

**Ronald McDonald House Charities
of Kansas City, Inc.**

Independent Auditor's Report and Financial Statements
December 31, 2019 and 2018



**Ronald McDonald House Charities
of Kansas City, Inc.**

December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Ronald McDonald House Charities
of Kansas City, Inc.
Kansas City, Missouri

We have audited the accompanying financial statements of Ronald McDonald House Charities of Kansas City, Inc. (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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Directors
Ronald McDonald House Charities
of Kansas City, Inc.
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Kansas City, Inc. 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.

Emphasis of Matters

As described in *Note 1* to the financial statements, in 2019, the Organization adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

BKD, LLP

Kansas City, Missouri
May 8, 2020

Ronald McDonald House Charities of Kansas City, Inc.

Statements of Financial Position December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	\$ 456,583	\$ 598,008
Restricted cash	625,991	1,333,122
Accounts receivables, net of allowance; 2019 – \$0 2018 – \$40,261	625,443	55,737
Contributions receivable, net	641,902	515,740
Other	40,734	95,110
Total current assets	2,390,653	2,597,717
Non-Current Assets		
Contributions receivable, net	192,977	287,494
Beneficial interest in assets held by other	141,862	237,858
Investments	5,117,106	4,084,056
Property and equipment, net	16,023,793	16,030,418
Other	32,683	30,745
Total non-current assets	21,508,421	20,670,571
Total assets	\$ 23,899,074	\$ 23,268,288

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 159,863	\$ 172,090
Accrued liabilities	183,879	181,560
Deferred revenue	15,000	10,750
Lines of credit	-	300,000
Total current liabilities	358,742	664,400
Net Assets		
Without donor restrictions	20,632,895	18,873,371
With donor restrictions	2,907,437	3,730,517
Total net assets	23,540,332	22,603,888
Total liabilities and net assets	\$ 23,899,074	\$ 23,268,288

Ronald McDonald House Charities of Kansas City, Inc.

Statement of Activities Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions – general	\$ 1,510,162	\$ 280,912	\$ 1,791,074
Contributions – Project GROW	535	100,000	100,535
Contributions – McDonald’s related fundraisers	402,470	42,825	445,295
Total contributions	<u>1,913,167</u>	<u>423,737</u>	<u>2,336,904</u>
Organization-sponsored fundraising events	780,785	369,780	1,150,565
External fundraising events	395,081	529,840	924,921
Medicaid revenue	637,958	-	637,958
Other	601,939	-	601,939
Net assets released from restrictions	<u>2,370,462</u>	<u>(2,370,462)</u>	<u>-</u>
Total revenues, gains and other support	<u>6,699,392</u>	<u>(1,047,105)</u>	<u>5,652,287</u>
Expenses and Losses			
Program services	3,870,901	-	3,870,901
Cost of direct benefits to donors	228,582	-	228,582
Support services			
Management and general	499,268	-	499,268
Fundraising	855,892	3,411	859,303
Unallocated payments to RMHC Global	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses and losses	<u>5,454,643</u>	<u>3,411</u>	<u>5,458,054</u>
Change in Net Assets from Operations	1,244,749	(1,050,516)	194,233
Net Investment Income	<u>514,775</u>	<u>227,436</u>	<u>742,211</u>
Change in Net Assets	1,759,524	(823,080)	936,444
Net Assets, Beginning of Year	<u>18,873,371</u>	<u>3,730,517</u>	<u>22,603,888</u>
Net Assets, End of Year	<u>\$ 20,632,895</u>	<u>\$ 2,907,437</u>	<u>\$ 23,540,332</u>

Ronald McDonald House Charities of Kansas City, Inc.

