

Ronald McDonald House Charities Bay Area

Financial Statements

December 31, 2019
(With Comparative Totals for 2018)



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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, 2019, 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, 2019, 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.

Emphasis of Matter

As discussed in Note 17 to the financial statements, on March 11, 2020, the World Health Organization declared the outbreak of the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Ronald McDonald House Charities Bay Area's 2018 financial statements, and our report dated July 22, 2019 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

June 25, 2020

Ronald McDonald House Charities Bay Area
Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,267,029	\$ 5,575,340
Certificates of deposit	2,034,966	-
Contributions and other receivables, net	849,883	834,673
Prepaid expenses	82,767	193,499
Investments	1,579,372	6,479,795
Beneficial use of land	1,934,000	1,934,000
Total current assets	9,748,017	15,017,307
Property and equipment, net	40,017,307	41,486,566
Noncurrent assets		
Contributions and other receivables, net of discount and current portion	712,009	635,055
Investments, endowment	27,403,452	18,781,138
Beneficial use of land, net of current portion	19,753,594	19,944,225
Total noncurrent assets	47,869,055	39,360,418
Total assets	\$ 97,634,379	\$ 95,864,291
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 96,967	\$ 70,091
Accrued expenses	432,968	550,390
Notes payable, net of discount	325,000	505,000
Total current liabilities	854,935	1,125,481
Notes payable, net of discount and current portion	604,000	913,000
Total liabilities	1,458,935	2,038,481
Net assets		
Without donor restrictions	51,390,850	51,863,800
With donor restrictions	44,784,594	41,962,010
Total net assets	96,175,444	93,825,810
Total liabilities and net assets	\$ 97,634,379	\$ 95,864,291

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, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenues, gains, and other support				
Contributions	\$ 3,334,367	\$ 473,224	\$ 3,807,591	\$ 5,144,694
Special events revenue, net	945,241	-	945,241	1,333,798
Donated goods and services	974,886	1,743,372	2,718,258	2,954,604
Room donations	88,215	-	88,215	108,240
Program services revenue	100,770	-	100,770	264,630
Other revenue	316,649	-	316,649	308,278
Inherent contributions from acquisitions	-	-	-	5,217,527
Net assets released from restriction	<u>3,098,384</u>	<u>(3,098,384)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>8,858,512</u>	<u>(881,788)</u>	<u>7,976,724</u>	<u>15,331,771</u>
Functional expenses				
Program services	8,383,565	-	8,383,565	8,773,500
Management and administrative	542,184	-	542,184	427,907
Fundraising	<u>1,506,972</u>	<u>-</u>	<u>1,506,972</u>	<u>1,399,214</u>
Total functional expenses	<u>10,432,721</u>	<u>-</u>	<u>10,432,721</u>	<u>10,600,621</u>
Change in net assets from operations	(1,574,209)	(881,788)	(2,455,997)	4,731,150
Net investment income (loss)	<u>1,101,259</u>	<u>3,704,372</u>	<u>4,805,631</u>	<u>(1,740,375)</u>
Change in net assets	(472,950)	2,822,584	2,349,634	2,990,775
Net assets, beginning of year	<u>51,863,800</u>	<u>41,962,010</u>	<u>93,825,810</u>	<u>90,835,035</u>
Net assets, end of year	<u>\$ 51,390,850</u>	<u>\$ 44,784,594</u>	<u>\$ 96,175,444</u>	<u>\$ 93,825,810</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, 2019
(With Comparative Totals for 2018)

