

Ronald McDonald House Charities Bay Area

Financial Statements

December 31, 2020
(With Comparative Totals for 2019)



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 21



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ronald McDonald House Charities Bay Area
Palo Alto, California

We have audited the accompanying financial statements of Ronald McDonald House Charities Bay Area (a California nonprofit corporation) (the "RMHCBA"), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities Bay Area as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



An independent firm
associated with Moore
Global Network Limited

Report on Summarized Comparative Information

We have previously audited Ronald McDonald House Charities Bay Area's 2019 financial statements, and our report dated June 25, 2020 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Armanino^{LLP}
San Jose, California

June 24, 2021

Ronald McDonald House Charities Bay Area
Statement of Financial Position
December 31, 2020
(With Comparative Totals for 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,273,987	\$ 3,267,029
Certificates of deposit	-	2,034,966
Contributions and other receivables, net	919,148	849,883
Prepaid expenses	88,380	82,767
Investments	664,855	1,579,372
Beneficial use of land	1,934,000	1,934,000
Total current assets	11,880,370	9,748,017
Property and equipment, net	38,484,996	40,017,307
Noncurrent assets		
Contributions and other receivables, net of discount and current portion	186,713	712,009
Investments, endowment	30,040,225	27,403,452
Beneficial use of land, net of current portion	19,547,134	19,753,594
Total noncurrent assets	49,774,072	47,869,055
Total assets	\$ 100,139,438	\$ 97,634,379
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 93,353	\$ 96,967
Accrued expenses	618,265	432,968
Notes payable, net	650,000	325,000
Loan payable - Paycheck Protection Program	609,843	-
Total current liabilities	1,971,461	854,935
Notes payable, net of discount and current portion	-	604,000
Total liabilities	1,971,461	1,458,935
Net assets		
Without donor restrictions	51,885,512	51,390,850
With donor restrictions	46,282,465	44,784,594
Total net assets	98,167,977	96,175,444
Total liabilities and net assets	\$ 100,139,438	\$ 97,634,379

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

Ronald McDonald House Charities Bay Area
Statement of Activities
For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenues, gains, and other support				
Contributions	\$ 4,442,563	\$ 365,000	\$ 4,807,563	\$ 3,807,591
Special events revenue, net	3,344	-	3,344	945,241
Donated goods and services	1,203,785	1,727,544	2,931,329	2,718,258
Room donations	56,220	-	56,220	88,215
Program services revenue	58,881	-	58,881	100,770
Other revenue	281,099	-	281,099	316,649
Net assets released from restriction	<u>3,764,289</u>	<u>(3,764,289)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>9,810,181</u>	<u>(1,671,745)</u>	<u>8,138,436</u>	<u>7,976,724</u>
Functional expenses				
Program services	8,252,251	-	8,252,251	8,383,565
Management and administrative	603,017	-	603,017	542,184
Fundraising	<u>1,304,144</u>	<u>-</u>	<u>1,304,144</u>	<u>1,506,972</u>
Total functional expenses	<u>10,159,412</u>	<u>-</u>	<u>10,159,412</u>	<u>10,432,721</u>
Change in net assets from operations	(349,231)	(1,671,745)	(2,020,976)	(2,455,997)
Net investment income	<u>843,893</u>	<u>3,169,616</u>	<u>4,013,509</u>	<u>4,805,631</u>
Change in net assets	494,662	1,497,871	1,992,533	2,349,634
Net assets, beginning of year	<u>51,390,850</u>	<u>44,784,594</u>	<u>96,175,444</u>	<u>93,825,810</u>
Net assets, end of year	<u>\$ 51,885,512</u>	<u>\$ 46,282,465</u>	<u>\$ 98,167,977</u>	<u>\$ 96,175,444</u>

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

Ronald McDonald House Charities Bay Area
Statement of Functional Expenses
For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

