



Financial Statements  
December 31, 2017 and 2016

# Ronald McDonald House Charities, Upper Midwest

Ronald McDonald House Charities, Upper Midwest  
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December 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 cursive script that reads "Eide Bailly LLP".

Minneapolis, Minnesota  
May 15, 2018

Ronald McDonald House Charities, Upper Midwest  
Statements of Financial Position  
December 31, 2017 and 2016

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 2,091,839	\$ 1,445,901
Cash restricted to capital projects	10,111	10,111
Operating investments	492,391	499,837
Due from endowment	-	181,600
Accounts receivable, net	292,822	190,359
Promises to give	67,690	141,677
Promises to give, in-kind rent	798,800	1,080,826
Prepaid expenses and other assets	75,401	48,818
Cash surrender value of life insurance policies	129,751	117,209
Property and equipment, net	6,430,137	6,334,935
Endowment		
Due to operations	-	(181,600)
Investments	8,859,857	7,489,031
	<u>\$ 19,248,799</u>	<u>\$ 17,358,704</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 14,841	\$ 25,901
Payable to affiliate	18,731	31,169
Accrued expenses and other liabilities	162,202	142,042
Total liabilities	<u>195,774</u>	<u>199,112</u>
<b>Net Assets</b>		
Unrestricted		
Undesignated	195,774	199,112
Board-designated operating reserve	2,406,211	1,845,814
Board-designated endowment	1,898,749	1,686,107
Invested in property and equipment	6,430,137	6,334,935
	<u>10,930,871</u>	<u>10,065,968</u>
Temporarily restricted	4,619,857	3,651,986
Permanently restricted	3,502,297	3,441,638
Total net assets	<u>19,053,025</u>	<u>17,159,592</u>
	<u>\$ 19,248,799</u>	<u>\$ 17,358,704</u>

Ronald McDonald House Charities, Upper Midwest  
Statements of Activities  
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, Support, and Gains</b>				
Canister donations	\$ 645,080	\$ -	\$ -	\$ 645,080
Less unallocated payments to RMHC Global	(124,413)	-	-	(124,413)
Less canister collection expenses	(109,230)	-	-	(109,230)
Canister donations, net	411,437	-	-	411,437
Estates	52,000	-	-	52,000
Organizations, corporations, and foundations	1,507,016	355,675	-	1,862,691
Individuals	788,787	6,684	35,925	831,396
Grant revenue	94,000	-	-	94,000
In-kind contributions	1,093,777	-	-	1,093,777
Special events revenue	1,004,719	-	-	1,004,719
Less direct benefit costs	(258,569)	-	-	(258,569)
Special events revenue, net	746,150	-	-	746,150
House fee revenue	129,665	-	-	129,665
School reimbursement revenue	54,163	-	-	54,163
Net investment return	235,131	1,010,712	24,734	1,270,577
Pop tab income and other revenue	277,767	-	-	277,767
Net assets released from restrictions	405,200	(405,200)	-	-
Total revenue, support and gains	5,795,093	967,871	60,659	6,823,623
<b>Expenses and Losses</b>				
Operating expenses				
Program services	3,700,148	-	-	3,700,148
Fundraising	662,757	-	-	662,757
General and administrative	567,285	-	-	567,285
Total operating expenses	4,930,190	-	-	4,930,190
Change in Net Assets	864,903	967,871	60,659	1,893,433
Net Assets, Beginning of Year	10,065,968	3,651,986	3,441,638	17,159,592
Net Assets, End of Year	\$ 10,930,871	\$ 4,619,857	\$ 3,502,297	\$ 19,053,025

