

**RONALD MCDONALD HOUSE
OF ROCHESTER, MINNESOTA, INC.**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020



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**RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
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YEARS ENDED DECEMBER 31, 2021 AND 2020**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ronald McDonald House of Rochester, Minnesota, Inc.
Rochester, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Ronald McDonald House of Rochester, Minnesota, Inc. (a nonprofit organization), 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 of Rochester, Minnesota, Inc. as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 of Rochester, Minnesota, 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 of Rochester, Minnesota, Inc.'s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

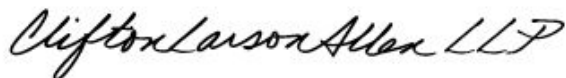
Auditors' Responsibilities for the Audit of the Financial Statements

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 GAAS 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 GAAS, 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 of Rochester, Minnesota, 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 of Rochester, Minnesota, 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.



CliftonLarsonAllen LLP

Austin, Minnesota
March 15, 2022

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,883,281	\$ 1,449,215
Contributions Receivable, Net	9,406	13,000
Other Receivables	-	681
Materials for Resale	12,962	21,600
Prepaid Expenses	23,967	29,437
Total Current Assets	1,929,616	1,513,933
NONCURRENT ASSETS		
Contributions Receivable, Net	-	8,626
Investments	7,110,333	6,438,967
Charitable Trust Split-Interest Agreement	203,696	191,946
Property and Equipment, Net	17,493,778	18,108,614
Total Noncurrent Assets	24,807,807	24,748,153
Total Assets	\$ 26,737,423	\$ 26,262,086
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 48,622	\$ 47,152
Accrued Expenses	41,783	50,513
Deferred Revenue	26,513	17,250
Total Current Liabilities	116,918	114,915
NET ASSETS		
Net Assets Without Donor Restrictions	25,742,500	25,559,787
Net Assets With Donor Restrictions	878,005	587,384
Total Net Assets	26,620,505	26,147,171
Total Liabilities and Net Assets	\$ 26,737,423	\$ 26,262,086

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 1,916,632	\$ 419,483	\$ 2,336,115
Special Event Revenue	362,399	-	362,399
Room Donations	30,465	-	30,465
Third-Party Reimbursements	13,020	-	13,020
Loss on Sales or Other Dispositions of Assets	(1,319)	-	(1,319)
Other Income	2,470	-	2,470
Net Assets Released from Restrictions	128,862	(128,862)	-
Total Revenues and Other Support	<u>2,452,529</u>	<u>290,621</u>	<u>2,743,150</u>
EXPENSES			
Program Services	2,537,276	-	2,537,276
Management and General	189,778	-	189,778
Fundraising	270,525	-	270,525
Cost of Direct Benefits to Donors	38,035	-	38,035
Total Expenses	<u>3,035,614</u>	<u>-</u>	<u>3,035,614</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(583,085)	290,621	(292,464)
NONOPERATING ACTIVITIES			
Change in Value of Split-Interest Agreement	17,440	-	17,440
Investment Income, Net	753,748	-	753,748
COVID-19 Related Expenses	(5,390)	-	(5,390)
Total Nonoperating Activities	<u>765,798</u>	<u>-</u>	<u>765,798</u>
CHANGES IN NET ASSETS	182,713	290,621	473,334
Net Assets - Beginning of Year	<u>25,559,787</u>	<u>587,384</u>	<u>26,147,171</u>
NET ASSETS - END OF YEAR	<u>\$ 25,742,500</u>	<u>\$ 878,005</u>	<u>\$ 26,620,505</u>

