

# **Ronald McDonald House Charities of Memphis, Inc.**

---

**Financial Statements**

**Years Ended December 31, 2019 and 2018**

## Table of Contents

<b>Independent Auditors' Report</b> .....	1
<b>Financial Statements:</b>	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Functional Expenses .....	6
Statements of Cash Flows .....	8
Notes to Financial Statements .....	9

## **Independent Auditors' Report**

Board of Directors  
Ronald McDonald House Charities of Memphis, Inc.  
Memphis, Tennessee

### **Report on the Financial Statements**

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

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our 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 the Organization as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, the Organization adopted the Financial Accounting Standards Board ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* in 2019. Our opinion is not modified with respect to this matter.

*Dixon Hughes Goodman LLP*

**Memphis, Tennessee**  
**July 29, 2020**

**Ronald McDonald House Charities of Memphis, Inc.**  
**Statements of Financial Position**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,293,715	\$ 3,292,994
Pledges receivable, net of allowance for doubtful accounts and discount	1,259,318	1,743,554
Promise to give - bequest		
Prepaid expenses	29,353	32,466
Investments:		
Endowment investments	4,588,810	3,968,808
Other investments	7,150,735	4,767,101
Total investments	11,739,545	8,735,909
Other long-term assets	765,172	774,982
Property and equipment, net of accumulated depreciation	7,026,565	7,239,226
Total assets	<u>\$ 23,113,668</u>	<u>\$ 21,819,131</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 80,939	\$ 195,348
Accrued payroll liabilities	31,983	27,173
Total liabilities	112,922	222,521
Net assets:		
Without donor restrictions:		
Undesignated	16,797,647	15,142,558
Board-designated endowment fund	4,077,560	3,457,558
Total without donor restrictions	20,875,207	18,600,116
With donor restrictions	2,125,539	2,996,494
Total net assets	23,000,746	21,596,610
Total liabilities and net assets	<u>\$ 23,113,668</u>	<u>\$ 21,819,131</u>

See accompanying notes.

**Ronald McDonald House Charities of Memphis, Inc.****Statement of Activities****Year Ended December 31, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and other revenues:			
Contributions:			
General contributions	\$ 1,357,500	\$ -	\$ 1,357,500
In-kind contributions	17,230	-	17,230
Total contributions	1,374,730	-	1,374,730
Special event revenue	881,085	-	881,085
Less: costs of direct benefits to donors	(59,913)	-	(59,913)
Net revenues from special events	821,172	-	821,172
Program service fees	950,916	-	950,916
Investment income, net	1,543,155	79,867	1,623,022
Net assets released from restrictions	950,822	(950,822)	-
Total support and other revenues	5,640,795	(870,955)	4,769,840
Expenses:			
Program services	2,530,916	-	2,530,916
Supporting services:			
Management and general	226,963	-	226,963
Fundraising	607,826	-	607,826
Total expenses	3,365,704	-	3,365,704
Change in net assets	2,275,091	(870,955)	1,404,136
Net assets at beginning of year	18,600,116	2,996,494	21,596,610
Net assets at end of year	<u>\$ 20,875,207</u>	<u>\$ 2,125,539</u>	<u>\$ 23,000,746</u>

See accompanying notes.