Statement of Activities Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions – general	\$ 2,123,704	\$ 710,508	\$ 2,834,212
Contributions – Project GROW	106,900	588,780	695,680
Contributions – McDonald’s related fundraisers	373,078	26,883	399,961
Total contributions	<u>2,603,682</u>	<u>1,326,171</u>	<u>3,929,853</u>
Organization-sponsored fundraising events	700,443	300,865	1,001,308
External fundraising events	296,312	395,296	691,608
Medicaid revenue	400,872	-	400,872
Other	8,482	-	8,482
Net assets released from restrictions	<u>1,565,580</u>	<u>(1,565,580)</u>	<u>-</u>
Total revenues, gains and other support	<u>5,575,371</u>	<u>456,752</u>	<u>6,032,123</u>
Expenses and Losses			
Program services	3,507,272	-	3,507,272
Cost of direct benefits to donors	206,878	2,550	209,428
Support services			
Management and general	425,289	-	425,289
Fundraising	648,007	10,166	658,173
Unallocated payments to RMHC Global	<u>5,403</u>	<u>-</u>	<u>5,403</u>
Total expenses and losses	<u>4,792,849</u>	<u>12,716</u>	<u>4,805,565</u>
Change in Net Assets from Operations	782,522	444,036	1,226,558
Net Investment Income	<u>(45,565)</u>	<u>(196,976)</u>	<u>(242,541)</u>
Change in Net Assets	736,957	247,060	984,017
Net Assets, Beginning of Year	<u>18,136,414</u>	<u>3,483,457</u>	<u>21,619,871</u>
Net Assets, End of Year	<u>\$ 18,873,371</u>	<u>\$ 3,730,517</u>	<u>\$ 22,603,888</u>

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

	Program Services			Total Program Services	Management and General	Fundraising	Cost of Direct Benefits to Donor	Total Expenses
	Ronald McDonald Houses	Family Room	Project GROW					
Salaries	\$ 1,168,221	\$ 207,312	\$ -	\$ 1,375,533	\$ 253,047	\$ 304,371	\$ -	\$ 1,932,951
Employee benefits	182,829	22,061	-	204,890	36,225	43,142	-	284,257
Payroll taxes	90,405	16,179	-	106,584	18,806	22,790	-	148,180
Total	1,441,455	245,552	-	1,687,007	308,078	370,303	-	2,365,388
Advertising	-	-	-	-	-	62,365	-	62,365
Automobile	930	-	-	930	-	-	-	930
Cleaning services and supplies	110,048	-	-	110,048	-	-	-	110,048
Depreciation	755,904	16,454	-	772,358	6,041	6,249	-	784,648
Direct mail	-	-	-	-	-	199,826	-	199,826
Donor recognition	115	31	-	146	-	1,508	-	1,654
Family support services and supplies	266,941	2,260	-	269,201	2,219	175	-	271,595
Insurance	92,191	8,911	-	101,102	13,306	8,421	-	122,829
Linens and laundry	45,156	-	-	45,156	-	-	-	45,156
Maintenance and repairs	395,835	8,594	-	404,429	-	-	-	404,429
Meetings, education and training	20,482	6,346	-	26,828	16,290	9,217	-	52,335
Office supplies	12,246	298	-	12,544	4,025	2,474	-	19,043
Postage and courier	269	-	-	269	2,042	6,971	-	9,282
Printing and publishing	1,074	289	-	1,363	714	26,712	-	28,789
Professional fees	98,094	-	8,080	106,174	74,195	-	-	180,369
Rent	-	-	-	-	-	-	90,501	90,501
Technology	33,700	4,577	-	38,277	18,848	30,023	-	87,148
Telephone	47,470	-	-	47,470	-	-	-	47,470
Travel, meals and entertainment	1,267	19	-	1,286	10	1,847	111,758	114,901
Utilities	199,837	-	-	199,837	-	-	-	199,837
Volunteer resources and recognition	3,706	516	-	4,222	-	885	-	5,107
Other	41,876	378	-	42,254	53,500	132,327	26,323	254,404
Total Expenses	\$ 3,568,596	\$ 294,225	\$ 8,080	\$ 3,870,901	\$ 499,268	\$ 859,303	\$ 228,582	\$ 5,458,054

Ronald McDonald House Charities of Kansas City, Inc.