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 1,849,026	\$ 79,162	\$ 1,928,188
Special Events Revenue	405,530	-	405,530
Grant Revenue	206,880	-	206,880
Room Donations	45,742	-	45,742
Third-Party Reimbursements	42,201	-	42,201
Other Income	13,585	-	13,585
Net Assets Released from Restrictions	<u>57,698</u>	<u>(57,698)</u>	<u>-</u>
Total Revenues and Other Support	<u>2,620,662</u>	<u>21,464</u>	<u>2,642,126</u>
EXPENSES			
Program Services	2,273,110	-	2,273,110
Management and General	173,852	-	173,852
Fundraising	213,199	-	213,199
Cost of Direct Benefits to Donors	54,427	-	54,427
Total Expenses	<u>2,714,588</u>	<u>-</u>	<u>2,714,588</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(93,926)	21,464	(72,462)
NONOPERATING ACTIVITIES			
Change in Value of Split-Interest Agreement	8,916	-	8,916
Investment Income, Net	968,416	-	968,416
COVID-19 Related Expenses	<u>(20,214)</u>	<u>-</u>	<u>(20,214)</u>
Total Nonoperating Activities	<u>957,118</u>	<u>-</u>	<u>957,118</u>
CHANGE IN NET ASSETS	863,192	21,464	884,656
Net Assets - Beginning of Year	<u>24,696,595</u>	<u>565,920</u>	<u>25,262,515</u>
NET ASSETS - END OF YEAR	<u>\$ 25,559,787</u>	<u>\$ 587,384</u>	<u>\$ 26,147,171</u>

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Program Services	Management and General	Fundraising		Total
			Fundraising	Cost of Direct Benefits to Donors	
Salaries	\$ 861,813	\$ 105,099	\$ 84,079	\$ -	\$ 1,050,991
Benefits	105,505	12,867	10,293	-	128,665
Payroll Taxes	73,500	8,963	7,171	-	89,634
Total Salaries and Related Expenses	<u>1,040,818</u>	<u>126,929</u>	<u>101,543</u>	<u>-</u>	<u>1,269,290</u>
Cleaning Services and Supplies	92,806	-	-	-	92,806
Depreciation	622,655	-	-	-	622,655
Development	3,301	734	3,301	-	7,336
Direct Mail	-	-	94,033	-	94,033
Dues	172	1,033	516	-	1,721
Family Activities	31,435	-	-	-	31,435
Family Support Services and Supplies	297,605	-	-	-	297,605
Insurance	67,722	3,564	-	-	71,286
Licenses	823	-	-	-	823
Linen Service	3,777	-	-	-	3,777
Maintenance and Repairs	84,397	-	-	-	84,397
Meetings, Education, and Training	3,758	939	-	-	4,697
Office Supplies	10,805	1,907	-	-	12,712
Postage	4,452	297	1,187	-	5,936
Printing	3,349	209	628	-	4,186
Professional Fees	57,131	19,044	-	-	76,175
Scholarships	2,500	-	-	-	2,500
Special Events Expense	-	-	62,803	38,035	100,838
Technology	38,126	7,149	2,383	-	47,658
Telephone	2,690	74	74	-	2,838
Utilities	140,411	7,390	-	-	147,801
Volunteer Resources and Recognition	8,034	-	-	-	8,034
Other	20,509	20,509	4,057	-	45,075
Total Operating Expenses	<u>2,537,276</u>	<u>189,778</u>	<u>270,525</u>	<u>38,035</u>	<u>3,035,614</u>
COVID-19 Related Expenses	<u>5,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,390</u>
Total	<u>\$ 2,542,666</u>	<u>\$ 189,778</u>	<u>\$ 270,525</u>	<u>\$ 38,035</u>	<u>\$ 3,041,004</u>