**Ronald McDonald House Charities of Memphis, Inc.**  
**Statement of Activities**  
**Year Ended December 31, 2018**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Support and other revenues:			
Contributions:			
General contributions	\$ 1,216,970	\$ 746,250	\$ 1,963,220
In-kind contributions	(20,613)	-	(20,613)
Total contributions	1,196,357	746,250	1,942,607
Special event revenue	1,208,726	-	1,208,726
Less: costs of direct benefits to donors	(103,847)	-	(103,847)
Net revenues from special events	1,104,879	-	1,104,879
Program service fees	950,916	-	950,916
Investment loss, net	(568,400)	(39,494)	(607,894)
	382,516	(39,494)	343,022
Net assets released from restrictions	821,065	(821,065)	-
Total support and other revenues	3,504,817	(114,309)	3,390,508
Expenses:			
Program services	2,765,248	-	2,765,248
Supporting services:			
Management and general	328,634	-	328,634
Fundraising	557,022	-	557,022
Unallocated payments to national organization:			
Payments to RMHC Global	10,704	-	10,704
Total expenses	3,661,608	-	3,661,608
Change in net assets	(156,791)	(114,309)	(271,100)
Net assets at beginning of year	18,756,907	3,110,803	21,867,710
Net assets at end of year	<u>\$ 18,600,116</u>	<u>\$ 2,996,494</u>	<u>\$ 21,596,610</u>

See accompanying notes.

**Ronald McDonald House Charities of Memphis, Inc.**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2019**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ -	\$ -	\$ 43,507	\$ 43,507
Bad debt	-	4,155	-	4,155
Bank fees	-	30,000	16,145	46,145
Cable television	13,808	-	-	13,808
Computer support	44,809	20,122	15,962	80,892
Depreciation	542,763	1,614	5,806	550,183
Direct mailing fees	-	-	83,867	83,867
Dues and subscriptions	-	-	3,490	3,490
Family services	194,631	-	-	194,631
Health insurance	77,765	8,032	20,177	105,974
Insurance	72,111	-	894	73,005
Miscellaneous	-	7,802	5,844	13,646
Office expenses	-	-	3,968	3,968
Payroll services	-	7,036	-	7,036
Payroll taxes	57,869	5,919	24,271	88,059
Postage	-	-	16,668	16,668
Printing	-	-	21,062	21,062
Professional fees	-	28,351	850	29,201
Rent	27,096	-	9,388	36,484
Repairs and maintenance	226,350	-	-	226,350
Retirement expenses	14,208	14,130	12,679	41,017
Salaries and wages	763,577	89,178	314,212	1,166,967
Scholarships	5,000	-	-	5,000
Security services	212,259	-	-	212,259
Supplies	48,423	4,326	9,036	61,785
Taxes and licenses	5,862	-	-	5,862
Telephone	41,515	-	-	41,515
Training	13	6,298	-	6,311
Utilities	179,504	-	-	179,504
Volunteer expenses	3,353	-	-	3,353
	<u>\$ 2,530,916</u>	<u>\$ 226,963</u>	<u>\$ 607,826</u>	<u>\$ 3,365,704</u>

See accompanying notes.

**Ronald McDonald House Charities of Memphis, Inc.**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2018**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 990	\$ 10	\$ 28,788	\$ 29,788
Bad debt (recoveries)	-	(23,887)	-	(23,887)
Bank fees	536	12,653	26,702	39,891
Cable television	14,015	-	-	14,015
Canister fees	-	-	35,782	35,782
Computer support	38,660	16,563	15,154	70,377
Depreciation	559,180	1,689	6,077	566,946
Direct mailing fees	-	-	84,001	84,001
Dues and subscriptions	745	1,689	1,253	3,687
Family services	129,846	-	-	129,846
Health insurance	91,770	6,001	18,174	115,945
Insurance	67,739	-	868	68,607
Loss on disposal of assets	84,195	-	-	84,195
Miscellaneous	12,034	11,184	1,139	24,357
Office expenses	276	1,802	3,223	5,301
Payroll services	-	4,939	-	4,939
Payroll taxes	48,153	15,113	14,268	77,534
Postage	5,562	311	8,171	14,044
Printing	-	1,134	34,577	35,711
Professional fees	-	23,750	550	24,300
Rent	16,970	21	53,343	70,334
Repairs and maintenance	440,414	-	-	440,414
Retirement expenses	7,474	10,755	1,918	20,147
Salaries and wages	701,461	221,174	213,881	1,136,516
Scholarships	5,000	-	-	5,000
Security services	184,265	557	2,002	186,824
Supplies	65,225	5,288	3,025	73,538
Taxes and licenses	3,591	4,357	-	7,948
Telephone	45,130	6,563	1,660	53,353
Training	255	6,283	-	6,538
Utilities	226,864	685	2,466	230,015
Volunteer expenses	14,898	-	-	14,898
	<u>\$ 2,765,248</u>	<u>\$ 328,634</u>	<u>\$ 557,022</u>	<u>\$ 3,650,904</u>

See accompanying notes.

