

**RONALD MCDONALD HOUSE CHARITIES OF
SOUTHERN ARIZONA, INC.**

YEARS ENDED DECEMBER 31, 2020 AND 2019

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

YEARS ENDED DECEMBER 31, 2020 AND 2019

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Independent Auditors' Report

Board of Directors and Management
Ronald McDonald House Charities of Southern Arizona, Inc.
Tucson, Arizona

We have audited the accompanying financial statements of Ronald McDonald House Charities of Southern Arizona, Inc. (the Organization) 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Organization'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 Organization'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 Southern Arizona, 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.

Beach Fleischman PC

Tucson, Arizona
May 26, 2021

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 1,102,756	\$ 1,210,075
Accounts receivable	160,093	112,270
Investments	5,810,592	5,014,658
Prepaid expenses	<u>5,413</u>	<u>7,286</u>
Total current assets	7,078,854	6,344,289
Property and equipment, net	4,380,174	4,128,909
Investments whose use is limited	506,250	506,250
In-kind contribution receivable - land lease	<u>605,616</u>	<u>621,984</u>
Total assets	<u>\$ 12,570,894</u>	<u>\$ 11,601,432</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 12,467	\$ 17,789
Accrued expenses and other liabilities	<u>52,772</u>	<u>30,233</u>
Total current liabilities	<u>65,239</u>	<u>48,022</u>
Total liabilities	<u>65,239</u>	<u>48,022</u>
Commitments		
Net assets:		
Without donor restrictions	11,360,308	10,293,837
With donor restrictions	<u>1,145,347</u>	<u>1,259,573</u>
Total net assets	<u>12,505,655</u>	<u>11,553,410</u>
Total liabilities and net assets	<u>\$ 12,570,894</u>	<u>\$ 11,601,432</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2020

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues and other support:			
Public support:			
Contributions	\$ 1,106,375	\$ 74,992	\$ 1,181,367
Contributions - bequests and legacies	261,860	-	261,860
Special events revenue	170,160	-	170,160
Third-party reimbursements	56,584	-	56,584
In-kind donations	172,770	-	172,770
Grant revenue	287,300	-	287,300
Other income	1,269	-	1,269
Net assets released from restrictions	<u>250,503</u>	<u>(250,503)</u>	<u>-</u>
Total revenues and other support	<u>2,306,821</u>	<u>(175,511)</u>	<u>2,131,310</u>
Expenses:			
Program services	1,297,785	-	1,297,785
Management and general administration	158,058	-	158,058
Fundraising	418,702	-	418,702
Cost of direct benefits to donors	<u>33,287</u>	<u>-</u>	<u>33,287</u>
Total expenses	<u>1,907,832</u>	<u>-</u>	<u>1,907,832</u>
Change in net assets from operations	<u>398,989</u>	<u>(175,511)</u>	<u>223,478</u>
Nonoperating activities:			
Investment income, net	703,417	61,285	764,702
COVID-19 related expenses	<u>(35,935)</u>	<u>-</u>	<u>(35,935)</u>
Total nonoperating activities	667,482	61,285	728,767
Change in net assets	1,066,471	(114,226)	952,245
Net assets, beginning	<u>10,293,837</u>	<u>1,259,573</u>	<u>11,553,410</u>
Net assets, ending	<u>\$ 11,360,308</u>	<u>\$ 1,145,347</u>	<u>\$ 12,505,655</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	Without donor restrictions	With donor restrictions	Total
Revenues and other support:			
Public support:			
Contributions	\$ 1,029,637	\$ 209,348	\$ 1,238,985
Contributions - bequests and legacies	57,061	-	57,061
Special events revenue	285,580	-	285,580
Third-party reimbursements	64,803	-	64,803
In-kind donations	296,322	-	296,322
Grant revenue	33,500	-	33,500
Other income	6,690	-	6,690
Net assets released from restrictions	253,869	(253,869)	-
Total revenues and other support	2,027,462	(44,521)	1,982,941
Expenses:			
Program services	1,418,248	-	1,418,248
Management and general administration	167,710	-	167,710
Fundraising	348,717	-	348,717
Cost of direct benefits to donors	80,142	-	80,142
Total expenses	2,014,817	-	2,014,817
Change in net assets from operations	12,645	(44,521)	(31,876)
Nonoperating activities:			
Investment income, net	796,327	80,392	876,719
Total nonoperating activities	796,327	80,392	876,719
Change in net assets	808,972	35,871	844,843
Net assets, beginning	9,484,865	1,223,702	10,708,567
Net assets, ending	\$ 10,293,837	\$ 1,259,573	\$ 11,553,410