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services				Total Program Services	Management and General		Fundraising	Cost of Direct Benefits to Donor	Total Expenses
	Ronald McDonald Houses	Family Room	Camp ChiMer	Project GROW						
Salaries	\$ 1,092,877	\$ 196,070	\$ 8,748	\$ -	\$ 1,297,695	\$ 200,866	\$ 261,883	\$ -	\$ 1,760,444	
Employee benefits	186,703	27,690	1,214	-	215,607	31,490	43,229	-	290,326	
Payroll taxes	84,948	14,948	629	-	100,525	13,594	19,340	-	133,459	
Total	<u>1,364,528</u>	<u>238,708</u>	<u>10,591</u>	<u>-</u>	<u>1,613,827</u>	<u>245,950</u>	<u>324,452</u>	<u>-</u>	<u>2,184,229</u>	
Advertising	-	-	-	-	-	-	10,565	-	10,565	
Automobile	988	-	-	-	988	-	-	-	988	
Cleaning services and supplies	96,981	-	-	-	96,981	-	-	-	96,981	
Depreciation	708,533	13,830	137	-	722,500	3,468	6,377	-	732,345	
Direct mail	-	-	-	-	-	-	175,113	-	175,113	
Donation box program expenses	-	-	-	-	-	4,722	-	-	4,722	
Donor recognition	-	-	-	-	-	268	9,446	-	9,714	
Family support services and supplies	240,920	5,449	44,924	-	291,293	540	-	-	291,833	
Insurance	79,956	6,636	-	-	86,592	12,643	8,332	-	107,567	
Linens and laundry	42,115	-	-	-	42,115	-	-	-	42,115	
Maintenance and repairs	273,037	4,067	-	2,694	279,798	428	264	-	280,490	
Meetings, education and training	10,696	2,266	-	-	12,962	20,957	7,530	-	41,449	
Office supplies	9,197	47	53	-	9,297	3,614	1,831	-	14,742	
Postage and courier	707	3	178	-	888	2,251	8,023	-	11,162	
Printing and publishing	1,164	-	-	380	1,544	162	33,141	-	34,847	
Professional fees	49,779	-	-	-	49,779	65,427	-	-	115,206	
Rent	-	-	-	-	-	-	-	84,972	84,972	
Technology	36,162	4,976	-	-	41,138	15,578	25,554	-	82,270	
Telephone	49,148	-	-	-	49,148	75	-	-	49,223	
Travel, meals and entertainment	1,710	-	97	-	1,807	272	1,871	106,872	110,822	
Utilities	181,986	-	-	-	181,986	310	-	-	182,296	
Volunteer resources and recognition	3,558	1,032	-	-	4,590	-	719	-	5,309	
Other	18,024	84	1,401	530	20,039	48,624	44,955	17,584	131,202	
	<u>\$ 3,169,189</u>	<u>\$ 277,098</u>	<u>\$ 57,381</u>	<u>\$ 3,604</u>	<u>\$ 3,507,272</u>	<u>\$ 425,289</u>	<u>\$ 658,173</u>	<u>\$ 209,428</u>	<u>4,800,162</u>	
Unallocated payments to RMHC Global									5,403	
Total Expenses									<u>\$ 4,805,565</u>	

See Notes to Financial Statements

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

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 936,444	\$ 984,017
Items not requiring (providing) operating activities cash flows		
Depreciation	784,649	732,345
Loss on disposal of equipment	36,056	13,364
Net realized and unrealized (gains) losses on investments	(501,864)	440,919
Contributions of property and equipment or contributions received restricted for acquisition of property and equipment	(150,865)	(857,017)
Changes in		
Contributions receivable	(77,979)	(415,136)
Beneficial interest in assets held by other	95,996	3,719
Miscellaneous receivables and other assets	(517,268)	10,550
Accounts payable and accrued liabilities	(2,794)	18,153
Deferred revenue	4,250	(16,779)
	<u>606,625</u>	<u>914,135</u>
Investing Activities		
Purchase of property and equipment	(799,860)	(629,758)
Purchase of investments	(531,186)	(1,035,593)
Proceeds from disposition of investments	-	3,072
	<u>(1,331,046)</u>	<u>(1,662,279)</u>
Financing Activities		
Proceeds from contributions restricted for acquisition of property and equipment	175,865	710,000
Net borrowings (payments) on lines of credit	(300,000)	26,641
	<u>(124,135)</u>	<u>736,641</u>
Decrease in Cash, Cash Equivalents and Restricted Cash	(848,556)	(11,503)
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	<u>1,931,130</u>	<u>1,942,633</u>
Cash, Cash Equivalents and Restricted Cash, End of Year	<u>\$ 1,082,574</u>	<u>\$ 1,931,130</u>
Reconciliation to Statements of Financial Position		
Cash and cash equivalents	\$ 456,583	\$ 598,008
Restricted cash	<u>625,991</u>	<u>1,333,122</u>
Cash, Cash Equivalents and Restricted Cash	<u>\$ 1,082,574</u>	<u>\$ 1,931,130</u>
Supplemental Cash Flows Information		
Property and equipment acquired through noncash contributions	\$ 21,334	\$ 118,237
Property and equipment purchases in accounts payable	30,850	23,736

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Organization

Ronald McDonald House Charities of Kansas City, Inc. (the “Organization”) is a Missouri not-for-profit organization formed in 1979 that operates three Kansas City Ronald McDonald Houses and a Family Room, which provides temporary housing for the families of seriously ill children while the children are receiving treatment at local hospitals. The mission of Ronald McDonald House Charities – Kansas City is to reduce the burden of childhood illness on children and their families.