	Ronald McDonald Houses	Ronald McDonald Care Mobile	Total Program Services	Management and Administrative	Fundraising	2020 Total	2019 Total
Personnel costs							
Salaries	\$ 1,891,961	\$ -	\$ 1,891,961	\$ 282,382	\$ 649,479	\$ 2,823,822	\$ 2,879,999
Payroll taxes	151,301	-	151,301	22,582	51,939	225,822	238,861
Employee benefits	350,415	-	350,415	52,301	120,292	523,008	567,634
Total personnel costs	<u>2,393,677</u>	<u>-</u>	<u>2,393,677</u>	<u>357,265</u>	<u>821,710</u>	<u>3,572,652</u>	<u>3,686,494</u>
Advertising	25,365	-	25,365	3,737	8,595	37,697	63,996
Automobile	8,525	-	8,525	-	-	8,525	3,898
Cleaning service	17,906	-	17,906	369	185	18,460	78,462
Depreciation	1,579,009	-	1,579,009	32,557	16,278	1,627,844	1,620,663
Donor acquisition	-	-	-	-	65,598	65,598	48,206
Donor recognition	-	-	-	-	67,376	67,376	140,257
Donor special events	-	-	-	-	1,328	1,328	114,178
Grants	-	108,944	108,944	-	-	108,944	80,000
House supplies - other	1,129,800	-	1,129,800	185	341	1,130,326	879,179
Insurance	67,666	-	67,666	1,395	698	69,759	61,671
Interest expense	44,620	-	44,620	3,916	460	48,996	27,433
Linens and laundry	21,285	-	21,285	-	-	21,285	70,447
Meetings and trainings	15,253	-	15,253	2,578	3,530	21,361	56,275
Office supplies	4,840	-	4,840	702	1,614	7,156	10,415
Outside contractors	77,367	-	77,367	20,551	57,554	155,472	89,806
Postage	1,490	-	1,490	1,812	2,002	5,304	4,547
Professional fees	14,598	-	14,598	59,436	7,449	81,483	124,130
Printing	273	-	273	-	-	273	359
Rent, imputed	2,166,984	-	2,166,984	44,680	22,340	2,234,004	2,318,000
Technology	63,320	-	63,320	34,541	177,426	275,287	195,501
Repairs and maintenance	127,727	-	127,727	3,634	1,317	132,678	170,265
Telephone	53,966	-	53,966	1,136	560	55,662	36,085
Travel, meals and entertainment	17,468	-	17,468	9,855	5,996	33,319	32,553
Utilities	216,561	-	216,561	4,465	2,233	223,259	248,563
Volunteer	222	-	222	-	-	222	3,411
Other	95,385	-	95,385	20,203	39,554	155,142	267,927
	<u>\$ 8,143,307</u>	<u>\$ 108,944</u>	<u>\$ 8,252,251</u>	<u>\$ 603,017</u>	<u>\$ 1,304,144</u>	<u>\$ 10,159,412</u>	<u>\$ 10,432,721</u>

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

Ronald McDonald House Charities Bay Area
Statement of Cash Flows
For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 1,992,533	\$ 2,349,634
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	1,627,844	1,620,663
Realized and unrealized gain on investments	(3,573,524)	(4,120,227)
Bad debt expense, net of recovery of bad debt	566,960	-
Amortization of discount on notes payable	46,000	16,000
Changes in operating assets and liabilities		
Contributions and other receivables, net	(150,004)	(626,297)
Prepaid expenses	(5,614)	110,732
Beneficial use of land	206,460	190,631
Accounts payable	(3,613)	26,876
Accrued expenses	185,297	(117,422)
Net cash provided by (used in) operating activities	892,339	(549,410)
Cash flows from investing activities		
Purchases of short-term certificates of deposit	-	(2,034,966)
Proceeds from maturity of short-term certificates of deposit	2,034,966	-
Purchases of investments	(7,635,524)	(8,518,815)
Proceeds from the sale of investments	9,486,794	8,917,151
Purchases of property and equipment	(95,535)	(151,404)
Net cash provided by (used in) investing activities	3,790,701	(1,788,034)
Cash flows from financing activities		
Capital campaign contributions	39,075	534,133
Proceeds from loan payable - Paycheck Protection Program	609,843	-
Principal payments on notes payable	(325,000)	(505,000)
Net cash provided by financing activities	323,918	29,133
Net increase (decrease) in cash and cash equivalents	5,006,958	(2,308,311)
Cash and cash equivalents, beginning of year	3,267,029	5,575,340
Cash and cash equivalents, end of year	\$ 8,273,987	\$ 3,267,029

