

RONALD MCDONALD HOUSE CHARITIES, INC.
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2019 and 2018



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ronald McDonald House Charities, Inc.
Chicago, Illinois

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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.

Board of Trustees
Ronald McDonald House Charities, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RMHC at 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Oak Brook, Illinois
May 5, 2020

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

ASSETS	2019	2018
	<i>(In Thousands)</i>	
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,888	\$ 12,476
Contributions receivable, net	11,259	9,815
Short-term investments	3,424	3,265
Other current assets	1,993	2,111
Total current assets	26,564	27,667
NONCURRENT ASSETS		
Contributions receivable, net	4,700	453
Investments	128,255	109,740
Other noncurrent assets	364	495
Total noncurrent assets	133,319	110,688
TOTAL ASSETS	\$ 159,883	\$ 138,355
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and other liabilities	\$ 1,927	\$ 1,360
Grants payable, net	6,755	9,318
Total current liabilities	8,682	10,678
NET ASSETS		
Without donor restrictions	143,677	121,234
With donor restrictions	7,524	6,443
Total net assets	151,201	127,677
TOTAL LIABILITIES AND NET ASSETS	\$ 159,883	\$ 138,355

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

RONALD MCDONALD HOUSE CHARITIES, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>					
REVENUES						
Contributions	\$ 47,079	\$ 6,413	\$ 53,492	\$ 43,414	\$ 100,391	\$ 143,805
Special events revenue	5,879	-	5,879	6,338	-	6,338
Program service and other revenue	107	-	107	1,199	-	1,199
Net assets released from restrictions	5,341	(5,341)	-	95,292	(95,292)	-
Total revenues	<u>58,406</u>	<u>1,072</u>	<u>59,478</u>	<u>146,243</u>	<u>5,099</u>	<u>151,342</u>
EXPENSES						
Program services	46,588	-	46,588	139,170	-	139,170
Management and general administration	3,099	-	3,099	3,066	-	3,066
Fundraising	5,486	-	5,486	6,041	-	6,041
Cost of direct benefits to donors	1,040	-	1,040	899	-	899
Total expenses	<u>56,213</u>	<u>-</u>	<u>56,213</u>	<u>149,176</u>	<u>-</u>	<u>149,176</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>2,193</u>	<u>1,072</u>	<u>3,265</u>	<u>(2,933)</u>	<u>5,099</u>	<u>2,166</u>
INVESTMENT INCOME (LOSS), NET	<u>20,250</u>	<u>9</u>	<u>20,259</u>	<u>(6,786)</u>	<u>6</u>	<u>(6,780)</u>
CHANGE IN NET ASSETS	22,443	1,081	23,524	(9,719)	5,105	(4,614)
NET ASSETS, BEGINNING OF YEAR	<u>121,234</u>	<u>6,443</u>	<u>127,677</u>	<u>130,953</u>	<u>1,338</u>	<u>132,291</u>
NET ASSETS, END OF YEAR	<u>\$ 143,677</u>	<u>\$ 7,524</u>	<u>\$ 151,201</u>	<u>\$ 121,234</u>	<u>\$ 6,443</u>	<u>\$ 127,677</u>

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

**RONALD MCDONALD HOUSE CHARITIES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2019 AND 2018**

Year Ended December 31, 2019	Ronald McDonald House	Ronald McDonald Family Room	Ronald McDonald Care Mobile	RMHC Local Chapter Grants and Support	Total Support of RMHC Local Chapters	Other Programs	Total Program Services	Management and General	Fundraising	Cost of Direct Benefits to Donors	Total
<i>(In Thousands)</i>											
Grants	\$ 6,035	\$ 916	\$ 1,047	\$ 25,957	\$ 33,955	\$ 2,018	\$ 35,973	\$ -	\$ -	\$ -	\$ 35,973
Professional fees	-	-	20	2,259	2,279	50	2,329	692	1,452	-	4,473
Donated services and occupancy	-	-	-	2,145	2,145	-	2,145	1,675	1,022	-	4,842
Meetings, education, and training	-	-	-	270	270	-	270	33	384	563	1,250
Travel, meals, and entertainment	-	-	-	1,091	1,091	3	1,094	103	123	477	1,797
Advertising	-	-	-	398	398	-	398	76	684	-	1,158
Other	-	-	40	4,339	4,379	-	4,379	520	1,821	-	6,720
TOTAL EXPENSES	\$ 6,035	\$ 916	\$ 1,107	\$ 36,459	\$ 44,517	\$ 2,071	\$ 46,588	\$ 3,099	\$ 5,486	\$ 1,040	\$ 56,213

