

**RONALD McDONALD HOUSE OF CHARITIES
OF GREATER CHATTANOOGA, INC.**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018



CERTIFIED PUBLIC ACCOUNTANTS

**RONALD McDONALD HOUSE OF CHARITIES OF GREATER
CHATTANOOGA, INC.**

TABLE OF CONTENTS

DECEMBER 31, 2019 AND 2018

	PAGE
INDEPENDENT AUDITOR'S REPORT	1-2
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES AND NET ASSETS	4-5
STATEMENTS OF FUNCTIONAL EXPENSES	6-7
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9-23



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ronald McDonald House Charities of Greater Chattanooga, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Ronald McDonald House Charities of Greater Chattanooga, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and net assets, 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 controls 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 Greater Chattanooga, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Chattanooga, Tennessee
July 6, 2020

*Henderson Hutcherson
& McCullough, PLLC*

**RONALD McDONALD HOUSE CHARITIES OF GREATER
CHATTANOOGA, INC.**

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	ASSETS	
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 217,323	\$ 221,567
Contributions receivable, net	39,384	89,731
Prepaid expenses	18,658	12,788
Investments	255,781	258,250
Other assets	<u>195,473</u>	<u>165,114</u>
Total current assets	<u>726,619</u>	<u>747,450</u>
NONCURRENT ASSETS		
Investments	4,273,052	3,685,321
Property and equipment, net	2,741,343	2,860,930
Beneficial use of land	<u>140,659</u>	<u>152,839</u>
Total noncurrent assets	<u>7,155,054</u>	<u>6,699,090</u>
TOTAL ASSETS	<u>\$ 7,881,673</u>	<u>\$ 7,446,540</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 47,350	\$ 256,231
Other liabilities	<u>50,001</u>	<u>10,792</u>
Total current liabilities	<u>97,351</u>	<u>267,023</u>
NONCURRENT LIABILITIES		
Deferred compensation	<u>173,220</u>	<u>164,972</u>
Total noncurrent liabilities	<u>173,220</u>	<u>164,972</u>
Total liabilities	<u>270,571</u>	<u>431,995</u>
NET ASSETS		
Without donor restrictions	5,324,234	4,931,989
With donor restrictions	<u>2,286,868</u>	<u>2,082,556</u>
Total net assets	<u>7,611,102</u>	<u>7,014,545</u>
TOTAL LIABILITES AND NET ASSETS	<u>\$ 7,881,673</u>	<u>\$ 7,446,540</u>

The accompanying notes are an integral part of the financial statements.

**RONALD McDONALD HOUSE CHARITIES OF GREATER
CHATTANOOGA, INC.**

STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 758,237	\$ 5,646	\$ 763,883
Special events revenue	1,010,835	-	1,010,835
Room donations/fees	18,514	-	18,514
Net assets reclassified	(251)	251	-
Net assets released from restrictions	<u>91,180</u>	<u>(91,180)</u>	<u>-</u>
Total revenues and other support	1,878,515	(85,283)	1,793,232
EXPENSES			
Program services	1,457,014	-	1,457,014
Cost of direct benefits to donors	118,504	-	118,504
Management and general administration	136,710	-	136,710
Fundraising	260,617	-	260,617
Other expense	<u>12,485</u>	<u>-</u>	<u>12,485</u>
Total expenses	<u>1,985,330</u>	<u>-</u>	<u>1,985,330</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(106,815)	(85,283)	(192,098)
INVESTMENT INCOME, NET	<u>499,060</u>	<u>289,595</u>	<u>788,655</u>
CHANGE IN NET ASSETS	392,245	204,312	596,557
Net assets - beginning of year	<u>4,931,989</u>	<u>2,082,556</u>	<u>7,014,545</u>
Net assets - end of year	<u>\$ 5,324,234</u>	<u>\$ 2,286,868</u>	<u>\$ 7,611,102</u>

The accompanying notes are an integral part of the financial statements.