**Ronald McDonald House Charities of Memphis, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,404,136	\$ (271,100)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	550,183	566,946
Land lease amortization	9,810	9,810
Bad debt expense (recoveries)	4,155	(23,887)
Loss on disposal of assets	-	84,195
Change in fair value of investments	(1,308,228)	845,905
Changes in operating assets and liabilities:		
Pledges receivable	480,081	(58,882)
Prepaid expenses	3,113	12,710
Accounts payable	(114,409)	101,756
Accrued payroll liabilities	4,810	(23,033)
Deferred revenue	-	(14,500)
	<u>(370,485)</u>	<u>1,501,020</u>
Net cash provided by operating activities	1,033,651	1,229,920
Cash flows from investing activities:		
Proceeds from sale of investments	1,187,740	647,303
Purchases of investments	(2,883,148)	(1,304,520)
Purchases of property and equipment	(337,522)	(1,201,608)
	<u>(2,032,930)</u>	<u>(1,858,825)</u>
Cash flows used in investing activities	(2,032,930)	(1,858,825)
Net decrease in cash and cash equivalents	(999,279)	(628,905)
Cash and cash equivalents at beginning of year	<u>3,292,994</u>	<u>3,921,899</u>
Cash and cash equivalents at end of year	<u>\$ 2,293,715</u>	<u>\$ 3,292,994</u>

See accompanying notes.

## **1. Summary of Significant Accounting Policies**

### ***Organization and activities***

Ronald McDonald House Charities of Memphis, Inc. (the "Organization") provides temporary housing at no charge to 53 out patients of St. Jude Children's Research Hospital ("St. Jude") and their families. The Organization, at no charge to its guests, provides supportive services "near the care they need with the family they love" while children are receiving treatment at St. Jude for cancer and other catastrophic childhood illnesses. The Organization operates as a "Ronald McDonald House" by virtue of a non-exclusive licensing agreement with McDonald's Corporation. While the Organization is not owned or operated by McDonald's Corporation or St. Jude, they do provide financial and logistical support. The majority of funding is raised through community support. The Organization is located in Memphis, Tennessee.

### ***Basis of presentation***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets in which no payer or donor-imposed restrictions were stipulated beyond the general stated purposes of the Organization. At the discretion of the Organization's management and Board of Directors, these net assets may be expended for any purpose in performing the primary objectives of the Organization.

Net assets without donor restrictions consist of two categories: undesignated funds and board designated funds. Undesignated funds are available for any purpose within the scope of the Organization's activities. Designated funds have been appropriated by the Organization's Board of Directors for a specific activity or group of activities. Such designations could be changed by action of the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization pursuant to those stipulations or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds to be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

### ***Use of estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

### ***Contributions and support***

Contributions received are recorded as unrestricted or donor restricted support depending upon the existence and/or nature of any donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restriction. When a donor restriction expires in the same year received, revenue first flows through donor restricted net assets as an increase and is also shown as a release during the same year.

## **Ronald McDonald House Charities of Memphis, Inc.**

### **Notes to Financial Statements**

---

Unconditional promises to give, which consist of pledges receivable, are recorded when the pledge is received. Those due in the following year are recorded at their net realizable value, while those due in subsequent years have been discounted to the present value of their net realizable value using risk-free interest rates applicable to the years in which the pledges were received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. There are no conditional promises to give as of December 31, 2019 or 2018.

