



# **Ronald McDonald House Charities, Upper Midwest**

# **RONALD MCDONALD HOUSE CHARITIES, UPPER MIDWEST**

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## INDEPENDENT AUDITOR'S REPORT

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The Board of Directors  
**Ronald McDonald House Charities, Upper Midwest**  
Minneapolis, Minnesota

We have audited the accompanying statement of financial position of **Ronald McDonald House Charities, Upper Midwest** (the Organization), as of December 31, 2008, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2007 financial statements, and in our report dated March 25, 2008, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Ronald McDonald House Charities, Upper Midwest**, as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Minneapolis, Minnesota  
March 9, 2009

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**RONALD MCDONALD HOUSE CHARITIES, UPPER MIDWEST**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2008 (WITH COMPARATIVE TOTALS FOR 2007)**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 494,945	\$ 459,290
Accounts receivable, less allowance for doubtful accounts of \$32,000	40,445	59,456
Contributions receivable, net	24,504	22,526
Inventory	29,755	37,834
Investments	1,228,611	2,654,728
Prepaid expenses	7,716	3,800
	<u>1,825,976</u>	<u>3,237,634</u>
PROPERTY AND EQUIPMENT, net	<u>7,252,244</u>	<u>7,579,891</u>
<b>OTHER ASSETS</b>		
Contributions receivable, net	3,288	10,345
Cash surrender value of life insurance policy	75,801	71,866
Investments restricted to endowment	2,134,971	2,050,799
	<u>2,214,060</u>	<u>2,133,010</u>
	<u>\$ 11,292,280</u>	<u>\$ 12,950,535</u>

See Notes to Financial Statements

	<u>2008</u>	<u>2007</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 100,051	\$ 121,318
Grants payable	-	98,312
Payable to affiliate	24,899	54,462
Other accrued liabilities	49,737	79,569
Current portion of long-term debt	-	133,831
	<u>174,687</u>	<u>487,492</u>
<b>NET ASSETS</b>		
Unrestricted net assets		
Undesignated	174,687	487,492
Invested in property and equipment	7,252,244	7,579,891
Board designated	1,243,757	2,009,829
	<u>8,670,688</u>	<u>10,077,212</u>
Temporarily restricted	296,451	244,725
Permanently restricted (Endowment)	2,150,454	2,141,106
	<u>11,117,593</u>	<u>12,463,043</u>
	<u>\$ 11,292,280</u>	<u>\$ 12,950,535</u>

**RONALD MCDONALD HOUSE CHARITIES, UPPER MIDWEST**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2008 (WITH COMPARATIVE TOTALS FOR 2007)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<b>PUBLIC SUPPORT AND REVENUE</b>			
Public support			
Canister donations, net	\$ 275,864	\$ -	\$ -
Special events, net	416,372	-	-
Remembrances	133,630	5,000	-
Estates	219,531	-	-
Organizations, corporations and foundations	812,768	14,500	400
Individuals	265,756	87,565	15,084
Net assets released from restrictions	55,339	(55,339)	-
Total public support	<u>2,179,260</u>	<u>51,726</u>	<u>15,484</u>
Revenue			
House rental	251,880	-	-
School reimbursement	58,347	-	-
Net investment (loss) income	(910,346)	-	(6,136)
Pop tab income	24,704	-	-
Store, net	(7,165)	-	-
Total revenue	<u>(582,580)</u>	<u>-</u>	<u>(6,136)</u>
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	<u>1,596,680</u>	<u>51,726</u>	<u>9,348</u>
<b>EXPENSES</b>			
Program services	2,019,262	-	-
Fundraising	560,964	-	-
General and administrative	422,978	-	-
Total expenses	<u>3,003,204</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	<u>(1,406,524)</u>	<u>51,726</u>	<u>9,348</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>10,077,212</u>	<u>244,725</u>	<u>2,141,106</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 8,670,688</u>	<u>\$ 296,451</u>	<u>\$ 2,150,454</u>