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Program Services	Management and General	Fundraising			Total
			Fundraising	Love and Hope Campaign	Cost of Direct Benefits to Donors	
Salaries	\$ 763,093	\$ 93,270	\$ 74,616	\$ -	\$ -	\$ 930,979
Benefits	99,301	12,110	9,688	-	-	121,099
Payroll Taxes	65,016	7,929	6,343	-	-	79,288
Total Salaries and Related Expenses	<u>927,410</u>	<u>113,309</u>	<u>90,647</u>	-	-	<u>1,131,366</u>
Cleaning Services and Supplies	86,695	-	-	-	-	86,695
Depreciation	624,321	-	-	-	-	624,321
Development	5,793	1,289	5,802	-	-	12,884
Direct Mail	-	-	54,778	-	-	54,778
Dues	296	1,777	888	-	-	2,961
Family Activities	7,937	-	-	-	-	7,937
Family Support Services and Supplies	197,618	-	-	-	-	197,618
Insurance	65,279	3,436	-	-	-	68,715
Interest	-	1,437	-	-	-	1,437
Licenses	1,679	-	-	-	-	1,679
Linen Service	4,097	-	-	-	-	4,097
Maintenance and Repairs	60,828	-	-	-	-	60,828
Meetings, Education, and Training	1,966	492	-	-	-	2,458
Office Supplies	14,472	2,554	-	-	-	17,026
Postage	3,200	213	853	-	-	4,266
Printing	10,190	637	1,911	-	-	12,738
Professional Fees	52,334	17,445	-	662	-	70,441
Scholarships	2,500	-	-	-	-	2,500
Special Events Expense	-	-	36,035	-	54,427	90,462
Technology	40,164	8,065	2,688	-	-	50,917
Telephone	5,078	120	120	-	-	5,318
Utilities	140,599	7,400	-	-	-	147,999
Volunteer Resources and Recognition	4,977	-	-	-	-	4,977
Other	15,677	15,678	3,484	15,331	-	50,170
Total Operating Expenses	<u>2,273,110</u>	<u>173,852</u>	<u>197,206</u>	<u>15,993</u>	<u>54,427</u>	<u>2,714,588</u>
COVID-19 Related Expenses	<u>20,214</u>	-	-	-	-	<u>20,214</u>
Total	<u>\$ 2,293,324</u>	<u>\$ 173,852</u>	<u>\$ 197,206</u>	<u>\$ 15,993</u>	<u>\$ 54,427</u>	<u>\$ 2,734,802</u>

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 473,334	\$ 884,656
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	622,655	624,321
Realized and Unrealized (Gain) Loss on Investments	141,358	(905,957)
Loss on Sales or Other Dispositions of Assets	1,319	-
Change in Value of Charitable Trust Split-Interest Agreement	(17,440)	(8,916)
(Increase) Decrease in Assets:		
Pledges Receivable	12,220	44,406
Employee Advances	681	(421)
Materials for Resale	8,638	(10,905)
Prepaid Expenses	5,470	7,479
Increase (Decrease) in Liabilities:		
Accounts Payable	1,470	(177,324)
Accrued Expenses	(8,730)	21,494
Deferred Revenue	9,263	(35,866)
Net Cash Provided by Operating Activities	1,250,238	442,967
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(9,139)	-
Purchase of Investments	(1,141,721)	(312,955)
Proceeds from Sale of Investments	328,998	273,300
Net Cash Used by Investing Activities	(821,862)	(39,655)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash for Charitable Trust Split-Interest Agreement	5,690	5,589
Net Cash Provided by Financing Activities	5,690	5,589
NET INCREASE IN CASH AND CASH EQUIVALENTS	434,066	408,901
Cash and Cash Equivalents - Beginning of Year	1,449,215	1,040,314
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,883,281	\$ 1,449,215

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Ronald McDonald House of Rochester, Minnesota, Inc. (the Organization) is a Minnesota nonprofit charitable corporation formed in 1979. 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. 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 program located in Rochester, which provides 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.

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 nonoperating 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.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Organization is the beneficiary under various wills and trust agreements of which the total realizable amount is not presently determinable. Such amounts are recorded when a will is declared valid by probate court and the proceeds are measurable.

Investments

Investments are measured at fair value in the statements of financial position. Realized and unrealized gains and losses and income are included in the statements of activities.

Materials Held for Resale

Materials held for resale are stated at the lower of cost or net realizable value.

Charitable Trust Split-Interest Agreement

During 2012, upon the death of a donor, a trust naming the Organization as one of multiple beneficiaries of a charitable annuity trust was established. Under the terms of the split-interest agreement, the Organization is to receive 5% of income from trust assets annually for 20 years and 10 equal installments of 5% of total trust assets for the 10 years thereafter. No restrictions have been placed on the donation. The receivable for the split-interest agreement is carried at fair value, which the Organization has estimated based on the present value of its expected cash inflows. Based on a discount rate of 3%, the fair value of the Organization's interest in the trust was estimated to be \$203,696 and \$191,946 at December 31, 2021 and 2020, respectively.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 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	30 to 40 Years
Equipment	3 to 15 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 do not meet the criteria for recognition of contributed service revenue/expense, and therefore, are excluded from the financial statements.