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 2,996	\$ 12,275
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Supplemental schedule of noncash investing and financing activities

Donated securities fulfilling capital campaign pledges	\$ -	\$ 213,604
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The accompanying notes are an integral part of these financial statements.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

1. NATURE OF OPERATIONS

On January 1, 2018, the three local entities, Ronald McDonald House at Stanford, Ronald McDonald House of San Francisco and Ronald McDonald House Charities of the Bay Area, Inc. merged into one organization to better support families with children receiving essential pediatric care at partner hospitals. As part of this merger, the Board of Directors ("Board") amended the articles of incorporation, changing the name of the newly formed entity to Ronald McDonald House Charities Bay Area ("RMHCBA").

The mission of the RMHCBA is to provide critically ill children with communities of support, access to medical care, and the healing power of family and home during medical crisis. RMHCBA programs aim to reduce the burden of families accessing critical pediatric care in the Bay Area by providing wraparound services that strengthen the family support systems sick children rely on. Services include providing housing near our partner hospitals, daily meals, and psychosocial support services. RMHCBA serves an often invisible population of at-risk children and caregivers who require basic needs support and specialized family-centered services to access treatments at our partner hospitals and cope with serious medical crises, such as solid organ transplants, cancer treatments, and other life-threatening or life-limiting disorders. The coronavirus ("COVID-19") pandemic exacerbated challenges and expenses faced by families accessing care for their children in 2020, such as barriers to food access, and financial stressors. Socioeconomic risks during a child's medical crisis are magnified for the 50% of our families who are low-income, earning less than \$47,000 annually, as well as for the 36% of Latinx families we serve who speak primarily Spanish and experienced widely reported health disparities related to COVID-19 in 2020. The following programs represent the core functions of RMHCBA:

Family housing near partner hospitals

To enable access to the Bay Area's leading children's hospitals, RMHCBA's Ronald McDonald House programs ("RMH") offer short and long-term lodging, daily meal support, psychosocial support services, recreational and wellness activities and educational programming for siblings and patients. Our programs include the 123-bedroom Ronald McDonald House at Stanford ("RMH Stanford"), located near Lucile Packard Children's Hospital and an 11-bedroom Ronald McDonald House of San Francisco ("RMHSF") uniquely located inside UCSF Benioff Children's Hospital San Francisco ("UCSF"). Additionally, RMHCBA offers alternative family stays thanks to housing partnerships with Apartment List, Veritas, and Airbnb that keep families close to medical care across the Bay Area.

In 2020, we provided 2,100 nights of housing to families. Our primary target population for housing services is families who must travel long distances (50 miles or more) to access critical pediatric care, as well as any family, regardless of distance, whose child is awaiting heart, lung, liver, kidney, stem cell, or bone marrow transplants. We also serve families from medically underserved communities across the United States who need advanced, highly specialized levels of medicine that are not widely accessed in their home communities.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

1. NATURE OF OPERATIONS (continued)

Meal support

The aim of RMHCBA's meal program for families with children at our partner hospitals is to alleviate food insecurity for families with sick children, as food access and race- and income-based health disparities are inextricably linked. With the significant role children's hospitals play in caring for low-income children, families often do not have the time or resources to access food during their children's prolonged hospital stays. Due to the COVID-19 pandemic, many families in 2020 struggled with mounting medical expenses, lost wages, their children's care, crowded homes, multiple siblings to care for, and structural barriers to food security programs that were overwhelmed by need. In 2020, RMHCBA partnered with local food banks and mobilized community members and food providers to combat food insecurity at partner hospitals by distributing more than 94,000 pounds of food and 73,000 meals to families in Oakland, San Francisco, and Stanford—just steps away from their child's care.