Ronald McDonald House Charities, Upper Midwest  
Statements of Activities  
Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenue, Support, and Gains</b>				
Canister donations	\$ 568,354	\$ -	\$ -	\$ 568,354
Less unallocated payments to RMHC Global	(117,946)	-	-	(117,946)
Less canister collection expenses	(101,723)	-	-	(101,723)
Canister donations, net	<u>348,685</u>	<u>-</u>	<u>-</u>	<u>348,685</u>
Estates	159,052	-	-	159,052
Organizations, corporations, and foundations	1,329,982	80,432	-	1,410,414
Individuals	648,074	-	54,660	702,734
Grant revenue	115,500	-	-	115,500
In-kind contributions	833,099	257,147	-	1,090,246
Special events revenue	813,086	-	-	813,086
Less direct benefit costs	(223,363)	-	-	(223,363)
Special events revenue, net	<u>589,723</u>	<u>-</u>	<u>-</u>	<u>589,723</u>
House fee revenue	141,212	-	-	141,212
School reimbursement revenue	35,529	-	-	35,529
Net investment return	181,921	557,143	40,994	780,058
Pop tab income and other revenue	23,803	-	-	23,803
Net assets released from restrictions	<u>576,075</u>	<u>(576,075)</u>	<u>-</u>	<u>-</u>
Total revenue, support and gains	<u>4,982,655</u>	<u>318,647</u>	<u>95,654</u>	<u>5,396,956</u>
<b>Expenses and Losses</b>				
Operating expenses				
Program services	3,253,011	-	-	3,253,011
Fundraising	587,433	-	-	587,433
General and administrative	429,897	-	-	429,897
Total operating expenses	<u>4,270,341</u>	<u>-</u>	<u>-</u>	<u>4,270,341</u>
Loss on disposal of assets	<u>256,252</u>	<u>-</u>	<u>-</u>	<u>256,252</u>
Total expenses and losses	<u>4,526,593</u>	<u>-</u>	<u>-</u>	<u>4,526,593</u>
Change in Net Assets	456,062	318,647	95,654	870,363
Net Assets, Beginning of Year	<u>9,609,906</u>	<u>3,333,339</u>	<u>3,345,984</u>	<u>16,289,229</u>
Net Assets, End of Year	<u>\$ 10,065,968</u>	<u>\$ 3,651,986</u>	<u>\$ 3,441,638</u>	<u>\$ 17,159,592</u>

	Program Services			Total Program
	Lodging and Other Subsidies	Family Services	Volunteer Services	
Expenses				
Salaries and benefits	\$ 1,074,139	\$ 84,882	\$ 225,748	\$ 1,384,769
Insurance expense	28,896	3,142	1,058	33,096
Supplies and food	1,070,606	759	619	1,071,984
Professional and consulting	19,293	-	148	19,441
Bank fees	-	-	-	-
Utilities	120,732	1,816	200	122,748
Postage and printing	2,209	2,719	5,370	10,298
Facilities expense	479,748	314	96	480,158
House operations	33,617	9,829	384	43,830
Event expense	1,655	507	-	2,162
Books and staff development	1,069	-	265	1,334
Donor directed gifts	-	-	-	-
Recognition expense	1,236	-	2,107	3,343
Marketing	-	-	-	-
Mileage	1,939	531	576	3,046
Computer - software	11,184	751	8,864	20,799
Special events	-	-	-	-
Investment management fees	-	-	-	-
Loss on disposal of fixed asset	4,437	-	-	4,437
Unallocated payments to RMHC Global	-	-	-	-
Canister collection expense	-	-	-	-
Depreciation	450,239	37,694	10,770	498,703
Total expenses by function	3,300,999	142,944	256,205	3,700,148
Less expenses included with revenues on the statement of activities				
Unallocated payments to RMHC Global	-	-	-	-
Canister collection expenses	-	-	-	-
Direct benefit costs to donors	-	-	-	-
Investment management fees	-	-	-	-
Total expenses included in the expense section on the statement of activities	\$ 3,300,999	\$ 142,944	\$ 256,205	\$ 3,700,148



Ronald McDonald House Charities, Upper Midwest  
 Statements of Functional Expenses  
 Year Ended December 31, 2017

<u>Fundraising</u>	<u>Administration</u>	<u>Total</u>
\$ 434,673	\$ 299,263	\$ 2,118,705
14,563	4,956	52,615
463	5,652	1,078,099
1,096	165,948	186,485
35,260	3,557	38,817
2,337	3,579	128,664
46,320	11,717	68,335
382	5,751	486,291
18,132	6,095	68,057
21	11	2,194
115	5,705	7,154
7,000	100	7,100
2,323	1,621	7,287
204	-	204
2,440	838	6,324
48,964	14,798	84,561
258,569	-	258,569
-	51,718	51,718
-	-	4,437
-	124,413	124,413
109,230	-	109,230
48,464	37,694	584,861
1,030,556	743,416	5,474,120
-	(124,413)	(124,413)
(109,230)	-	(109,230)
(258,569)	-	(258,569)
-	(51,718)	(51,718)
\$ 662,757	\$ 567,285	\$ 4,930,190

