



Financial Statements  
December 31, 2021 and 2020

**Ronald McDonald House Charities,  
Upper Midwest**

Ronald McDonald House Charities, Upper Midwest

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December 31, 2021 and 2020

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## Independent Auditor's Report

The Board of Directors  
Ronald McDonald House Charities, Upper Midwest  
Minneapolis, Minnesota

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Ronald McDonald House Charities, Upper Midwest (the 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 the Organization 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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 these 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 the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

## ***Auditor's Responsibilities of 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 auditor's 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 the Organization'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 the Organization'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.

*Eide Sully LLP*

Minneapolis, Minnesota  
April 27, 2022

Ronald McDonald House Charities, Upper Midwest  
Statements of Financial Position  
December 31, 2021 and 2020

	2021	2020
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,176,100	\$ 3,570,155
Accounts receivable	521,483	162,646
Operating investments	9,088,401	5,146,536
Promises to give, in-kind rent	364,118	257,773
Prepaid expenses	78,618	123,240
Other assets	68,650	48,818
Total current assets	12,297,370	9,309,168
<b>Noncurrent assets</b>		
Cash surrender value of life insurance policies	-	31,537
Promises to give, in-kind rent	654,678	472,683
Property and equipment, net	5,298,726	5,745,466
Endowment investments	10,125,686	9,303,003
Total noncurrent assets	16,079,090	15,552,689
Total assets	\$ 28,376,460	\$ 24,861,857
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 263,709	\$ 212,782
Other liabilities	2,658	12,198
Total current liabilities	266,367	224,980
Total liabilities	266,367	224,980
<b>Net Assets</b>		
<b>Without donor restrictions</b>		
Undesignated	5,565,093	5,970,446
Board-designated operating reserve	10,369,390	7,573,075
Board-designated endowment	2,638,839	2,349,906
	18,573,322	15,893,427
<b>With donor restrictions</b>		
Purpose and time restricted	2,049,924	1,790,353
Accumulated investment gains on endowment	3,730,252	3,331,726
Perpetual in nature	3,756,595	3,621,371
	9,536,771	8,743,450
Total net assets	28,110,093	24,636,877
Total liabilities and net assets	\$ 28,376,460	\$ 24,861,857

Ronald McDonald House Charities, Upper Midwest  
Statement of Activities  
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions and grants	\$ 5,273,584	\$ 706,861	\$ 5,980,445
Special events revenue	747,084	10,000	757,084
PPP debt forgiveness income	476,362	-	476,362
Room donations/fees	136,807	-	136,807
Third-party reimbursements	12,670	-	12,670
Other income	132,112	86,238	218,350
Net assets released from restrictions pursuant to endowment spending rate distribution formula	486,054	(486,054)	-
Net assets released from restrictions	408,304	(408,304)	-
Total revenue, support, and gains	<u>7,672,977</u>	<u>(91,259)</u>	<u>7,581,718</u>
Expenses and Losses			
Program services	5,163,994	-	5,163,994
Fundraising	372,724	-	372,724
Administration	338,194	-	338,194
Costs of direct benefits to donors	54,540	-	54,540
Total expenses and losses	<u>5,929,452</u>	<u>-</u>	<u>5,929,452</u>
Change in Net Assets from Operations	1,743,525	(91,259)	1,652,266
Investment Income, Net	936,370	884,580	1,820,950
Change in Net Assets	2,679,895	793,321	3,473,216
Net Assets, Beginning of Year	15,893,427	8,743,450	24,636,877
Net Assets, End of Year	<u>\$ 18,573,322</u>	<u>\$ 9,536,771</u>	<u>\$ 28,110,093</u>

Ronald McDonald House Charities, Upper Midwest  
Statement of Activities  
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions	\$ 4,527,734	\$ 1,021,290	\$ 5,549,024
Special events revenue	710,246	10,000	720,246
PPP debt forgiveness income	444,200	-	444,200
Room donations/fees	139,014	-	139,014
Third-party reimbursements	27,219	-	27,219
Other income	115,989	16,703	132,692
Net assets released from restrictions pursuant to endowment spending rate distribution formula	447,658	(447,658)	-
Net assets released from restrictions	486,638	(486,638)	-
Total revenue, support, and gains	<u>6,898,698</u>	<u>113,697</u>	<u>7,012,395</u>
Expenses and Losses			
Program services	4,962,536	-	4,962,536
Fundraising	354,301	-	354,301
Administration	361,609	-	361,609
Costs of direct benefits to donors	55,598	-	55,598
Total expenses and losses	<u>5,734,044</u>	<u>-</u>	<u>5,734,044</u>
Change in Net Assets From Operations	1,164,654	113,697	1,278,351
Investment Income, Net	727,451	766,314	1,493,765
Change in Net Assets	<u>1,892,105</u>	<u>880,011</u>	<u>2,772,116</u>
Net Assets, Beginning of Year	<u>14,001,322</u>	<u>7,863,439</u>	<u>21,864,761</u>
Net Assets, End of Year	<u>\$ 15,893,427</u>	<u>\$ 8,743,450</u>	<u>\$ 24,636,877</u>