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

	Ronald McDonald House	Ronald McDonald Family Room	Ronald McDonald Care Mobile	Total program services	Management and general	Fundraising	Cost of direct benefits to donors	Total expenses
Salaries	\$ 430,750	\$ 31,316	\$ -	\$ 462,066	\$ 105,771	\$ 213,458	\$ -	\$ 781,295
Employee benefits	78,766	5,839	-	84,605	22,379	44,709	-	151,693
Payroll taxes	<u>30,115</u>	<u>2,297</u>	<u>-</u>	<u>32,412</u>	<u>7,565</u>	<u>15,320</u>	<u>-</u>	<u>55,297</u>
	539,631	39,452	-	579,083	135,715	273,487	-	988,285
Advertising	1,341	137	-	1,478	812	31,630	-	33,920
Cleaning services and supplies	13,268	-	-	13,268	-	-	-	13,268
Depreciation	313,949	1,411	-	315,360	2,117	3,304	-	320,781
Direct mail	-	-	-	-	-	70,501	-	70,501
Donor recognition	98	-	-	98	136	1,017	-	1,251
Family support services and supplies	152,499	10,363	11,811	174,673	-	-	-	174,673
Insurance	25,165	277	-	25,442	823	1,542	-	27,807
Linens and laundry	2,623	-	-	2,623	-	-	-	2,623
Maintenance and repairs	52,056	56	-	52,112	84	130	-	52,326
Meetings, education, and training	68	-	-	68	1,043	755	-	1,866
Office supplies	1,805	36	-	1,841	1,566	1,664	-	5,071
Postage and courier	2,011	150	-	2,161	599	1,080	-	3,840
Printing and publishing	4,683	384	-	5,067	1,538	1,892	-	8,497
Professional fees	24,764	1,723	-	26,487	6,837	5,639	-	38,963
Rent	17,204	72	-	17,276	108	169	-	17,553
Technology	6,865	279	-	7,144	2,208	10,113	-	19,465
Telephone	16,738	359	-	17,097	941	1,741	-	19,779
Travel, meals, and entertainment	371	371	-	742	2,291	436	21,929	25,398
Utilities	45,301	204	-	45,505	305	477	-	46,287
Volunteer resources and recognition	804	-	-	804	-	-	-	804
Other	<u>9,396</u>	<u>60</u>	<u>-</u>	<u>9,456</u>	<u>935</u>	<u>13,125</u>	<u>11,358</u>	<u>34,874</u>
Total operating expenses	1,230,640	55,334	11,811	1,297,785	158,058	418,702	33,287	1,907,832
COVID-19 related expenses	<u>35,023</u>	<u>-</u>	<u>-</u>	<u>35,023</u>	<u>283</u>	<u>629</u>	<u>-</u>	<u>35,935</u>
Total expenses	<u>\$ 1,265,663</u>	<u>\$ 55,334</u>	<u>\$ 11,811</u>	<u>\$ 1,332,808</u>	<u>\$ 158,341</u>	<u>\$ 419,331</u>	<u>\$ 33,287</u>	<u>\$ 1,943,767</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Ronald McDonald House	Ronald McDonald Family Room	Ronald McDonald Care Mobile	Total program services	Management and general	Fundraising	Cost of direct benefits to donors	Total expenses
Salaries	\$ 424,903	\$ 36,105	\$ -	\$ 461,008	\$ 98,256	\$ 138,154	\$ -	\$ 697,418
Employee benefits	82,036	6,873	-	88,909	20,667	33,019	-	142,595
Payroll taxes	<u>31,336</u>	<u>2,787</u>	<u>-</u>	<u>34,123</u>	<u>7,260</u>	<u>10,166</u>	<u>-</u>	<u>51,549</u>
	538,275	45,765	-	584,040	126,183	181,339	-	891,562