	Program Services				Total Program
	Lodging and Other Subsidies	Family Services	Volunteer Services	Outreach Program	
Expenses					
Salaries and benefits	\$ 1,029,616	\$ 213,457	\$ 157,870	\$ -	\$ 1,400,943
Insurance expense	32,658	4,323	2,186	-	39,167
Supplies and food	55,462	430,954	1,167	-	487,583
Professional and consulting	98,664	3,347	1,403	-	103,414
Bank fees	-	-	-	-	-
Utilities	112,421	22,320	200	-	134,941
Postage and printing	2,963	8,603	308	-	11,874
Facilities expense	396,224	891	26	-	397,141
House operations	46,150	85,638	279	-	132,067
Event expense	14,045	8,383	-	-	22,428
Store expense	-	397	-	-	397
Books and staff development	846	2,041	2,775	-	5,662
Grant awards	-	2,500	-	-	2,500
Donor directed gifts	389	-	-	-	389
Recognition expense	5	-	3,923	-	3,928
Marketing	458	-	-	-	458
Mileage	2,561	737	700	-	3,998
Computer - software	11,042	5,533	2,671	-	19,246
Special events	-	-	-	-	-
Investment management fees	-	-	-	-	-
Loss on inventory	-	1,743	-	-	1,743
Unallocated payments to RMHC Global	-	-	-	-	-
Canister collection expense	-	-	-	-	-
Depreciation	439,584	35,426	10,122	-	485,132
Total expenses by function	2,243,088	826,293	183,630	-	3,253,011
Less expenses included with revenues on the statement of activities					
Unallocated payments to RMHC Global	-	-	-	-	-
Canister collection expenses	-	-	-	-	-
Direct benefit costs to donors	-	-	-	-	-
Investment management fees	-	-	-	-	-
Total expenses included in the expense section on the statement of activities	\$ 2,243,088	\$ 826,293	\$ 183,630	\$ -	\$ 3,253,011

See Notes to Financial Statements

Ronald McDonald House Charities, Upper Midwest  
 Statements of Functional Expenses  
 Year Ended December 31, 2016

Fundraising	Administration	Total
\$ 423,208	\$ 245,264	\$ 2,069,415
9,764	4,045	52,976
544	1,134	489,261
1,625	115,673	220,712
20,058	3,918	23,976
6,847	5,628	147,416
38,058	8,860	58,792
-	632	397,773
2,691	577	135,335
4,298	16	26,742
-	-	397
1,217	2,353	9,232
-	-	2,500
-	-	389
1,850	-	5,778
13,959	-	14,417
2,649	877	7,524
15,118	5,494	39,858
223,363	-	223,363
-	35,381	35,381
-	-	1,743
-	117,946	117,946
101,723	-	101,723
45,547	35,426	566,105
912,519	583,224	4,748,754
-	(117,946)	(117,946)
(101,723)	-	(101,723)
(223,363)	-	(223,363)
-	(35,381)	(35,381)
\$ 587,433	\$ 429,897	\$ 4,270,341

Ronald McDonald House Charities, Upper Midwest

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,893,433	\$870,363
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	584,861	566,105
Realized and unrealized (gain) loss on operating investments	(759)	(7,942)
Loss on disposal of property and equipment	4,437	256,252
In-kind contributions - capital projects	(291,763)	(213,525)
Change in promises to give, in-kind rent	282,026	24,880
Contributions restricted to capital projects	-	(3,242)
Contributions restricted to endowment	(35,925)	(54,660)
Change in cash surrender value of life insurance policies	(12,542)	(6,485)
Endowment net investment return	(1,248,088)	(765,991)
Change in operating assets and liabilities		
Accounts receivable	(102,463)	(57,179)
Promises to give	73,987	(102,808)
Prepaid expenses and other assets	(26,583)	(13,992)
Accounts payable	(11,060)	(12,748)
Payable to affiliate	(12,438)	4,669
Accrued expenses and other liabilities	20,160	(5,728)
Net Cash from Operating Activities	<u>1,117,283</u>	<u>477,969</u>
Cash Flows from Investing Activities		
Purchase of operating investments	(37,121)	(480,006)
Proceeds from sales of operating investments	36,452	415,826
Purchase of property and equipment	(383,863)	(502,677)
Withdrawal from cash restricted to capital projects	-	220,734
Addition to endowment	(122,738)	(423,413)
Net Cash used for Investing Activities	<u>(507,270)</u>	<u>(769,536)</u>
Cash Flows from Financing Activities		
Collections of contributions restricted to capital projects	-	3,242
Collection of contributions restricted to endowment	35,925	54,660
Net Cash from Financing Activities	<u>35,925</u>	<u>57,902</u>
Net Change in Cash and Cash Equivalents	645,938	(233,665)
Cash and Cash Equivalents, Beginning of Year	<u>1,445,901</u>	<u>1,679,566</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,091,839</u>	<u>\$ 1,445,901</u>
Supplemental Disclosures of Cash Flow Information		
Stock donations	\$ 30,660	\$ 30,660

