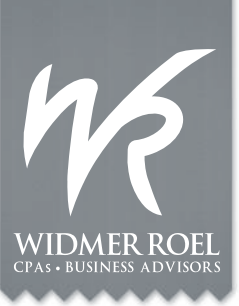


**RONALD MCDONALD HOUSE CHARITIES
OF THE RED RIVER VALLEY, INC.**

**FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

WITH INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ronald McDonald House Charities of the Red River Valley, Inc.
Fargo, North Dakota

We have audited the accompanying financial statements of **Ronald McDonald House Charities of the Red River Valley, Inc.**, which comprise the statements of financial position as of December 31, 2020 and 2019, 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Ronald McDonald House Charities of the Red River Valley, Inc.** as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "William R. Rupp". The signature is written in a cursive style with a large initial "W" and a distinct "R" at the end.

Fargo, North Dakota
May 11, 2021

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

ASSETS	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 341,813	\$ 285,885
Cash - restricted for capital campaign	75,268	43,584
Certificates of deposit	164,478	163,118
Current portion of contributions receivable, net	183,280	245,529
Beneficial interest in charitable remainder trust	-	2,715
Prepaid expenses	<u>30,993</u>	<u>32,333</u>
Total current assets	<u>795,832</u>	<u>773,164</u>
PROPERTY AND EQUIPMENT, net	<u>4,244,511</u>	<u>4,402,235</u>
OTHER ASSETS		
Beneficial use of land, net	477,737	480,342
Contributions receivable, net	483,865	623,533
Investments, net	<u>1,323,229</u>	<u>1,096,523</u>
Total other assets	<u>2,284,831</u>	<u>2,200,398</u>
Total assets	\$ <u><u>7,325,174</u></u>	\$ <u><u>7,375,797</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 17,547	\$ 11,703
Accrued expenses	27,584	17,112
Deferred revenue	<u>6,070</u>	<u>19,551</u>
Total current liabilities	51,201	48,366
LONG-TERM DEBT	<u>433,518</u>	<u>641,263</u>
Total liabilities	<u>484,719</u>	<u>689,629</u>
NET ASSETS		
Without donor restrictions	5,120,333	4,790,465
With donor restrictions	<u>1,720,122</u>	<u>1,895,703</u>
Total net assets	<u>6,840,455</u>	<u>6,686,168</u>
Total liabilities and net assets	\$ <u><u>7,325,174</u></u>	\$ <u><u>7,375,797</u></u>

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS			
Contributions	\$ 441,422	\$ -	\$ 441,422
Grants	66,050	-	66,050
Special event revenue	186,346	-	186,346
Less: direct benefit costs	<u>(45,264)</u>	<u>-</u>	<u>(45,264)</u>
Net revenue from special events	<u>141,082</u>	<u>-</u>	<u>141,082</u>
Residents room rent	23,825	-	23,825
Net investment return	229,745	-	229,745
Noncash contributions, net	25,024	-	25,024
Loss on disposal of assets	(704)	-	(704)
Other income	75,100	-	75,100
Net assets released from restriction	<u>175,581</u>	<u>(175,581)</u>	<u>-</u>
Total public support, revenues and reclassifications	<u>1,177,125</u>	<u>(175,581)</u>	<u>1,001,544</u>
Expenses			
Program services	635,351	-	635,351
Management and general	80,325	-	80,325
Fundraising	<u>131,581</u>	<u>-</u>	<u>131,581</u>
Total expenses	<u>847,257</u>	<u>-</u>	<u>847,257</u>
CHANGE IN NET ASSETS	329,868	(175,581)	154,287
NET ASSETS, BEGINNING OF YEAR	<u>4,790,465</u>	<u>1,895,703</u>	<u>6,686,168</u>
NET ASSETS, END OF YEAR	<u>\$ 5,120,333</u>	<u>\$ 1,720,122</u>	<u>\$ 6,840,455</u>