Psychosocial support and other programs

Our innovative Family Support Services ("FSS") provides therapeutic support to families, connecting parents and children to supportive resources and helping them develop positive coping and communication skills through: new family welcome meetings; private individual and group support sessions; developmentally-appropriate Fun Club activities for patients, siblings and caregivers; parent workshops; and peer-to-peer community-building events. FSS also provides staff and volunteer trainings to improve overall service delivery. Our grief and loss program provides support for families who lose a child for up to two years after they return home to their communities. In 2020, RMHCBA adopted telehealth and online therapeutic support technologies to continue providing psychosocial support to families through the COVID-19 pandemic.

In partnership with Packard Children's Hospital and Palo Alto Unified School District, RMHCBA operates a credentialed K-12 Ronald McDonald House School for patients who are unable to attend other schools locally during their prolonged treatments, such as awaiting solid organ transplants or undergoing specialized dialysis. Through COVID-19, our school teacher, art instructor, and drama teacher provided instruction and activities virtually as well as socially distanced one-on-one sessions, in both English and Spanish. In 2020, we enrolled 106 students.

In a typical year, the Day Pass Program runs daily from 9am-9pm at RMH Stanford and 24-hours per day at RMHSF, allowing the families to enjoy the comfort and amenities of RMH, including the community kitchen, age-appropriate activity rooms, free laundry facilities, showers, restorative family activities, free meals and food pantry, and more. We served approximately 33,000 individuals in 2019, however, to protect medically fragile children and families from COVID-19 exposure, the Day Pass Program at both locations was suspended in 2020.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

1. NATURE OF OPERATIONS (continued)

Psychosocial support and other programs (continued)

Our volunteer-run Happy Wheels hospitality carts bring comfort and care directly to families' bedside, circulating partner hospitals through the common areas and on some units serving patients, siblings and family members on morning and evening shifts during the week. Happy Wheels provides hot beverages, snack service, and hygiene kits while keeping children entertained with books, fun activities and toys. In 2019, we served more than 10,000 individuals, however, due to COVID-19 restrictions at hospitals, Happy Wheels carts were suspended in 2020.

Ronald McDonald Care Mobile

The Ronald McDonald Care Mobile ("RMCM") program provides oral health services to low-income children who would otherwise go without care. Through partnerships with local healthcare organizations, our RMCM programs in the South and East Bay Area are bringing essential oral health care services and education directly to those in need so that children facing socioeconomic and cultural barriers to care can receive high quality convenient dental services and education. Each partner plays a critical role in providing RMCM services. The RMHCBA supports this program through annual operating grants and providing the mobile clinic facility. Clinical partners and health care organizations provide dental screenings and services, patient registration, assistance with benefit enrollment, and assistance identifying and establishing a connection to a dental and medical home for the child and the family. Health care partners also manage the mobile clinic and program coordination.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements 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 by donor-imposed restrictions on their use or inherent time restrictions. 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.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Donor-restricted contributions where restrictions are met in the same reporting period in which they are contributed are reported as net assets without donor restrictions.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of short-term, highly liquid investments with original maturity dates of three months or less and exclude cash held in managed investment accounts or certificates of deposit.

Contributions and other receivables

Unconditional promises to give are recorded at their net realizable value. If such promises to give are due in more than one year, they are discounted to the present value of their estimated future cash flows using a discount rate commensurate with the risks involved. Reserves for potential uncollectible contributions receivable are maintained based on historical credit losses and management's expectations.