Ronald McDonald House Charities, Upper Midwest  
Statement of Functional Expenses  
Year Ended December 31, 2021

	Program Services				Fundraising	Administration	Cost of Direct Benefits to Donors	Total
	Lodging and Other Subsidies	Family Services	Volunteer Services	Total Program				
Expenses								
Salaries and benefits	\$ 1,708,136	\$ 70,339	\$ 492,130	\$ 2,270,605	\$ 172,257	\$ 243,291	\$ -	\$ 2,686,153
Insurance expense	57,275	1,484	3,646	62,405	3,555	4,431	-	70,391
Supplies and food	1,194,196	820	54	1,195,070	2,052	1,496	-	1,198,618
Professional and consulting	36,417	59	59	36,535	121	15,157	-	51,813
Bank fees	-	-	-	-	40,352	4,916	-	45,268
Utilities	131,969	-	880	132,849	2,080	2,433	-	137,362
Postage and printing	6,441	1,804	1,871	10,116	38,362	1,122	-	49,600
Facilities expense	469,292	1,255	1,203	471,750	2,219	2,089	-	476,058
House operations	416,922	12,118	84	429,124	48	90	-	429,262
Event expense	613	98	-	711	39,505	-	-	40,216
Books and staff development	752	-	-	752	429	3,809	-	4,990
Recognition expense	5,130	130	4,340	9,600	1,835	316	-	11,751
Marketing	348	170	40	558	1,710	171	-	2,439
Mileage	491	60	28	579	179	-	-	758
Computer - software	21,336	2,608	12,072	36,016	16,104	18,494	-	70,614
Direct benefit to donors	-	-	-	-	-	-	54,540	54,540
Loss on disposal of fixed asset	6,864	-	-	6,864	-	-	-	6,864
Unallocated payments to RMHC Global	-	-	-	-	-	178,493	-	178,493
Canister collection expense	-	-	-	-	84,722	-	-	84,722
Depreciation	448,544	40,379	11,537	500,460	51,916	40,379	-	592,755
<b>Total expenses by function</b>	<b>4,504,726</b>	<b>131,324</b>	<b>527,944</b>	<b>5,163,994</b>	<b>457,446</b>	<b>516,687</b>	<b>54,540</b>	<b>6,192,667</b>
Less expenses included with revenues on the statement of activities								
Unallocated payments to RMHC Global	-	-	-	-	-	(178,493)	-	(178,493)
Canister collection expenses	-	-	-	-	(84,722)	-	-	(84,722)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 4,504,726</b>	<b>\$ 131,324</b>	<b>\$ 527,944</b>	<b>\$ 5,163,994</b>	<b>\$ 372,724</b>	<b>\$ 338,194</b>	<b>\$ 54,540</b>	<b>\$ 5,929,452</b>



Ronald McDonald House Charities, Upper Midwest  
Statement of Functional Expenses  
Year Ended December 31, 2020