**RONALD McDONALD HOUSE CHARITIES OF GREATER
CHATTANOOGA, INC.**

STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 744,154	\$ 5,970	\$ 750,124
Special events revenue	1,139,940	-	1,139,940
Room donations/fees	21,438	-	21,438
Other income	2,434	-	2,434
Net assets released from restrictions	<u>12,180</u>	<u>(12,180)</u>	<u>-</u>
 Total revenues and other support	 <u>1,920,146</u>	 <u>(6,210)</u>	 <u>1,913,936</u>
EXPENSES			
Program services	1,539,545	-	1,539,545
Cost of direct benefits to donors	97,520	-	97,520
Management and general administration	144,440	-	144,440
Fundraising	<u>315,420</u>	<u>-</u>	<u>315,420</u>
 Total expenses	 <u>2,096,925</u>	 <u>-</u>	 <u>2,096,925</u>
 CHANGE IN NET ASSETS FROM OPERATIONS	 <u>(176,779)</u>	 <u>(6,210)</u>	 <u>(182,989)</u>
 INVESTMENT INCOME, NET	 <u>(180,894)</u>	 <u>(107,546)</u>	 <u>(288,440)</u>
 CHANGE IN NET ASSETS	 <u>(357,673)</u>	 <u>(113,756)</u>	 <u>(471,429)</u>
 Net assets - beginning of year	 <u>5,289,662</u>	 <u>2,196,312</u>	 <u>7,485,974</u>
 Net assets - end of year	 <u>\$ 4,931,989</u>	 <u>\$ 2,082,556</u>	 <u>\$ 7,014,545</u>

The accompanying notes are an integral part of the financial statements.

RONALD McDONALD HOUSE CHARITIES OF GREATER CHATTANOOGA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services					Supporting Services		
	Ronald McDonald House	Ronald McDonald Family Room	Ronald McDonald Care Mobile	Other Program Services	Total	Management and General	Fundraising	Total
Salaries	\$ 382,681	\$ 123,749	\$ -	\$ 46,293	\$ 552,723	\$ 25,243	\$ 95,505	\$ 673,471
Employee benefits	61,781	21,545	-	7,745	91,071	6,346	18,655	116,072
Payroll taxes	30,096	10,009	-	3,791	43,896	2,085	7,671	53,652
Total salaries and related expenses	474,558	155,303	-	57,829	687,690	33,674	121,831	843,195
Advertising	4,930	-	-	160	5,090	400	15,052	20,542
Automobile	1,113	-	-	-	1,113	-	-	1,113
Supplies	16,704	174	12	402	17,292	-	-	17,292
Depreciation	191,927	5,537	-	-	197,464	-	-	197,464
Direct mail	-	-	-	-	-	-	110,183	110,183
Family support services and supplies	86,880	10,025	-	-	96,905	-	-	96,905
Insurance	21,683	-	-	-	21,683	12,924	68	34,675
Linens and laundry	2,634	-	-	-	2,634	-	-	2,634
Maintenance and repairs	53,897	8,020	-	-	61,917	-	-	61,917
Meetings, education and training	10,986	-	-	-	10,986	325	-	11,311
Office supplies	8,547	-	-	13	8,560	839	-	9,399
Printing and publishing	6,473	-	-	24	6,497	3,277	2,124	11,898
Professional fees	500	-	52,240	-	52,740	40,492	5,500	98,732
Technology	16,698	-	-	-	16,698	8,000	-	24,698
Telephone	36,135	-	-	-	36,135	-	-	36,135
Travel, meals, and entertainment	63,946	3,321	432	-	67,699	5,542	4,712	77,953
Utilities	86,866	-	-	-	86,866	-	-	86,866
Volunteer resources and recognition	5,287	-	-	-	5,287	-	494	5,781
Other	10,475	171	171	62,941	73,758	31,237	653	105,648
Total expenses	\$ 1,100,239	\$ 182,551	\$ 52,855	\$ 121,369	\$ 1,457,014	\$ 136,710	\$ 260,617	\$ 1,854,341

The accompanying notes are an integral part of the financial statements.