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS			
Contributions	\$ 451,842	\$ -	\$ 451,842
Grants	94,772	-	94,772
Special event revenue	175,741	-	175,741
Less: direct benefit costs	<u>(44,256)</u>	<u>-</u>	<u>(44,256)</u>
Net revenue from special events	<u>131,485</u>	<u>-</u>	<u>131,485</u>
Residents room rent	58,363	-	58,363
Net investment return	187,971	-	187,971
Noncash contributions, net	24,194	-	24,194
Gain on disposal of assets	81,395	-	81,395
Net assets released from restrictions	<u>152,131</u>	<u>(152,131)</u>	<u>-</u>
Total public support, revenues and reclassifications	<u>1,182,153</u>	<u>(152,131)</u>	<u>1,030,022</u>
Expenses			
Program services	649,904	-	649,904
Management and general	127,965	-	127,965
Fundraising	<u>126,054</u>	<u>-</u>	<u>126,054</u>
Total expenses	<u>903,923</u>	<u>-</u>	<u>903,923</u>
CHANGE IN NET ASSETS	278,230	(152,131)	126,099
NET ASSETS, BEGINNING OF YEAR	<u>4,512,235</u>	<u>2,047,834</u>	<u>6,560,069</u>
NET ASSETS, END OF YEAR	\$ <u>4,790,465</u>	\$ <u>1,895,703</u>	\$ <u>6,686,168</u>

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 242,180	\$ 20,326	\$ 84,357	\$ 346,863
Payroll taxes	16,782	1,409	5,846	24,037
Health insurance	9,344	784	3,255	13,383
Pension	5,893	495	2,053	8,441
Accounting and audit fees	4,896	14,691	-	19,587
Bank charges	-	5,947	-	5,947
Conferences	1,128	95	393	1,616
Contract labor	49,516	-	-	49,516
Depreciation	143,925	11,194	4,798	159,917
Equipment lease	4,364	366	1,520	6,250
Fundraising	-	-	15,550	15,550
House expenses	79,667	-	-	79,667
Interest expense	-	19,803	-	19,803
Meeting expenses	212	16	7	235
Miscellaneous	1,601	534	-	2,135
Newsletter	11,356	-	-	11,356
Office expenses	18,342	1,539	6,389	26,270
Other professional fees	5,071	-	-	5,071
Professional development	1,772	149	617	2,538
Promotional items	506	-	1,519	2,025
In-kind rent	24,462	1,903	815	27,180
Telephone	11,677	980	4,068	16,725
Travel and entertainment	16	1	6	23
Van expenses	1,528	-	-	1,528
Workers compensation	1,113	93	388	1,594
	<u>\$ 635,351</u>	<u>\$ 80,325</u>	<u>\$ 131,581</u>	<u>\$ 847,257</u>

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 208,660	\$ 24,696	\$ 85,306	\$ 318,662
Payroll taxes	14,339	1,697	5,862	21,898
Health insurance	9,700	1,148	3,966	14,814
Pension	5,386	638	2,202	8,226
Accounting and audit fees	4,630	13,892	-	18,522
Bad debt	-	11,750	-	11,750
Bank charges	-	5,534	-	5,534
Conferences	3,847	550	1,099	5,496
Contract labor	50,144	-	-	50,144
Depreciation	145,640	11,328	4,855	161,823
Equipment lease	3,963	469	1,620	6,052
Fundraising	-	-	9,343	9,343
House expenses	121,183	-	-	121,183
Interest expense	-	49,150	-	49,150
Meeting expenses	1,327	166	166	1,659
Miscellaneous	3,806	1,269	-	5,075
Newsletter	10,112	-	-	10,112
Office expenses	15,585	1,845	6,372	23,802
Other professional fees	1,001	-	-	1,001
Professional development	1,641	194	671	2,506
Promotional items	687	-	2,748	3,435
In-kind rent	24,462	1,903	815	27,180
Telephone	14,553	1,132	485	16,170
Travel and entertainment	173	20	71	264
Utilities	6,566	511	219	7,296
Van expenses	1,633	-	-	1,633
Volunteer programs	246	-	-	246
Workers compensation	620	73	254	947
	<u>\$ 649,904</u>	<u>\$ 127,965</u>	<u>\$ 126,054</u>	<u>\$ 903,923</u>

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 154,287	\$ 126,099
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities		
(Gain)/loss on disposal of assets	705	(81,395)
(Gain)/loss on investments	(226,706)	(182,350)
Depreciation	159,917	161,823
Beneficial interest in charitable remainder trust	2,715	7,370
Beneficial use of land - amortization	2,605	2,478
Pledge discounts	(4,383)	(13,165)
Changes in assets and liabilities:		
Prepaid expenses	1,340	(4,763)
Accounts payable	5,844	(24,159)
Accrued expenses	10,472	3,597
Deferred revenue	<u>(13,481)</u>	<u>2,851</u>
Net cash provided by (used in) operating activities	<u>93,315</u>	<u>(1,614)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Reinvestment of earnings into certificates of deposit	(1,360)	(3,040)
Purchase of property and equipment	<u>(2,898)</u>	<u>(11,761)</u>
Net cash used in investing activities	<u>(4,258)</u>	<u>(14,801)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for new building	206,300	188,781
Payments of long-term debt	<u>(207,745)</u>	<u>(135,617)</u>
Net cash provided by financing activities	<u>(1,445)</u>	<u>53,164</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	87,612	36,749
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	<u>329,469</u>	<u>292,720</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	\$ <u><u>417,081</u></u>	\$ <u><u>329,469</u></u>