Advertising	11,790	296	-	12,086	1,141	61,905	-	75,132
Cleaning services and supplies	18,790	-	-	18,790	-	-	-	18,790
Depreciation	247,336	1,112	-	248,448	1,668	2,603	-	252,719
Direct mail	-	-	-	-	-	63,941	-	63,941
Donor recognition	-	-	-	-	-	2,823	-	2,823
Family support services and supplies	315,287	23,476	8,981	347,744	-	14	-	347,758
Insurance	23,505	353	-	23,858	1,436	1,423	-	26,717
Linens and laundry	1,963	-	-	1,963	-	-	-	1,963
Maintenance and repairs	46,994	58	-	47,052	618	196	-	47,866
Meetings, education, and training	137	-	-	137	5,319	2,896	-	8,352
Office supplies	2,993	35	-	3,028	1,033	2,351	-	6,412
Postage and courier	1,448	6	-	1,454	134	4,072	-	5,660
Printing and publishing	5,124	211	-	5,335	1,476	5,616	-	12,427
Professional fees	18,509	1,147	-	19,656	18,251	3,621	-	41,528
Rent	16,319	72	-	16,391	105	169	35,754	52,419
Technology	5,494	36	-	5,530	728	590	-	6,848
Telephone	17,185	393	-	17,578	2,125	806	-	20,509
Travel, meals, and entertainment	2,032	1,039	-	3,071	2,811	2,115	31,793	39,790
Utilities	49,112	287	-	49,399	1,930	845	-	52,174
Volunteer resources and recognition	5,379	14	-	5,393	20	534	-	5,947
Other	<u>7,283</u>	<u>12</u>	<u>-</u>	<u>7,295</u>	<u>2,732</u>	<u>10,858</u>	<u>12,595</u>	<u>33,480</u>
Total operating expenses	<u>\$ 1,334,955</u>	<u>\$ 74,312</u>	<u>\$ 8,981</u>	<u>\$ 1,418,248</u>	<u>\$ 167,710</u>	<u>\$ 348,717</u>	<u>\$ 80,142</u>	<u>\$ 2,014,817</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 952,245	\$ 844,843
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated securities	-	(6,306)
Loss on disposal of assets	1,597	-
Net realized and unrealized gains on investments	(708,736)	(790,652)
Depreciation	320,781	252,719
Donated equipment	(24,300)	(37,838)
Rent - land lease	16,368	16,368
Changes in operating assets and liabilities:		
Accounts receivable	(47,823)	7,990
Prepaid expenses	1,873	663
Accounts payable	(5,322)	3,372
Accrued expenses and other liabilities	22,539	4,908
Net adjustments	<u>(423,023)</u>	<u>(548,776)</u>
Net cash provided by operating activities	<u>529,222</u>	<u>296,067</u>
Cash flows from investing activities:		
Purchases of property and equipment	(549,343)	(163,460)
Purchases of investments	(2,448,815)	(982,150)
Proceeds from sale of investments	<u>2,361,617</u>	<u>883,126</u>
Net cash used in investing activities	<u>(636,541)</u>	<u>(262,484)</u>
Net increase (decrease) in cash and cash equivalents	(107,319)	33,583
Cash and cash equivalents, beginning	<u>1,210,075</u>	<u>1,176,492</u>
Cash and cash equivalents, ending	<u>\$ 1,102,756</u>	<u>\$ 1,210,075</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Description of organization and summary of significant accounting policies:

Organization:

Ronald McDonald House Charities of Southern Arizona, Inc. (the Organization) is a nonprofit corporation operating in Arizona under a license agreement to RMHC Global. The mission of the Organization is to nurture the health and well-being of children and their families. In Southern Arizona, the primary programs are the Ronald McDonald House, which provides a home-away-from-home for families with critically ill children; a Ronald McDonald Family Room at Banner's Diamond Children's Medical Center, to give families of pediatric patients a place to rest and regroup; and the Ronald McDonald Care Mobile, which provides dental care for children in undeserved communities in Cochise County. The Organization's primary funding comes from public contributions. Therefore, the Organization's viability is dependent upon the strength and support provided to the not-for-profit industry, the Organization's ability to generate support, and the impact of the COVID-19 pandemic.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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, support and gains and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to inputs used to recognize revenue over time. Actual results could differ materially from such estimates and assumptions.

Net assets:

Net assets, revenues, support, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor restrictions.
- *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-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.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Description of organization and summary of significant accounting policies (continued):

Revenue and other support:

Contributions are considered non-exchange transactions and are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Revenues from special events and third-party reimbursements are recognized at a point in time when the event or service has occurred.

Support arising from donated goods and services is considered a non-exchange transaction and is recognized in the financial statements at its fair value. Donated services are recognized when the services received meet one of the following criteria:

- (a) create or enhance nonfinancial assets
- (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization, the fair value of all these services may not be reflected in the financial statements because the above criteria are not met.

The Organization recorded contributed services and materials support and related expenses of \$172,770 and \$296,322, of which \$24,300 and \$37,838 were capitalized as property and equipment during the year ended December 31, 2020 and 2019.

Cash and cash equivalents:

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

All cash and cash equivalents are placed with various credit institutions. At times, such amounts may be in excess of the FDIC insurance limits; however, management does not believe they are exposed to any significant credit risk on cash and cash equivalents.

Investments:

Investments are carried at fair value. Donated investments are recorded at fair value at the date of gift. Investment gains and losses are included in the changes in net assets in the accompanying statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor-imposed stipulations or legal requirements net of related investment fees. Realized gains or losses on disposition of investments are recorded on a trade date basis using the specific identification method. Dividends and interest income are accrued when earned. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Description of organization and summary of significant accounting policies (continued):

Fair value measurements:

Fair value is defined as the price to sell an asset or transfer a liability between market participants as of the measurement date. Fair value measurements assume the asset or liability is exchanged in an orderly manner; the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and that the market participants are independent, knowledgeable, able and willing to transact an exchange. GAAP also clarifies that the reporting entity's nonperformance risk (credit risk) should be considered in valuing liabilities.

GAAP establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The fair value for qualifying alternative investments is determined based on the investment's net asset value as a practical expedient. Considerable judgment is required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value.

Accounts receivable:

Accounts receivable consists principally of uncollateralized amounts due from governmental agencies and unconditional promises to give from donors. The Organization considers amounts over 30 days to be past due. Receivable balances are considered fully collectible by management; therefore, no allowance for doubtful accounts has been provided.

Property, equipment, and depreciation:

Property and equipment are stated at cost except for donated equipment, which is recorded at its fair market value at the date of gift. Property and equipment with a value of greater than or equal to \$1,000 and a useful life of more than one year is capitalized. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

Buildings and building improvements	7 - 40 years
Equipment	3 - 7 years
Furniture and fixtures	5 - 7 years
Vehicles	5 years

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Description of organization and summary of significant accounting policies (continued):

Impairment of long-lived assets:

The Organization reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of the long-lived assets is less than the carrying amount, the asset is considered impaired. Impairment losses would be measured as the amount by which the carrying amount exceeds the fair value of the asset. There was no impairment of long-lived assets recognized for 2020 and 2019.

Functional allocation of expenses:

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include depreciation, repairs and maintenance, and utilities, which are allocated on a square footage basis, as well as payroll, benefits and payroll taxes, which are allocated on the basis of estimates of time and effort.

Advertising:

Advertising costs are expensed as incurred.