We fulfill our mission through operation of sustainable programs that enable family-centered care, bridge access to quality health care, are a vital part of the health care continuum and strengthen families during difficult times. The following programs, operated by the Organization, represent the core functions of Ronald McDonald House Charities.

Ronald McDonald House

When children must travel long distances to access top medical care, accommodations and support for families can be expensive or not readily available. The Organization helps families stay close to their ill or injured child through the Ronald McDonald House programs located in Kansas City, Missouri which provide temporary lodging, meals and other support to children and their families. The program provides families with emotional and physical comfort and increases the caregivers’ ability to spend more time with their child, to interact with their clinical care team and to participate in critical medical care decisions.

Ronald McDonald Family Room

When a child is critically ill, parents may be reluctant to leave the hospital. In order to provide comfort and support to their child, it is important that parents have an opportunity to rest, have a meal or have a moment of quiet. Located inside medical care facilities, the Ronald McDonald Family Room program in Children’s Mercy serves as a place of respite, relaxation and privacy for family members, often just steps away from where their child is being treated. The Ronald McDonald Family Room program provides parents with an opportunity to remain close to their hospitalized child and to be an active member of their child’s health care team.

The Organization’s revenues and other support are derived principally from contributions and Organization-sponsored fundraising events.

Basis of Presentation

The financial statements of the Organization 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

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements December 31, 2019 and 2018

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.

Measure of Operations

The Organization's change in net assets from operations on the statements of activities includes all operating revenues and expenses that are an integral part of its program and supporting activities, net assets released from donor restrictions to support operating expenditures and other non-operating funds to support current operating activities. The measure of operations excludes investment return on investments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Restricted Cash

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts.

Amounts included in restricted cash are donor contributions received and restricted for a particular purpose.

At December 31, 2019, the Organization's cash accounts exceeded federally insured limits by approximately \$91,000.

Accounts Receivable

Accounts receivable are stated at the amount of consideration from customers of which the Organization has an unconditional right to receive. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Beneficial Interest in Assets held by Other

The Organization is a beneficiary of a \$250,000 contribution made to and held by an unrelated not-for-profit organization. The funds are restricted to support Ronald McDonald Family Room and may be utilized at any time. The unspent contribution was \$141,862 and \$237,858 at December 31, 2019 and 2018, respectively.

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividends, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value, less external investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as revenue with donor restrictions and then released from restriction. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building improvements	10 - 15 years
Building under capital lease	50 years
Vans and autos	5 years
Furniture, fixtures and equipment	5 years
Donation box equipment	5 years

The Organization capitalizes interest costs as a component of construction in progress during the term of construction. Total interest incurred and capitalized for the years ended December 31, 2019 and 2018 was \$15,677 and \$10,164, respectively.

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve, which was \$928,873 and \$699,190 and net assets for projects, which was \$29,976 and \$66,160 as of December 31, 2019 and 2018, respectively. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Nature of the Gift	Value Recognized
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue with donor restrictions and then released from restriction.

The Organization is the beneficiary under various wills and trust agreements of which the total realizable amount is not presently determinable. Such amounts are recorded when a will is declared valid by probate court and the proceeds are measurable.

Approximately 11 and 10 percent of all revenue from contributions, special events and external fundraising events were received from one donor as a one-time gift in 2019 and 2018, respectively.

In-kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions in the form of goods and services from various donors. Such contributions are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets, or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. It is the policy of the Organization to record the estimated fair value of certain in-kind contributions as revenue in the financial statements, and similarly increase an expense or capitalized asset by a like amount. In-kind contributions recognized during 2019 and 2018 were approximately \$484,000 and \$465,000, respectively, which includes contributed services of approximately \$97,000 and \$34,000, respectively.

Ronald McDonald House Charities of Kansas City, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

A substantial number of unpaid volunteers have made significant contributions of their time to the Organization. Contributed goods and services not subject to objective measurement or valuation are not reflected in the financial statements.