#### ***New accounting standards***

The Organization has adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended in 2019. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required. The Organization also implemented ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*, in 2019 which did not result in any changes to previously unrecognized revenue. The presentation and disclosures of revenue have been enhanced in accordance with the new standards.

#### ***Credit risks***

The Organization's credit risks primarily relate to cash and cash equivalents, investments, and receivables. Cash and cash equivalents are primarily held in bank accounts at several institutions. Accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to an aggregate of \$250,000 at each institution. The Organization's cash deposits exceeded FDIC limits at various times during the year. The Organization believes it is not exposed to any significant credit risk on its cash balances, due to its policy of banking with high quality financial institutions.

Investments, which are not insured by the FDIC, are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with these investments, it is at least possible that changes in the values of investments will occur in the near term and such changes could materially affect the Organization's financial position and changes in its net assets.

#### ***Fair value measurements***

The Organization applies GAAP for fair value measurements of financial asset and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. See Note 4 for additional disclosures.

#### ***Cash and cash equivalents***

For purposes of the statements of cash flows, the Organization considers all highly liquid instruments such as non-negotiable certificates of deposit purchased with original maturities of three months or less to be cash equivalents, except those temporarily held in investment accounts for reinvestment.

#### ***Receivables***

Pledges and other receivables are stated at the amount management expects to collect from outstanding balances. Management monitors outstanding balances and provides for probable uncollectible amounts through a valuation allowance based upon its assessment of the individual accounts. Balances that are still outstanding after a reasonable period of time has elapsed are written off through a charge to the valuation allowance and a credit to the appropriate receivable.

#### ***Investments***

Investments are carried at fair value in the statements of financial position. Realized and unrealized gains and losses and interest and dividend income, net of investment fees, are included in investment income in the statements of activities.

**Ronald McDonald House Charities of Memphis, Inc.**  
**Notes to Financial Statements**

---

***Property and equipment***

Property and equipment items are recorded at acquisition cost, if purchased, or the estimated fair value on the date received, if donated. The Organization capitalizes expenditures for property and equipment with a cost in excess of \$5,000 and provides for depreciation using the straight-line method over the estimated useful lives of the assets, generally ten to forty years for buildings and building improvements, five years for computer equipment and seven to ten years for other equipment and furniture and fixtures.

***Impairment of long-lived assets***

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

***In-kind contributions***

Donated supplies and services are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended December 31, 2019 and 2018, in-kind donations for the general use and special events totaled \$55,591 and \$73,113, respectively. In addition, a substantial number of volunteers have donated significant time to the Organization. No amounts have been recognized in the accompanying financial statements for these services since they do not meet the criteria for recognition.

***Functional expense allocation***

The cost of providing various programs and supporting services have been reported on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services based on estimates made by management. The expenses that are allocated include depreciation, travel, insurance, and office and occupancy, which are allocated on a square-footage basis, as well as salaries, benefits, and services, which are allocated based on estimates of time and effort.

***Income taxes***

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is similarly exempt from Tennessee state income taxes under provisions of the Tennessee tax regulations. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization files an exempt organization return in the United States federal jurisdiction.

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

***Advertising***

Advertising costs were \$43,507 and \$29,788 for the years ended December 31, 2019 and 2018, respectively, and are expensed as incurred.

***Subsequent events***

The Organization evaluated its December 31, 2019, financial statements for subsequent events through July 29, 2020, the date the financial statements were available to be issued.