	Program Services				Fundraising	Administration	Cost of Direct Benefits to Donors	Total
	Lodging and Other Subsidies	Family Services	Volunteer Services	Total Program				
Expenses								
Salaries and benefits	\$ 1,506,445	\$ 96,081	\$ 545,707	\$ 2,148,233	\$ 176,214	\$ 232,215	\$ -	\$ 2,556,662
Insurance expense	77,603	1,093	3,561	82,257	3,566	13,285	-	99,108
Supplies and food	1,301,448	380	60	1,301,888	1,027	4,608	-	1,307,523
Professional and consulting	24,411	2,394	2,612	29,417	6,962	28,962	-	65,341
Bank fees	-	-	-	-	38,478	4,322	-	42,800
Utilities	133,881	210	440	134,531	2,680	1,920	-	139,131
Postage and printing	17,600	655	360	18,615	8,433	5,871	-	32,919
Facilities expense	414,822	2,726	1,741	419,289	4,177	3,362	-	426,828
House operations	240,967	5,765	305	247,037	661	1,297	-	248,995
Event expense	145	-	20	165	35,266	-	-	35,431
Books and staff development	1,116	108	336	1,560	1,711	3,993	-	7,264
Donor directed gifts	5,000	-	-	5,000	-	-	-	5,000
Recognition expense	100	28	744	872	1,625	1,695	-	4,192
Marketing	4,775	-	-	4,775	1,629	-	-	6,404
Mileage	1,662	338	435	2,435	825	67	-	3,327
Computer - software	22,963	3,031	13,281	39,275	15,791	17,035	-	72,101
Direct benefit to donors	-	-	-	-	-	-	55,598	55,598
Loss on disposal of fixed asset	4,166	-	-	4,166	-	-	-	4,166
Unallocated payments to RMHC Global	-	-	-	-	-	138,988	-	138,988
Canister collection expense	-	-	-	-	89,302	-	-	89,302
Depreciation	467,765	42,977	12,279	523,021	55,256	42,977	-	621,254
<b>Total expenses by function</b>	<b>4,224,869</b>	<b>155,786</b>	<b>581,881</b>	<b>4,962,536</b>	<b>443,603</b>	<b>500,597</b>	<b>55,598</b>	<b>5,962,334</b>
Less expenses included with revenues on the statement of activities								
Unallocated payments to RMHC Global	-	-	-	-	-	(138,988)	-	(138,988)
Canister collection expenses	-	-	-	-	(89,302)	-	-	(89,302)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 4,224,869</b>	<b>\$ 155,786</b>	<b>\$ 581,881</b>	<b>\$ 4,962,536</b>	<b>\$ 354,301</b>	<b>\$ 361,609</b>	<b>\$ 55,598</b>	<b>\$ 5,734,044</b>

Ronald McDonald House Charities, Upper Midwest

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	\$ 3,473,216	\$ 2,772,116
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	592,755	621,254
Realized and unrealized gain on operating investments	(506,666)	(500,112)
Loss on disposal of property and equipment	6,864	40,925
In-kind contributions - capital projects	(30,673)	(75,119)
Contributions restricted to endowment	(48,986)	(31,290)
PPP debt forgiveness income	(476,362)	(444,200)
Endowment net investment return	(1,173,513)	(1,014,820)
Change in operating assets and liabilities		
Accounts receivable	(358,837)	54,933
Promises to give, in-kind rent	(288,340)	287,772
Prepaid expenses	44,622	45,808
Other assets	(19,832)	(15,557)
Cash surrender value of life insurance policies	31,537	(4,401)
Accounts payable and accrued expenses	50,927	32,406
Other liabilities	(9,540)	5,339
Net Cash from Operating Activities	<u>1,287,172</u>	<u>1,775,054</u>
Cash Flows used for Investing Activities		
Purchase of operating investments	(3,435,199)	(699,665)
Purchase of property and equipment	(122,206)	(209,699)
Withdrawals from endowment	350,830	399,665
Net Cash used for Investing Activities	<u>(3,206,575)</u>	<u>(509,699)</u>
Cash Flows from Financing Activities		
Proceeds from issuance of PPP loan	476,362	444,200
Collection of contributions restricted to endowment	48,986	31,290
Net Cash from Financing Activities	<u>525,348</u>	<u>475,490</u>
Net Change in Cash and Cash Equivalents	(1,394,055)	1,740,845
Cash and Cash Equivalents, Beginning of Year	<u>3,570,155</u>	<u>1,829,310</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,176,100</u>	<u>\$ 3,570,155</u>
Supplemental Disclosures of Cash Flow Information		
Stock donations	<u>\$ 53,236</u>	<u>\$ 29,559</u>

**Note 1 - Principal Activity and Significant Accounting Policies****Organization**

Ronald McDonald House Charities, Upper Midwest (RMHC-UM, the Organization, or the House) is a nonprofit organization which owns and operates the Ronald McDonald House of the Twin Cities that provides a supportive community for families with seriously ill, injured, or disabled children that increases children's access to healthcare services.

