	<u>\$ 50,356</u>	<u>\$ 2,010,136</u>

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Ronald McDonald House (the Organization) is a Minnesota nonprofit charitable corporation formed in 1979. The mission of Ronald McDonald House Charities (RMHC) is to create, find, and support programs that directly improve the health and well-being of children and their families. Collectively, RMHC and the network of local Chapters ascribe to five core values: we are focused on the critical needs of children, we lead with compassion, we celebrate the diversity of our people and our programs, we value our heritage, and we operate with accountability and transparency.

We fulfill our mission through operation of sustainable programs that enable family-centered care, bridge access to quality health care, are a vital part of the health care continuum and strengthen families during difficult times. When children must travel long distances to access top medical care, accommodations and support for families can be expensive or not readily available. The Organization helps families stay close to their ill or injured child through the Ronald McDonald House program located in Rochester, which provides temporary lodging, meals and other support to children and their families. The program provides families with emotional and physical comfort and increases the caregivers' ability to spend more time with their child, to interact with their clinical care team and to participate in critical medical care decisions.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and are presented on the basis of net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions are created only by donor-imposed restrictions on their use. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. All other net assets, including board-designated or appropriated amounts, are net assets without donor restrictions and are reported as part of the net assets without donor restriction class.

Measure of Operations

The Organization's change in net assets from operations on the statements of activities includes all operating revenues and expenses that are an integral part of its program and supporting activities, net assets released from donor restrictions to support operating expenditures and other non-operating funds to support current operating activities. The measure of operations excludes investment return on investments.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management of the Organization to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash equivalents include money market funds and all highly liquid investments with a maturity date of less than three months from the date of purchase. The Organization's cash balances that are maintained in bank accounts may exceed Federal Deposit Insurance Corporation limits from time to time. The Organization has not experienced any losses in such accounts and management believes that it is not exposed to any significant credit risk on cash.

Contributions Receivable

Contributions receivable are unconditional promises to give. 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. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Contributions receivable are written off when deemed uncollectible.

The Organization is the beneficiary under various wills and trust agreements of which the total realizable amount is not presently determinable. Such amounts are recorded when a will is declared valid by probate court and the proceeds are measurable.

Investments

Investments are measured at fair value in the statements of financial position. Realized and unrealized gains and losses and income are included in the statements of activities.

Materials Held for Resale

Materials held for resale are stated at the lower of cost or net realizable value.

Charitable Trust Split-Interest Agreement

During 2012, upon the death of a donor, a trust naming the Organization as one of multiple beneficiaries of a charitable annuity trust was established. Under the terms of the split-interest agreement, the Organization is to receive 5% of income from trust assets annually for 20 years and 10 equal installments of 5% of total trust assets for the 10 years thereafter. No restrictions have been placed on the donation. The receivable for the split-interest agreement is carried at fair value, which the Organization has estimated based on the present value of its expected cash inflows. Based on a discount rate of 3%, the fair value of the Organization's interest in the trust was estimated to be \$188,619 and \$174,006 at December 31, 2019 and 2018, respectively.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost, if purchased, or estimated fair value, if donated, at the date of donation. Additions of \$2,500 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	30 – 40 Years
Equipment	3 – 15 Years

Impairment of Long-Lived Assets

The Organization evaluates its long-lived assets for any events or changes in circumstances which indicate that the carrying amount of such assets may not be fully recoverable. The Organization evaluates the recoverability of long-lived assets by measuring the carrying amount of such assets against the estimated undiscounted future cash flows associated with them. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

Donated Assets, Property and Equipment, and Services

Donated marketable securities, property and equipment, and other noncash donations are recorded as contributions at their fair values at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use 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 as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donated services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization also receives donated services from other contributors and volunteers that do not meet the criteria for recognition of contributed service revenue/expense, and therefore, are excluded from the financial statements.

Deferred Revenue

Income from sponsorships received in advance of future special events, which the resource provider is receiving commensurate value in return or a right of return exists if the event does not occur, is deferred and recognized over the periods to which the sponsorships relate.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

The Organization's net assets and changes therein are classified and reported as follows:

Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions or law. The governing board has designated, from net assets without donor restrictions, net assets for operating reserve, capital reserve, board designated endowment, expansion and scholarships.