RONALD McDONALD HOUSE CHARITIES OF GREATER CHATTANOOGA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services				Supporting Services			
	Ronald McDonald House	Ronald McDonald Family Room	Ronald McDonald Care Mobile	Other Program Services	Total	Management and General	Fundraising	Total
Salaries	\$ 376,523	\$ 117,625	\$ -	\$ 44,457	\$ 538,605	\$ 21,667	\$ 114,664	\$ 674,936
Employee benefits	76,145	26,727	-	9,962	112,834	7,374	26,046	146,254
Payroll taxes	25,893	9,226	-	3,352	38,471	1,660	8,932	49,063
Total salaries and related expenses	478,561	153,578	-	57,771	689,910	30,701	149,642	870,253
Advertising	5,650	-	512	641	6,803	885	19,858	27,546
Automobile	789	-	-	-	789	174	-	963
Supplies	15,831	120	-	-	15,951	-	-	15,951
Depreciation	199,207	5,871	-	-	205,078	-	-	205,078
Direct mail	-	-	-	-	-	-	103,224	103,224
Family support services and supplies	120,828	5,743	-	-	126,571	-	1,067	127,638
Insurance	26,555	-	-	-	26,555	25	-	26,580
Linens and laundry	2,885	-	-	-	2,885	-	-	2,885
Maintenance and repairs	58,937	6,740	60	-	65,737	-	-	65,737
Meetings, education and training	15,004	-	-	-	15,004	1,100	-	16,104
Office supplies	2,506	-	-	-	2,506	409	-	2,915
Printing and publishing	3,626	-	-	105	3,731	5,504	1,818	11,053
Professional fees	3,292	-	91,793	-	95,085	47,717	27,493	170,295
Technology	5,601	-	-	-	5,601	17,652	-	23,253
Telephone	34,249	-	-	-	34,249	-	-	34,249
Travel, meals, and entertainment	91,996	109	-	-	92,105	9,571	4,443	106,119
Utilities	84,619	-	-	-	84,619	-	-	84,619
Volunteer resources and recognition	4,776	-	-	-	4,776	-	-	4,776
Other	9,572	-	-	52,018	61,590	30,702	7,875	100,167
Total expenses	<u>\$ 1,164,484</u>	<u>\$ 172,161</u>	<u>\$ 92,365</u>	<u>\$ 110,535</u>	<u>\$ 1,539,545</u>	<u>\$ 144,440</u>	<u>\$ 315,420</u>	<u>\$ 1,999,405</u>

The accompanying notes are an integral part of the financial statements.

**RONALD McDONALD HOUSE CHARITIES OF GREATER
CHATTANOOGA, INC.**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 596,557	\$ (471,429)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	185,284	192,898
Loss on disposal of property and equipment	13,012	-
Net realized and unrealized (gains) losses on investments	(580,851)	508,921
Amortization of beneficial use of land	12,180	12,180
(Increase) decrease in operating assets:		
Contributions receivable	50,347	(81,099)
Prepaid expenses	(5,870)	8,182
Other assets	(13,359)	674
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(208,881)	80,568
Other liabilities	39,209	(3,045)
Deferred compensation	8,248	27,645
Net cash from operating activities	95,876	275,495
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(791,433)	(376,451)
Proceeds from sale of investments	787,022	135,000
Purchases of property and equipment	(79,314)	(48,047)
Proceeds from sale of property and equipment	605	-
Payments of life insurance premiums	(17,000)	(16,999)
Net cash from investing activities	(100,120)	(306,497)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,244)	(31,002)
Cash and cash equivalents - beginning of year	221,567	252,569
Cash and cash equivalents - end of year	\$ 217,323	\$ 221,567

