

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

YEARS ENDED DECEMBER 31, 2021 AND 2020

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

YEARS ENDED DECEMBER 31, 2021 AND 2020

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Independent Auditors' Report

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

Opinion

We have audited the accompanying financial statements of Ronald McDonald House Charities of Southern Arizona, Inc., which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ronald McDonald House Charities of Southern Arizona, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ronald McDonald House Charities of Southern Arizona, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Ronald McDonald House Charities of Southern Arizona, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ronald McDonald House Charities of Southern Arizona, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

BeachFleischman PLLC

Tucson, Arizona
May 25, 2022

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,547,782	\$ 1,102,756
Accounts receivable	174,117	160,093
Investments	6,782,352	5,810,592
Prepaid expenses	<u>11,622</u>	<u>5,413</u>
Total current assets	8,515,873	7,078,854
Property and equipment, net	4,215,625	4,380,174
Investments whose use is limited	506,250	506,250
In-kind contribution receivable - land lease	<u>589,248</u>	<u>605,616</u>
Total assets	<u>\$ 13,826,996</u>	<u>\$ 12,570,894</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 30,204	\$ 12,467
Accrued expenses and other liabilities	<u>49,399</u>	<u>52,772</u>
Total current liabilities	<u>79,603</u>	<u>65,239</u>
Total liabilities	<u>79,603</u>	<u>65,239</u>
Commitments		
Net assets:		
Without donor restrictions	12,631,931	11,360,308
With donor restrictions	<u>1,115,462</u>	<u>1,145,347</u>
Total net assets	<u>13,747,393</u>	<u>12,505,655</u>
Total liabilities and net assets	<u>\$ 13,826,996</u>	<u>\$ 12,570,894</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues and other support:			
Public support:			
Contributions	\$ 1,307,826	\$ 73,483	\$ 1,381,309
Contributions - bequests and legacies	483,649	-	483,649
Special events revenue	273,901	-	273,901
Third-party reimbursements	119,123	-	119,123
In-kind donations	355,135	-	355,135
Grant revenue	106,000	-	106,000
Other income	4,349	-	4,349
Net assets released from restrictions	<u>151,516</u>	<u>(151,516)</u>	<u>-</u>
Total revenues and other support	<u>2,801,499</u>	<u>(78,033)</u>	<u>2,723,466</u>
Expenses:			
Program services	1,463,146	-	1,463,146
Management and general administration	162,290	-	162,290
Fundraising	471,275	-	471,275
Cost of direct benefits to donors	<u>74,901</u>	<u>-</u>	<u>74,901</u>
Total expenses	<u>2,171,612</u>	<u>-</u>	<u>2,171,612</u>
Change in net assets from operations	<u>629,887</u>	<u>(78,033)</u>	<u>551,854</u>
Nonoperating activities:			
Investment income, net	645,055	48,148	693,203
COVID-19 related expenses	<u>(3,319)</u>	<u>-</u>	<u>(3,319)</u>
Total nonoperating activities	<u>641,736</u>	<u>48,148</u>	<u>689,884</u>
Change in net assets	1,271,623	(29,885)	1,241,738
Net assets, beginning	<u>11,360,308</u>	<u>1,145,347</u>	<u>12,505,655</u>
Net assets, ending	<u>\$ 12,631,931</u>	<u>\$ 1,115,462</u>	<u>\$ 13,747,393</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	<u>667,482</u>	<u>61,285</u>	<u>728,767</u>
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 FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