During 2020, the World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of the outbreak on our operational and financial performance will depend on

**Ronald McDonald House Charities of Memphis, Inc.**  
**Notes to Financial Statements**

---

certain developments, including the duration and spread of outbreak, impact on our sponsors, employees and vendors, and governmental, regulatory and private sector responses. The financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

**2. Availability and Liquidity**

The following represents the Organization's financial assets available within one year of the statement of financial position dates for general expenditure:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,293,715	\$ 3,292,994
Pledges receivable, net	1,259,318	1,743,554
Investments	<u>11,739,545</u>	<u>8,735,909</u>
Total financial assets	15,292,578	13,772,457
Less amounts not available to be used within one year:		
Board designated net assets	4,077,560	3,457,555
Net assets with donor restrictions	<u>2,125,539</u>	<u>2,996,494</u>
	<u>6,203,099</u>	<u>6,454,049</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 9,089,479</u>	<u>\$ 7,318,408</u>

Management's goal is to maintain cash and cash equivalents sufficient to meet 25% of annual operating expenses with amounts above that level transferred to investments quarterly. Cash in excess of quarterly requirements is invested in short-term investments such as money market funds and certificates of deposit.

**3. Pledges Receivable and Promise to Give**

Pledges receivable consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 353,313	\$ 499,767
Receivable within one to five years	970,200	1,390,000
Less discount	(48,367)	(134,465)
Less allowance for doubtful accounts	<u>(15,828)</u>	<u>(11,748)</u>
Net pledges receivable	<u>\$ 1,259,318</u>	<u>\$ 1,743,554</u>

These pledges receivable are recorded as income when contributed and have been discounted to net present value using a discount rate ranging from 1.90-2.77% based on expected payments.

**Ronald McDonald House Charities of Memphis, Inc.**  
**Notes to Financial Statements**

---

**4. Investments and Fair Value Measurements**

GAAP establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, as described below:

- Level 1** – Quoted prices in active markets for identical assets or liabilities the Organization has the ability to access.
- Level 2** – Inputs (other than quoted prices within level 1) such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable market data.
- Level 3** – Inputs which are unobservable for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

In determining fair values, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019.

- Common trust funds: Valued at the net asset value (“NAV”) of shares held by the Organization at year end. The fund manager values shares in the fund based on the fair values of the underlying investments.
- Money market, equity and bond mutual funds: Valued at the closing price reported on the active market in which they are traded.

The following tables set forth by level, within the fair value hierarchy, the Organization’s assets measured at fair value on a recurring basis at December 31, 2019 and 2018.

	<b>2019</b>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market mutual funds	\$ 17,016	\$ -	\$ 17,016
Negotiable CDs		636,163	636,163
Equity mutual funds	4,393,303	-	4,393,303
Bond mutual funds	<u>2,491,388</u>	<u>-</u>	<u>2,491,388</u>
Investments, in fair value hierarchy	<u>\$ 6,901,707</u>	<u>\$ 636,163</u>	7,537,870
Investments measured at NAV <sup>(a)</sup>			<u>4,179,352</u>
Investments, at fair value			11,717,222
Temporary cash investments			<u>22,323</u>
			<u>\$ 11,739,545</u>

**Ronald McDonald House Charities of Memphis, Inc.**  
**Notes to Financial Statements**

	<b>2018</b>		<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	
Money market mutual funds	\$ 14,323	\$ -	\$ 14,323
Negotiable CDs		473,537	473,537
Equity mutual funds	2,735,165	-	2,735,165
Bond mutual funds	<u>1,960,273</u>	<u>-</u>	<u>1,960,273</u>
Investments, in fair value hierarchy	<u>\$ 4,709,761</u>	<u>\$ 473,537</u>	5,183,298
Investments measured at NAV <sup>(a)</sup>			<u>3,524,248</u>
Investments, at fair value			8,707,546
Temporary cash investments			<u>28,363</u>
			<u>\$ 8,735,909</u>

<sup>(a)</sup> In accordance with Topic 820, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

The determination of fair value above incorporates various factors such as the credit standing of the counterparties involved and the impact of credit enhancements. The following table summarizes investments for which fair value is measured using the NAV practical expedient as of December 31, 2019 and 2018.