Year Ended December 31, 2018	Ronald McDonald House	Ronald McDonald Family Room	Ronald McDonald Care Mobile	RMHC Local Chapter Grants and Support	Total Support of RMHC Local Chapters	Other Programs	Total Program Services	Management and General	Fundraising	Cost of Direct Benefits to Donors	Total
<i>(In Thousands)</i>											
Grants	\$ 99,848	\$ 1,764	\$ 501	\$ 22,556	\$ 124,669	\$ 2,048	126,717	\$ -	\$ -	\$ -	126,717
Professional fees	-	-	61	3,029	3,090	62	3,152	479	1,399	-	5,030
Donated services and occupancy	-	-	-	2,128	2,128	-	2,128	1,862	1,271	-	5,261
Meetings, education, and training	-	-	-	1,767	1,767	2	1,769	57	498	351	2,675
Travel, meals, and entertainment	-	-	-	774	774	21	795	106	151	343	1,395
Advertising	-	-	-	15	15	-	15	248	788	-	1,051
Other	-	-	41	4,551	4,592	2	4,594	314	1,934	205	7,047
TOTAL EXPENSES	\$ 99,848	\$ 1,764	\$ 603	\$ 34,820	\$ 137,035	\$ 2,135	\$ 139,170	\$ 3,066	\$ 6,041	\$ 899	\$ 149,176

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

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

	2019	2018
	<i>(In Thousands)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 23,524	\$ (4,614)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	(16,947)	9,300
Bad debt	139	22
Amortization	55	63
Effects of changes in operating assets and liabilities:		
Contributions receivable	(5,830)	1,080
Other assets	217	(970)
Accounts payable and other liabilities	567	(157)
Grants payable	(2,563)	1,720
	<u>(838)</u>	<u>6,444</u>
Net cash (used in) provided by operating activities		
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(58,641)	(32,647)
Proceeds from sale of investments	56,914	29,910
Purchases of software	(23)	-
	<u>(1,750)</u>	<u>(2,737)</u>
Net cash used in investing activities		
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,588)	3,707
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>12,476</u>	<u>8,769</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 9,888</u>	<u>\$ 12,476</u>
 SUPPLEMENTAL DISCLOSURES		
Donated Stock	<u>\$ 82</u>	<u>\$ 59</u>

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

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ronald McDonald House Charities, Inc. (RMHC) is an Illinois nonprofit charitable corporation formed on September 7, 1977. The mission of RMHC is to create, find, and support programs that directly improve the health and well-being of children and their families. RMHC fulfills its mission by creating programs that address targeted needs and by supporting these programs and other activities conducted by its RMHC Local Chapters (Chapters) worldwide. In addition, RMHC awards grants to other organizations that positively impact the health and well-being of children.

Ronald McDonald House Charities is a system of independent, separately registered public benefit organizations, referred to as “Chapters” by RMHC. Each Chapter is licensed by McDonald’s Corporation and RMHC 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. 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.

RMHC ensures delivery of the mission across the globe. As a center of excellence, RMHC 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. Following are the program activities operated by RMHC:

Support of RMHC Local Chapters:

- *Ronald McDonald House*
 - RMHC provides grants for new and expanding Ronald McDonald House programs. The Ronald McDonald House provides comfort, support and resources for families with sick children.
- *Ronald McDonald Family Room*
 - RMHC provides grants for new Ronald McDonald Family Room programs, which offer a home-like environment within the walls of the hospital. Ronald McDonald Family Rooms provide families of hospitalized children with a place to refresh and relax while remaining near their child’s bedside.
- *Ronald McDonald Care Mobile*
 - RMHC developed and continues to support mobile pediatric health care services to children in underserved areas of the world by funding the capital build for all new Ronald McDonald Care Mobiles. In addition to primary and specialty medical care, health education, and oral health services, the program links children to other community and social service resources.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support of RMHC Local Chapters: (continued)

- *RMHC Local Chapter Grants and Support*
 - *Capacity Building*
 - RMHC is committed to strengthening the global system of Chapters, by providing “capacity building” grants and programmatic support to help each Chapter achieve a high level of excellence in management and operations, and to help them effectively and efficiently fulfill their mission. Activities include, among others: resource development; sharing best practices to improve all aspects of RMHC; strategic planning; technology upgrades; ongoing training and education of board, staff, and volunteers to encourage excellence in delivering programs, fundraising and administrative practices; investment in environmental sustainability activities such as energy audits, water and waste efficiency projects at Ronald McDonald House programs; facilitation of networking opportunities; and developing local fundraising capabilities to grow resources and meet new and expanding program needs.
 - *General RMHC and Other Program Support*
 - RMHC provides expertise in all aspects of the three core program operations, other program development, and nonprofit management for its Chapters worldwide. Support also includes general program support grants.