	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	\$ 407,431	\$ 30,494	\$ -	\$ 437,925	\$ 107,537	\$ 223,520	\$ -	\$ 768,982
Employee benefits	81,622	5,864	-	87,486	24,525	45,980	-	157,991
Payroll taxes	30,127	2,272	-	32,399	8,038	16,601	-	57,038
	<u>519,180</u>	<u>38,630</u>	<u>-</u>	<u>557,810</u>	<u>140,100</u>	<u>286,101</u>	<u>-</u>	<u>984,011</u>
Advertising	7,442	-	-	7,442	-	52,100	7,430	66,972
Cleaning services and supplies	18,767	-	-	18,767	-	-	-	18,767
Depreciation	368,330	1,656	-	369,986	2,484	3,877	-	376,347
Direct mail	-	-	-	-	-	76,853	-	76,853
Donor recognition	1,276	-	-	1,276	-	2,000	-	3,276
Family support services and supplies	246,014	12,911	15,943	274,868	777	361	-	276,006
Insurance	25,163	268	-	25,431	778	1,551	-	27,760
Linens and laundry	4,253	-	-	4,253	-	-	-	4,253
Maintenance and repairs	54,603	27	-	54,630	40	62	-	54,732
Meetings, education, and training	625	-	372	997	2,627	6,781	-	10,405
Office supplies	3,464	93	-	3,557	1,857	811	-	6,225
Postage and courier	916	62	-	978	303	2,764	-	4,045
Printing and publishing	4,230	303	-	4,533	1,252	2,255	-	8,040
Professional fees	22,886	1,759	-	24,645	7,231	5,750	-	37,626
Rent	16,496	72	-	16,568	108	169	11,174	28,019
Technology	9,057	330	-	9,387	1,562	10,958	-	21,907
Telephone	21,907	310	-	22,217	862	1,417	-	24,496
Travel, meals, and entertainment	522	330	-	852	206	192	44,094	45,344
Utilities	51,335	231	-	51,566	346	540	-	52,452
Volunteer resources and recognition	4,457	-	-	4,457	29	-	-	4,486
Other	8,829	97	-	8,926	1,728	16,733	12,203	39,590
	<u>1,389,752</u>	<u>57,079</u>	<u>16,315</u>	<u>1,463,146</u>	<u>162,290</u>	<u>471,275</u>	<u>74,901</u>	<u>2,171,612</u>
Total operating expenses								
COVID-19 related expenses	3,319	-	-	3,319	-	-	-	3,319
	<u>1,393,071</u>	<u>57,079</u>	<u>16,315</u>	<u>1,466,465</u>	<u>162,290</u>	<u>471,275</u>	<u>74,901</u>	<u>2,174,931</u>
Total expenses								

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	30,115	2,297	-	32,412	7,565	15,320	-	55,297
	<u>539,631</u>	<u>39,452</u>	<u>-</u>	<u>579,083</u>	<u>135,715</u>	<u>273,487</u>	<u>-</u>	<u>988,285</u>
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	9,396	60	-	9,456	935	13,125	11,358	34,874
	<u>1,230,640</u>	<u>55,334</u>	<u>11,811</u>	<u>1,297,785</u>	<u>158,058</u>	<u>418,702</u>	<u>33,287</u>	<u>1,907,832</u>
Total operating expenses								
COVID-19 related expenses	35,023	-	-	35,023	283	629	-	35,935
	<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>
Total expenses								

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,241,738	\$ 952,245
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on disposal of assets	767	1,597
Net realized and unrealized gains on investments	(626,182)	(708,736)
Depreciation	376,346	320,781
Donated equipment	(133,785)	(24,300)
Rent - land lease	16,368	16,368
Changes in operating assets and liabilities:		
Accounts receivable	(14,024)	(47,823)
Prepaid expenses	(6,209)	1,873
Accounts payable	17,737	(5,322)
Accrued expenses and other liabilities	(3,373)	22,539
Net adjustments	<u>(372,355)</u>	<u>(423,023)</u>
Net cash provided by operating activities	<u>869,383</u>	<u>529,222</u>
Cash flows from investing activities:		
Purchases of property and equipment	(78,779)	(549,343)
Purchases of investments	(3,712,449)	(2,448,815)
Proceeds from sale of investments	<u>3,366,871</u>	<u>2,361,617</u>
Net cash used in investing activities	<u>(424,357)</u>	<u>(636,541)</u>
Net increase (decrease) in cash and cash equivalents	445,026	(107,319)
Cash and cash equivalents, beginning	<u>1,102,756</u>	<u>1,210,075</u>
Cash and cash equivalents, ending	<u>\$ 1,547,782</u>	<u>\$ 1,102,756</u>

See notes to financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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 and the Organization's ability to generate support.

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 and assumptions, 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, 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. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.
- *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, 2021 AND 2020

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

Revenue and other support:

Contributions are considered nonexchange 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 nonexchange 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 \$355,135 and \$172,770, of which \$133,785 and \$24,300 were capitalized as property and equipment during the year ended December 31, 2021 and 2020.

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.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2021 AND 2020

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

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.

Fair value measurements:

Fair value is defined as the price to sell an asset between market participants as of the measurement date. Fair value measurements assume the asset 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 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.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2021 AND 2020

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

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

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 2021 and 2020.

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.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2021 AND 2020

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

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to December 31, 2021 through May 25, 2022, 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.