The Ronald McDonald House provides a home-away-from-home for families who have children being treated for life-threatening illness, injury, or disease. Several different program areas support the mission of RMHC-UM:

Lodging and Other Subsidies

The Lodging program is responsible for the maintenance and staffing of the Ronald McDonald House – Oak Street facility and three locations located within hospitals in the Twin Cities. At Oak Street, RMHC-UM subsidizes the cost of accommodating up to 48 families staying at the House each day who live farther than 40 miles from the Twin Cities. RMHC-UM does not request a set fee from guests, but, when able to, bills counties for the Children's Special Health Care Services Fund.

Included within the Lodging program are the following four programs that serve families who are not required to live more than 40 miles away from the respective facility:

*The Ronald McDonald House – Chicago Avenue (or House Inside Hospital) serves families whose child is receiving treatment in an Intensive Care Unit at Children's Minnesota, Minneapolis. For families in need of overnight lodging, the House offers 15 private rooms, each with its own bathroom.*

*The Ronald McDonald Family Room at Gillette Children's Specialty Healthcare in St. Paul provides a home-like setting for families of a child who is receiving medical treatment for a serious condition or disability. The facility provides four private rooms and bathrooms.*

*The Ronald McDonald Family Room – St. Paul serves families whose children are receiving treatment at Children's Minnesota, St. Paul. For families in need of overnight lodging, the facility offers four private rooms, each with its own bathroom.*

*The Ronald McDonald House – Northland serves families whose child is receiving inpatient or outpatient treatment at Essentia Health – St. Mary's Medical Center, Duluth. For families in need of overnight lodging, the House offers five private rooms, each with its own bathroom.*

Family Services

A variety of supportive services are provided to help ease the burden associated for families coping with pediatric illness. There are morning programs, after school programs, and summer programs available for RMHC-UM residents. A full-time K-12 Minneapolis Public School's Alternative School is available for siblings and children who are patients while staying at RMHC-UM.

### Volunteer Services

Volunteers are an integral part of how RMHC-UM's mission is executed resourcefully and according to nonprofit service industry best practices. Through evaluation, according to industry standards, RMHC-UM's Volunteer Department successfully became certified in 2018 as a Service Enterprise recognizing the agency's robust volunteer engagement and operational significance. Notably, RMHC-UM's Cooks for Kids meal program has engaged groups of volunteers to provide dinner nightly and brunch each weekend across all sites (36 meals per week). RMHC-UM families continue to report the meal program as one of the most appreciated services offered. Cross-department collaboration occurs to ensure volunteers productively support needs of all departments (i.e. internships, admin support, room refreshers, meal hosts, etc.). In 2021, approximately 1,600 unique volunteers served about 19,000 hours of service at the agency's four locations and in support of fundraising efforts. In 2020, approximately 2,600 unique volunteers served about 20,900 hours of service at the agency's four locations and in support of fundraising efforts.

The Organization has an independently operated license agreement with Ronald McDonald House Charities, Global (RMHC Global). RMHC Global receives 25% of canister income after expenses incurred for providing and maintaining the canisters in the restaurants.

### **Cash and Cash Equivalents**

RMHC-UM considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for, nor restricted by, donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of RMHC-UM are excluded from this definition.

### **Receivables and Credit Policies**

Accounts receivable consists primarily of uncollateralized obligations due from county medical assistance billed on a monthly basis while families are still in the facility, and amounts due for coverage of operating expenses of programs. Receivables do not bear any interest on unpaid balances. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. RMHC-UM also occasionally bills insurance companies if there is coverage, and it will not adversely impact the families' other medical benefits. The accounts receivable balance as of January 1, 2020, was \$217,579.

Management determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. At December 31, 2021 and 2020, the allowance was \$0.

**Promises to Give**

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2021 and 2020, there were no promises to give.

**Promises to Give – In-Kind Rent**

In-kind rent promises to give are reported as a contribution receivable and net assets with donor restrictions at the lower of fair rental value of the property or the fair value of the property at the time the unconditional promise to give is received. Promises to give for in-kind rent are released from restriction and an expense recorded on a straight-line basis over the life of the agreements. The terms of the agreements are included in Note 5.

**Property and Equipment**

Property and equipment additions over \$3,500 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 25 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

RMHC-UM reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. RMHC-UM has determined that there were no indications of impairment during the years ended December 31, 2021 and 2020.

**Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Investment income, net is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

**Net Assets**

Net assets, revenues, 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 (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for an operating reserve and Board-designated endowment.