See Notes to Financial Statements

## Note 1 - Principal Activity and Significant Accounting Policies

### Organization

Ronald McDonald House Charities, Upper Midwest (RMHC, the Organization, or the House) is a nonprofit organization which owns and operates the Ronald McDonald House (RMH) of the Twin Cities that creates and supports programs that provide a supportive community for families with seriously ill children and which increase 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:

#### 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 subsidizes the cost of accommodating up to 48 families staying at the House each day who live farther than 60 miles from the Twin Cities. RMHC 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 60 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 Hospitals and Clinics, 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 Hospitals and Clinics, 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 evening activities, after school programs, and summer programs available for RMH residents. A full-time Minneapolis Public School's Alternative School is available for siblings and children who are patients while staying at RMH.

#### Volunteer Services

Many people volunteer time and services to help support RMH. The Cooks for Kids program provides evening meals for families at all three lodging facilities. Volunteers also work as House Volunteers, Friends of Families, Ambassadors, and in development projects to provide vital support for the RMH mission.

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 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 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 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, 2017 and 2016, the allowance was \$4,260 and 4,300, 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 uncollectible 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, 2017 and 2016, 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 temporarily restricted net asset at the lower of fair rental value of the property less the stated amount of the lease payments 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.

## 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 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 has determined that there were no indications of impairment during the years ended December 31, 2017 and 2016.

## 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-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets available for use in general operations. Unrestricted Board-designated net assets consist of net assets designated by the Board of Directors for operating reserve and quasi-endowment.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of RMHC and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by RMHC's Board of Directors.

RMHC reports contributions restricted by donors as increases in unrestricted net assets 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 temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of RMHC. The restrictions stipulate that resources be maintained permanently but permit RMHC to expend the income generated in accordance with the provisions of the agreements.

### **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.

For the year ended December 31, 2017 and 2016, canister donation revenue is recorded at gross revenue. Canister collection expenses of \$109,200 and \$101,700 and unallocated payments to RMHC Global of \$124,400 and \$117,900 are reported separately as a reduction of this revenue on the statement of activities. \$18,700 and \$31,200 was payable to RMHC Global as of December 31, 2017 and 2016, respectively. \$74,900 was receivable from RMHC Global as of December 31, 2017.

### **Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to RMHC'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. 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.

### **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.



## 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.

## Financial Instruments and Credit Risk

RMHC 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 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'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.

## Subsequent Events

The Organization has evaluated subsequent events through May 15, 2018, the date which the financial statements were issued.

## Note 2 - 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 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 develops inputs using the best information available in the circumstances.

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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's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of RMHC's investment assets are classified within Level 1 because they are comprised of money market funds, marketable equity securities, mutual funds, and real estate investment trusts with readily determinable fair values based on daily redemption values. RMHC 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, 2017:

	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				
Cash (at cost)	\$ 224,618	\$ -	\$ -	\$ 224,618
Corporate bonds	-	267,773	-	267,773
	<u>\$ 224,618</u>	<u>\$ 267,773</u>	<u>\$ -</u>	<u>\$ 492,391</u>
Endowment investments				
Money market (at cost)	\$ 376,380	\$ -	\$ -	\$ 376,380
Marketable equity securities	6,261,773	-	-	6,261,773
Mutual funds	2,221,704	-	-	2,221,704
	<u>\$ 8,859,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,859,857</u>

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The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at December 31, 2016:

	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				
Cash (at cost)	\$ 449,801	\$ -	\$ -	\$ 449,801
Corporate bonds	-	50,036	-	50,036
	<u>\$ 449,801</u>	<u>\$ 50,036</u>	<u>\$ -</u>	<u>\$ 499,837</u>
Endowment investments				
Money market (at cost)	\$ 320,447	\$ -	\$ -	\$ 320,447
Marketable equity securities	5,444,353	-	-	5,444,353
Mutual funds	1,086,091	-	-	1,086,091
Corporate bonds	-	638,140	-	638,140
	<u>\$ 6,850,891</u>	<u>\$ 638,140</u>	<u>\$ -</u>	<u>\$ 7,489,031</u>