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:

	2021	2020
Cash and cash equivalents	\$ 1,547,782	\$ 1,102,756
Accounts receivable	174,117	160,093
Investments	7,288,602	6,316,842
Total financial assets	9,010,501	7,579,691
Contractual or donor-imposed restrictions:		
Endowment funds	(506,250)	(506,250)
Other donor restrictions, excluding land lease	(19,964)	(33,481)
Board designations:		
Reserve fund	(1,498,260)	-
	\$ 6,986,027	\$ 7,039,960

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.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2021 AND 2020

3. Investments:

	2021	2020
Fixed income securities	\$ 3,491,027	\$ 2,313,666
U.S. equities	2,458,243	2,832,930
International equities	957,098	874,023
Campbell fund trust	223,325	194,536
Other	158,909	101,687
Total investments at fair value	7,288,602	6,316,842
Less investments whose use is limited:		
Endowments	506,250	506,250
	\$ 6,782,352	\$ 5,810,592

Net investment income for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Interest and dividends	\$ 128,627	\$ 111,604
Net realized and unrealized gains on investments	626,182	708,736
Investment expense	(61,606)	(55,638)
Investment income, net	\$ 693,203	\$ 764,702

4. Fair value measurements:

	2021	2020
Investments at level 1:		
Fixed income securities	\$ 3,491,027	\$ 2,313,666
U.S. equities	2,458,243	2,832,930
International equities	957,098	874,023
Other	158,909	101,687
	7,065,277	6,122,306
Investments measured at net asset value:		
Campbell fund trust	223,325	194,536
	\$ 7,288,602	\$ 6,316,842

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.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2021 AND 2020

4. Fair value measurements (continued):

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, 2021 and 2020.

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Campbell fund trust, December 31, 2021	\$ 223,325	-	Monthly	5 days prior to month end
Campbell fund trust, December 31, 2020	\$ 223,325	-	Monthly	5 days prior to month end

5. Property and equipment:

	<u>2021</u>	<u>2020</u>
Buildings and building improvements	\$ 5,846,385	\$ 5,830,192
Equipment	220,733	297,088
Furniture and fixtures	467,739	463,317
Vehicles	52,959	52,959
Construction in progress	<u>37,744</u>	<u>1,547</u>
	6,625,560	6,645,103
Less accumulated depreciation	<u>2,409,935</u>	<u>2,264,929</u>
	<u>\$ 4,215,625</u>	<u>\$ 4,380,174</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, 2021 and 2020, the remaining in-kind contribution receivable for the land lease is \$589,248 and \$605,616.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2021 AND 2020

7. Paycheck Protection Program (PPP) loan:

In April 2020, the Organization obtained a \$160,700 loan from Vantage West Credit Union under the Paycheck Protection Program (PPP). 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. The Organization accounted for the PPP loan as a conditional grant in accordance with ASC 958-605. The grant was 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 had 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 Organization received the proper loan amount. The timing and outcome of any SBA review is not known.

8. Net assets with donor restrictions:

	2021	2020
Subject to expenditure for specified purpose:		
Family fund	\$ 307	\$ 18,194
Family room refresh	1,266	-
Meals from heart	-	4,213
Center for Adventure playroom	11,950	4,156
Other	6,441	6,918
	19,964	33,481
Subject to the passage of time:		
Land lease	589,248	605,616
	609,212	639,097
Endowments:		
Subject to the Organization's endowment spending policy and appropriation:		
General use	506,250	506,250
	\$ 1,115,462	\$ 1,145,347

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Endowment net assets, beginning of year	\$ 506,250	\$ 506,250
Investment return, net	48,148	61,285
Appropriation of endowment assets pursuant to spending policy	<u>(48,148)</u>	<u>(61,285)</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, 2021 and 2020.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2021 AND 2020

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:

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 6,917,040	\$ 6,980,134
Investment in property and equipment, net	4,215,625	4,380,174
Board designated:		
Reserve for operations	<u>1,499,266</u>	<u>-</u>
	<u>\$ 12,631,931</u>	<u>\$ 11,360,308</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, 2021 and 2020 were \$18,140 and \$18,384.

12. Related party transactions:

During the years ended December 31, 2021 and 2020, the Organization paid \$15,016 and \$12,198 to Nextrio for IT services and equipment. Nextrio also provided in-kind computer consulting services totaling \$14,085 and \$13,374 for the years ended December 31, 2021 and 2020. An employee of Nextrio is a board member of the Organization.

RONALD MCDONALD HOUSE CHARITIES OF SOUTHERN ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2021 AND 2020

13. Concentrations:

At December 31, 2021, four donors comprised 79% of total accounts receivable.

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.