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.

Revenue Recognition

Contributions and Grants

Unconditional promises to give are recognized as revenue in the period the promise was made. Conditional promises are recorded as revenue when the conditions are substantially met. Contributions, grants, and bequests are recognized as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. 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.

Sponsorship Revenue

The portion of sponsorship revenue that relates to the commensurate value the sponsor received in return is recognized when the related events are held and performance obligations are met.

Special Event Revenue – Ticket Sales

The portion of ticket sales that relates to the commensurate value the attendee receives in return is recognized when the related events are held and performance obligations are met.

Functional Expenses

The statements of functional expenses report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: insurance and utilities, which are allocated based on usage of the building; technology and telephone, which are allocated based on estimated usage between families and staff; and salaries, benefits and payroll taxes, which are allocated based on management's estimates of time and effort.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income, if any, from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

NOTE 2 LIQUIDITY

As of December 31, 2019 and 2018, the Organization has \$970,904 and \$4,493,831 of financial assets available to meet cash needs for general expenditures within one year of the statements of financial position date, which consists of the current assets per the statements of financial position, reduced by \$83,870 and \$88,774 of current contributions receivable, materials for resale and prepaid expenses, as well as \$69,670 and \$3,426,209 of cash not available for general use because of contractual or donor-imposed restrictions, respectively.

The Organization maintains financial assets, consisting of cash and short-term investments, on hand to meet its normal operating expenses based on its annual budget. Operating expenses are compared to budgeted expenses on a monthly basis and financial assets on hand are adjusted as necessary. As part of its liquidity management, the Organization invests cash in excess of daily requirements in various short-term investments. In addition, the Organization maintains an operating reserve that allows for annual spending, if needed. \$83,108 and \$506,118 of appropriations from the operating reserve are available within the next 12 months as of December 31, 2019 and 2018.

In addition, although the Organization does not intend to spend from its board-designated endowment, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation, amounts from its board designated-endowment could be made available if necessary. The board-designated endowment has a spending rate of 5%. \$245,700 and \$206,211 of appropriations from the board-designated endowment are available within the next 12 months as of December 31, 2019 and 2018.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable consist primarily of pledges and bequests as of the years ended December 31:

	<u>2019</u>	<u>2018</u>
Promises to Give Expected to be Collected Within:		
One Year	\$ 36,259	\$ 51,313
One to Five Years	30,972	48,028
Total	<u>67,231</u>	<u>99,341</u>
Less: Unamortized Discount on Pledges Receivable	(1,199)	(1,448)
Total	<u>\$ 66,032</u>	<u>\$ 97,893</u>

The discount rate used for the years ended December 31, 2019 and 2018 was 1%.

NOTE 4 FAIR VALUE MEASUREMENTS

In determining fair value, the Organization uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. A hierarchy for inputs is 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. Levels within the hierarchy are based on the reliability of inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The fair values of assets measured on a recurring basis as of December 31, 2019 are as follows:

	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV	Total
Investments:					
Mutual Funds	\$ 83,107	\$ -	\$ -	\$ -	\$ 83,107
Nonpublicly Traded Multi-Assets Fund	-	-	-	5,410,249	5,410,249
Total Investments	<u>83,107</u>	<u>-</u>	<u>-</u>	<u>5,410,249</u>	<u>5,493,356</u>
Split-Interest Agreement	-	-	188,619	-	188,619
Total Assets	<u>\$ 83,107</u>	<u>\$ -</u>	<u>\$ 188,619</u>	<u>\$ 5,410,249</u>	<u>\$ 5,681,975</u>

The fair values of assets measured on a recurring basis as of December 31, 2018 are as follows:

	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV	Total
Investments:					
Mutual Funds	\$ 556,523	\$ -	\$ -	\$ -	\$ 556,523
Nonpublicly Traded Multi-Assets Fund	-	-	-	4,627,854	4,627,854
Total Investments	<u>556,523</u>	<u>-</u>	<u>-</u>	<u>4,627,854</u>	<u>5,184,377</u>
Split-Interest Agreement	-	-	174,006	-	174,006
Total Assets	<u>\$ 556,523</u>	<u>\$ -</u>	<u>\$ 174,006</u>	<u>\$ 4,627,854</u>	<u>\$ 5,358,383</u>