**Note 3 - Net Investment Return**

Net investment return consists of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Operating investments		
Interest and dividends	\$ 21,730	\$ 6,125
Net realized and unrealized gain (loss)	759	7,942
	<u>22,489</u>	<u>14,067</u>
Endowment investments		
Interest and dividends	172,620	139,004
Net realized and unrealized gain (loss)	1,126,998	662,368
Less investment management fees	(51,530)	(35,381)
	<u>1,248,088</u>	<u>765,991</u>
	<u>\$ 1,270,577</u>	<u>\$ 780,058</u>

**Note 4 - Property and Equipment**

Property and equipment consists of the following at December 31, 2017 and 2016:

	2017	2016
Land	\$ 1,197,489	\$ 1,197,489
Buildings	11,672,446	11,056,316
Furniture and fixtures	1,603,996	1,583,464
Computers and software	271,490	271,490
Vehicles	57,180	53,282
	14,802,601	14,162,041
Less accumulated depreciation	(8,372,464)	(7,827,106)
	\$ 6,430,137	\$ 6,334,935

Depreciation expense totaled \$585,000 and \$566,000 for the years ended December 31, 2017 and 2016, 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 (RMH) within Children’s Hospital in Minneapolis, Minnesota. Under the terms of the agreement, RMHC and Children’s Hospital worked cooperatively to raise the funds required to operate the RMH during the first five-year term of the agreement. The agreement was extended for an additional five-year period, expiring in 2020. The RMH at Children’s Hospital opened in October 2010.

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 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 RMFR at Gillette Children’s Hospital opened during 2011.

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 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 is in place for a five-year period, expiring in 2020.

RMHC leases office equipment under operating leases expiring in January 2022. Total future payments under the equipment lease arrangement will be \$31,320. Rent expense for the 11 months ending December 31, 2017, under this lease was \$5,742. Similar equipment was leased under a previous lease arrangement in 2016 and those rent payments totaled \$7,600.

**Note 6 - Endowment**

RMHC’s endowment (the Endowment) consists of approximately 37 individual funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain unrestricted net assets 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’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, 2017 and 2016, there were no such donor stipulations. As a result of this interpretation, RMHC classifies as permanently restricted net assets (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 temporarily restricted net assets until those amounts are appropriated for expenditure by RMHC in a manner consistent with the standard of prudence prescribed by UPMIFA. RMHC 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

As of December 31, 2017 and 2016, RMHC had the following endowment net asset composition by type of fund:

December 31, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 3,190,398	\$ 3,502,297	\$ 6,692,695
Board-designated endowment funds	1,898,749	-	-	1,898,749
	<u>\$ 1,898,749</u>	<u>\$ 3,190,398</u>	<u>\$ 3,502,297</u>	<u>\$ 8,591,444</u>

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<u>December 31, 2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,179,686	\$ 3,441,638	\$ 5,621,324
Board-designated endowment funds	<u>1,686,107</u>	<u>-</u>	<u>-</u>	<u>1,686,107</u>
	<u>\$ 1,686,107</u>	<u>\$ 2,179,686</u>	<u>\$ 3,441,638</u>	<u>\$ 7,307,431</u>

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 to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2017 and 2016.

### Investment and Spending Policies

During the year ended December 31, 2015, the Board of Directors approved a new endowment spending policy for RMHC. The Board of Directors of RMHC 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.

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 unrestricted income, except to the extent the transfer represents funds with specific donor restrictions.

Changes in endowment net assets for the year ending December 31, 2017 and 2016, are as follows:

December 31, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,686,107	\$ 2,179,686	\$ 3,441,638	\$ 7,307,431
Investment return				
Investment income, net of fees	14,913	81,443	24,734	121,090
Net realized and unrealized gain (loss)	197,729	929,269	-	1,126,998
	<u>212,642</u>	<u>1,010,712</u>	<u>24,734</u>	<u>1,248,088</u>
Contributions	-	-	35,925	35,925
Endowment net assets, end of year	<u>\$ 1,898,749</u>	<u>\$ 3,190,398</u>	<u>\$ 3,502,297</u>	<u>\$ 8,591,444</u>

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December 31, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,150,000	\$ 1,622,543	\$ 3,345,984	\$ 6,118,527
Investment return				
Investment income, net of fees	22,735	39,894	40,994	103,623
Net realized and unrealized gain (loss)	145,119	517,249	-	662,368
	<u>167,854</u>	<u>557,143</u>	<u>40,994</u>	<u>765,991</u>
Contributions	-	-	54,660	54,660
Transfer from operations, net	<u>368,253</u>	<u>-</u>	<u>-</u>	<u>368,253</u>
Endowment net assets, end of year	<u>\$ 1,686,107</u>	<u>\$ 2,179,686</u>	<u>\$ 3,441,638</u>	<u>\$ 7,307,431</u>