Beneficial use of land

The RMH Stanford and its facilities are located on a leased parcel of land for which the rental payments are below market rates (see Note 4). The arrangement was recognized as a contribution at inception, and the difference between fair rental value and the stated lease payments is recognized as a lease contribution receivable and is included in beneficial use of land on the statement of financial position. The receivable has been discounted to its net present value and is amortized to in-kind rent expense. The discount is amortized to donated goods and services revenue over the term of the lease.

Investments

Investments consist of money market funds, marketable equity securities and debt securities and are stated at fair values using quoted market prices. Unrealized and realized gains and losses include investment management fees and are reflected as net investment income (loss) on the statement of activities.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the RMHCBA uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. Observable inputs are inputs market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the RMHCBA. Unobservable inputs are inputs that reflect the RMHCBA's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of financial instruments:

- *Level 1* - Investments include quoted prices (unadjusted) in active markets for identical investments RMHCBA has the ability to access at the measurement date.
- *Level 2* - Investments include other significant observable inputs (including quoted prices for similar instruments, interest rates, prepayment terms, credit risk, etc.).
- *Level 3* - Investments include significant unobservable inputs (including RMHCBA's own assumptions in determining fair value instruments).

The category within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Property and equipment

Property and equipment are recorded at cost, if purchased, and at estimated fair value, if donated, provided there is an objective basis for determining the value. Depreciation is calculated on the straight-line basis using an estimated useful life of 5 to 7 years for furniture and equipment and 30 and 32 years for the renovated and new buildings, respectively.

Expenditures for major renewals and betterments are capitalized, while expenditures for maintenance and repairs, which do not improve assets or extend their useful lives, are expensed as incurred. When property is retired, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets' carrying value is adjusted to fair value.

Contributions and revenue

Contributions, including unconditional promises to give, are recognized as revenues, at fair value, in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is, when the barrier for which they depend is achieved and the right of return or release has been overcome. Special event revenue is recognized when the event is held. Goods and services donated for the special events are recognized as in-kind revenue and expense at their estimated fair value on the date donated.

Donated stock, materials and equipment are recorded as contributions at their estimated fair value on the date of receipt. Such donations are reported as without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Absent explicit donor stipulations about how long those long-lived assets must be maintained, RMHCBA reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

RMHCBA is the beneficiary under various wills and trust agreements. Such amounts are recognized in the RMHCBA's financial statements as bequests receivable and planned gifts when they become unconditional, clear title is established, and the proceeds are measurable. As of December 31, 2020, no bequests receivable are outstanding.

Donated goods and services

Donated goods and services are reflected at the fair value of the contribution received. The contributions of goods and services are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Volunteer services

For the year ended December 31, 2020, RMHCBA benefited from approximately 2,900 hours of volunteer assistance. The value of this contributed time is not reflected in these financial statements because the criteria for recognition have not been met.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expense allocation

Costs of providing RMHCBA's programs and other activities have been allocated between program services, management and administrative, and fundraising functional expenses based upon employees' time spent in each function and an allocation based upon square footage of facilities used.

Income tax status

RMHCBA has been granted tax-exempt status under Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code. In addition, RMHCBA has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. However, RMHCBA is subject to taxes on income, if any, that is unrelated to its exempt purpose. RMHCBA evaluated its current tax positions and has concluded that as of December 31, 2020, RMHCBA does not have any significant uncertain tax positions for which a reserve would be necessary.

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with RMHCBA's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

3. CONTRIBUTIONS AND OTHER RECEIVABLES, NET

Contributions and other receivables, net consist of the following at December 31, 2020:

Capital campaign	\$ 803,000	
General purposes	1,089,357	
	1,892,357	
Allowance for uncollectible receivables	(779,289)	
Discount to net present value	(7,207)	
	\$ 1,105,861	

Contributions and other receivables are anticipated to be collected as follows:

Within 1 year	\$ 919,148	
From 1 to 5 years	186,713	
	\$ 1,105,861	

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

4. BENEFICIAL USE OF LAND

The RMH Stanford is located on a leased parcel of land in Palo Alto, California. The terms of the lease require an annual rental payment of \$1.00 through the year 2048. In 2014, RMHCBA recognized as revenue and a related asset the difference between the fair rental value of the property and the present value of the stated amount of the lease payment at the date of contribution.