	Ronald McDonald Houses	Ronald McDonald Care Mobile	Total Program Services	Management and Administrative	Fundraising	2019 Total	2018 Total
Personnel costs							
Salaries	\$ 1,929,599	\$ -	\$ 1,929,599	\$ 288,000	\$ 662,400	\$ 2,879,999	\$ 2,874,711
Payroll taxes	160,037	-	160,037	23,886	54,938	238,861	249,990
Employee benefits	380,314	-	380,314	56,763	130,557	567,634	494,381
Total personnel costs	<u>2,469,950</u>	<u>-</u>	<u>2,469,950</u>	<u>368,649</u>	<u>847,895</u>	<u>3,686,494</u>	<u>3,619,082</u>
Advertising	42,079	-	42,079	4,917	17,000	63,996	52,587
Automobile	3,858	-	3,858	40	-	3,898	3,647
Cleaning service	76,108	-	76,108	1,569	785	78,462	96,109
Depreciation	1,572,043	-	1,572,043	32,413	16,207	1,620,663	1,609,550
Donor acquisition	-	-	-	-	48,206	48,206	71,343
Donor recognition	-	-	-	-	140,257	140,257	100,838
Donor special events	-	-	-	-	114,178	114,178	157,097
Grants	-	80,000	80,000	-	-	80,000	71,070
House supplies - other	878,348	-	878,348	547	284	879,179	1,125,187
Insurance	59,821	-	59,821	1,233	617	61,671	56,222
Interest expense	26,610	-	26,610	549	274	27,433	216,533
Linens and laundry	70,447	-	70,447	-	-	70,447	76,045
Meetings and trainings	30,961	-	30,961	12,965	12,349	56,275	62,473
Office supplies	7,169	-	7,169	984	2,262	10,415	8,414
Outside contractors	30,613	-	30,613	6,558	52,635	89,806	82,757
Postage	2,956	-	2,956	441	1,150	4,547	2,956
Professional fees	79,416	-	79,416	16,102	28,612	124,130	175,155
Printing	241	-	241	36	82	359	2,076
Rent, imputed	2,248,460	-	2,248,460	46,360	23,180	2,318,000	2,378,000
Technology	60,808	-	60,808	7,570	127,123	195,501	136,571
Repairs and maintenance	165,219	-	165,219	3,364	1,682	170,265	116,508
Telephone	34,936	-	34,936	791	358	36,085	49,387
Travel, meals and entertainment	22,009	-	22,009	3,197	7,347	32,553	14,037
Utilities	241,143	-	241,143	4,920	2,500	248,563	245,106
Volunteer	3,411	-	3,411	-	-	3,411	3,370
Other	176,959	-	176,959	28,979	61,989	267,927	68,501
	<u>\$ 8,303,565</u>	<u>\$ 80,000</u>	<u>\$ 8,383,565</u>	<u>\$ 542,184</u>	<u>\$ 1,506,972</u>	<u>\$ 10,432,721</u>	<u>\$ 10,600,621</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, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 2,349,634	\$ 2,990,775
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	1,620,663	1,609,550
Realized and unrealized (gain) loss on investments	(4,120,227)	2,179,472
Contributions restricted for capital campaign	-	(1,514,552)
Contributions to endowment	-	(3,525)
Amortization of discount on notes payable	16,000	195,000
Loss on disposal of property and equipment	-	39,732
Inherent contribution from acquisitions	-	(5,217,527)
Changes in operating assets and liabilities		
Contributions and other receivables, net	(626,297)	1,958,219
Prepaid expenses	110,732	(106,003)
Beneficial use of land	190,631	176,029
Accounts payable	26,876	(38,821)
Accrued expenses	(117,422)	(31,857)
Net cash provided by (used in) operating activities	(549,410)	2,236,492
Cash flows from investing activities		
Purchases of short-term certificates of deposit	(2,034,966)	-
Proceeds from maturity of short-term certificates of deposit	-	499,290
Purchases of investments	(8,518,815)	(8,352,928)
Proceeds from the sale of investments	8,917,151	4,646,599
Purchases of property and equipment	(151,404)	(103,929)
Cash acquired from acquisitions	-	557,790
Net cash used in investing activities	(1,788,034)	(2,753,178)
Cash flows from financing activities		
Capital campaign contributions	534,133	1,514,552
Payments on notes payable	(505,000)	(2,020,000)
Contributions to endowment	-	3,525
Net cash provided by (used in) financing activities	29,133	(501,923)
Net decrease in cash and cash equivalents	(2,308,311)	(1,018,609)
Cash and cash equivalents, beginning of year	5,575,340	6,593,949
Cash and cash equivalents, end of year	\$ 3,267,029	\$ 5,575,340

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 12,275	\$ 24,900
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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, 2019

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 RMHCBA is to provide communities of support, access to medical care, and the healing power of family and home for critically ill children.

We fulfill our mission through the operation of sustainable programs that enable family-centered care by bridging access to specialized pediatric health care and providing wraparound family services that are vital to the health care continuum. Together, programs strengthen family systems during difficult times. The following programs represent the core functions of RMHCBA:

Ronald McDonald House Programs

When children must travel long distances to access top medical care, accommodations and support for families can be expensive or not readily available. Our Ronald McDonald House ("RMH") programs offer short and long-term lodging, in-hospital and residential meal support, therapeutic support, recreational and wellness activities and educational programming for siblings and patients. Our programs include a 123-bedroom Ronald McDonald House at Stanford ("RMH Stanford") 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 ("UCSF").

This family housing community is the best place for parents, siblings, and caregivers to be while they access lifesaving treatments at partner hospitals, as the care, support, and sense of community RMHCBA provides for our patients and their support networks is unparalleled. As the most program rich of nearly 400 Ronald McDonald Houses across the globe, RMHCBA programs provide families, patients and siblings the opportunity to enjoy activities that they would likely do in their own home and aim to reduce the financial and emotional burden of chronic and acute pediatric illnesses. Many of activities are led by volunteers and include Bingo Night, birthday celebrations, Furry Friends pet-assisted therapy, movie nights, gardening, scrap-booking, and arts and crafts. Relaxation and healing opportunities are provided through weekly massages and haircuts.