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ <u>19,803</u>	\$ <u>49,150</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Proceeds from sale of assets held for sale used for principal payments on long-term debt	\$ <u>-</u>	\$ <u>672,092</u>
Proceeds from sale of equipment used for principal payments on long-term debt	\$ <u>-</u>	\$ <u>16,332</u>

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Ronald McDonald House Charities of the Red River Valley, Inc. (the “Organization”) is a North Dakota nonprofit organization, incorporated on June 15, 1981. The Organization supports families whose children are receiving medical care in the Fargo-Moorhead area by providing a home away from home to keep families close to their children, and supporting programs that directly benefit the well-being of children. The Organization operates one Ronald McDonald House (House). Families are asked to pay a nominal donation per night if able, but no family is turned away for inability to pay. The Organization’s main sources of revenues include grants and contributions.

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 (“US GAAP”), which require 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 available for use in general operations and not subject to donor (or certain grantor) restrictions. Board-designated net assets are without donor restrictions and are reported as a part of the net assets without donor restriction class.

Net assets with donor restrictions: Net assets 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. 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.

Concentrations of Risk

Contributions receivable are due primarily from individuals and businesses in the Red River Valley of North Dakota and Minnesota. Contributions are generally due for up to a five-year period. Due to this concentration of contributors, payment is contingent upon contributor ability and economic conditions in the Red River Valley.

Investments consist of domestic and international bonds and equities, which are subject to market risk.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less to be cash equivalents. At December 31, 2020 and 2019, cash considered restricted by the Organization is for the purpose of future capital additions. Restricted cash is kept in a separate bank account. Cash deposits exceeded Federal Deposit Insurance Corporation limits by \$167,378 during the fiscal year ended December 31, 2020. The Organization has not experienced any losses in such accounts and management believes that it is not exposed to any significant credit risk in cash.

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Certificates of Deposit

Certificates of deposit are held at financial institutions and approximate fair value due to the short maturity of the financial instruments.

Contributions Receivable

Contributions receivable are unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Contributions receivable are written off when deemed uncollectible.

Beneficial Interest in Charitable Remainder Trust

At times, the Organization is a 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.

The Organization was notified that it is a 25% beneficiary in a charitable remainder trust. The terms of the unitrust agreement have been met and the trust has been distributed. The remaining payout occurred during the year ended December 31, 2020.

Beneficial Use of Land and Rent

Beneficial use of land is recorded at carrying value less any amortization to date. Related rent is recorded as in-kind rent and includes amortization of the beneficial use of land asset. Amortization of the beneficial use of land is included in the release from restriction.

Revenue Recognition

The Organization's primary source of revenue is from contributions. Due to contributions being both voluntary and nonreciprocal, they do not fall under ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". The Organization has analyzed the provisions of Topic 606, including the five-step approach to evaluating contracts, and has concluded that no changes are necessary to conform with the new standard.

Contributions

Unconditional promises to give are recognized as revenue in the period the promise was made. Conditional promises are recorded as revenue when the conditions are substantially met. Contributions, grants, and bequests are recognized as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Special Event Revenue – Ticket Sales

The portion of ticket sales that relates to the commensurate value the attendee receives in return is recognized when the related events are held and performance obligations are met.

Deferred Revenue

Income from sponsorships and ticket sales received in advance of future special events is deferred and recognized over the periods in which the income relates.

Property and Equipment

Property and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. The Organization reports property and equipment as unrestricted unless explicit donor stipulations specify how the donated assets must be used. All expenditures for land, buildings and equipment in excess of \$500 are capitalized; the fair value of donated fixed assets is similarly capitalized. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 39 years.

Property and equipment held and used by the Organization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived asset may be impaired, an evaluation of recoverability would be performed.

Investments

Investments are composed of money market funds, common stocks and mutual funds. Investments are measured at fair value in the financial statements. Net realized and unrealized gains and losses and income are included in the statements of activities. Investment fees in the Organization's investment fund is charged from the change in market value.