Deferred Revenue

Income from sponsorships received in advance of future special events, which the resource provider is receiving commensurate value in return or a right of return exists if the event does not occur, is deferred and recognized over the periods to which the sponsorships relate.

Fundraising Events Revenue

The portion of the fundraising events revenue that relates to the commensurate value the sponsor received in return is recognized when the related events are held and performance obligations are met. The transaction price is determined based on the cost of benefits provided to donors, which was \$228,582 for the year ended December 31, 2019. All revenue is recognized as of the point in time the event is held and benefits are provided to the donor, which is when the performance obligations are met. The portion of fundraising events revenue considered to be a contribution is recognized in accordance with the Organization's contribution revenue policies.

Medicaid Revenue

Medicaid revenue represents fees for services and is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing services. These amounts are due from third-party insurers. Revenue is recognized as the performance obligation is satisfied, which is over time as services are provided as the customer simultaneously receives and consumes the benefit. The Organization determines the transaction price based on standard charges for services provided. These contracts are generally short-term in nature and revenue is recognized based on the number of nights stayed. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the outputs needed to satisfy the obligation. Insurers are generally invoiced the month following the service. Medicaid revenue for the year ended December 31, 2019 was \$637,958.

Advertising

The Organization expenses advertising costs as they are incurred. Advertising expenses were \$62,365 and \$10,565 for the years ended December 31, 2019 and 2018, respectively.

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Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income, if any, from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

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.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on time expended, usage and other methods.

Change in Accounting Principles

On January 1, 2019, the Organization adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606), (ASU 2014-09) using a modified retrospective method of adoption to all contracts with customers not complete at January 1, 2019.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to donors in amounts that reflect the consideration to which the Organization expects to be entitled in exchange for those goods or services.

The amount to which the Organization expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

Adoption of ASU 2014-09 did not result in a change to the timing of revenue recognition or changes in presentation of financial statements, but did result in changes to related disclosures in the notes to the financial statements.

On January 1, 2019, the Organization also adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The core guidance in ASU 2018-08 provided clarification on the determination of a contribution versus an exchange transaction and if determined to be a contribution, clarification on the presence of a condition which governs when the revenue is recognized. The adoption did not result in any changes to the financial statements.

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Subsequent Events

Subsequent events have been evaluated through May 8, 2020, which is the date the financial statements were available to be issued. The Organization obtained a loan in the amount of \$434,000 subsequent to year end.

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Organization. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Note 2: Contributions Receivable

Contributions receivable at December 31 consisted of the following unconditional promises to give discounted at a rate of 5 percent:

	2019	2018
Due within one year	\$ 644,652	\$ 516,040
Due in one to five years	240,000	375,000
	884,652	891,040
Less		
Allowance for uncollectible contributions	(2,750)	(300)
Unamortized discount	(47,023)	(87,506)
	\$ 834,879	\$ 803,234

Approximately 96 percent and 89 percent of contributions receivable was due from two donors as of December 31, 2019 and 2018, respectively.

Note 3: Fair Value Measurements and Disclosures

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

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Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs are supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

	Fair Value Measurements Using				
	Total	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019					
Money market funds	\$ 937,816	\$ 937,816	\$ 937,816	\$ -	\$ -
Bond mutual funds	1,054,540	1,054,540	1,054,540	-	-
Equity mutual funds	3,099,750	3,099,750	3,099,750	-	-
Total at fair value	<u>5,092,106</u>	<u>5,092,106</u>	<u>5,092,106</u>	<u>-</u>	<u>-</u>
Certificate of deposit	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 5,117,106</u>	<u>\$ 5,092,106</u>	<u>\$ 5,092,106</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2018					
Money market funds	\$ 712,406	\$ 712,406	\$ 712,406	\$ -	\$ -
Bond mutual funds	999,661	999,661	999,661	-	-
Equity mutual funds	2,346,989	2,346,989	2,346,989	-	-
Total at fair value	<u>4,059,056</u>	<u>4,059,056</u>	<u>4,059,056</u>	<u>-</u>	<u>-</u>
Certificate of deposit	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 4,084,056</u>	<u>\$ 4,059,056</u>	<u>\$ 4,059,056</u>	<u>\$ -</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2019.