Deferred Revenue

Income from sponsorships received in advance of future special events, which the resource provider is receiving commensurate value in return or a right of return exists if the event does not occur, is deferred and recognized over the periods to which the sponsorships relate.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 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 or law. The governing board has designated, from net assets without donor restrictions, net assets for operating reserve, capital reserve, designated endowment, expansion and scholarships.

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. Conditional promises are recorded as revenue when the conditions are substantially met. Contributions, grants, and bequests are recognized as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Sponsorship Revenue

The portion of sponsorship revenue that relates to the commensurate value the sponsor received in return is recognized when the related events are held and performance obligations are met.

Special Event Revenue – Ticket Sales

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

Third-Party Reimbursements

Third-party reimbursements are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing housing to eligible families. These amounts are due from third-party payors, as applicable, and include variable consideration and price concessions due to coverage. Revenue is recognized as performance obligations are satisfied based on actual charges incurred in relation to total expected collections.

RONALD MCDONALD HOUSE OF ROCHESTER, MINNESOTA, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 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: insurance and utilities, which are allocated based on usage of the building; technology and telephone, which are allocated based on estimated usage between families and staff; and salaries, benefits and payroll taxes, which are allocated based on management's estimates of time and effort.

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.

NOTE 2 LIQUIDITY

As of December 31, 2021 and 2020, the Organization has \$1,501,528 and \$1,340,636 of financial assets available to meet cash needs for general expenditures within one year of the statements of financial position date, which consists of the current assets per the statements of financial position, reduced by \$46,335 and \$64,037 of current contributions receivable, materials for resale and prepaid expenses, as well as \$381,753 and \$91,134 of cash not available for general use because of contractual or donor-imposed restrictions, respectively.

The Organization maintains financial assets, consisting of cash and short-term investments, on hand to meet its normal operating expenses based on its annual budget. Operating expenses are compared to budgeted expenses on a monthly basis and financial assets on hand are adjusted as necessary. As part of its liquidity management, the Organization invests cash in excess of daily requirements in various short-term investments. In addition, the Organization maintains an operating reserve that allows for annual spending, if needed. \$591,548 and \$343,342 of appropriations from the operating reserve are available within the next 12 months as of December 31, 2021 and 2020.

In addition, although the Organization does not intend to spend from its board-designated endowment, other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation, amounts from its board designated-endowment could be made available if necessary. The board-designated endowment has a spending rate of 5%. \$304,781 and \$270,512 of appropriations from the board-designated endowment are available within the next 12 months as of December 31, 2021 and 2020.

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NOTE 3 CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable consist primarily of pledges and bequests as of the years ended December 31:

	<u>2021</u>	<u>2020</u>
Promises to Give Expected to be Collected Within:		
One Year	\$ 9,500	\$ 13,000
One to Five Years	-	9,000
Total	<u>9,500</u>	<u>22,000</u>
Less: Unamortized Discount on Pledges Receivable	<u>(94)</u>	<u>(374)</u>
Total	<u>\$ 9,406</u>	<u>\$ 21,626</u>

The discount rate used for the years ended December 31, 2021 and 2020 was 1%.

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.

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NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The fair values of assets measured on a recurring basis as of December 31, 2021 are as follows:

	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV	Total
Investments:					
Mutual Funds	\$ 591,547	\$ -	\$ -	\$ -	\$ 591,547
Nonpublicly Traded Multi-Assets Fund	-	-	-	6,518,786	6,518,786
Total Investments	591,547	-	-	6,518,786	7,110,333
Split-Interest Agreement	-	-	203,696	-	203,696
Total Assets	<u>\$ 591,547</u>	<u>\$ -</u>	<u>\$ 203,696</u>	<u>\$ 6,518,786</u>	<u>\$ 7,314,029</u>

The fair values of assets measured on a recurring basis as of December 31, 2020 are as follows:

	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV	Total
Investments:					
Mutual Funds	\$ 343,342	\$ -	\$ -	\$ -	\$ 343,342
Nonpublicly Traded Multi-Assets Fund	-	-	-	6,095,625	6,095,625
Total Investments	343,342	-	-	6,095,625	6,438,967
Split-Interest Agreement	-	-	191,946	-	191,946
Total Assets	<u>\$ 343,342</u>	<u>\$ -</u>	<u>\$ 191,946</u>	<u>\$ 6,095,625</u>	<u>\$ 6,630,913</u>

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of Level 2 investments are determined by reference to quoted prices for similar assets in less active markets. Fair value of Level 3 investments is determined from valuation techniques in which one or more inputs are unobservable. The Organization reviewed and evaluated the values and assumptions used in determining the fair value of Level 3 financial instruments. The carrying amounts of all other assets and liabilities reflected in the statements of financial position for the Organization's financial instruments approximates their respective fair value due to the short-term maturities of those instruments. There have been no changes in valuation techniques and related inputs.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	2021	2020
Beginning Balance	\$ 191,946	\$ 188,619
Distribution	(5,690)	(5,589)
Change in Value	17,440	8,916
Ending Balance	\$ 203,696	\$ 191,946

The Organization uses net asset value (NAV) per share as a practical expedient to estimate fair values of invested funds in the TIFF Multi-Asset Fund (MAF), which does not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

Investments

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.

Allocation of Investment Strategies

In addition to traditional stocks and fixed income securities, the Organization has invested funds in the TIFF Multi-Asset Fund (MAF). The program strives to achieve a primary benchmark of the Consumer Price Index (CPI) plus 5% per annum in order to make distributions of approximately 5% of MAF's net assets in the form of dividends and capital gains each year. Investments in these funds are eligible for redemption on a daily basis with no required redemption notice period and are assessed a 0.5% fee with each redemption. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the Organization's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

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NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows at December 31, 2021:

<u>Investment Strategy</u>	<u>NAV in Funds</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
TIFF Multi-Asset Fund	\$ 6,518,786	\$ -	Daily	None

Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows at December 31, 2020:

<u>Investment Strategy</u>	<u>NAV in Funds</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
TIFF Multi-Asset Fund	\$ 6,095,625	\$ -	Daily	None

The composition of investment income on the Organization's investment portfolio for the years ended December 31 is as follows:

	<u>2021</u>	<u>2020</u>
Interest and Dividend Income	\$ 895,106	\$ 62,459
Realized and Unrealized Gains (Losses), Net	(141,358)	905,957
Investment Income, Net	<u>\$ 753,748</u>	<u>\$ 968,416</u>

NOTE 5 PROPERTY AND EQUIPMENT

	<u>2021</u>	<u>2020</u>
Buildings	\$ 21,300,757	\$ 21,305,239
Equipment	684,849	699,906
Total	21,985,606	22,005,145
Less: Accumulated Depreciation	(4,491,828)	(3,896,531)
Total	<u>\$ 17,493,778</u>	<u>\$ 18,108,614</u>

NOTE 6 ENDOWMENT

The Organization's endowment consists of one individual fund established by a donor to provide annual funding for general operations. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the board of trustees.

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NOTE 6 ENDOWMENT (CONTINUED)

Absent explicit donor stipulations to the contrary, the board of trustees of 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. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 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:

- (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

Investment Return Objectives, Risk Parameters, and Strategies. The Organization has adopted investment and spending policies, approved by the board of trustees, for endowment assets. Those policies attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. The Organization expects its endowment assets, over time, to produce an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to prevent exposing the fund to unacceptable levels of risk.

Spending Policy – Donor-restricted endowment. There are no restrictions placed on the investment earnings from the donor-restricted endowment. Therefore, there is no spending policy for these funds.