Our primary target population for housing services continues to be 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 across the Western United States who need advanced, highly specialized levels of medicine that are not widely accessed in their home states. Of the families who stayed at a RMH in 2019, 79% came from California and 21% traveled from other states or countries to access care at the Bay Area's leading children's hospitals.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2019

1. NATURE OF OPERATIONS (continued)

The impact of RMHCBA's comprehensive programming extends beyond those families who stay overnight. The Day Pass Program served approximately 33,000 individuals in 2019 and is available to families whose children are being treated at the partner hospitals but who are not staying overnight at RMH due to capacity constraints or geographical restrictions. The Day Pass Program runs daily from 9am to 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.

Our innovative Family Support Services ("FSS") provides therapeutic support to families. Available 24-hours a day, FSS connects parents and children to supportive resources and helps 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 large-scale community 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.

Our volunteer-run Happy Wheels hospitality carts bring comfort and care directly to family's 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, the Happy Wheels cart served over 10,000 individuals at partner hospitals.

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. 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.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2019

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 only by donor-imposed restrictions on their use. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. All other net assets, including board-designated or appropriated amounts, are net assets without donor restrictions and are reported as part of the net assets without donor restriction class.

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 contributions without donor restrictions.

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.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 conditions on which they depend are substantially met. 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, 2019, no bequests receivable are outstanding.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2019, RMHCBA benefited from approximately 19,000 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.

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, 2019, 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, 2018, from which the summarized information was derived.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, Contributions Received and Contributions Made, which clarifies guidance about whether funds received from contracts and grants are contributions or exchange transactions. The standard further provides clarity in determining the existence of conditional contributions. RMHCBA adopted ASU 2018-08 with a date of the initial application of January 1, 2019, using the modified prospective method.

The adoption of ASU 2018-08 did not have a significant impact on RMHCBA's financial position, result of operations, or cash flows. RMHCBA has evaluated contributions received and contributions made and has determined that there is no change as a result of the adoption of this standard.

3. CONTRIBUTIONS AND OTHER RECEIVABLES, NET

Contributions and other receivables, net consist of the following at December 31, 2019:

Capital campaign	\$ 879,000
General purposes	943,235
	1,822,235
Allowance for uncollectible receivables	(215,657)
Discount to net present value	(44,686)
	\$ 1,561,892

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

Within 1 year	\$ 849,883
From 1 to 5 years	712,009
	\$ 1,561,892

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. 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.

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2019

4. BENEFICIAL USE OF LAND (continued)

Beneficial use of land consisted of the following:

Noncurrent portion of beneficial use of land	\$ 53,271,986
Less: discount to net present value	<u>(33,518,392)</u>
	19,753,594
Current portion of beneficial use of land	<u>1,934,000</u>
	<u>\$ 21,687,594</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, 2019:

	Level 1	Level 2	Level 3	Fair Value
Certificates of deposit	\$ -	\$ 2,034,966	\$ -	\$ 2,034,966
Investments				
Money market funds	369,501	-	-	369,501
Debt securities	10,752,667	-	-	10,752,667
Equity securities	<u>17,860,656</u>	<u>-</u>	<u>-</u>	<u>17,860,656</u>
	<u>28,982,824</u>	<u>-</u>	<u>-</u>	<u>28,982,824</u>
	<u>\$ 28,982,824</u>	<u>\$ 2,034,966</u>	<u>\$ -</u>	<u>\$ 31,017,790</u>

Ronald McDonald House Charities Bay Area
Notes to Financial Statements
December 31, 2019

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	50,645,710
Furniture and equipment	<u>905,908</u>
	<u>51,551,618</u>
Construction in progress	<u>113,945</u>
Accumulated depreciation	<u>(11,818,191)</u>
	<u><u>\$ 40,017,307</u></u>

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 new 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 are due on or before November 1, 2020. During 2019, RMH Stanford repaid \$275,000 of the funds previously advanced.

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 the five year anniversary of the last principal advance. During 2019, RMHCBA repaid \$230,000 of the funds previously advanced.