Income taxes:

The Organization is exempt from income taxes under both Federal Internal Revenue Code Section §501(c)(3) and Arizona income tax laws, and is classified as other than a private foundation under Internal Revenue Code Section §509(a)(1). Income from certain activities not directly related to the Organization's tax-exempt purpose, however, may be subject to taxation as unrelated business taxable income (UBTI).

From time to time, the Organization may be subject to penalties and interest assessed by various taxing authorities, which are classified as general and administrative expenses if they occur.

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to December 31, 2020 through May 26, 2021, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

2. Liquidity and availability of financial assets:

The following reflects the Organization's financial assets for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date:

	2020	2019
Cash and cash equivalents	\$ 1,102,756	\$ 1,210,075
Accounts receivable	160,093	112,270
Investments	6,316,842	5,520,908
Total financial assets	7,579,691	6,843,253
Contractual or donor-imposed restrictions:		
Endowment funds	(506,250)	(506,250)
Other donor restrictions, excluding land lease	(33,481)	(131,339)
	\$ 7,039,960	\$ 6,205,664

As part of the Organization's liquidity 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 invests cash in excess of daily requirements in short-term investments.

3. Investments:

	2020	2019
Fixed income securities	\$ 2,313,666	\$ 1,894,026
U.S. equities	2,832,930	2,488,288
International equities	874,023	828,361
Campbell fund trust	194,536	189,790
Other	101,687	120,443
Total investments at fair value	6,316,842	5,520,908
Less investments whose use is limited:		
Endowments	506,250	506,250
	\$ 5,810,592	\$ 5,014,658

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

3. Investments (continued):

Net investment income for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Interest and dividends	\$ 111,604	\$ 137,698
Net realized and unrealized gains on investments	708,736	790,652
Investment expense	(55,638)	(51,631)
Investment income, net	\$ 764,702	\$ 876,719

4. Fair value measurements:

The fair value of assets measured on a recurring basis is as follows as of December 31:

	2020	2019
Investments at level 1:		
Fixed income securities	\$ 2,313,666	\$ 1,894,026
U.S. equities	2,832,930	2,488,288
International equities	874,023	828,361
Other	101,687	120,443
Investments measured at net asset value:		
Campbell fund trust	194,536	189,790
	\$ 6,316,842	\$ 5,520,908

The fair value of the level 1 investments above have been measured on a recurring basis using the market approach and priced based on quoted market information.

The investment in the Campbell fund trust is valued based on its net asset value. The fund primarily invests and reinvests in futures contracts. The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient as of December 31, 2020 and 2019.

December 31, 2020	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Campbell fund trust	\$ 194,536	-	Monthly	5 days prior to month end

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

4. Fair value measurements (continued):

<u>December 31, 2019</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Campbell fund trust	\$ 189,790	-	Monthly	5 days prior to month end

5. Property and equipment:

	<u>2020</u>	<u>2019</u>
Buildings and building improvements	\$ 5,830,192	\$ 5,368,646
Equipment	297,088	200,457
Furniture and fixtures	463,317	401,490
Vehicles	52,959	52,959
Construction in progress	<u>1,547</u>	<u>105,066</u>
	6,645,103	6,128,618
Less accumulated depreciation	<u>2,264,929</u>	<u>1,999,709</u>
	<u>\$ 4,380,174</u>	<u>\$ 4,128,909</u>

6. In-kind contribution receivable - land lease:

The Organization is leasing the land upon which the current facility has been built. The lease term is 50 years at an annual rental of \$1. The fair market value of the land at inception was approximately \$818,400. Annual amortization of the lease value is \$16,368. The contribution has been recorded as donor restricted support to reflect the use restriction of the land to the operation of the Ronald McDonald House for the 50-year lease term. The Organization will release \$16,368 to net assets without donor restrictions annually over the 50-year lease term. As of December 31, 2020 and 2019, the remaining in-kind contribution receivable for the land lease is \$605,616 and \$621,984.