RONALD McDONALD HOUSE OF CHARITIES OF GREATER CHATTANOOGA, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 1 – NATURE OF OPERATIONS

Organization

Ronald McDonald House Charities of Greater Chattanooga, Inc. (the Organization) is a Tennessee nonprofit charitable corporation formed in 1990. The mission of Ronald McDonald House Charities (RMHC) is to create, find, and support programs that directly improve the health and well-being of children and their families. Collectively, RMHC and the network of local Chapters ascribe to five core values: we are focused on the critical needs of children, we lead with compassion, we celebrate the diversity of our people and our programs, we value our heritage and we operate with accountability and transparency.

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 RMHC:

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 Chattanooga, Tennessee, 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 the Children's Hospital at Erlanger serve 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.

Ronald McDonald Care Mobile

The Ronald McDonald Care Mobile (RMCM) program provides access to pediatric medical, dental and/or health education services for children living in underserved communities. The RMCM program is breaking down the barriers to health care, expanding critical health care access and extending the Charity's reach to countless underserved children. The RMCM program serves children that are at great risk to develop acute conditions, dental problems, chronic diseases and even serious lifelong illnesses. Through partnerships with local healthcare organizations and government ministries, the Organization is bringing clinical services and health education directly to those in need, so children can receive high quality, convenient care right in their own neighborhood – from urban communities to remote, hard-to-reach areas.

RONALD McDONALD HOUSE OF CHARITIES OF GREATER CHATTANOOGA, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management of the Organization to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents include money market funds and all highly liquid investments with a maturity date of less than three months from the date of purchase. The Organization's cash balances that are maintained in bank accounts may exceed Federal Deposit Insurance Corporation limits from time to time. The Organization has not experienced any losses in such accounts and management believes that it is not exposed to any significant credit risk on cash.

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 net realizable value. Contributions receivable are written off when deemed uncollectible.

Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Realized and unrealized gains and losses and income are included in the statements of activities.

(Continued)

RONALD McDONALD HOUSE OF CHARITIES OF GREATER CHATTANOOGA, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost, if purchased, or estimated fair value, if donated, at the date of donation. Additions of \$2,500 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	30 - 40 Years
Office furniture and equipment	5 - 7 Years
Vehicles	5 Years
Software	5 Years

Impairment of Long-Lived Assets

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

Donated Assets, Property and Equipment, and Services

Donated marketable securities, property and equipment, and other noncash donations are recorded as contributions at their fair values at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donated services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization also receives donated services from other contributors and volunteers that are not measurable, and therefore, are excluded from the financial statements.

Scholarships

The Organization awards scholarships to students through its scholarship committee based on eligibility guidelines which include financial need, academic achievement, community involvement, county of residency, and application to an accredited two or four-year college. The Ronald McDonald Scholarship Program is administered and promoted to area high schools by the Community Foundation of Greater Chattanooga, Inc. Monies raised through local McDonald's restaurants are used to fund this program.

(Continued)

**RONALD McDONALD HOUSE OF CHARITIES OF GREATER
CHATTANOOGA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The Organization's net assets and changes therein are classified and reported as follows:

Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

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.

Revenue Recognition

Contributions and Grants

Unconditional promises to give are recognized as revenue in the period the promise was made. 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. We report 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.

Contributions and Grants

Conditional grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures or deliverables, as defined in each contract, are met. Funds received but not yet earned are shown as Deferred Revenue. Expenditures under contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

In-Kind Donations

The portion of in-kind donations that relates to the commensurate value the Organization received in return is recognized when the donations are received. Examples of in-kind donations include food, services, and supplies.

Merchandise Sales

The portion of merchandise sales that relates to the commensurate value the Organization received in return is recognized when the items are sold. Examples include shirts, hats, and similar items.