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7. NOTES PAYABLE (continued)

Notes payable consisted of the following:

Principal	\$ 975,000
Less: unamortized discount	<u>(46,000)</u>
	<u>\$ 929,000</u>

The future maturities of the notes payable are as follows:

Year ending December 31,

2020	\$ 325,000
2021	<u>650,000</u>
	975,000
Less: unamortized discount	<u>(46,000)</u>
	<u>\$ 929,000</u>

8. NET ASSETS WITHOUT DONOR RESTRICTIONS

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

General endowment fund (Note 10)	\$ <u>5,682,942</u>
	<u>\$ 5,682,942</u>

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following:

Beneficial use of land, net	\$ 21,687,594
Time or purpose restrictions	1,376,490
Subject to RMHCBA's spending policy and appropriation:	
Amounts required to be maintained in perpetuity	9,803,366
Unexpended endowment earnings	<u>11,917,144</u>
	<u>\$ 44,784,594</u>

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9. 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	78,855
Capital campaign	320,529
Appropriation of endowment earnings	<u>765,000</u>
	<u>\$ 3,098,384</u>

10. 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

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10. 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 2019, the Board appropriated \$960,000, 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, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 5,682,942	\$ -	\$ 5,682,942
Donor-restricted endowment funds	<u>-</u>	<u>21,720,510</u>	<u>21,720,510</u>
	<u>\$ 5,682,942</u>	<u>\$ 21,720,510</u>	<u>\$ 27,403,452</u>

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10. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the year ended December 31, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2018	\$ -	\$ 18,781,138	\$ 18,781,138
Investment return			
Investment income	127,869	519,456	647,325
Net realized/unrealized gain on investment	<u>836,389</u>	<u>3,184,916</u>	<u>4,021,305</u>
Total investment return	964,258	3,704,372	4,668,630
Initial designation of funds by the Board	4,913,684	-	4,913,684
Amounts appropriated for expenditure	<u>(195,000)</u>	<u>(765,000)</u>	<u>(960,000)</u>
	<u>5,682,942</u>	<u>2,939,372</u>	<u>8,622,314</u>
Balance, December 31, 2019	<u>\$ 5,682,942</u>	<u>\$ 21,720,510</u>	<u>\$ 27,403,452</u>

11. RETIREMENT PLAN

RMHCBA maintains a tax deferred 403(b) plan for all eligible employees. After 12 months of service, RMHCBA generally 5% of eligible full time employees' compensation beginning with their respective plan entry date. RMHCBA made contributions of \$109,487 to the plan for the year ended December 31, 2019. RMHCBA paid \$4,277 for the plan's administration costs during the year ended December 31, 2019.

12. CONCENTRATIONS OF RISK

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

At December 31, 2019, 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.

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12. CONCENTRATIONS OF RISK (continued)

RMHCBA had two donors that accounted for approximately 53% of the contributions and other receivables balance as of December 31, 2019.

13. RELATED PARTY TRANSACTIONS

Approximately \$122,000 of net contributions and other receivables are due from Board members and staff at December 31, 2019. RMHCBA received approximately \$194,000 in donations from Board members and staff in 2019.

14. DONATED GOODS AND SERVICES

Donated goods and services consisted of the following:

Beneficial use of land, Stanford	\$ 1,934,000
Rent, San Francisco	384,000
Cleaning services and supplies	70,210
Toys, games and family events	371,263
Professional services and other	<u>148,612</u>
	<u><u>\$ 2,908,085</u></u>

15. COMMITMENTS

RMHCBA leases its facilities in Pacific Heights and Mission Bay districts of San Francisco, California under various noncancelable operating leases with The Regents of the University of California, on behalf of UCSF through November 2026 and February 2020, respectively. The lease agreement for the Mission Bay facilities was extended upon expiration, with the lease continuing on an annual basis in one year terms, unless otherwise terminated. The lease agreements provide for RMHCBA to pay an annual lease payment of \$1 per facility. RMHCBA has elected to report 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 contributions received and rent expense.

Due to the relocation of hospital services provided in San Francisco to Mission Bay, RMHCBA determined that it was no longer feasible to use and occupy the facilities in Pacific Heights. Effective August 9, 2019, RMHCBA and the lessor agreed to terminate the lease for the Pacific Heights location and redeliver the premises to the lessor. For the year ended December 31, 2019 the value of the donated rent was approximately \$384,000.

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16. 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 comprised of \$5,301,995 of cash and certificates of deposit, \$1,579,372 of investments and \$444,824 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 \$5,682,942 at December 31, 2019. 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.

17. SUBSEQUENT EVENTS

RMHCBA evaluated subsequent events through June 25, 2020, the date these financial statements were available to be issued.

In December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., including California, where RMHCBA is located, have declared a state of emergency.

Potential impacts to RMHCBA's operations include disruptions or restrictions on the employees' ability to work and the fluctuation in investment balances due to the potential negative effect of this pandemic on the financial markets. RMHCBA's donor base may also be affected in a variety of ways, potentially limiting the amount of contributions that might be received during this time. Any of the foregoing could harm RMHCBA's operations and the ways in which health pandemics such as COVID-19 could adversely impact RMHCBA cannot be anticipated. Although RMHCBA is continuing to monitor and assess the effects of the COVID-19 pandemic, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.