7. Paycheck Protection Program (PPP) loan:

The Organization obtained a \$160,700 loan from Vantage West Credit Union under the Paycheck Protection Program (PPP) in April 2020. Under the terms of the PPP, up to 100% of the loan may be forgiven if the proceeds are used for covered expenses and certain other requirements related to wage rates and maintenance of full-time equivalents are met. The Organization applied for forgiveness with the lender in November 2020 and received forgiveness of \$160,700 from the Small Business Administration (SBA) in December 2020.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

7. Paycheck Protection Program (PPP) loan (continued):

The Organization accounts for the PPP loan as a conditional grant in accordance with ASC 958-605. The grant is conditional based on the Organization incurring covered expenses, maintaining employee count, and limiting salary reductions. During 2020, the Organization recorded \$160,700 as grant revenue based on their assessment of conditions that have been substantially met.

The SBA may undertake a review of a loan of any size during the six-year period following forgiveness or repayment of the loan. The review may include the loan forgiveness application, eligibility for the program, as well as whether the Company received the proper loan amount. The timing and outcome of any SBA review is not known.

8. Net assets with donor restrictions:

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

	2020	2019
Subject to expenditure for specified purpose:		
Family fund	\$ 18,194	\$ 11,574
Meals from heart	4,213	-
Care Mobile	-	37,399
Kitchen remodel	-	68,279
Other	11,074	14,087
	33,481	131,339
Subject to the passage of time:		
Land lease	605,616	621,984
	639,097	753,323
Endowments:		
Subject to the Organization's endowment spending policy and appropriation:		
General use	506,250	506,250
	\$ 1,145,347	\$ 1,259,573

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

9. Endowments:

The Organization's Board of Directors 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, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Changes in endowment net assets with donor restrictions for the years ended December 31, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Endowment net assets, beginning of year	\$ 506,250	\$ 490,891
Investment return, net	61,285	80,392
Appropriation of endowment assets pursuant to spending policy	<u>(61,285)</u>	<u>(65,033)</u>
Endowment net assets, end of year	<u>\$ 506,250</u>	<u>\$ 506,250</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no underwater endowments at December 31, 2020 and 2019.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

9. Endowments (continued):

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment fund while seeking to maintain the original value of any contributions to the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the board of directors, the endowment assets are invested with a growth and income style of investing in a portfolio comprised of cash, fixed income securities, equities and mutual funds. Investment income is appropriated for expenditure in the year earned, and is, therefore, included in net assets without donor restrictions.

10. Net assets without donor restrictions:

Net assets without donor restrictions at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 6,980,134	\$ 6,164,928
Investment in property and equipment, net	<u>4,380,174</u>	<u>4,128,909</u>
	<u>\$ 11,360,308</u>	<u>\$ 10,293,837</u>

11. Simplified employee pension plan:

The Organization contributes to a simplified employee pension plan for its employees who are over the age of 21. The Organization provides discretionary contributions each year to all eligible employees who received at least \$5,000 in compensation for the current calendar year and in a previous year. Contributions to the plan for the years ended December 31, 2020 and 2019 were \$18,384 and \$16,128.

12. Related party transactions:

During the years ended December 31, 2020 and 2019, the Organization paid \$12,198 and \$13,650 to Nextrio for IT services and equipment. Nextrio also provided in-kind computer consulting services totaling \$13,374 and \$15,340 for the years ended December 31, 2020 and 2019. An employee of Nextrio is a board member of the Organization.

During the years ended December 31, 2020 and 2019, the Organization received \$61,955 and \$85,709 in support and contributions from two operators of local McDonald's restaurants, who are also members of the Organization's Board of Directors.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

13. Reclassifications:

The 2019 financial statements have been reclassified in order to conform to the 2020 financial statement presentation. The reclassifications had no effect on net assets at December 31, 2019 or on the change in net assets for the year then ended.

14. Pending pronouncement:

In February 2016, the FASB issued ASU 2016-02 "Leases." ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for reporting periods beginning after December 15, 2021, with early adoption permitted.

Management is currently evaluating the effect that this standard will have on the financial statements.