Accounts Payable

Accounts payable includes payables in the normal course of business.

Contributed Materials and Services

Contributed services are recognized at fair market value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donations of materials, facilities, equipment, and other non-monetary items, including purchases by the Organization at prices significantly less than fair value, are recorded at fair value when the value is reasonably determinable for the asset received. Net noncash donations for the years ended December 31, 2020 and 2019 were \$25,024 and \$24,194, respectively.

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Income Taxes

The Organization is considered a publicly supported organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986. This exempt status will continue in effect provided that the Organization does not change its purpose, character or method of operation.

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 are expensed as incurred. Advertising costs for the years ended December 31, 2020 and 2019 were \$2,025 and \$3,435, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 amounts could differ from those estimates.

Functional Expenses

The costs of providing various program and supporting services have been presented on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include: depreciation, insurance, interest, maintenance and repairs, rent, and utilities, which are allocated on a square footage basis; meetings, education and training, office supplies, technology, and telephone, which are allocated based on full-time equivalents; and salaries and wages and employee benefits, which are allocated on the basis of estimates of time and effort.

Recent Accounting Pronouncements

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the Organization's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance will be effective for the year ending December 31, 2022. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the Organization's financial statements.

Subsequent Events

Management has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued.

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 2 – LIQUIDITY AND AVAILABILITY

The Organization’s financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2020</u>	<u>2019</u>
Current assets available for use		
Cash and cash equivalents without donor restrictions	\$ 341,813	\$ 285,885
Certificates of deposit	164,478	163,118
Endowment funds available for distribution	<u>49,716</u>	<u>45,209</u>
Total current assets available for use	556,007	494,212
Less: Current liabilities, excluding deferred revenues	<u>(45,131)</u>	<u>(28,815)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u><u>510,876</u></u>	\$ <u><u>465,397</u></u>

The Organization maintains financial assets, consisting of cash and short-term investments, on hand to meet its normal operating expenses based on its annual budget. Operating expenses are compared to budgeted expenses on a monthly basis and financial assets on hand are adjusted, as necessary. As part of its liquidity management, the Organization invests cash in excess of daily requirements in various certificates of deposit. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of outstanding pledges at December 31:

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 183,280	\$ 245,529
One to five years	503,090	549,005
More than five years	<u>-</u>	<u>101,930</u>
Total	686,370	896,464
Unamortized discount	<u>(19,225)</u>	<u>(27,402)</u>
Net contributions receivable	\$ <u><u>667,145</u></u>	\$ <u><u>869,062</u></u>

The discount rate used to discount pledges receivable with due dates extending beyond one year was 1.31%.

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 4 – INVESTMENTS

Investments consisted of the following at December 31:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Money market	\$ 7,853	\$ 7,853	\$ 7,818	\$ 7,818
Common stock	7,000	48,577	4,849	43,540
Mutual funds	<u>1,043,453</u>	<u>1,266,799</u>	<u>826,003</u>	<u>1,045,165</u>
	<u>\$ 1,058,306</u>	<u>\$ 1,323,229</u>	<u>\$ 838,670</u>	<u>\$ 1,096,523</u>

Investment earnings are comprised of the following at December 31:

	<u>2020</u>	<u>2019</u>
Interest income	\$ 56,304	\$ 17,494
Dividends	-	9,076
Change in unrealized gains (loss) on investments	<u>173,441</u>	<u>161,401</u>
Net investment return	<u>\$ 229,745</u>	<u>\$ 187,971</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
House - Agassiz Crossing	\$ 4,419,738	\$ 4,419,738
Furniture, fixtures and equipment	<u>271,186</u>	<u>270,817</u>
	4,690,924	4,690,555
Accumulated depreciation	<u>(446,413)</u>	<u>(288,320)</u>
	<u>\$ 4,244,511</u>	<u>\$ 4,402,235</u>

Depreciation expense for the years ended December 31, 2020 and 2019 totaled \$159,917 and \$161,823, respectively.