(Continued)

**RONALD McDONALD HOUSE OF CHARITIES OF GREATER
CHATTANOOGA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses

The statements of functional expenses report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: depreciation, insurance, interest, maintenance and repairs, rent, and utilities; meetings, education and training, office supplies, technology and telephone; and salaries and wages, payroll taxes and employee benefits.

Income Tax Status

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.

Advertising

Advertising costs for special events and general marketing are expensed as incurred.

Reclassifications

Certain amounts have been reclassified for the year ended December 31, 2018 to conform to the presentation for the year ended December 31, 2019. The reclassifications had no impact on previously reported net assets.

NOTE 3 – LIQUIDITY

The following represents the Organization's financial assets at December 31:

	2019	2018
Financial assets at year-end:		
Cash	\$ 217,323	\$ 221,567
Unconditional promises to give	39,384	89,731
Investments	255,781	258,250
Endowments	4,273,052	3,685,321
Other assets	<u>1,730</u>	<u>5,058</u>
Total financial assets	<u>4,787,270</u>	<u>4,259,927</u>

(Continued)

**RONALD McDONALD HOUSE OF CHARITIES OF GREATER
CHATTANOOGA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 3 – LIQUIDITY (Continued)

Less amounts not available to be used within one year:

Net assets with donor restrictions	2,146,209	1,929,717
Net assets with Board designations	2,126,843	1,755,604
Less net assets with purpose restrictions to be met in less than a year	<u>(12,180)</u>	<u>(12,180)</u>
	<u>4,260,872</u>	<u>3,673,141</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 526,398</u>	<u>\$ 586,786</u>

The Organization is substantially supported by unrestricted contributions and in-kind donations, as well as by investment earnings on restricted endowments. The majority of contributions do not have donor restrictions; however, the Organization must maintain sufficient resources to fund ongoing operations. All net assets with donor restrictions either have purpose restrictions that are to be met in more than a year or are not meant to be available for general expenditures. Therefore, all endowments have been excluded from financial assets available for general expenditure within one year.

As part of the Organization's cash management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization has approximately 11% of its estimated annual functional expenditures in cash.

NOTE 4 – FAIR VALUE MEASUREMENTS

In determining fair value, the Organization uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Levels within the hierarchy are based on the reliability of inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

(Continued)

**RONALD McDONALD HOUSE OF CHARITIES OF GREATER
CHATTANOOGA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 4 – FAIR VALUE MEASUREMENTS (Continued)

The fair values of assets measured on a recurring basis as of December 31, 2019 are as follows:

	Level 1	Level 2	Level 3	Total
Mutual funds - equity	\$ 3,726,619	\$ -	\$ -	\$ 3,726,619
Mutual funds - bonds	<u>802,214</u>	<u>-</u>	<u>-</u>	<u>802,214</u>
Total	<u>\$ 4,528,833</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,528,833</u>

The fair values of assets measured on a recurring basis as of December 31, 2018 are as follows:

	Level 1	Level 2	Level 3	Total
Mutual funds - equity	\$ 3,050,888	\$ -	\$ -	\$ 3,050,888
Mutual funds - bonds	<u>892,683</u>	<u>-</u>	<u>-</u>	<u>892,683</u>
Total	<u>\$ 3,943,571</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,943,571</u>

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

The Organization uses net asset value (NAV) per share for mutual funds. The NAV per unit is based on the market value of the underlying investments held by the mutual fund at year end. The net asset value per unit is a publicly-quoted price in an active market.

Overall Investment Objective

The overall investment objective of the Organization is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The Organization diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board of Trustees which oversees the Organization’s investment program in accordance with established guidelines.