**Note 7 - Restricted Net Assets**

Temporarily restricted net assets at December 31, 2017 and 2016, consist of:

	2017	2016
Restricted by donors for		
In-kind rent	\$ 798,800	\$ 1,080,824
Children's family room St. Paul	277,152	200,093
Event sponsorships	241,320	-
Children's HIH Minneapolis	23,163	87,504
Marketing projects	24,539	66,374
Room sponsorships	13,334	-
TC Gillette pantry	4,298	11,847
Capital projects	10,111	10,111
Appliances and linens	5,647	5,647
Food St. Paul sites	9,595	5,000
Oak grief services	3,000	3,000
Emergency fund	1,400	1,400
Children's HIH appliances	500	500
School/family services	16,600	-
Unspent appreciation of Endowment funds which must be appropriated for expenditure before use		
Available for general use	<u>3,190,398</u>	<u>2,179,686</u>
	<u>\$ 4,619,857</u>	<u>\$ 3,651,986</u>



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Net assets were released from restrictions as follows during the years ended December 31, 2017 and 2016:

	2017	2016
Satisfaction of purpose restrictions		
In-kind rent	\$ 282,026	\$ 282,026
Children's HIH Minneapolis	69,996	69,996
Marketing projects	41,835	-
TC Gillette pantry	7,713	-
Appliances and linens	-	1,448
Life insurance policy	3,630	-
Emergency fund	-	100
Capital projects	-	220,734
Tiles/donor recognition	-	1,000
School/family services	-	771
	\$ 405,200	\$ 576,075

RMHC classifies as permanently restricted net assets donor-restricted gifts at the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment by changes in the consumer price index as identified in the Endowment agreements. The permanently restricted net assets at December 31, 2017 and 2016, totaled \$3,502,297 and \$3,441,638, respectively.

**Note 8 - Donated Professional Services and Materials**

RMHC received donated professional services and materials as follows during the years ended December 31, 2017 and 2016:

	2017	2016
Rent	\$ -	\$ 257,147
Food donation	474,266	465,569
Renovation assets	291,763	213,525
Utilities	14,640	14,424
Guest supplies	120,608	82,280
Canister box	2,375	-
Entertainment tickets	103,606	-
Special events	16,560	-
House maintenance	-	2,025
Legal	11,289	-
Computer	2,500	2,377
Furniture	56,170	52,899
	\$ 1,093,777	\$ 1,090,246

Net assets released from restriction for in-kind rent for the years ended December 31, 2017 and 2016, was \$282,026 in each year.

Volunteers contributed approximately 62,000 and 56,000 hours of service to Ronald McDonald House Charities during the years ended December 31, 2017 and 2016, respectively.

**Note 9 - Special Events**

Net special event revenue consisted of the following for the years ended December 31, 2017 and 2016:

2017	Revenue	Contributions	Gross Special Event Revenue	Direct Expenses	Net Special Event Revenue
The Classic	\$ 25,450	\$ 148,606	\$ 174,056	\$ 41,716	\$ 132,340
Annual Gala	58,100	453,260	511,360	164,907	346,453
Brew Love	33,660	102,090	135,750	31,781	103,969
RBC Race	-	112,128	112,128	4,785	107,343
Skate with Greats	44,025	27,400	71,425	15,380	56,045
	<u>\$ 161,235</u>	<u>\$ 843,484</u>	<u>\$ 1,004,719</u>	<u>\$ 258,569</u>	<u>\$ 746,150</u>
2016					
The Classic	\$ 65,423	\$ 139,075	\$ 204,498	\$ 45,168	\$ 159,330
Annual Gala	118,312	373,870	492,182	154,336	337,846
Brew Love	40,129	76,277	116,406	23,859	92,547
	<u>\$ 223,864</u>	<u>\$ 589,222</u>	<u>\$ 813,086</u>	<u>\$ 223,363</u>	<u>\$ 589,723</u>

**Note 10 - Employee Benefits**

RMHC sponsors a 401(k) defined contribution retirement plan, which matches contributions at 50% of the first 6% of an employee's salary contributed to the plan. RMHC also contributes a discretionary amount allocated to participating employees employed at year end. Expenses under this plan were \$45,500 and \$46,000 for the years ended December 31, 2017 and 2016, respectively.