	<b>2019</b>	<b>2018</b>
Common trust funds:		
U.S. active equity	\$ 425,429	\$ 299,247
U.S. core equity	1,238,257	835,816
International equity	942,624	846,225
Short duration fixed income	122,616	528,085
Core fixed income	1,095,667	539,311
Multi-strategy	<u>354,759</u>	<u>475,564</u>
	<u>\$ 4,179,352</u>	<u>\$ 3,524,248</u>

There were no unfunded commitments or redemption restrictions for the common trust funds at December 31, 2019 and 2018.

The following schedule summarizes investment income (loss) for the years ended December 31:

	<b>2019</b>	<b>2018</b>
Interest and dividends	\$ 385,400	\$ 296,434
Realized and unrealized gain (loss) on investments	1,308,228	(845,905)
Investment management fees	<u>(70,606)</u>	<u>(58,423)</u>
Total investment income (loss)	<u>\$ 1,623,022</u>	<u>\$ (607,894)</u>

**Ronald McDonald House Charities of Memphis, Inc.**  
**Notes to Financial Statements**

---

**5. Land Lease**

The Organization entered into a lease agreement in 1998 with American Lebanese Syrian Associated Charities, Inc. ("ALSAC") for a portion of its land for \$1 per year through 2097. ALSAC is the fundraising arm of St. Jude. The value of the lease was determined to be \$974,902, which was the estimated fair market value of the land at the lease inception. The net amount of the land lease is reflected in donor restricted net assets due to time restrictions.

Amortization is recorded in the statements of functional expenses as rent. The land lease consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Land lease	\$ 974,902	\$ 974,902
Less accumulated amortization	<u>209,730</u>	<u>199,920</u>
	<u>\$ 765,172</u>	<u>\$ 774,982</u>

Future amortization expense is as follows for the years ending December 31:

2020	\$ 9,810
2021	9,810
2022	9,810
2023	9,810
2024	9,810
Thereafter	<u>716,122</u>
	<u>\$ 765,172</u>

**6. Property and Equipment**

A summary of property and equipment at December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 236,009	\$ 236,009
Buildings and improvements	12,986,908	12,986,908
Furniture and fixtures	615,173	514,223
Equipment and vehicles	1,132,900	896,328
Computer equipment	<u>145,015</u>	<u>145,015</u>
	15,116,005	14,778,483
Less accumulated depreciation	<u>(8,089,440)</u>	<u>(7,539,257)</u>
	<u>\$ 7,026,565</u>	<u>\$ 7,239,226</u>

**Ronald McDonald House Charities of Memphis, Inc.**  
**Notes to Financial Statements**

---

**7. Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2019</u>	<u>2018</u>
Time restrictions	\$ 1,614,289	\$ 2,485,244
Endowment funds not subject to appropriation or expenditure	<u>511,250</u>	<u>511,250</u>
	<u>\$ 2,125,539</u>	<u>\$ 2,996,494</u>

**8. Endowment Fund**

The Organization has an endowment fund which was created with the proceeds of the sale of donated stock. This donor-restricted gift, which was received in 1993, is to be held in perpetuity for the benefit of the Organization. The donor stipulated that income from these funds could be used for operating expenses. The Board of Directors' intent is to treat the unrestricted portion of the endowment as a "rainy day" fund, allowing for continued growth of the fund. The endowment and its cumulative earnings make up the entirety of this investment account, as listed on the statements of financial position as endowment investments.

At December 31, the endowment net asset composition is as follows:

	<u>2019</u>	<u>2018</u>
Donor-restricted endowment fund	\$ 511,250	\$ 511,250
Board-designated endowment fund	<u>4,077,560</u>	<u>3,457,558</u>
	<u>\$ 4,588,810</u>	<u>\$ 3,968,808</u>

**Ronald McDonald House Charities of Memphis, Inc.**  
**Notes to Financial Statements**

A reconciliation of the endowment fund's balance at December 31 by net asset class is as follows:

	<b>2019</b>		
	<b>Board Designated</b>	<b>Donor Restricted</b>	<b>Total</b>
Beginning endowment net assets	\$ 3,457,558	\$ 511,250	\$ 3,968,808
Investment return (loss):			
Interest and dividends	96,829	14,318	111,147
Change in fair value	469,680	69,449	539,129
Management fees	<u>(26,374)</u>	<u>(3,900)</u>	<u>(30,274)</u>
Total investment return (loss)	540,135	79,867	620,002
Appropriation of endowment assets for expenditure	<u>79,867</u>	<u>(79,867)</u>	<u>-</u>
Ending endowment net assets	<u>\$ 4,077,560</u>	<u>\$ 511,250</u>	<u>\$ 4,588,810</u>
	<b>2018</b>		
	<b>Board Designated</b>	<b>Donor Restricted</b>	<b>Total</b>
Beginning endowment net assets	\$ 3,466,502	\$ 511,250	\$ 3,977,752
Contributions	298,333	-	298,333
Investment return (loss):			
Interest and dividends	83,996	12,388	96,384
Change in fair value	(325,741)	(48,041)	(373,782)
Management fees	<u>(26,038)</u>	<u>(3,841)</u>	<u>(29,879)</u>
Total investment return (loss)	(267,783)	(39,494)	(307,277)
Appropriation of endowment assets for expenditure	<u>(39,494)</u>	<u>39,494</u>	<u>-</u>
Ending endowment net assets	<u>\$ 3,457,558</u>	<u>\$ 511,250</u>	<u>\$ 3,968,808</u>

***Endowment investment policy***

The primary purpose of the Organization's investment policy is to supplement annual operating expenses, provide for short-term capital needs, and allow sufficient long-term growth of capital to meet future capital and budgetary requirements. This includes maintaining an appropriate combination of assets to meet its performance objectives and ensuring a proper level of diversification within the asset classes of cash and cash equivalents, fixed income securities, equities, and publicly traded real estate.

***Spending policy***

The Organization has a policy in which the general rule of appropriating for distribution each year is through a formal annual budget approved by the governing board. In establishing this policy, the Organization considered the long-term expected returns on its endowment investments. Accordingly, over the long-term, the Organization expects the current spending policy will allow its endowment to retain the original fair value of the gifts. There are no underwater funds at December 31, 2019 or 2018.

***Interpretation of relevant law***

The Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as enacted by the State of Tennessee applies to the Organization’s endowment fund. Management interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted portion of the endowment fund. Among other considerations, management considers the duration and preservation of the fund and general economic conditions in making a determination to appropriate or accumulate donor-restricted endowment funds.

**9. Retirement Plan**

The Organization maintains a 401(k) retirement plan for all employees working at least twenty-four (24) hours a week and at least twenty-one (21) years of age. Optional employee contributions are withheld from the employees’ compensation. The plan was amended during 2015 to add a provision for employer contributions. The Organization will make a matching contribution for each participant equal to 100% of the participant’s salary contributions, up to 3% of annual compensation. Employer contributions for the years ended December 31, 2019 and 2018, were \$41,017 and \$20,147, respectively.

**10. Concentrations of Risk**

For the year ended December 31, 2019, one donor accounted for approximately 16% of total support and other revenue, and St. Jude program service fees received accounted for approximately 30% of support and other revenue. For the year ended December 31, 2018, one donor accounted for approximately 18% of total support and other revenue, and St. Jude program service fees received accounted for approximately 23% of support and other revenue. At December 31, 2019, two donors accounted for approximately 94% of total pledges receivable. At December 31, 2018, one donor accounted for approximately 90% of total pledges receivable.

**11. Commitments**

The Organization leases office equipment according to a lease agreement that is classified as an operating lease. Rent expense under equipment leases was \$2,748 for the years ended December 31, 2019 and 2018. Future minimum lease payments for the years ending December 31 are as follows:

2020	\$	2,748
2021		<u>1,145</u>
	\$	<u>3,893</u>