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 4: Property and Equipment

Property and equipment at December 31 consisted of the following:

	2019	2018
Land and parking lot	\$ 597,114	\$ 158,845
Buildings and improvements	8,645,486	8,618,696
Buildings and improvements under capital lease	12,433,774	12,374,326
Vans and autos	20,919	20,919
Furniture and equipment	1,880,284	1,653,459
Donation box equipment	26,421	26,421
Family Room	422,662	406,897
Construction in progress	954,175	1,031,175
	24,980,835	24,290,738
Less accumulated depreciation	(8,957,042)	(8,260,320)
	\$ 16,023,793	\$ 16,030,418

Note 5: Lines of Credit

During 2019 and 2018, the Organization has a \$750,000 revolving bank line of credit due on demand with a maturity date of May 1, 2020. At December 31, 2019 and 2018, there was \$0 and \$300,000, respectively, borrowed against this line. Interest on the revolving line of credit is payable monthly at the bank prime rate (4.75 percent and 5.50 percent at December 31, 2019 and 2018, respectively).

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Note 6: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

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

	2019	2018
Subject to expenditure for specified purpose		
Project GROW	\$ 526,201	\$ 1,282,169
Other projects	45,872	43,248
Beneficial interests in assets held by another for family room	138,854	233,870
LF bathroom upgrades	40,000	-
Guest room improvements	26,200	-
Promises to give, the proceeds from which have been restricted by donors for Project GROW	-	25,000
	<u>777,127</u>	<u>1,584,287</u>
Subject to the passage of time		
Promises to give that are not restricted by donors but which are unavailable for expenditure until due	<u>834,879</u>	<u>778,234</u>
Endowments		
Endowment, subject to spending policy and appropriation General use	<u>1,295,431</u>	<u>1,367,996</u>
Total endowments	<u>1,295,431</u>	<u>1,367,996</u>
Total net assets with donor restrictions	<u>\$ 2,907,437</u>	<u>\$ 3,730,517</u>

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Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2019	2018
Expiration of time restrictions	\$ 1,027,440	\$ 751,859
Satisfaction or purpose restrictions		
Project GROW	858,584	510,443
Capital projects	48,249	161,688
Endowment spending	300,000	-
Camp ChiMer	-	36,238
Other projects	136,189	105,352
	\$ 2,370,462	\$ 1,565,580

Note 7: Endowment

The Organization's endowment consists of one donor-restricted fund established in the amount of \$1,000,000, to be held in perpetuity in order to provide supplemental income for the operating expenses at the Ronald McDonald House. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's governing body is subject to the State of Missouri *Uniform Prudent Management of Institutional Funds Act* as adopted by the state of Missouri (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. The governing body of the Organization has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary.

As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Organization and the fund

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3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Organization
7. Investment policies of the Organization

The composition of endowment net assets at December 31, 2019 and 2018 was:

	Without Donor Restrictions	With Donor Restrictions	Total
December 31, 2019			
Donor-restricted endowment funds			
Original donor-restricted gift amount required to be maintained in perpetuity by donor	\$ -	\$ 1,000,000	\$ 1,000,000
Accumulated investment	441,878	295,431	737,309
Total endowment funds	\$ 441,878	\$ 1,295,431	\$ 1,737,309
December 31, 2018			
Donor-restricted endowment funds			
Original donor-restricted gift amount required to be maintained in perpetuity by donor	\$ -	\$ 1,000,000	\$ 1,000,000
Accumulated investment	358,926	367,996	726,922
Total endowment funds	\$ 358,926	\$ 1,367,996	\$ 1,726,922

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December 31, 2019 and 2018

Changes in endowment net assets for the years ended December 31, 2019 and 2018 were:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2017	\$ 272,403	\$ 1,564,972	\$ 1,837,375
Net investment return (loss)	<u>86,523</u>	<u>(196,976)</u>	<u>(110,453)</u>
Endowment net assets, December 31, 2018	358,926	1,367,996	1,726,922
Net investment return	82,952	227,435	310,387
Appropriation of endowment assets for expenditures	<u>-</u>	<u>(300,000)</u>	<u>(300,000)</u>
Endowment net assets, December 31, 2019	<u>\$ 441,878</u>	<u>\$ 1,295,431</u>	<u>\$ 1,737,309</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Organization is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions, which the Organization did not have at December 31, 2019 and 2018.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include assets of donor-restricted endowment funds the Organization must hold in perpetuity.