Other Programs:

RMHC provides funding to other organizations to address the needs of children throughout the world. These efforts are directed towards providing access to quality health care, with a special focus on maternal/child health in Africa, South Asia and Latin America.

Basis of Presentation

The financial statements of RMHC 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.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management of RMHC 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 CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 nonoperating funds to support current operating activities. The measure of operations excludes investment return on investments.

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. RMHC's cash balances that are maintained in bank accounts may exceed Federal Deposit Insurance Corporation limits from time to time. RMHC 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. RMHC has received unconditional promises to give consisting of pledges, bequests, and split-interest agreements. 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 at the date of the gift using risk-free interest rates applicable to the years in which the promises are received. The discount rate used was 1.5% to 1.6% in 2019 and 3.6% in 2018. Amortization of the discounts is included in contribution revenue. Contributions receivable are written off when deemed uncollectible.

Contributions receivable also include the value of various split interest agreements. Split-interest agreements include five charitable remainder trusts from which RMHC will receive a percentage of the remaining assets upon the death of the initial beneficiaries, and an annuity from which RMHC receives annual payments during the donor's lifetime. A receivable has been recorded for the present value of the expected future cash flows using published life expectancy tables and a discount rate of 2.0% in 2019 and 3.6% in 2018. The fair value of the receivable is updated annually and the change in value and amortization of the present value discounts are included in contribution revenue.

RMHC 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.

Cash Surrender Value of Life Insurance

RMHC carries the value of contributed life insurance policies at cash surrender value, which approximates fair value, and is included in other current assets in the statements of financial position.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Software

Software and web development are stated at cost and amortized when placed in service. Amortization is calculated using the straight-line method over the estimated useful lives of the assets, generally three years. RMHC capitalizes all acquisitions in excess of \$5,000. Ongoing maintenance contracts are charged to expense when incurred. The balance in software as of December 31, 2019 and 2018 is as follows:

	2019	2018
	<i>(In Thousands)</i>	
Software and web enhancements	\$ 2,128	\$ 2,105
Accumulated amortization	(2,064)	(2,010)
Total	64	95

The net book value of software costs is reported in other noncurrent assets on the statements of financial position.

Investments

RMHC records all investments in equity securities with readily determinable fair values and all investments in debt securities and commodities at fair value in the statements of financial position. Realized and unrealized investment gains and losses and income are included in the statements of activities.

RMHC also has investments of less than 1% in two limited partnerships which are reported at cost. Capital calls to cover management fees are expensed as incurred.

Donated Assets, Software, and Services

Donated marketable securities, software, 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, RMHC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. RMHC 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 RMHC. RMHC also receives donated services from other contributors and volunteers that are not measurable, and therefore, are excluded from the financial statements.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets of RMHC and changes therein are classified and reported as follows:

Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions or law.

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

Unconditional promises to give are recognized as revenue in the period the promise was made. 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.

Conditional grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures or deliverables, as defined in each contract, are met. Funds received but not yet earned are shown as Deferred Revenue. Expenditures under contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

Special Event Revenue

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.

Attendee Fees

The portion of attendee fees that relate 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 RMHC. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include donated services and occupancy, which are allocated on the basis of estimates of time and effort.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status

RMHC 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 tax-exempt purpose of RMHC is subject to taxation as unrelated business income. In addition, RMHC 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)(1).

RMHC 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. Income taxes for unrelated business income were \$38,000 and \$5,000 for the years ended December 31, 2019 and 2018, respectively.

Reclassifications

Certain amounts have been reclassified for the year ended December 31, 2018 to conform to the presentation for the year ended December 31, 2019. The reclassifications had no impact on previously reported net assets.