See Notes to Financial Statements

<b>Total</b>	
<b>2008</b>	2007
\$ 275,864	\$ 287,954
416,372	465,192
138,630	119,707
219,531	15,033
827,668	881,371
368,405	512,159
-	-
<b>2,246,470</b>	2,281,416
251,880	262,673
58,347	77,428
(916,482)	511,970
24,704	39,518
(7,165)	16,575
<b>(588,716)</b>	908,164
<b>1,657,754</b>	3,189,580
2,019,262	1,954,672
560,964	609,716
422,978	445,448
<b>3,003,204</b>	3,009,836
<b>(1,345,450)</b>	179,744
<b>12,463,043</b>	12,283,299
<b>\$ 11,117,593</b>	<b>\$ 12,463,043</b>

**RONALD MCDONALD HOUSE CHARITIES, UPPER MIDWEST**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008 (WITH COMPARATIVE TOTALS FOR 2007)**

	<u>2008</u>	<u>2007</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,345,450)	\$ 179,744
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	517,051	484,031
Changed in unrealized loss (gain) on investments	889,006	(311,011)
Realized loss (gain) on sale of investments	153,889	(85,252)
Loss on disposal of assets	-	880
Change in cash surrender value of life insurance policy	(3,935)	(3,794)
Stock donations	(13,881)	(50,222)
Contributions restricted to long-term purposes	(15,484)	(85,808)
Change in operating assets and liabilities		
Accounts receivable	19,011	(50,199)
Contributions receivable	5,079	101,955
Inventory	8,079	(37,834)
Prepaid expenses	(3,916)	14,998
Accounts payable	(21,267)	7,350
Grant payable	(98,312)	(92,295)
Payable to affiliate	(29,563)	27,723
Other accrued liabilities	(29,832)	(6,078)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>30,475</u>	<u>94,188</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(3,708,240)	(2,179,574)
Proceeds from sale of investments	4,021,170	2,219,416
Purchase of property and equipment	(189,404)	(320,331)
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<u>123,526</u>	<u>(280,489)</u>
<b>FINANCING ACTIVITIES</b>		
Payments of long-term debt	(133,831)	(356,502)
Contributions restricted to endowment	15,484	85,808
<b>NET CASH USED FOR FINANCING ACTIVITIES</b>	<u>(118,347)</u>	<u>(270,694)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>35,655</u>	<u>(456,995)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>459,290</u>	<u>916,285</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 494,945</u>	<u>\$ 459,290</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Stock donations	\$ 13,881	\$ 50,222
Cash paid for interest expense	\$ 527	\$ 17,784

**RONALD MCDONALD HOUSE CHARITIES, UPPER MIDWEST**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2008 (WITH COMPARATIVE TOTALS FOR 2007)**

	Program Services				Total
	Lodging	Family Services	Volunteer	Outreach	
Salaries and benefits	\$ 351,312	\$ 269,791	\$ 70,241	\$ 22,085	\$ 713,429
Interest expense	-	-	-	-	-
Insurance expense	64,043	14,929	2,036	-	81,008
Supplies and food	19,572	169,711	2,161	2,256	193,700
Professional and consulting	17,504	20,849	1,349	26,325	66,027
Bank and investment fees	-	16	-	-	16
Utilities	108,565	11,506	-	-	120,071
Telephone	16,938	1,073	-	759	18,770
Postage	(10,073)	13,271	1,141	35	4,374
Facilities expense	119,327	62	-	-	119,389
House operations	91,371	4,334	30	-	95,735
Event expense	571	11,290	-	-	11,861
Books and staff development	823	7,961	1,024	3,289	13,097
Grant awards	-	-	-	-	-
Donor directed gifts	6,540	1,393	-	-	7,933
Printing expense	1,433	1,953	1,066	-	4,452
Recognition expense	-	-	1,468	-	1,468
Marketing	-	-	-	6,942	6,942
Lodging subsidy	97,944	7,859	-	-	105,803
Mileage	3,375	288	-	2,141	5,804
Computer - software	11,031	8,715	485	-	20,231
Depreciation	387,788	41,364	-	-	429,152
Total	<u>\$ 1,288,064</u>	<u>\$ 586,365</u>	<u>\$ 81,001</u>	<u>\$ 63,832</u>	<u>\$ 2,019,262</u>
	<u>42%</u>	<u>20%</u>	<u>3%</u>	<u>2%</u>	<u>67%</u>