Under the Organization's policies, the primary investment goal is long-term asset growth with the generation of investment income a secondary goal. The Organization's investment policy details other guidelines for investment assets. The Organization expects its endowment funds to provide returns over a rolling three-year period, which will be reasonably consistent with those from a comparably positioned "unmanaged" fund consisting of equity, fixed income and cash indices, as applicable. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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The Organization follows the donor’s stipulation in regard to this endowment, which requires the original gift to be held in perpetuity and the income earned to be used for operating expenses. The Organization has a policy (the spending policy) of appropriating for expenditure each year up to 7 percent of the endowment fund’s average fair value over the prior three years as long as the funds exceed a value of 1.5 times the original gift. This policy does not restrict the board from approving expenditure from the endowment when the fund is valued at less than 1.5 times the original gift, but gives guidance as to the treatment when the endowment has experienced tremendous growth. No distribution will be appropriated should the fair market value fall below the original gift value.

Note 8: Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of December 31, 2019 and 2018, comprise the following:

	2019	2018
Cash and cash equivalents	\$ 456,583	\$ 598,008
Accounts receivables	625,443	55,737
Contributions receivable	641,902	491,040
Appropriations from investments	126,625	107,839
	\$ 1,850,553	\$ 1,252,624

The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 90 days of normal operating expenses, which are, on average, approximately \$1,300,000 and \$1,100,000 for 2019 and 2018, respectively.

In addition, the Organization maintains an investment portfolio that allows for annual spending of up to 5 percent of the 3-year average balance as of December 31 of the three preceding years of the Spendable Investments (Operating Reserve, Long-Term Portfolio and any spendable portion of the Endowment Portfolio). Up to \$126,625 and \$107,839 of appropriations from the investment portfolio will be available within the next 12 months as of December 31, 2019 and 2018, respectively.

As more fully described in *Note 5*, the Organization also has committed lines of credit in the amount of \$750,000, which it could draw upon in the event of an unanticipated liquidity need.

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Note 9: Long-term Leases

The Bernstein facility has been constructed on land subject to a lease through the year 2085 for an annual payment of \$10.

The Longfellow facility was constructed on land that was donated by a local company and by the City of Kansas City, Missouri. Upon completion of the project, the Organization transferred the property to Kansas City, Missouri in accordance with the restrictions set forth by Kansas City, Missouri. The Organization then contracted to lease the property from the City at \$1 per year for a term of 20 years with three 10-year renewal options. The lease qualifies for capital lease accounting treatment. Leasehold improvements are being amortized over the shorter of the lease term or their estimated useful lives.

Property and equipment includes the following property under the capital lease at December 31, 2019 and 2018:

	2019	2018
Land	\$ 1,613,691	\$ 1,613,691
Building and improvements	10,820,083	10,760,635
	12,433,774	12,374,326
Less accumulated depreciation	3,489,661	3,183,956
	\$ 8,944,113	\$ 9,190,370

Note 10: Retirement Plan

The Organization has a defined contribution pension plan covering substantially all employees. Regularly scheduled employees are eligible to participate in the plan after reaching age 21 and completing six months of eligible service. For both 2019 and 2018, the Organization contributed the 5 percent required of eligible compensation and also matched 50 percent of the employees' contributions up to 4 percent of eligible compensation. The Organization's retirement expense amounted to \$113,061 and \$113,221 for the years ended 2019 and 2018, respectively.

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Note 11: Related Party

Ronald McDonald House Charities (RMHC) is a system of independent, separately registered public benefit organizations, referred to as “Chapters” within the global organization. The Organization is an independent operating Chapter within the RMHC system. Each Chapter is licensed by McDonald’s Corporation and Ronald McDonald House Charities, Inc. to use RMHC-related trademarks in conjunction with fundraising activities and the operation of its programs; the License Agreement also sets standards of operations for programs, governance, finance, branding and reporting.

Ronald McDonald House Charities, Inc. (RMHC Global), a separately registered nonprofit organization, ensures delivery of the mission across the globe. As a center of excellence, RMHC Global builds and sustains a robust infrastructure of support to the network of Chapters, including operations, licensing and compliance, finance, risk management, communications, marketing and development. The Organization receives 75 percent of net revenues from all national fundraising efforts facilitated by RMHC Global, as defined by the License Agreement. During the years ended December 31, 2019 and 2018, the Organization received \$299,079 and \$253,945, respectively, from these revenue streams.

Note 12: Future Changes in Accounting Principle

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.