NOTE 2 - SIGNIFICANT CONTRIBUTION

AbbVie, a research-based global biopharmaceutical company, provided a historic donation of \$100 million to RMHC in 2018. Of this donation, \$96,276,000 was designated to provide grants to 32 chapters to build family-centered spaces and to add 674 new guest sleeping rooms in 26 states and at 32 Ronald McDonald Houses. This will allow for approximately 246,000 additional night stays for pediatric patients and their families each year, helping RMHC Chapters to meet increasing demand and serve more families. Additionally, \$3,724,000 was designated to fund Chapter capacity building programs.

NOTE 3 - LIQUIDITY

RMHC has \$21,241,000 and \$19,076,000 of financial assets, as of December 31, 2019 and 2018, respectively, available to meet cash needs for general expenditures within one year of the statement of financial position date, which consists of the current assets per the statement of financial position, reduced by \$3,512,000 and \$6,670,000 of current contributions receivable as of December 31, 2019 and 2018, respectively, not available for general use because of contractual or donor-imposed restrictions.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 - LIQUIDITY (Continued)

RMHC 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, RMHC invests cash in excess of daily requirements in various short-term investments. In addition, RMHC maintains a long-term reserve that allows for annual spending of 5% of assets based on a rolling 2 year average market value in addition to investment income and earnings, if needed. \$6,462,000 and \$6,152,000 for appropriations, as of December 31, 2019 and 2018, respectively, from the long-term reserve will be available within the next 12 months.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consists primarily of pledges, bequests, and split-interest agreements, as of the years ended December 31:

	<u>2019</u>	<u>2018</u>
	<i>(In Thousands)</i>	
Amounts due in:		
Less than one year	\$ 11,259	\$ 9,815
One to five years	2,368	454
More than five years	<u>2,484</u>	<u>127</u>
Total	16,111	10,396
Unamortized discount	(131)	(107)
Allowance for uncollectibles	<u>(21)</u>	<u>(21)</u>
Net contributions receivable	<u>\$ 15,959</u>	<u>\$ 10,268</u>

NOTE 5 - FAIR VALUE MEASUREMENTS

In determining fair value, RMHC 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

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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.

The fair values of assets measured on a recurring basis at 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 Cost	Total
	<i>(In Thousands)</i>				
Assets					
Investments					
Mutual funds:					
Domestic equity	\$ 33,470	\$ -	\$ -	\$ -	\$ 33,470
International equity	18,131	-	-	-	18,131
Global	43,123	-	-	-	43,123
Commodities	6,473	-	-	-	6,473
Bonds	19,052	-	-	-	19,052
U.S. Corporate equity securities	11,096	-	-	-	11,096
Private equity	-	-	-	334	334
Total investments	<u>\$ 131,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334</u>	<u>\$ 131,679</u>
Contributions receivable, net					
Split-interest agreements	\$ -	\$ -	\$ 2,706	\$ -	\$ 2,706

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The fair values of assets measured on a recurring basis at 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 Cost	Total
	<i>(In Thousands)</i>				
Assets					
Investments					
Mutual funds:					
Domestic equity	\$ 11,126	\$ -	\$ -	\$ -	\$ 11,126
International equity	5,782	-	-	-	5,782
Global	67,396	-	-	-	67,396
Commodities	7,498	-	-	-	7,498
Bonds	9,361	-	-	-	9,361
U.S. Corporate equity securities	11,475	-	-	-	11,475
Private equity	-	-	-	367	367
Total investments	<u>\$ 112,638</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 367</u>	<u>\$ 113,005</u>
Contributions receivable, net					
Split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 335</u>	<u>\$ -</u>	<u>\$ 335</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 3 split-interest agreements is determined by calculating the present value of future distributions expected to be received using published life expectancy tables and a discount rate of 2.0% in 2019 and 3.6% in 2018. Split-interest agreements are included in contributions receivable on the statements of financial position. Split interest agreements of approximately \$48,000 as of December 31, 2019 and 2018, respectively, are all due in less than one year. Split interest agreements of approximately \$2,658,000 and \$287,000 as of December 31, 2019 and 2018, respectively, are all due in more than one year. There has been no change in valuation techniques from the prior year.

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

	<u>2019</u>	<u>2018</u>
	<i>(In Thousands)</i>	
Beginning balance	\$ 335	\$ 358
Payments received	(48)	(48)
Contributions	2,336	-
Change in value	83	25
Ending balance	<u>\$ 2,706</u>	<u>\$ 335</u>

RONALD MCDONALD HOUSE CHARITIES, INC.
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NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

Investments

Overall Investment Objective

The overall investment objective of RMHC 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. RMHC 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 investment program of RMHC in accordance with established guidelines.