Summary of investment earnings for the year ended December 31, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 130,409	\$ 77,395	\$ 207,804
Unrealized gains	<u>368,650</u>	<u>212,201</u>	<u>580,851</u>
Total	<u>\$ 499,060</u>	<u>\$ 289,595</u>	<u>\$ 788,655</u>

(Continued)

**RONALD McDONALD HOUSE OF CHARITIES OF GREATER
CHATTANOOGA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 4 – FAIR VALUE MEASUREMENTS (Continued)

Summary of investment earnings (losses) for the year ended December 31, 2018, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 128,037	\$ 77,897	\$ 205,934
Unrealized losses	<u>(308,931)</u>	<u>(185,443)</u>	<u>(494,374)</u>
Total	<u>\$ (180,894)</u>	<u>\$ (107,546)</u>	<u>\$ (288,440)</u>

NOTE 5 – PROPERTY, PLANT, & EQUIPMENT

Property, plant, and equipment consist of the following:

	2019	2018
Buildings and family room	\$ 5,388,131	\$ 5,377,416
Land improvements	35,426	44,551
Furniture and equipment	694,746	1,272,127
Library	-	3,550
Construction in progress	4,321	111,991
Software	<u>22,870</u>	<u>22,870</u>
Total property and equipment	6,145,494	6,832,505
Accumulated depreciation	<u>(3,404,151)</u>	<u>(3,971,575)</u>
	<u>\$ 2,741,343</u>	<u>\$ 2,860,930</u>

NOTE 6 – BENEFICIAL USE OF LAND

In June 1994, the Organization entered into a lease agreement with the Chattanooga-Hamilton County Hospital Authority which allows the Organization the use of the land on which the house is located for a 399-month period ending September, 2027. The fair value of the leased property was \$405,000 at the inception of the agreement. This value was originally recorded as a contribution and is being amortized over the term of the agreement. The value remaining on the use of land as of December 31, 2019 and 2018 is \$140,659 and \$152,839, respectively, and has been recorded as such on the statements of financial position. For each of the years ended December 31, 2019 and 2018, amortization of \$12,180 was recorded in connection with this agreement.

The Organization also has an agreement with the Chattanooga-Hamilton County Hospital Authority which allows the Organization to staff a family-like room within the Erlanger Medical Center for families of seriously ill and injured children. The agreement provides for the Organization to use the space for the room at no charge, subject to negotiation between the parties on an annual basis.

RONALD McDONALD HOUSE OF CHARITIES OF GREATER CHATTANOOGA, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 7 – ENDOWMENT FUNDS

The Organization's endowment consists of six individual funds established for different purposes. The endowment includes both donor restricted endowment funds and funds designated by the board of directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the 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 the following as gifts with donor restrictions:

- (1) the original value of gifts donated to the permanent endowment
- (2) the original value of subsequent gifts to the permanent endowment, and
- (3) 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

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 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 Organization's investment policies

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for 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, as well as board designated funds. The primary investment objectives for endowment assets are growth and income, as well as to maximize total return and minimize risk over a longer-term time horizon.

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

(Continued)

**RONALD McDONALD HOUSE OF CHARITIES OF GREATER
CHATTANOOGA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 7 – ENDOWMENT FUNDS (Continued)

The Organization currently has no specific policy as to percent or amount to appropriate for expenditure each year. However, in accordance with the stipulations of the donors, its procedure has been not to distribute more than the total return on the funds for the current year. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to continue to increase in value.

This is consistent with its objective to maintain the purchasing power of the endowment assets, as well as to provide real growth through appreciation.

Changes in endowment net assets and net assets by type of fund were as follows for the fiscal year ended December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,755,604	\$ 1,929,717	\$ 3,685,321
Investment return, net	486,490	289,595	776,085
Contributions	-	5,646	5,646
Appropriation of endowment assets for expenditure	(115,000)	(79,000)	(194,000)
Other changes:			
Transfers to remove board-designated endowment funds	(250)	250	-
Transfers to create board-designated endowment funds	-	-	-
Endowment net assets, end of year	<u>\$ 2,126,844</u>	<u>\$ 2,146,208</u>	<u>\$ 4,273,052</u>
Board-designated endowment funds	\$ 2,126,844	\$ -	\$ 2,126,844
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be retained by donor	-	1,359,367	1,359,367
Portion subject to appropriation under UPMIFA	-	<u>786,841</u>	<u>786,841</u>
Total funds	<u>\$ 2,126,844</u>	<u>\$ 2,146,208</u>	<u>\$ 4,273,052</u>