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) 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. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

For the years ended December 31, 2021 and 2020, canister donation revenue is recorded at gross revenue in contributions on the statement of activities. Canister collection expenses of \$84,700 and \$89,300, and unallocated payments to RMHC Global of \$178,500 and \$138,988, respectively, are reported separately as a reduction of this revenue on the statement of activities. \$23,500 and \$26,800 was payable to RMHC Global as of December 31, 2021 and 2020, respectively. \$93,900 and \$90,400 was receivable from RMHC Global as of December 31, 2021 and 2020, respectively.

**Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to RMHC-UM's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets, or (b) specialized skills are performed by people with those skills and would otherwise be purchased by RMHC-UM. Contributed goods are reflected as support and expenses in the financial statements at their respective fair values at the date of donation.

**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 financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation which are allocated on a square footage basis, as well as salaries and benefits, insurance expense, professional and consulting facilities expenses, marketing, utilities, and other, which are allocated on the basis of estimates of time and effort.

**Income Taxes**

RMHC-UM is organized as a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Financial Instruments and Credit Risk**

RMHC-UM manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, RMHC-UM has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from organizations and individuals supportive of RMHC-UM's mission. Investments are made by diversified investment managers whose performance is monitored by management and the Finance Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance Committee believe that the investment policies and guidelines are prudent for the long-term welfare of RMHC-UM.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

### **Paycheck Protection Program (PPP) Loan**

For the years ended December 31, 2021 and 2020, the Organization was granted a \$476,362 and \$444,200 loan under the PPP administered by a Small Business Administration (SBA) approved partner, respectively. The loans are uncollateralized and fully guaranteed by the Federal Government. The Organization initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released by the SBA. The Organization has recognized \$476,362 and \$444,200 of loan forgiveness income for the years ended December 31, 2021 and 2020, respectively.

### **Subsequent Events**

The Organization has evaluated subsequent events through April 27, 2022, the date which the financial statements were issued.

### **Note 2 - Liquidity and Availability**

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization strives to maintain liquid financial assets sufficient to cover 150 days of general expenditures, approximately \$1,611,000, and as of December 31, 2021 and 2020, based on pre-pandemic expenses. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds, and other short-term investments.



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For purposes of analyzing resources available to meet general expenditures over a five-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures. In addition to financial assets available to meet general expenditures over the next five months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

As of December 31, 2021 and 2020, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

	2021	2020
Cash and cash equivalents	\$ 2,176,100	\$ 3,570,155
Accounts receivable	521,483	162,646
Operating investments	9,088,401	5,146,536
	<u>\$ 11,785,984</u>	<u>\$ 8,879,337</u>

Endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from the donor-restricted endowments is for general use. Donor-restricted endowment funds are not available for general expenditure.

A Board-designated endowment of approximately \$2,640,000 and \$2,350,000, as of December 31, 2021 and 2020, respectively, is subject to the same investment policy that the donor-restricted endowment is subject to for the years ended. While the Organization does not intend to spend from this endowment, these amounts can be made available if necessary.

### **Note 3 - Fair Value Measurements**

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal or most advantageous market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that RMHC-UM can access at the measurement date.

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Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, RMHC-UM develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to RMHC-UM’s assessment of the quality, risk, or liquidity profile of the asset or liability.

RMHC-UM’s investment assets are classified within Level 1 because they are comprised of marketable equity securities and mutual funds with readily determinable fair values based on daily redemption values. Corporate bonds are classified as Level 1 investments because they are valued using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at December 31, 2021:

	Fair Value Measurements at Report Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Operating investments				
Money market (at cost)	\$ -	\$ -	\$ -	\$ 133,250
Corporate bonds	176,519	-	-	176,519
Marketable equity securities	2,099,249	-	-	2,099,249
Mutual funds	6,679,383	-	-	6,679,383
	<u>\$ 8,955,151</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,088,401</u>
Endowment investments				
Money market (at cost)	\$ -	\$ -	\$ -	\$ 148,459
Corporate bonds	196,666	-	-	196,666
Marketable equity securities	7,441,719	-	-	7,441,719
Mutual funds	2,338,842	-	-	2,338,842
	<u>\$ 9,977,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,125,686</u>

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The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at December 31, 2020:

	Fair Value Measurements at Report Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Operating investments				
Money market (at cost)	\$ -	\$ -	\$ -	\$ 302,392
Marketable equity securities	1,173,132	-	-	1,173,132
Mutual funds	3,671,012	-	-	3,671,012
	<u>\$ 4,844,144</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,146,536</u>
Endowment investments				
Money market (at cost)	\$ -	\$ -	\$ -	\$ 371,439
Marketable equity securities	6,635,810	-	-	6,635,810
Mutual funds	2,295,754	-	-	2,295,754
	<u>\$ 8,931,564</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,303,003</u>

**Note 4 - Property and Equipment**

Property and equipment consists of the following at December 31, 2021 and 2020:

	2021	2020
Land	\$ 1,197,489	\$ 1,197,489
Buildings	12,104,689	12,083,960
Furniture and fixtures	1,838,211	1,743,720
Computers and software	376,533	376,533
Vehicles	68,281	68,281
	<u>15,585,203</u>	<u>15,469,983</u>
Less accumulated depreciation	<u>(10,286,477)</u>	<u>(9,724,517)</u>
	<u>\$ 5,298,726</u>	<u>\$ 5,745,466</u>

Depreciation expense totaled approximately \$593,000 and \$621,000 for the years ended December 31, 2021 and 2020, respectively.

**Note 5 - Leases and Other Agreements**

In July 2008, the Organization signed an agreement with Children's Health Care d/b/a Children's Hospitals and Clinics of Minnesota, to operate a Ronald McDonald House (RMHC-UM) within Children's Hospital in Minneapolis, Minnesota. Under the terms of the agreement, RMHC-UM and Children's Hospital worked cooperatively to raise the funds required to operate the RMHC-UM during the first five-year term of the agreement. The agreement was extended for two additional five-year periods, expiring in 2023. The future lease expense and related in-kind receivable is \$166,098 in 2022 and 2023.

In November 2010, the Organization signed an agreement with Gillette's Children's Specialty Healthcare to operate a Ronald McDonald Family Room (RMFR) within Gillette Children's Hospital in St. Paul, Minnesota. Under the terms of the agreement, RMHC-UM and Gillette Children's Hospital worked cooperatively to raise the funds required to build out and furnish the space and to operate the RMFR during its first year of operation. The agreement was in place for a five-year period and expired during 2016. This agreement was extended for an additional five-year period, expiring in 2021 and extended again in 2021 for an additional five-year period, expiring in 2026. During the year ended December 30, 2021, \$205,717 was recorded in in-kind rent on the statement of activities related to the five-year extension. The future lease expense and related in-kind receivable is \$41,144 in 2022, 2023, 2024, 2025, and \$20,572 in 2026.

In July 2015, the Organization signed an agreement with Children's Health Care d/b/a Children's Hospitals and Clinics of Minnesota, to operate a Ronald McDonald Family Room (RMFR) within Children's Hospital in St. Paul, Minnesota. Under the terms of the agreement, RMHC-UM and Children's Hospital worked cooperatively to raise the funds required to build out and furnish the space and to operate the RMFR during its five years of operation. The agreement was extended for an additional five-year period, expiring in 2023. The future lease expense and related in-kind receivable is \$70,245 in 2022 and 2023.

In June 2020, the Organization signed an agreement with St. Mary's Duluth Clinic Health System d/b/a Essentia Health East (Essentia), to operate a Ronald McDonald House (RMHC-UM) within Essentia Health St. Mary's Medical Center in Duluth, Minnesota. Due to the pandemic the location opened in February of 2021. The initial lease term under the agreement is for a period of five years with mutually agreed upon five-year extensions. Under the terms of the agreement, RMHC-UM will operate in Essentia's existing clinic for three years and then transition to a new location within Essentia's new clinic. Further, both organizations will jointly conduct fundraising activities to raise the funds required to operate RMHC-UM once Essentia's three-year commitment to fund all operating expenses for each location is concluded. During the year ended December 30, 2021, \$433,158 was recorded in in-kind rent on the statement of activities related to the agreement signed in February 2021. The future lease expense and related in-kind receivable is \$86,632 in 2022, 2023, 2024, 2025, and \$14,439 in 2026.

RMHC-UM leases office equipment under operating leases expiring at various dates through March 2026. Total future payments under the equipment lease arrangement will be \$24,968. Rent expense for the years ending December 31, 2021 and 2020, under this lease was \$16,188.

The Organization has various operating leases expiring at various dates through 2025.

Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 6,044
2023	6,044
2024	6,044
2025	5,504
2026	1,332
	<u>\$ 24,968</u>

### **Note 6 - Endowment**

RMHC-UM's endowment (the Endowment) consists of approximately 34 individual funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain net assets without donor restrictions designated for endowment by the Board of Directors. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### **Interpretation of Relevant Law**

RMHC-UM's Board of Directors has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (the 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. At December 31, 2021 and 2020, there were no such donor stipulations. As a result of this interpretation, RMHC-UM classifies net assets perpetual in nature based on (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give, net of discount and allowance for doubtful accounts), 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. The remaining portion of the donor-restricted endowment is classified as net assets with donor restrictions accumulated investment gains on investments until those amounts are appropriated for expenditure by RMHC-UM in a manner consistent with the standard of prudence prescribed by the UPMIFA. RMHC-UM 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

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From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Minnesota UPMIFA requires RMHC-UM to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2021 and 2020.

As of December 31, 2021 and 2020, RMHC-UM had the following endowment net asset composition by type of fund:

<u>December 31, 2021</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 3,756,595	\$ 3,756,595
Accumulated investment gains	-	3,730,252	3,730,252
Board-designated endowment funds	<u>2,638,839</u>	<u>-</u>	<u>2,638,839</u>
	<u>\$ 2,638,839</u>	<u>\$ 7,486,847</u>	<u>\$ 10,125,686</u>
<u>December 31, 2020</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 3,621,371	\$ 3,621,371
Accumulated investment gains	-	3,331,726	3,331,726
Board-designated endowment funds	<u>2,349,906</u>	<u>-</u>	<u>2,349,906</u>
	<u>\$ 2,349,906</u>	<u>\$ 6,953,097</u>	<u>\$ 9,303,003</u>

**Investment and Spending Policies**

During the year ended December 31, 2015, the Board of Directors approved an endowment spending policy for RMHC-UM. The Board of Directors of RMHC-UM recognizes its fiduciary responsibility to prudently manage its endowment fund (the Fund). The Fund is intended to benefit the Organization in perpetuity; therefore, the spending policy is intended to achieve a balance between preserving the purchasing power of the Endowment's principal and using the Fund to support the related programs.

The Board of Directors affirms the following goals for its endowment spending policy:

- To preserve the charitable impact and intergenerational equity of donor funds;
- To protect the real value of endowment principal;
- To strive for reasonable stability and predictability of distributed amounts from year to year;
- To assure contributors that donated funds will be prudently managed to maintain the intended charitable impact of their donations; and
- To conceptually match the Endowment's proceeds with support of the capital replacement program of RMHC-UM.

A scheduled annual "Target Spend" will be calculated prior to each fiscal year. Upon approval by the Board of Directors, that amount will be released from the Endowment over the course of that fiscal year.

The annual Target Spend for a fiscal year will be 4% of the average fair market value of the Fund, according to the financial statements from the most recent 12 quarters. This calculation will be performed once a year, setting the Target Spend for the upcoming fiscal year's budget. The Finance Committee of the Board is charged with managing this process including the following:

- To study and recommend the appropriate level of annual contribution needed to maintain, and replace when needed, the buildings and facilities owned and operated by RMHC-UM in carrying out its mission;
- To annually recommend to the Board the appropriate amount to adopt as its Endowment Target, reflecting the annual contributions described above;
- To set an appropriate annual date for the Target Spend calculation, as close to the end of the fiscal year as feasible, while still allowing time for Board action and inclusion in the budget process; and
- To perform the Target Spend calculation, and recommend the result for approval by the Board, subject to the following:
  - If, at the time of the calculation, the balance of the Endowment Fund is less than the Board-set Endowment Target, the Finance Committee will evaluate the situation and make a recommendation to the Board on: (1) whether or how the Target Spend for the following year should be modified when setting the budget, and (2) other recommended actions (whether financial or operational) which might be prudent, to address the reduced endowment.

The Board's chosen Target Spend will be transferred from the Endowment into operating accounts as operating income, except to the extent the transfer represents funds with specific donor restrictions.