See Notes to Financial Statements

<b>Fundraising</b>	<b>Administration</b>	<b>Total</b>	
		<b>2008</b>	<b>2007</b>
\$ 366,790	\$ 263,685	\$ 1,343,904	\$ 1,241,214
-	527	527	11,174
20,200	14,042	115,250	83,265
7,776	8,416	209,892	183,309
1,039	23,263	90,329	138,939
-	31,213	31,229	36,759
14,095	10,356	144,522	152,378
2,000	595	21,365	37,745
16,184	807	21,365	22,798
78	2,408	121,875	130,499
-	-	95,735	65,823
9,535	-	21,396	20,982
4,746	4,214	22,057	33,069
-	-	-	116,042
2,040	3,870	13,843	13,402
41,397	789	46,638	55,969
9,390	1,044	11,902	16,238
8,100	-	15,042	19,137
5,422	-	111,225	83,214
2,326	257	8,387	9,321
13,652	5,787	39,670	54,528
36,194	51,705	517,051	484,031
<b>\$ 560,964</b>	<b>\$ 422,978</b>	<b>\$ 3,003,204</b>	<b>\$ 3,009,836</b>
<b>19%</b>	<b>14%</b>	<b>100%</b>	

**RONALD MCDONALD HOUSE CHARITIES, UPPER MIDWEST**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Ronald McDonald House Charities, Upper Midwest (RMHC, the Organization or the House) is a non profit organization which owns and operates Ronald McDonald House of the Twin Cities that creates, finds and supports programs that provide a supportive community for families with seriously ill children and which increase children's access to health care services.

The Ronald McDonald House provides a home-away-from-home for families living greater than 60 miles from the Twin Cities who have children being treated for cancer and other life-threatening illness or disease. Several different program areas support the mission of RMH:

Lodging

The Lodging program is responsible for the maintenance and staffing of the House facility. RMH subsidizes the cost of accommodating the up to 48 families who live at the House each day. Families are asked only to pay \$15 per night if they are able.

Family Services

A variety of supportive services are provided to help ease the burden associated for families coping with pediatric illness. There are evening activities, after school programs and summer programs available for RMH residents. A full-time Alternative School is available for siblings and children who are patients while staying at RMH.

Volunteer Services

Many people volunteer time and services to help support RMH. The Cooks for Kids program provides evening meals for families. Volunteers also work as House Volunteers, Friends of Families, Ambassador's and in Development projects to provide vital support for the RMH mission.

Outreach Program

The Organization has three cornerstone outreach programs that are either currently operating or are in the process of opening in 2009-2012:

*Care Mobile* is a mobile dental unit operated with Children's Dental Services, to serve children within the Twin City metro area.

*House within the Hospital* is located at Children's Hospitals and Clinics, Minneapolis facility, to serve families within 60 miles of the Twin Cities.

*Faith's Lodge* is a resort-retreat, in northern Wisconsin, exclusively for families who have sick children or children who have passed away.

The Organization has an independently operated license agreement with Ronald McDonald House Charities, Global (RHMC Global). RHMC Global receives 25 percent of canister income after expenses incurred for providing and maintaining the canisters in the restaurants.