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of Level 2 investments are determined by reference to quoted prices for similar assets in less active markets. Fair value of Level 3 investments is determined from valuation techniques in which one or more inputs are unobservable. The Organization reviewed and evaluated the values and assumptions used in determining the fair value of Level 3 financial instruments. The carrying amounts of all other assets and liabilities reflected in the statements of financial position for the Organization's financial instruments approximates their respective fair value due to the short-term maturities of those instruments. There have been no changes in valuation techniques and related inputs.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	2019	2018
Beginning Balance	\$ 174,006	\$ 194,814
Distribution	(5,152)	(11,662)
Change in Value	19,765	(9,146)
Ending Balance	\$ 188,619	\$ 174,006

The Organization uses net asset value (NAV) per share as a practical expedient to estimate fair values of invested funds in the TIFF Multi-Asset Fund (MAF), which does not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

Investments

Overall Investment Objective

The overall investment objective of the Organization is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The Organization diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board of Trustees which oversees the Organization's investment program in accordance with established guidelines.

Allocation of Investment Strategies

In addition to traditional stocks and fixed income securities, the Organization has invested funds in the TIFF Multi-Asset Fund (MAF). The program strives to achieve a primary benchmark of the Consumer Price Index (CPI) plus 5% per annum in order to make distributions of approximately 5% of MAF's net assets in the form of dividends and capital gains each year. Investments in these funds are eligible for redemption on a daily basis with no required redemption notice period and are assessed a 0.5% fee with each redemption. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the Organization's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows at December 31, 2019:

<u>Investment Strategy</u>	<u>NAV in Funds</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
TIFF Multi-Asset Fund	\$ 5,410,249	\$ -	Daily	None

The composition of investment income on the Organization's investment portfolio for the years ended December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Interest and Dividend Income	\$ 40,516	\$ 497,133
Realized and Unrealized Gains (Losses), Net	864,309	(937,292)
Investment Income, Net	<u>\$ 904,825</u>	<u>\$ (440,159)</u>

NOTE 5 PROPERTY AND EQUIPMENT

	<u>2019</u>	<u>2018</u>
Buildings	\$ 21,305,239	\$ 5,532,858
Equipment	699,906	526,765
Total	22,005,145	6,059,623
Less: Accumulated Depreciation	(3,272,211)	(3,064,278)
Construction in Progress	-	8,874,584
Total	<u>\$ 18,732,934</u>	<u>\$ 11,869,929</u>

NOTE 6 LINE OF CREDIT

The Organization entered into a credit agreement in 2018 in relation to the construction on the expansion of the facility. The loan provided for a revolving line of credit for three years for which the Organization could advance up to \$5,000,000 and had an interest rate at the bank's prime rate plus 1.00% (3.50% at December 31, 2018). The Organization took no advances out on the line of credit and cancelled the agreement in 2019.

NOTE 7 ENDOWMENT

The Organization's endowment consists of one individual fund established by a donor to provide annual funding for general operations. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Trustees.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
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NOTE 7 ENDOWMENT (CONTINUED)

Absent explicit donor stipulations to the contrary, the Board of Trustees of the Organization 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. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, 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 to the fund. In accordance 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:

- (1) The duration and preservation of the various funds
- (2) The purposes of the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The Organization's investment policies

Investment Return Objectives, Risk Parameters, and Strategies. The Organization has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets. Those policies attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. The Organization expects its endowment assets, over time, to produce an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to prevent exposing the fund to unacceptable levels of risk.

Spending Policy – Donor-restricted endowment. There are no restrictions placed on the investment earnings from the donor-restricted endowment. Therefore, there is no spending policy for these funds.