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Changes in endowment net assets for the year ending December 31, 2021 and 2020, are as follows:

<u>December 31, 2021</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,349,906	\$ 6,953,097	\$ 9,303,003
Net investment return	288,933	884,580	1,173,513
Required allocation of investment earnings	-	86,238	86,238
Contributions	-	48,986	48,986
Appropriation of endowment assets pursuant to spending-rate policy	-	<u>(486,054)</u>	<u>(486,054)</u>
Endowment net assets, end of year	<u>\$ 2,638,839</u>	<u>\$ 7,486,847</u>	<u>\$ 10,125,686</u>
<u>December 31, 2020</u>			
Endowment net assets, beginning of year	\$ 2,101,400	\$ 6,586,448	\$ 8,687,848
Net investment return	248,506	766,314	1,014,820
Required allocation of investment earnings	-	16,703	16,703
Contributions	-	31,290	31,290
Appropriation of endowment assets pursuant to spending-rate policy	-	<u>(447,658)</u>	<u>(447,658)</u>
Endowment net assets, end of year	<u>\$ 2,349,906</u>	<u>\$ 6,953,097</u>	<u>\$ 9,303,003</u>



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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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose		
Expansion	\$ 1,000,000	\$ 1,000,000
Children's family room St. Paul	-	55,468
Room sponsorships	4,000	-
Freezer capacity	25,000	-
Oak grief services	2,128	3,000
School/family services	-	1,429
	<u>1,031,128</u>	<u>1,059,897</u>
Subject to the passage of time	<u>1,018,796</u>	<u>730,456</u>
	<u>2,049,924</u>	<u>1,790,353</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Available for general use	3,730,252	3,331,726
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
General use	<u>3,756,595</u>	<u>3,621,371</u>
Total endowments	<u>7,486,847</u>	<u>6,953,097</u>
	<u>\$ 9,536,771</u>	<u>\$ 8,743,450</u>

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Net assets were released from donor restrictions as follows during the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Expiration of time restrictions	\$ 350,536	\$ 287,772
Satisfaction of purpose restrictions		
Children's St. Paul	55,468	171,017
Room sponsorships	-	6,000
TC Gillette pantry	-	4,298
Oak grief services	871	-
Pantry St. Paul sites	-	17,551
Emergency fund	1,429	-
	<u>\$ 408,304</u>	<u>\$ 486,638</u>
Restricted-purpose spending-rate distributions and appropriations		
General use	<u>\$ 486,054</u>	<u>\$ 447,658</u>

**Note 8 - Donated Professional Services and Materials**

RMHC-UM received donated professional services and materials which are included in the contribution and grants in the statement of activities as follows during the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Rent	\$ 638,875	\$ -
Food donation	330,165	361,634
Renovation assets	17,301	75,119
Utilities	58,502	48,541
House supplies	415,698	194,974
Entertainment tickets	34,442	13,850
Legal fees	59	1,512
House maintenance	10,646	119,087
Computer/technology	9,675	7,290
Toys	79,157	61,631
Gift cards	26,921	27,233
Marketing	-	116,050
Security	368,286	318,500
Parking	122,640	138,320
Other	144,778	105,283
	<u>\$ 2,257,145</u>	<u>\$ 1,589,024</u>

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Net assets released from restriction for in-kind rent for the years ended December 31, 2021 and 2020, was \$350,536 and \$287,772, respectively.

**Note 9 - Special Events**

Net special event revenue consisted of the following for the years ended December 31, 2021 and 2020:

2021	Revenue	Contributions	Gross Special Event Revenue	Direct Expenses	Net Special Event Revenue
The Classic	\$ 27,840	\$ 148,738	\$ 176,578	\$ 42,937	\$ 133,641
Annual Gala	-	316,992	316,992	6,632	310,360
Brew Love	13,709	86,164	99,873	2,629	97,244
RBC Race	-	163,641	163,641	2,342	161,299
	<u>\$ 41,549</u>	<u>\$ 715,535</u>	<u>\$ 757,084</u>	<u>\$ 54,540</u>	<u>\$ 702,544</u>
2020					
The Classic	\$ 31,750	\$ 129,192	\$ 160,942	\$ 36,369	\$ 124,573
Annual Gala	7,200	303,275	310,475	12,291	298,184
Brew Love	17,815	61,432	79,247	1,853	77,394
RBC Race	-	169,582	169,582	5,085	164,497
	<u>\$ 56,765</u>	<u>\$ 663,481</u>	<u>\$ 720,246</u>	<u>\$ 55,598</u>	<u>\$ 664,648</u>

**Note 10 - Employee Benefits**

RMHC-UM sponsors a 401(k) defined contribution retirement plan, which matches contributions at 100% of the first 4% of an employee's salary contributed to the plan. RMHC-UM also contributes a discretionary amount allocated to participating employees employed at year end. Expenses under this plan were \$62,000 and \$57,600 for the years ended December 31, 2021 and 2020, respectively.