## NOTES TO FINANCIAL STATEMENTS

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### *Basis of Accounting*

The financial statements of RMHC have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

### *Basis of Presentation*

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under the SFAS No. 117, RMHC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Permanently restricted net assets consist of contributions for general endowment funds that are required by the gift instruments to be invested in perpetuity. The income from such investments is unrestricted.

### *Cash and Cash Equivalents*

For purposes of the statement of cash flows, RMHC considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Money market funds are considered investments.

### *Receivables*

Accounts receivable consist primarily of uncollateralized obligations due from families upon completion of their stay at the facility. These receivables do not bear any interest on unpaid balances. Contribution receivables are uncollateralized donor contributions and are paid based on terms arranged with the donor.

Accounts receivable are stated at the amount billed to the family. RMHC generally does not bill the family until they leave the facility. Contribution receivables are stated at the amount donated, less an adjustment to net present value for contributions due in more than one year.

Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

RMHC uses the allowance method to determine uncollectible contributions and accounts receivable. The allowance is based on prior year's experience and management's analysis of the outstanding receivables. The carrying amount of pledge receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected.

### *Inventory and Store Revenue*

Inventories consist of store logo merchandise and are stated at lower of cost (last-in, first out method) or market.

RMHC maintains a store with clothes, toys, and gifts for families residing with them. The loss of \$7,615 for the year ended December 31, 2008 is net of revenue of \$13,859 and cost of goods sold of \$21,024.

## NOTES TO FINANCIAL STATEMENTS

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### *Property and Equipment*

Property and equipment with a value in excess of \$3,500 is capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets.

Buildings	25 years
Furniture and fixtures	7 years
Computers and software	5 years
Vehicles	5 years

### *Investments*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the statement of financial position. Investments include money market funds also at fair value. Donated investments are reflected in the financial statements at their fair value on the date of donation. Investment income and realized and unrealized gains/losses are reported as changes in net assets in the reporting period in which the income and gains/losses are recognized.

The investments are not insured and involve risks, including the possible loss of the principal invested.

The Organization has an Endowment Fund which is permanently restricted. Investment earnings are available to support the Organization's charitable efforts and are reported as unrestricted in the statement of activities. The Organization also has several named Endowment Funds in which gifts of at least \$10,000 can be named in honor of the donor or in honor or memory of another individual. The principal of these funds is retained as well. In addition these named Endowment agreements call for the funds to increase in value each year at a growth rate equal to the consumer price index. These investment earnings sufficient to fulfill this are reported as permanently restricted on the statement of activities.

### *Support Recognition*

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Canister donation revenue is recorded net of direct canister expense of \$19,539 and the RMHC Global share of \$99,829 in 2008. \$24,899 was payable to RMHC Global as of December 31, 2008.

### *Income Taxes*

RMHC is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a).

## NOTES TO FINANCIAL STATEMENTS

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In July 2006, Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN No. 48) was issued. Subsequent to its original issuance, the effective date of its implementation for nonpublic enterprises has been deferred, and is currently deferred for nonpublic entities until years beginning after December 15, 2008. RMHC has elected to defer implementation of FIN No. 48, as allowable.

RMHC undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by FIN No. 48

### *Donated Materials and Services*

In-kind contributions are reflected as support and expenses in the financial statements at their estimated values on the date of donation. Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services; (a) create or enhance non-financial assets or, (b) specialized skills, are performed by people with those skills and would otherwise be purchased by RMHC. Volunteers also provide services throughout the year that are not recognized as contributions in the financial statements since the criteria for SFAS No. 116 are not met.

### *Functional Expense Allocation*

The costs of providing RMHC's various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### *Use of Estimates*

The preparation of the 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 and expenses during the reporting period. Actual results could differ from the estimates.

### *Concentrations of Credit Risk*

RMHC maintains its cash in bank deposit accounts at a financial institution. These balances, at times, may exceed federally insured limits.

### *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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with RMHC's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

### *Fair Value Measurements*

RMHC has determined the fair value of certain assets and liabilities in accordance with the provisions of FASB Statement No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles.