Beneficial use of land consisted of the following:

Beneficial use of land	\$ 53,271,986
Less: discount to net present value	<u>(31,790,852)</u>
	21,481,134
Less: current portion	<u>(1,934,000)</u>
	<u>\$ 19,547,134</u>

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, RMHCBA's assets at fair value as of December 31, 2020:

	Level 1	Level 2	Level 3	Fair Value
Money market funds	\$ 764,555	\$ -	\$ -	\$ 764,555
Debt securities	9,568,379	-	-	9,568,379
Equity securities	<u>20,372,146</u>	-	-	<u>20,372,146</u>
	<u>\$ 30,705,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,705,080</u>

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Non-depreciable assets	
Artwork and other	<u>\$ 169,935</u>
Depreciable assets	
Building	50,807,598
Furniture and equipment	<u>953,500</u>
	<u>51,761,098</u>
Accumulated depreciation	<u>(13,446,037)</u>
	<u>\$ 38,484,996</u>

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

6. PROPERTY AND EQUIPMENT, NET (continued)

Depreciation expense totaled \$1,627,844 for the year ended December 31, 2020.

7. NOTES PAYABLE

In 2015, RMH Stanford, prior to its name change to RMHCBA, entered into a credit agreement with the David and Lucile Packard Foundation (the "Credit Agreement"). The Credit Agreement provides for a term loan of up to \$10,000,000 to be used to bridge-finance pledge commitments to pay costs for constructing the 3-story, 52,000 square foot facility. Borrowings bear interest at one percent (1%) per year. In 2015, a fair market interest rate of 3.5% was used to impute discounted interest and recognize a \$277,000 contribution and resulting debt discount. The discount is being amortized to interest expense over the term of the note. During 2015, RMH Stanford was advanced a total of \$8,410,000. Principal payments were scheduled based on the pledge commitments secured with principal and interest due on November 1 and May 1 of each year. All unpaid accrued interest and principal was due on or before November 1, 2020, upon which all amounts outstanding were repaid. At December 31, 2020, there is no outstanding balance on this term loan.

In 2016, RMH Stanford entered into a second credit agreement with the David and Lucile Packard Foundation (the "Second Credit Agreement"). The Second Credit Agreement provides for a term loan of up to \$5,310,000 to be used to bridge-finance pledge commitments to pay costs for renovating and expanding RMH Stanford's existing facility. Borrowings bear interest at one percent (1%) per year. In 2017, a fair market interest rate of 3.5% was used to impute discounted interest and recognize an \$81,000 contribution and resulting debt discount. The discount is being amortized to interest expense over the term of the note. During 2017, RMH Stanford was advanced a total of \$1,245,000. Principal payments were scheduled based on the pledge commitments secured with principal and interest due on November 1 and May 1 of each year. All unpaid accrued interest and principal are due on or before January 31, 2022. During 2020, RMHCBA repaid \$125,000 of the funds previously advanced. At December 31, 2020, the outstanding balance on this term loan is \$650,000, and is scheduled to be repaid in 2021.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

8. LOAN PAYABLE - PAYCHECK PROTECTION PROGRAM

On May 5, 2020, the RMHCBA received loan proceeds of \$609,843 from a promissory note issued by Union Bank under the Paycheck Protection Program ("PPP"), which was established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and is administered by the U.S. Small Business Administration ("SBA"). The loan accrues interest at a rate of 1% and has an original maturity date of two years, which can be extended to five years by mutual agreement between both parties. Payments of principal and interest are deferred for the first ten months of the loan, or indefinitely upon applying for forgiveness and awaiting approval. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under the PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses, and the maintenance of workforce and compensation levels with certain limitations. The RMHCBA believes it will likely qualify for full forgiveness, but there is uncertainty around the standards and operation of the PPP, and no assurance is provided the RMHCBA will obtain forgiveness in whole or in part. The outstanding balance on the PPP loan at December 31, 2020 was \$609,843, and is included as a loan payable on the statement of financial position. Funds will be recognized as income upon notification of formal forgiveness from the SBA.

9. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions include the following Board-designations:

General endowment fund (Note 11)	<u>\$ 6,041,099</u>
	<u>\$ 6,041,099</u>

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following:

Beneficial use of land, net	\$ 21,481,134
Time or purpose restrictions	802,205
Subject to RMHCBA's spending policy and appropriation:	
Amounts required to be maintained in perpetuity	9,803,366
Unexpended endowment earnings	<u>14,195,760</u>
	<u>\$ 46,282,465</u>

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

10. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions released during the year were as follows:

Beneficial use of land, net	\$ 1,934,000
Purpose restrictions	183,165
Capital campaign	756,124
Appropriation of endowment earnings	<u>891,000</u>
	<u>\$ 3,764,289</u>

11. ENDOWMENT

RMHCBA's endowment consists of four individual funds established by donors to provide annual funding for general operations.

Interpretation of relevant law

The Board has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair market value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, RMHCBA 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 UPMIFA, the RMHCBA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (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 investment policies of the organization

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

11. ENDOWMENT (continued)

Return objectives and risk parameters

RMHCBA has adopted investment and spending policies for endowment assets with the philosophy that RMHCBA is to exist in perpetuity, and therefore, should provide for spending in perpetuity. To attain this goal, the overriding objective of RMHCBA is to maintain purchasing power while preserving the endowment corpus. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to grow the aggregate portfolio value at the rate of the Bay Area Consumer Price Index plus 4.5% over RMHCBA's investment horizon while assuming a moderate level of investment risk. RMHCBA expects its endowment funds, over time, to provide an average rate of return of approximately 7.5% annually. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, RMHCBA relies on a total return strategy in which investment returns are achieved through both capital and appreciation (realized and unrealized) and current yield (interest and dividends).

Spending policy and how the investment objectives relate to the spending policy

RMHCBA has a policy that provides the Board the discretion to spend up to 4.5% of the three year rolling average of the actual fund's value. In establishing this policy, RMHCBA considered the long-term expected return on its endowment. Accordingly, over the long term, RMHCBA expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment returns. Additionally, the Board also considers the guidance of UPMIFA in determining the annual spending allocation which provides a prudent spending allocation of up to 7% of the prior three year average. During 2020, the Board appropriated \$1,039,000, representing 4.5% of the prior three year average, for expenditure on operations.

Endowment composition

Endowment net asset composition by type of fund as of December 31, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 6,041,099	\$ -	\$ 6,041,099
Donor-restricted endowment funds	<u>-</u>	<u>23,999,126</u>	<u>23,999,126</u>
	<u>\$ 6,041,099</u>	<u>\$ 23,999,126</u>	<u>\$ 30,040,225</u>

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

11. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the year ended December 31, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2019	\$ 5,682,942	\$ 21,720,510	\$ 27,403,452
Investment return			
Investment income	68,529	472,783	541,312
Net realized/unrealized gain on investment	<u>437,628</u>	<u>2,696,833</u>	<u>3,134,461</u>
Total investment return	506,157	3,169,616	3,675,773
Amounts appropriated for expenditure	<u>(148,000)</u>	<u>(891,000)</u>	<u>(1,039,000)</u>
	<u>358,157</u>	<u>2,278,616</u>	<u>2,636,773</u>
Balance, December 31, 2020	<u>\$ 6,041,099</u>	<u>\$ 23,999,126</u>	<u>\$ 30,040,225</u>

12. RETIREMENT PLAN

RMHCBA maintains a tax deferred 403(b) plan for all eligible employees. After 12 months of service, RMHCBA generally contributes 5% of eligible full time employees' compensation beginning with their respective plan entry date. RMHCBA made contributions of \$111,769 to the plan for the year ended December 31, 2020. RMHCBA paid \$4,215 for the plan's administration costs during the year ended December 31, 2020.