The composition of investment income on the investment portfolio of RMHC for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
	<i>(In Thousands)</i>	
Interest and dividend income, net	\$ 3,312	\$ 2,520
Realized and unrealized gains (losses), net	16,947	(9,300)
Investment income gain (loss), net	<u>\$ 20,259</u>	<u>\$ (6,780)</u>

Private Equity Funds

RMHC invests in two private equity funds that seek long-term capital appreciation by making mainly equity and equity-related investments in conjunction with privately negotiated transactions. The investment strategies include management buyout, growth-equity transactions, special equity situations, and investments acquired in the secondary market. Redemptions are not permitted during the life of the fund. However, interests may be transferred with the written consent of the general partner if certain conditions are met. The invested funds were committed for a period of 10 years, originally set to expire in July 2016. To maximize the remaining value of the partnership assets, both funds were extended, one until July 2020 and the other until April 2020. Distributions are generally made when the funds receive income, but are at the discretion of the general partner.

NOTE 6 - GRANTS PAYABLE

Grants payable of \$6,755,000 and \$9,318,000 as of December 31, 2019 and 2018, respectively, are all due in less than one year.

There were \$674,000 and \$5,366,000 in contingent grants at December 31, 2019 and 2018, respectively. Contingent grants represent grants that have been approved by the board, but which will only be paid once certain criteria have been met.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
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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	2018
	<i>(In Thousands)</i>	
Subject to expenditure for specific purpose:		
Program activities:		
Ronald McDonald House	\$ 22	\$ 2,424
Ronald McDonald Care Mobile	-	20
Local Chapter support	4,548	3,392
	4,570	5,836
Subject to passage of time:		
For periods after December 31	2,954	607
Total net assets with donor restrictions	\$ 7,524	\$ 6,443

NOTE 8 - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

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, 2019 and 2018:

	2019	2018
	<i>(In Thousands)</i>	
Purpose restrictions accomplished:		
Ronald McDonald House	\$ 2,424	\$ 94,167
Ronald McDonald Care Mobile	40	20
Local Chapter support	2,516	370
	4,980	94,557
Time restrictions expired:		
Passage of specified time	361	735
Total restrictions released	\$ 5,341	\$ 95,292

NOTE 9 - DONATED GOODS AND SERVICES

RMHC received total donated goods and services of \$5,217,000 and \$5,832,000, for the years ended December 31, 2019 and 2018, respectively. Most of these donated goods and services are included in contribution revenue, with the rest included in special events revenue as they relate to specific events. Donated goods and services include support from McDonald's Corporation consisting of the free use of its facilities, equipment, materials, and employee services, which totaled \$4,924,000 and \$5,168,000, for the years ended December 31, 2019 and 2018, respectively.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 - RELATED PARTY TRANSACTIONS

RMHC provides ongoing program grants to all of its Chapters around the world. These program grants are pre-authorized by the board of RMHC for the benefit of all Chapters. The grants are available to all Chapters that meet the program parameters; as such, the individual grants do not require any additional board action. Grants totaling \$1,949,000 and \$4,731,000, during the years ended December 31, 2019 and 2018, respectively, were provided to Chapters where certain members of the RMHC board also serve as officers and/or directors of the Chapter.

NOTE 11 - CONCENTRATIONS

McDonald's Corporation provides support to RMHC through donated goods and services (see Note 9), direct contributions, and facilitation of fundraisers at its company-owned and franchised restaurants, of which the proceeds collected are remitted to RMHC. Contributions from these efforts totaled \$38,015,000 and \$38,413,000, during the years ended December 31, 2019 and 2018, respectively. This represents 64% and 25% of total revenues, of which \$7,721,000 and \$7,603,000 are included in contributions receivable as of December 31, 2019 and 2018, respectively.

During the year ended December 31, 2018, RMHC received contributions totaling \$100,000,000 from Abbvie, Inc., which represents 66% of total revenues. All funds were received as of December 31, 2018.

NOTE 12 - SUBSEQUENT EVENT DISCLOSURES

Management evaluated subsequent events through May 5, 2020, the date the financial statements were available to be issued.

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2020 operations and financial results, including the receipt of contributions and collections on outstanding pledges receivable. In addition, investment markets have experienced significant declines since December 31, 2019. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end are still developing.

RONALD MCDONALD HOUSE CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLE

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 14 - RECENT ACCOUNTING PRONOUNCEMENTS

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.

This information is an integral part of the accompanying financial statements.