## NOTES TO FINANCIAL STATEMENTS

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Statement No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

RMHC uses Level 1 inputs to determine fair market value for its investments.

### *Reclassifications*

Certain 2007 items may have been reclassified in order to confirm with the 2008 financial statement presentation.

### **NOTE 2 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist of the following at December 31, 2008, and are payable as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2009	\$ 24,504
2010	2,000
2011	2,000
2012	2,000
2013	2,000
Thereafter	4,000
Total contributions receivable	36,504
Less discount to net present value	(3,712)
Less allowance for uncollectible contributions	(5,000)
Contributions receivable, net	<u>\$ 27,792</u>

Net contribution receivables have been classified on the statement of financial position as follows:

Current assets	\$ 24,504
Other assets	3,288
Total contributions receivable, net	<u>\$ 27,792</u>

Contributions receivable have been reduced to present value using a discount rate of 4.5 percent.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 3 - INVESTMENTS

Investments are held and managed under an agency agreement by a professional management firm and consist of the following money market funds and securities reported at fair market value at December 31, 2008:

	<u>Fair Value</u>
Money market	\$ 33,271
Stocks	1,920,226
U.S. government bonds	758,080
Alternative investments	297,238
Corporate bonds	<u>354,767</u>
	<u>\$ 3,363,582</u>

The summary of investment results, net of investment management fees of \$31,228, for the year ended December 31, 2008, is as follows:

Interest and dividends	\$ 126,413
Net realized and unrealized gains	<u>(1,042,895)</u>
Net investment income (loss)	<u>\$ (916,482)</u>

The investments include \$2,134,971 in permanently restricted Endowment funds.

Investments in an unrealized loss position at December 31, 2008 are in stocks investments with a fair value of \$1,920,226 and an unrealized loss of \$887,165. The unrealized losses are the results of changes in the market. RMHC does not consider those investments to be other-than-temporarily impaired at December 31, 2008.

Investments are subject to changes relating to increases and decreases in current market conditions. Subsequent to December 31, 2008, the financial markets continued to experience significant declines in market values of securities. As of January 31, 2009, the most recent period for which we can estimate fair value, RMHC's investments declined approximately \$113,000.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 1,197,489
Buildings	9,750,661
Furniture and fixtures	846,777
Computers and software	241,725
Vehicles	25,587
	<hr/>
	12,062,239
Less accumulated depreciation	(4,809,995)
	<hr/>
Net property and equipment	<u><u>\$ 7,252,244</u></u>

Depreciation expense for the year ended December 31, 2008, was \$517,051.

### NOTE 5 - IN-KIND CONTRIBUTIONS

The value of in-kind contributions at estimated fair value at the date of donation for the year ended December 31, 2008, is as follows:

Food donation	\$ 126,682
House operations	51,273
Legal services	26,222
House maintenance	12,572
Supplies	3,925
Ground maintenance	1,478
Computer	1,573
Telephone	2,990
Appliances and HVAC	9,160
Furnishings	7,494
Utilities	9,600
	<hr/>
	<u><u>\$ 252,969</u></u>

Volunteers contributed approximately 28,113 hours of service to Ronald McDonald House Charities during 2008.

### NOTE 6 - CONTINGENCIES

Substantially all support is received in the form of contributions from various individuals, corporations and foundations, therefore; the continuation of the programs of RMHC is dependent upon future funding.

Contributions may require the fulfillment of certain conditions as set forth in the instrument of the contribution. Failure to fulfill the conditions could result in the return of the funds to donors. Although that is a possibility, the Board deems the contingency remote, since by accepting the gifts and their terms, it has accommodated the objectives of RMHC to the provisions of the gift.

### NOTE 7 - PENSION PLAN

(continued on next page)

## NOTES TO FINANCIAL STATEMENTS

RMHC sponsors a 401(k) defined contribution retirement plan, which matches contributions at 50 percent of the first 6 percent of an employee's salary contributed to the plan. RMHC also contributes a discretionary amount allocated to participating employees employed at year end. Expenses under this plan were \$38,200 for the year ended December 31, 2008.