13. CONCENTRATIONS OF RISK

RMHCBA has defined its financial instruments which are potentially subject to credit risk as cash, receivables, and investments.

At December 31, 2020, RMHCBA had cash deposits in excess of federally insured limits. RMHCBA attempts to limit its credit risk associated with cash equivalents and marketable securities by utilizing outside advisors and managers to place its investments with highly rated corporate and financial institutions. Investments are subject to a formal investment policy.

The majority of RMHCBA's revenue is derived from public and private donations, along with several fundraising events scheduled throughout the year. The success of these events could vary from year to year. Contributions and other receivables are due from various individuals which mitigate the risk associated therein.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

13. CONCENTRATIONS OF RISK (continued)

RMHCBA had two donors that accounted for approximately 40% of the contributions and other receivables balance as of December 31, 2020.

14. RELATED PARTY TRANSACTIONS

Approximately \$118,000 of net contributions and other receivables are due from Board members and staff at December 31, 2020. RMHCBA received approximately \$396,000 in donations from Board members and staff in 2020.

15. DONATED GOODS AND SERVICES

Donated goods and services consisted of the following:

Beneficial use of land, Stanford	\$ 1,727,544
Rent, San Francisco	300,000
Cleaning services and supplies	608,241
Toys, games and family events	164,478
Professional services and other	<u>131,066</u>
	<u><u>\$ 2,931,329</u></u>

16. COMMITMENTS

RMHCBA leases its facility in the Mission Bay district of San Francisco, California under an operating lease with The Regents of the University of California, on behalf of UCSF through February 2020. The lease agreement was extended upon expiration, with the lease continuing on an annual basis in one year terms, unless otherwise terminated. The lease agreement provides for RMHCBA to pay an annual lease payment of \$1.00. Accordingly, RMHCBA reports the fair market value of the rent as a donation to match with the expense on an annual ongoing basis. The difference between the fair market value of the rent and actual rent paid is recorded as a contribution received and rent expense. For the year ended December 31, 2020, the value of the donated rent was approximately \$300,000 (Note 15).

17. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. In response, the U.S. Government enacted the CARES Act, which includes significant provisions to provide relief and assistance to affected organizations (Note 8).

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2020

17. RISKS AND UNCERTAINTIES (continued)

Specific to RMHCBA, COVID-19 may impact various parts of its 2021 operations and financial results. In addition, investment markets may continue to experience significant fluctuations. Management believes RMHCBA 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 are still developing.

18. LIQUIDITY AND FUNDS AVAILABLE

RMHCBA has financial assets available to meet cash needs for general expenditures within one year of the statement of financial position date, which are comprised of \$8,273,987 of cash, \$664,855 of investments and \$537,489 of receivables. Investments held have no redemption restrictions and may be liquidated as needed. None of these available financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

As part of its liquidity management, RMHCBA maintains financial assets 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.

RMHCBA's endowment funds consist of donor-restricted and Board-designated endowment funds. Income from donor-restricted endowment funds is restricted for specific purposes and, therefore, not available for general expenditure. RMHCBA has Board-designated endowment funds of \$6,041,099 at December 31, 2020. Although RMHCBA does not intend to spend from its Board-designated endowment funds other than the amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its Board-designated endowment could be made available, if necessary.

In addition, as discussed in Note 7, RMHCBA holds a balance outstanding on notes payable for which principal payments are scheduled based on the timing of donor pledge payments.

19. SUBSEQUENT EVENTS

RMHCBA evaluated subsequent events through June 24, 2021, the date these financial statements were available to be issued.

On March 2, 2021, the RMHCBA received additional loan proceeds of \$609,415 from a promissory note issued by Itria Ventures LLC under the PPP (Note 8). The term of the note is five years and the annual interest rate is 1.00%. The RMHCBA may apply for forgiveness under similar conditions as discussed in Note 8.