Spending Policy – Board-designated endowment. The Organization has a policy of appropriating for distribution each year 5% of its board-designated and donor restricted endowment fund's combined balance from the previous year.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 ENDOWMENT (CONTINUED)

Changes in endowment net assets and net assets by type of fund as follows for the fiscal year ended December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 4,847,956	\$ 496,250	\$ 5,344,206
Investment Return, Net	849,723	-	849,723
Appropriation of Endowment Assets for Expenditure	<u>(783,681)</u>	<u>-</u>	<u>(783,681)</u>
Endowment Net Assets - End of Year	<u>\$ 4,913,998</u>	<u>\$ 496,250</u>	<u>\$ 5,410,248</u>
Board-Designated Endowment Funds	\$ 4,913,998	\$ -	\$ 4,913,998
Donor-Restricted Endowment Funds:			
Original Donor-Restrict Gift Amount and Amounts Required to be Retained by Donor	<u>-</u>	<u>496,250</u>	<u>496,250</u>
Total Funds	<u>\$ 4,913,998</u>	<u>\$ 496,250</u>	<u>\$ 5,410,248</u>

Changes in endowment net assets and net assets by type of fund were as follows for the fiscal year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 4,847,956	\$ 556,272	\$ 5,404,228
Investment Return, Net	(553,251)	-	(553,251)
Appropriation of Endowment Assets for Expenditure	<u>(163,101)</u>	<u>(60,022)</u>	<u>(223,123)</u>
Endowment Net Assets - End of Year	<u>\$ 4,131,604</u>	<u>\$ 496,250</u>	<u>\$ 4,627,854</u>
Board-Designated Endowment Funds	\$ 4,131,604	\$ -	\$ 4,131,604
Donor-Restricted Endowment Funds:			
Original Donor-Restrict Gift Amount and Amounts Required to be Retained by Donor	<u>-</u>	<u>496,250</u>	<u>496,250</u>
Total Funds	<u>\$ 4,131,604</u>	<u>\$ 496,250</u>	<u>\$ 4,627,854</u>

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

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NOTES TO FINANCIAL STATEMENTS
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NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specific Purpose:		
Property Acquisition and Expansion	\$ -	\$ 3,491,428
Hollidazzle Activity	19,920	22,848
Milk Purchases	14,333	16,287
Guest Laundry	4,667	-
Food Co-op	30,750	-
Technology Enhancements	-	1,612
Total Expenditure for Specific Purpose	<u>69,670</u>	<u>3,532,175</u>
Subject to the Organizations Spending Policy and Appropriation:		
Original Donor-Restricted Gift Amount Required to be Maintained in Perpetuity by Donor	<u>496,250</u>	<u>496,250</u>
Total	<u>\$ 565,920</u>	<u>\$ 4,028,425</u>

The Organization began a capital campaign in 2015 to raised funds for building a new facility. The campaign was closed as of December 31, 2019, with all funds having been spent.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Purpose Restrictions Accomplished:		
Property Acquisition and Expansion	\$ 3,491,429	\$ 6,654,217
Facility Enhancement	-	15,000
Hollidazzle Activity	2,928	3,870
Milk Purchases	6,954	2,381
Kitchen and Laundry Appliances	-	25,000
Guest Laundry	2,333	-
Food Co-op	19,249	-
Technology Enhancements	1,612	48,388
Endowment Appropriations	-	60,022
Total Restrictions Released	<u>\$ 3,524,505</u>	<u>\$ 6,808,878</u>

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 NET ASSETS WITHOUT DONOR RESTRICTIONS

The Organization's governing Board of Trustees has designated net assets without donor restrictions for the following purposes as of December 31:

	<u>2019</u>	<u>2018</u>
Board-Designated Endowment	\$ 4,913,998	\$ 4,130,826
Board-Designated Operating Reserve	366,572	506,118
Board-Designated Capital Reserve	83,108	556,523
Board-Designated Expansion	-	2,626,756
Board-Designated Scholarships	70,000	70,000
Total Board Designated Net Assets	<u>\$ 5,433,678</u>	<u>\$ 7,890,223</u>

NOTE 10 DONATED GOODS AND SERVICES

The fair value of donated goods and services included as contributions in the financial statements and the corresponding expense categories for the years ended December 31 are as follows:

<u>December 31, 2019</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Family Support Services and Supplies	\$ 146,445	\$ -	\$ -	\$ 146,445
Special Events Expense	-	-	19,782	19,782
Total	<u>\$ 146,445</u>	<u>\$ -</u>	<u>\$ 19,782</u>	<u>\$ 166,227</u>

<u>December 31, 2018</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Family Support Services and Supplies	\$ 119,275	\$ -	\$ -	\$ 119,275
Special Events Expense	-	-	17,541	17,541
Total	<u>\$ 119,275</u>	<u>\$ -</u>	<u>\$ 17,541</u>	<u>\$ 136,816</u>

During the years ended December 31, 2019 and 2018, the Organization received \$430,390 and \$399,920 in donated construction materials and labor in relation to the expansion of the facility. These amounts have been capitalized and property and equipment in the statement of financial position.