Spending Policy – Board-designated endowment. The Organization has a policy of appropriating for distribution each year 5% of its board-designated and donor restricted endowment fund's combined balance from the previous year.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 6 ENDOWMENT (CONTINUED)

Changes in endowment net assets and net assets by type of fund as follows for the fiscal year ended December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 5,599,375	\$ 496,250	\$ 6,095,625
Investment Return, Net	752,155	-	752,155
Appropriation of Endowment Assets for Expenditure	<u>(328,995)</u>	<u>-</u>	<u>(328,995)</u>
Endowment Net Assets - End of Year	<u>\$ 6,022,535</u>	<u>\$ 496,250</u>	<u>\$ 6,518,785</u>
Board-Designated Endowment Funds	\$ 6,022,535	\$ -	\$ 6,022,535
Donor-Restricted Endowment Funds:			
Original Donor-Restrict Gift Amount and Amounts Required to be Retained by Donor	<u>-</u>	<u>496,250</u>	<u>496,250</u>
Total Funds	<u>\$ 6,022,535</u>	<u>\$ 496,250</u>	<u>\$ 6,518,785</u>

Changes in endowment net assets and net assets by type of fund were as follows for the fiscal year ended December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 4,847,956	\$ 496,250	\$ 5,344,206
Investment Return, Net	958,677	-	958,677
Appropriation of Endowment Assets for Expenditure	<u>(207,258)</u>	<u>-</u>	<u>(207,258)</u>
Endowment Net Assets - End of Year	<u>\$ 5,599,375</u>	<u>\$ 496,250</u>	<u>\$ 6,095,625</u>
Board-Designated Endowment Funds	\$ 5,599,375	\$ -	\$ 5,599,375
Donor-Restricted Endowment Funds:			
Original Donor-Restrict Gift Amount and Amounts Required to be Retained by Donor	<u>-</u>	<u>496,250</u>	<u>496,250</u>
Total Funds	<u>\$ 5,599,375</u>	<u>\$ 496,250</u>	<u>\$ 6,095,625</u>

Fund Deficiencies. From time to time, the fair value of assets associated with the 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, 2021 and 2020.

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NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
Subject to Expenditure for Specific Purpose:		
Hollidazzle Activity	\$ 18,335	\$ 19,537
Milk Purchases	13,330	13,330
Guest Laundry	3,500	-
Food Co-op	53,514	40,267
House Dinner and Groceries	113,475	-
Family Activity Bags	410	12,000
Coca-Cola Sponsorship	5,455	6,000
Camp Ronald	54,817	-
Hope Bear Days	9,007	-
Urban Playroom	10,000	-
Backyard Updates	15,000	-
Angels of Inspiration	4,382	-
Wellness Programming	4,580	-
Room Refresh	69,303	-
Holiday Meals	6,647	-
Total Expenditure for Specific Purpose	<u>381,755</u>	<u>91,134</u>
Subject to the Organizations Spending Policy and Appropriation:		
Original Donor-Restricted Gift Amount Required to be Maintained in Perpetuity by Donor	<u>496,250</u>	<u>496,250</u>
Total	<u>\$ 878,005</u>	<u>\$ 587,384</u>

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 years ended December 31:

	<u>2021</u>	<u>2020</u>
Purpose Restrictions Accomplished:		
Hollidazzle Activity	\$ 1,202	\$ 383
Milk Purchases	-	1,003
Guest Laundry	3,500	11,667
Food Co-op	53,754	44,645
House Dinner and Groceries	48,300	-
Family Activity Bags	11,590	-
Coca-Cola Sponsorship	545	-
Camp Ronald	5,183	-
Hope Bear Days	993	-
Angels of Inspiration	618	-
Room Refresh	1,622	-
Holiday Meals	1,555	-
Total Restrictions Released	<u>\$ 128,862</u>	<u>\$ 57,698</u>

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NOTE 8 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:

	<u>2021</u>	<u>2020</u>
Board-Designated Endowment	\$ 6,022,535	\$ 5,599,375
Board-Designated Operating Reserve	636,366	705,291
Board-Designated Capital Reserve	591,548	343,342
Board-Designated Scholarships	70,000	70,000
Total Board Designated Net Assets	<u>\$ 7,320,449</u>	<u>\$ 6,718,008</u>

NOTE 9 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 are as follows:

<u>December 31, 2021</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Family Support Services and Supplies	\$ 182,860	\$ -	\$ -	\$ 182,860
Special Events Expense	-	-	22,920	22,920
Total	<u>\$ 182,860</u>	<u>\$ -</u>	<u>\$ 22,920</u>	<u>\$ 205,780</u>

<u>December 31, 2020</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Family Support Services and Supplies	\$ 127,736	\$ -	\$ -	\$ 127,736
Special Events Expense	-	-	12,872	12,872
Total	<u>\$ 127,736</u>	<u>\$ -</u>	<u>\$ 12,872</u>	<u>\$ 140,608</u>

NOTE 10 RETIREMENT PLAN

In accordance with the terms of the Organization's simple retirement plan, it will match the eligible employee's salary reduction contributions up to a limit of 3% of the employee's compensation. Contributions made by the Organization for the years ended December 31, 2021 and 2020 were \$31,943 and \$29,305, respectively.

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NOTE 11 OPERATING LEASE

The Organization has a ground lease agreement that calls for annual rent of \$1. The lease is for a 10-year term, which the Organization has the option to extend for an unlimited number of 10-year terms. Upon termination of the lease, the building, and any other improvements will become property of the landlord. Under certain conditions, the facility owned by the Organization would be forced to sell to the landlord. The primary provision is that the landlord can give one-year notice to remove the Organization from the land. The landlord would need to buy the Organization's facility for fair value upon that occurrence.

NOTE 12 TRANSACTIONS WITH RELATED ENTITIES

Ronald McDonald House Charities (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, 2021 and 2020, the Organization received \$25,521 and \$48,885, respectively, from these revenue streams.

The Organization also received \$343,506 and \$170,974 during the years ended December 31, 2021 and 2020, respectively, from Ronald McDonald House Charities of Western Wisconsin and Southeastern Minnesota.

The Organization has entered into a service agreement with a company owned by a board member for information technology services. Services purchased for the years ended December 31, 2021 and 2020 totaled \$26,417 and \$22,834, respectively.

A board member has an ownership interest in the main financial institution used by the Organization. The Organization had balances of \$1,883,281 and \$1,449,215 held at this institution as of December 31, 2021 and 2020.

A board member provides legal services for the Organization. Total services provided for the years ended December 31, 2021 and 2020 were \$4,406 and \$-0-, respectively.

A board member serves as a principal for the film studio used by the Organization. Services used for the years ended December 31, 2021 and 2020 totaled \$20,530 and \$-0-, respectively.

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NOTE 12 TRANSACTIONS WITH RELATED ENTITIES (CONTINUED)

A board member has an ownership interest in the furniture company used by the Organization in the facility project. Materials purchased for the years ended December 31, 2021 and 2020 totaled \$3,765 and \$-0-, respectively.

NOTE 13 CONCENTRATIONS

During the year ended December 31, 2021, the Organization had one donor on which contributions exceeded 10% of total contributions. One donor accounted for 100% of pledges receivable related to the capital campaign for the year ended December 31, 2021.

During the year ended December 31, 2020, the Organization had no donors on which contributions exceeded 10% of total contributions. One donor accounted for 100% of pledges receivable related to the capital campaign for the year ended December 31, 2020.

NOTE 14 PAYCHECK PROTECTION PROGRAM

On April 13, 2020, the Organization received loan proceeds in the amount of \$206,880 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP). On December 16, 2020, the PPP loan proceeds were forgiven by the U.S. Small Business Administration (SBA). The Organization recognized these proceeds as grant revenue on the statement of activities during the year ended December 31, 2020.

The SBA may review funding eligibility and usage of funds in compliance with the program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Organization's financial position.

NOTE 15 SUBSEQUENT EVENTS

Management evaluated subsequent events through March 15, 2022, the date the financial statements were available to be issued.

The board of trustees approved a resolution, on February 24, 2022, to acquire the Ronald McDonald House Charities of Western Wisconsin and Southeastern Minnesota, Inc. The full impact of the acquisition is unknown and cannot be reasonably estimated as of March 15, 2022.

The Organization entered into a construction contract related to renovations to guest rooms on January 31, 2022. The outstanding commitment for this contract totaled \$1,306,620.