(Continued)

**RONALD McDONALD HOUSE OF CHARITIES OF GREATER
CHATTANOOGA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 7 – ENDOWMENT FUNDS (Continued)

Changes in endowment net assets and net assets by type of fund were as follows for the fiscal year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$1,938,811	\$2,031,293	\$3,970,104
Investment return, net	(183,207)	(107,546)	(290,753)
Contributions	-	5,970	5,970
Appropriation of endowment assets for expenditure	-	-	-
Other changes:			
Transfers to remove board-designated endowment funds	-	-	-
Transfers to create board-designated endowment funds	-	-	-
Endowment net assets, end of year	<u>\$ 1,755,604</u>	<u>\$ 1,929,717</u>	<u>\$ 3,685,321</u>
Board-designated endowment funds	\$1,755,604	\$ -	\$1,755,604
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be retained by donor	-	1,359,367	1,359,367
Portion subject to appropriation under UPMIFA	-	<u>570,350</u>	<u>570,350</u>
Total funds	<u>\$1,755,604</u>	<u>\$1,929,717</u>	<u>\$3,685,321</u>

Fund 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 UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2019 and 2018.

**RONALD McDONALD HOUSE OF CHARITIES OF GREATER
CHATTANOOGA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes and periods as of December 31:

	2019	2018
Subject to expenditure for specific purpose:		
Program Activities:		
Ronald McDonald House	\$ 438,589	\$ 376,974
Ronald McDonald Family Room	-	-
Ronald McDonald Care Mobile	-	-
Beneficial Use of Land	<u>140,659</u>	<u>152,839</u>
	579,248	529,813
Subject to passage of time:		
For periods after December 31	-	-
Subject to the Organization's spending policy and appropriation:		
Ronald McDonald House Operations:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	496,250	496,250
Accumulated gain	<u>-</u>	<u>-</u>
Total – Ronald McDonald House Operations	<u>496,250</u>	<u>496,250</u>
Rainy Day Endowment:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	-
Accumulated gain	<u>128,162</u>	<u>115,090</u>
Total – Ronald McDonald House Operations	<u>128,162</u>	<u>115,090</u>
Scholarships:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	546,000	546,000
Accumulated gain	<u>537,209</u>	<u>395,404</u>
Total – Scholarships	<u>1,083,209</u>	<u>941,404</u>
	1,707,621	1,552,744
Not subject to appropriation or expenditure:		
Land required to be used for a Ronald McDonald House	<u>-</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$ 2,286,869</u>	<u>\$ 2,082,557</u>

(Continued)

**RONALD McDONALD HOUSE OF CHARITIES OF GREATER
CHATTANOOGA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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 the year ended December 31, 2019 and 2018:

	2019	2018
Purpose restrictions accomplished:		
Ronald McDonald House	\$ -	\$ -
Ronald McDonald Family Room	-	-
Ronald McDonald Care Mobile	-	-
Beneficial Use of Land	<u>12,180</u>	<u>12,180</u>
	12,180	12,180
Time restrictions expired:		
Passage of specified time	-	-
Release of appropriated endowment returns without purpose restrictions	<u>79,000</u>	<u>-</u>
Total restrictions released	<u>\$ 91,180</u>	<u>\$ 12,180</u>

NOTE 9 – NET ASSETS WITHOUT DONOR RESTRICTIONS

The Organization's governing Board of Trustees has designated net assets without donor restrictions for the following purposes as of December 31:

	2019	2018
Board designated endowment	\$ 2,126,844	\$ 1,755,604
Board designated operating reserve	<u>-</u>	<u>-</u>
Total	<u>\$ 2,126,844</u>	<u>\$ 1,755,604</u>

NOTE 10 – DONATED GOODS AND SERVICES

The fair value of donated goods and services included as contributions in the financial statements and the corresponding expense categories for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Telephone	\$ 28,800	\$ 28,800
Food	52,405	56,836
Supplies	90,568	124,231
Furniture & fixtures	<u>39,173</u>	<u>-</u>
Total	<u>\$ 210,946</u>	<u>\$ 209,867</u>

RONALD McDONALD HOUSE OF CHARITIES OF GREATER CHATTANOOGA, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 11 – DEFERRED COMPENSATION PLAN

The Organization has a deferred compensation plan for the benefit of a key employee. This is comprised of a life insurance policy, as well as a mutual fund in which the Organization deposits \$2,500 per quarter, with a total liability of \$25,000 per year for 10 years. It is estimated that the policy purchased by the Organization on the life of this employee and the mutual fund will generate sufficient cash value to fund the estimated 10-year monthly benefit, for which the employee becomes eligible at age 70. If the employee retires before the age of 70, benefits will not be paid from this plan until the employee reaches age 70. The amount reported as deferred compensation is calculated on the length of time until retirement age and the present value of the estimated accrued benefit. As the investments are owned by the Organization, all funds remaining in the two investment accounts at the conclusion of the 10 years is the property of the Organization.

NOTE 12 – PENSION PLAN

The Organization has a 401(k) plan for the benefit of its employees. An employee must be at least 21 years of age and have one year of service with the Organization to be eligible to participate in the plan. Employer contributions are an amount equal to employee contributions up to 6% of an employee's compensation. Pension expense was \$24,750 and \$25,085 for the years ended December 31, 2019 and 2018, respectively.

NOTE 13 – TRANSACTIONS WITH RELATED ENTITIES

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% 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 \$3,799 and \$2,869, respectively, from these revenue streams.

Until 2019, the Organization also paid for consulting services from a company that is owned in part by the former treasurer of the Organization. Included in professional fees are consulting expenses related to these services of approximately \$0 and \$2,000 for the years ended December 31, 2019 and 2018, respectively.

RONALD McDONALD HOUSE OF CHARITIES OF GREATER CHATTANOOGA, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 14 – CHANGE IN ACCOUNTING POLICIES

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. ASU 2014-09 applies to the Company's financial statements for the year ending December 31, 2019, with earlier implementation permitted. The Organization's financial statements reflect the application of ASC 606 guidance beginning in 2018. No cumulative-effect adjustment in net assets was recorded because the adoption of ASU 2014-09 did not significantly impact the Organization's reported historical revenue.

The FASB issued ASU 2016-02, *Leases* (Topic 842), in February 2016. ASU 2016-02 requires the recognition by lessees of assets and liabilities that arise from all lease transactions, except for leases with a lease term of 12 months or less. The lessee accounting model under ASU 2016-02 retains two types of leases: finance leases, which are to be accounted for in substantially the same manner as the existing accounting for capital leases, and operating leases, which are to be accounted for (both in the statement of operations and the statement of cash flows) in a manner consistent with existing accounting for operating leases. ASU 2016-02 also requires expanded qualitative and quantitative disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 applies to the Company's financial statements for the year ending December 31, 2022, with earlier implementation permitted. The Company's management has not determined the impact on its financial statements as a result of implementing ASU 2016-02.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to the balance sheet date through the date of the independent accountant's audit report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Except for the matter discussed in the following paragraph, management has not identified any items requiring recognition or disclosure.

Subsequent to December 31, 2019, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. While management cannot quantify the other financial impacts to the Company as of the date of the independent accountant's review report, management believes that a material impact on the Company's financial position and results of future operations is reasonably possible given the Organization's investments and endowments.