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NOTE 11 RETIREMENT PLAN

In accordance with the terms of the Organization's simple retirement plan, it will match the eligible employee's salary reduction contributions up to a limit of 3% of the employee's compensation. Contributions made by the Organization for the years ended December 31, 2019 and 2018 were \$25,903 and \$23,847, respectively.

NOTE 12 OPERATING LEASE

The Organization has a ground lease agreement that calls for annual rent of \$1. The lease is for a 10-year term, which the Organization has the option to extend for an unlimited number of 10-year terms. Upon termination of the lease, the building, and any other improvements will become property of the landlord. Under certain conditions, the facility owned by the Organization would be forced to sell to the landlord. The primary provision is that the landlord can give one-year notice to remove the Organization from the land. The landlord would need to buy the Organization's facility for fair value upon that occurrence.

NOTE 13 TRANSACTIONS WITH RELATED ENTITIES

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

Ronald McDonald House Charities, Inc. (RMHC Global), a separately registered nonprofit organization, ensures delivery of the mission across the globe. As a center of excellence, RMHC Global builds and sustains a robust infrastructure of support to the network of Chapters, including operations, licensing and compliance, finance, risk management, communications, marketing and development. The Organization receives 75% of net revenues from all national fundraising efforts facilitated by RMHC Global, as defined by the license agreement. During the years ended December 31, 2019 and 2018, the Organization received \$62,540 and \$3,325,172, respectively, from these revenue streams.

The Organization also received \$147,472 and \$39,863 during the years ended December 31, 2019 and 2018, respectively, from Ronald McDonald House Charities of Western Wisconsin and Southeastern Minnesota. Contributions receivable related to the capital campaign totaled \$14,000 for the years ended December 31, 2019 and 2018, respectively.

The Organization received \$100,692 and \$52,308 in donated professional services related to the expansion of its facility during the years ended December 31, 2019 and 2018 from various board members. The donated services are included in Construction Materials and Labor disclosed in Note 10.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 13 TRANSACTIONS WITH RELATED ENTITIES (CONTINUED)

The Organization has entered into a service agreement with a company owned by a board member for information technology services. Services purchased for the years ended December 31, 2019 and 2018 totaled \$17,762 and \$29,581, respectively. In addition, equipment totaling \$38,362 and \$32,090 was purchased during the years ended December 31, 2019 and 2018.

A board member has an ownership interest in the main financial institution used by the Organization. The Organization had balances of \$1,040,314 and \$7,665,461 held at this institution as of December 31, 2019 and 2018.

NOTE 14 CONCENTRATIONS

During the year ended December 31, 2019, the Organization had no donors on which contributions exceeded 10% of total contributions. Three donors accounted for 76% of pledges receivable related to the capital campaign for the year ended December 31, 2019.

During the year ended December 31, 2018, the Organization had one donor on which contributions exceeded 10% of total capital campaign contributions. Total contributions from these donors totaled 61% for the year ended December 31, 2018. Two donors accounted for 61% of pledges receivable related to the capital campaign for the year ended December 31, 2018.

NOTE 15 SUBSEQUENT EVENTS

Management evaluated subsequent events through March 18, 2020, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the financial statements.

NOTE 16 CHANGE IN ACCOUNTING PRINCIPLE

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 ASU's 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.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
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NOTE 16 CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

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 Update (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 contribution (nonreciprocal) transactions within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The implementation of this standard has no impact on the financial statements.

NOTE 17 RECENT ACCOUNTING PRONOUNCEMENTS

Leases

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the Organization's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance will be effective for the year ending December 31, 2021. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the Organization's financial statements.