### NOTE 8 - SPECIAL EVENTS

Net special event revenue consisted of the following at December 31, 2008:

	<u>Revenue</u>	<u>Contributions</u>	<u>Gross Special Event Revenue</u>	<u>Direct Expenses</u>	<u>Net Special Event Revenue</u>
Fam Glam	\$ 222,020	\$ 227,120	\$ 449,140	\$ 114,176	\$ 334,964
Kelsey Classic	52,773	70,973	123,746	42,338	81,408
	<u>\$ 274,793</u>	<u>\$ 298,093</u>	<u>\$ 572,886</u>	<u>\$ 156,514</u>	<u>\$ 416,372</u>

### NOTE 9 - NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2008:

House within the Hospital	\$ 241,119
Children's art program	8,211
Care Mobile	47,121
	<u>\$ 296,451</u>

Temporarily restricted net assets released from restriction for the year ended December 31, 2008, consist of the following:

Children's art program	\$ 11,166
Facility improvements	31,579
Care Mobile	12,594
	<u>\$ 55,339</u>

The RMHC Board has designated a portion of unrestricted net assets to be used for future expansion. Current projects include the Care Mobile and House within the Hospital.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 10 - ENDOWMENT

RMHC endowment consists of approximately nineteen individual funds established for a variety of purposes. Its endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

The Board of Directors of RMHC has interpreted the Minnesota adopted Universal Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, RMHC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment by changes in the consumer price index as identified in the endowment agreements. In accordance with Minnesota UPMIFA, the organization 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.

Endowment net asset is composed of donor-restricted endowment funds. Changes in the endowment net assets for the fiscal year ended December 31, 2008, consist of \$6,136 loss due to a reduction in the consumer price index and contributions of \$15,484 for an ending balance at December 31, 2008, of \$2,150,154.

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or Minnesota UPMIFA requires RMHC to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2008.

#### Return Objectives and Risk Parameters

RMHC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that maintain the principle plus inflation and to re-invest excess earnings that are equal to or exceed the various benchmarks that are representative of the asset allocation models. Investment risks are considered within the context of all managed assets and the need to meet specific objectives as determined by the Finance Committee. Volatility and risk will be controlled through asset allocation strategies and the selection of Investment Managers of mutual funds.

## NOTES TO FINANCIAL STATEMENTS

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### Strategies Employed for Achieving Objectives

To satisfy its long-term objectives, RMHC relies on a balanced asset allocation model in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). RMHC 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.

### Spending Policy and How the Investment Objectives Relate to Spending Policy

RMHC has a policy that reflects a commitment to endowment growth by balancing the re-investment of annual earnings with the operating needs of the organization. Accordingly, over the long term, the Organization expects the current policy to allow its endowment to grow at a rate of return that equals or exceeds the various benchmarks that are representative of the asset allocation model identified. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts, changes in inflation, and investment return.

### **NOTE 11 - SABBATICAL LEAVE POLICY**

RMHC has a Sabbatical Policy to appreciate long-term employment, to promote retention and to allow staff to rejuvenate. Employees who work 32 hours or more per week on a regular 12-month schedule and who are entering their 11<sup>th</sup> year of employment will receive six consecutive weeks of paid sabbatical leave. The sabbatical must be taken within the 12-month period of time during the 11<sup>th</sup> year. The leave will run consecutively and needs to be planned during a time that is least disruptive based on the nature of the individual's position, with prior approval from their immediate supervisor. Sabbatical is not mandatory, but it may not be floated nor will it be compensated if the leave is not taken in full. Employees must return at the end of the sabbatical and work for six months or they will be required to pay back the full amount of the leave. There are no known future sabbatical leave known by management as of December 31, 2008.