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 6 – BENEFICIAL USE OF LAND

In November 2017, the Organization entered into a lease agreement with Sanford Health (Sanford) whereby the Organization would lease from Sanford certain land owned by Sanford. The initial term of the lease is for a 49 year period that ends on October 31, 2066 and has the option to extend for another 49 years through October 31, 2115, with an aggregate annual base rent of \$1.00. An independent appraisal determined that the fair value of the space at the time of inception was \$510,000. The annual rental value was estimated at approximately \$27,180 per year. In connection with this lease agreement, the Organization discounted the value of the 49-year initial term of the lease using a discount rate of approximately 5% and recorded a restricted contribution in 2018 in the amount of \$510,000. The value remaining on the use of land as of December 31, 2020 and 2019 is \$477,737 and \$480,342, respectively, and has been recorded as such on the statements of financial position. For each of the years ended December 31, 2020 and 2019, rent expense of \$27,180 was recorded in connection with this lease agreement. The related amortization of the recorded discount associated with the beneficial use of land asset was \$2,605 for the year ended December 31, 2020 and \$2,478 for the year ended December 31, 2019, and is included in net assets released from restriction on the Statements of Activities.

NOTE 7 – FAIR VALUE MEASUREMENT

The three levels of the fair value hierarchy in accordance with ASC 820 *Fair Value Measurements* are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active or inactive markets and inputs other than quoted prices that are observable for the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value:

Common Stock - The fair value is based on quoted market prices reported on the active markets on which the individual securities are traded.

Money Market Funds and Mutual Funds - Valued at the net asset value (“NAV”) of shares by the Organization at year-end. Mutual Funds held by the Organization are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

The methods described above may produce fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies are assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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

	2020	2019
	Level 1	Level 1
Money market fund	\$ 7,853	\$ 7,818
Common stock	48,577	43,540
Mutual funds		
Core bonds	306,588	291,388
Small-cap value	86,292	60,230
Mid-cap growth	87,633	70,742
Large-cap growth	204,834	307,464
Large-cap value	194,088	160,684
Core international	349,057	129,229
Emerging markets	<u>38,307</u>	<u>25,428</u>
	\$ <u>1,323,229</u>	\$ <u>1,096,523</u>

NOTE 8 – LONG-TERM DEBT

Long-term debt consists of a note payable to Bell Bank with the ability to draw up to \$4,100,000, with interest of 3.75% on the first five years. Interest payments are due monthly through February 7, 2023. After February 7, 2023, principal balance outstanding will be amortized over 15 years with monthly principal and interest payments due until maturity February 7, 2028. On February 7, 2023 the interest rate will reset for the remaining five years of the loan term at the interest rate equal to the Five Year Fixed-Rate Advance Rate as published by the Federal Home Loan Bank of Des Moines, plus 1.65%. The current estimate of monthly principal and interest payments based on the balance outstanding at year end is \$3,374. The debt is secured by the mortgage on specific property. The balance on long-term debt was \$433,518 and \$641,263 as of December 31, 2020 and 2019, respectively.

Long-term debt is expected to mature during the years ending December 31:

2021	\$ -
2022	-
2023	17,290
2024	21,637
2025	22,649
Thereafter	<u>371,942</u>
	\$ <u>433,518</u>

The Bell Bank note payable has certain covenants that require the Organization to furnish annual audited financial statements upon its completion but not later than 120 days after the end of each year. The Organization's financial statements were not furnished within 120 days after December 31, 2020, however was given a waiver by the bank.

Interest expense on the long-term debt as of December 31, 2020 and 2019, was \$19,803 and \$49,150, respectively.

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Agassiz Crossing House – Funds are restricted for the construction of the Agassiz Crossing House near a newly built hospital. The Organization has a non-binding agreement for the lease of land where the new house is being built. Construction on the new house commenced in July of 2017 and was completed in May of 2018.

Beneficial Interest in Trust – In 2017, the Organization received a donation of beneficial interest in a trust. In 2020, the Organization received the final portion of the trust.

Endowment – In March 1993, 10,000 shares of McDonald’s Corporation common stock, valued at \$500,000, were donated with the stipulation that the original value is placed in an endowment fund and the income is used for operations. Subsequent sales of some of the stock shares have diversified the endowment fund.

The earnings from the endowment fund are first to be used to maintain the fair market value of the endowment fund at the historical value of \$500,000. Any excess earnings are then to be used to fund operating expenses of the Ronald McDonald House.

