

**Ronald McDonald
House Charities of
Central and
Northern Arizona**

Year Ended December 31, 2023

Ronald McDonald House Charities of Central and Northern Arizona

Year Ended December 31, 2023

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Independent Auditors' Report

Board of Directors and Management
Ronald McDonald House Charities of Central and Northern Arizona
Phoenix, Arizona

Opinion

We have audited the accompanying financial statements of Ronald McDonald House Charities of Central and Northern Arizona, which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Central and Northern Arizona as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ronald McDonald House Charities of Central and Northern Arizona's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ronald McDonald House Charities of Central and Northern Arizona's ability to continue as a going concern for a reasonable period of time.

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

BeachFleischman PLLC

Phoenix, Arizona
May 15, 2024

Ronald McDonald House Charities of Central and Northern Arizona

Statement of Financial Position

December 31, 2023

Assets

Current assets:	
Cash and cash equivalents	\$ 1,024,622
Accounts receivable, net of allowance (\$19,448)	178,415
Investments	9,070,877
Promises to give	140,705
Prepaid expenses	<u>25,091</u>
Total current assets	10,439,710
Property and equipment, net	7,834,867
Beneficial interest in funds held by others	1,107,968
Endowments whose use is limited	638,246
Beneficial use of land	231,030
Other assets	<u>3,350</u>
Total assets	<u>\$ 20,255,171</u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 154,821
Accrued expenses	<u>44,660</u>
Total current liabilities	<u>199,481</u>
Total liabilities	<u>199,481</u>
Contingencies	
Net assets:	
Without donor restrictions	18,505,103
With donor restrictions	<u>1,550,587</u>
Total net assets	<u>20,055,690</u>
Total liabilities and net assets	<u>\$ 20,255,171</u>

Ronald McDonald House Charities of Central and Northern Arizona

Statement of Activities

Year Ended December 31, 2023

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 2,099,800	\$ 422,305	\$ 2,522,105
Special events	799,166	-	799,166
Grants	228,354	-	228,354
Third-party reimbursements	701,026	-	701,026
In-kind contributions	258,126	-	258,126
Other income and support	18,836	40,536	59,372
Net assets released from restrictions	<u>945,745</u>	<u>(945,745)</u>	<u>-</u>
Total revenues and other support	<u>5,051,053</u>	<u>(482,904)</u>	<u>4,568,149</u>
Expenses:			
Program services	2,698,363	-	2,698,363
Management and general	430,619	-	430,619
Fundraising	655,069	-	655,069
Cost of direct benefits to donors	<u>291,692</u>	<u>-</u>	<u>291,692</u>
Total expenses	<u>4,075,743</u>	<u>-</u>	<u>4,075,743</u>
Change in net assets from operations	<u>975,310</u>	<u>(482,904)</u>	<u>492,406</u>
Nonoperating activities:			
Investment income, net	<u>941,550</u>	<u>58,281</u>	<u>999,831</u>
Total nonoperating activities	<u>941,550</u>	<u>58,281</u>	<u>999,831</u>
Change in net assets	1,916,860	(424,623)	1,492,237
Net assets, beginning	<u>16,588,243</u>	<u>1,975,210</u>	<u>18,563,453</u>
Net assets, ending	<u>\$ 18,505,103</u>	<u>\$ 1,550,587</u>	<u>\$ 20,055,690</u>

See notes to financial statements.