Donor restricted net assets for the years ended December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Subject to the Passage of Time or Specified Purpose		
Support for investment in capital assets	\$ 742,413	\$ 912,646
For periods after December 31		
Beneficial interest in charitable remainder trust	-	2,715
Beneficial use of land	<u>477,737</u>	<u>480,342</u>
 Total subject to passage of time or specified purpose	 1,220,150	 1,395,703
 Endowment Funds		
Ronald McDonald House Operations:		
Original donor-restricted gift required to be maintained in perpetuity by donor	<u>500,000</u>	<u>500,000</u>
 Total net assets with donor restrictions	 <u>\$ 1,720,150</u>	 <u>\$ 1,895,703</u>

NOTE 10 – ENDOWMENT FUND

Interpretation of Relevant Law

The Organization’s endowment consists of an individual fund established by a donor to provide annual funding for supporting the operations of the Ronald McDonald House. The endowment also includes certain net assets without donor restrictions that are in the endowment. The endowment fund net assets without donor restrictions are the board designated endowment operating reserve fund as described in Note 12.

The Organization has determined the donor-restricted endowment fund is subject to the terms of its governing documents. In accordance with the agreement, except as provided in gifts or legacies for a specific purpose, the Organization shall have no right to invade principal from gifts or legacies for operating funds to implement the general purposes of the Organization.

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

The Organization has interpreted Uniform 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, the Organization classifies as net assets with donor restrictions (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 made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund not classified in net assets with donor restrictions is classified as net assets without donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with 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 various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives

The Organization has a policy that allows the investments to consist of deposit accounts, certificates of deposit, or any other financial instruments deemed appropriate by the Finance Committee and approved by the Board of Directors.

Spending Policy – Without Donor Restrictions

The Organization has a policy of allowing the appropriation for distribution up to 5% of its board-designated endowment fund's three year rolling average fair value at the end of each year with board approval, not to exceed \$60,000. If the fund balance falls below its original value of \$500,000 due to market fluctuation, the Organization ceases distributions until the fair value exceeds its original value. In 2020 and 2019, there were no distributions.

Investment income earned on the donor-restricted endowment is restricted for the use of on-going house operations and expenses.

The restriction is considered met when the House's total operating expenses exceed the total investment income earned. The earnings then become classified as without donor restrictions.

Changes in the endowment net assets for the years ended December 31, 2020 and 2019 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment fund net assets, December 31, 2018	\$ 414,173	\$ 500,000	\$ 914,173
Investment income	<u>182,350</u>	<u>-</u>	<u>182,350</u>
Endowment fund net assets, December 31, 2019	596,523	500,000	1,096,523
Investment income	<u>226,706</u>	<u>-</u>	<u>226,706</u>
Endowment fund net assets, December 31, 2020	\$ <u><u>823,229</u></u>	\$ <u><u>500,000</u></u>	\$ <u><u>1,323,229</u></u>

(Continued)

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Fund Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2020 and 2019.

NOTE 11 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows for December 31:

	<u>2020</u>	<u>2019</u>
Purpose restrictions accomplished		
Ronald McDonald House	\$ 170,263	\$ 142,282
Time restrictions expired		
Charitable Remainder Trust	2,713	7,371
Beneficial use of land - discount amortization	<u>2,605</u>	<u>2,478</u>
Total restrictions released	\$ <u>175,581</u>	\$ <u>152,131</u>

NOTE 12 – NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD-DESIGNATED

The Organization's governing Board has designated net assets without donor restrictions for the Board-Designated Endowment Operating Reserve. The balances at December 31, 2020 and 2019 were \$823,229 and \$596,523, respectively.

NOTE 13 – RELATED PARTY TRANSACTIONS

RMHC Global collects all counter change and the 25% fee is taken out and then the remaining 75% is sent to the Organization. Amounts contributed to the Organization by RMHC Global in 2020 totaled \$44,170 and in 2019 totaled \$45,567.

NOTE 14 – EMPLOYEE RETIREMENT PLAN

Retirement benefits for the Organization's staff are available through participation in a SIMPLE IRA retirement plan. The plan is available for full-time employees on the first day of employment. The Organization matches 100% of employee contributions up to 3% of the participant's gross wages.

Employer contributions to the plan for the years ended December 31, 2020 and 2019 totaled \$8,441 and \$8,226, respectively.

RONALD MCDONALD HOUSE CHARITIES OF THE RED RIVER VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 15 – COMMITMENTS

As of December 31, 2020, the Organization leases a van with a one-year lease which is generally renewed each year.

The Organization leases a printer with a five-year lease and monthly payments of \$481 plus any additional maintenance fees.

Furthermore, the Organization entered into a one dollar a year lease agreement that commenced on November 1, 2017 for 49 years with a one-time optional 49-year extension. The Organization evaluates the lease annually for the fair value of the lease as an in-kind contribution.

Rental expense for the years ended December 31, 2020 and 2019 was \$7,779 and \$7,685, respectively.