Ronald McDonald House Charities of Central and Northern Arizona

Statement of Functional Expenses

Year Ended December 31, 2023

	Program services	Management and general	Fundraising	Cost of direct benefits to donors	Total expenses
Payroll	\$ 913,845	\$ 92,042	\$ 361,593	\$ -	\$ 1,367,480
Employee benefits	86,686	12,379	9,599	-	108,664
Payroll taxes	78,000	7,856	30,863	-	116,719
Total salaries and related expenses	1,078,531	112,277	402,055	-	1,592,863
Advertising	3,569	12,157	20,177	-	35,903
Automobile	468	2,307	-	-	2,775
Cleaning services and supplies	28,160	-	-	-	28,160
Conferences and meetings	4,792	2,775	245	-	7,812
Depreciation	571,669	-	26,694	-	598,363
Direct mail	79,631	4,294	186,386	-	270,311
Donor recognition	658	4,060	4	-	4,722
Family support services and supplies	150,182	1,272	-	-	151,454
Insurance	33,723	12,219	897	-	46,839
Linens and laundry	3,965	-	-	-	3,965
Office supplies	6,000	5,514	-	-	11,514
Other	115	60,587	10,015	-	70,717
Postage and courier	3,861	91	-	-	3,952
Printing and publishing	1,714	1,692	-	-	3,406
Professional fees	246,532	191,097	-	-	437,629
Rent	36,915	-	-	-	36,915
Repairs and maintenance	173,650	3,338	-	-	176,988
Special events	795	201	4,401	131,457	136,854
Technology	63,735	14,087	4,080	60,755	142,657
Telephone	36,753	8	32	-	36,793
Travel, meals and entertainment	6,513	2,643	83	99,480	108,719
Utilities	166,432	-	-	-	166,432
Total expenses	\$ 2,698,363	\$ 430,619	\$ 655,069	\$ 291,692	\$ 4,075,743

See notes to financial statements.

Ronald McDonald House Charities of Central and Northern Arizona

Statement of Cash Flows

Year Ended December 31, 2023

Cash flows from operating activities:	
Change in net assets	<u>\$ 1,492,237</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized gains on investments	(545,140)
Depreciation	598,363
Change in value of beneficial use of land	(4,286)
Changes in operating assets and liabilities:	
Accounts receivable	(54,722)
Promises to give	119,372
Prepaid expenses	13,339
Accounts payable	73,648
Accrued expenses	<u>(2,383)</u>
Net adjustments	<u>198,191</u>
Net cash provided by operating activities	<u>1,690,428</u>
Cash flows from investing activities:	
Purchases of property and equipment	(728,330)
Purchases of investments	(11,100,075)
Proceeds from redemption of investments	<u>8,547,485</u>
Net cash used in investing activities	<u>(3,280,920)</u>
Net decrease in cash and cash equivalents	(1,590,492)
Cash and cash equivalents, beginning	<u>2,615,114</u>
Cash and cash equivalents, ending	<u>\$ 1,024,622</u>

See notes to financial statements.

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements

Year Ended December 31, 2023

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

Organization:

Ronald McDonald House Charities of Central and Northern Arizona (the Organization) is a nonprofit corporation operating in Arizona under a license agreement with RMHC Global. The mission of the Organization is to nurture the health and well-being of children and their families. In Central and Northern Arizona, the primary program is the Ronald McDonald House, which provides a home-away-from-home for families with critically ill children. The Organization's primary funding comes from public contributions. Therefore, the Organization's viability is dependent upon the strength and support of the national and local economies, the strength and support provided to the not-for-profit industry, and the Organization's ability to collect on its contracts.

Adoption of new accounting standard:

In June 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments* (Topic 326), which significantly changed how entities measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in Topic 326 are trade accounts receivable.

Estimates:

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

Net assets:

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

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for operating and capital reserves.

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

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

Net assets (continued):

- *Net assets with donor restrictions* - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues and support:

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

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

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

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

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

The Organization recorded contributed services and materials support and related expenses of \$258,126 during the year ended December 31, 2023.

Transaction price:

For exchange transactions, the transaction price is the amount of consideration the Organization expects to be entitled to in exchange for transferring goods and services to the customer. When a contract has a single performance obligation, the entire transaction price is attributed to that performance obligation.

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

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

Revenues and support (continued):

Performance obligations:

Contracts that constitute exchange transactions are considered to contain a single performance obligation if the promise to transfer individual goods or services is not separately identifiable from other promises in the contracts.

Cash and cash equivalents:

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

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

Accounts receivable:

The Organization records accounts receivable for its unconditional rights to consideration arising from performance under contracts with customers. The Organization grants credit to its customers, generally without collateral or interest. The carrying value of such receivables, net of allowance for credit losses, represents their estimated net realizable value. At January 1, 2023, the balance of accounts receivable, net was \$123,693.

Allowance for credit losses:

At each statement of financial position date, the Organization recognizes an expected allowance for credit losses, and at each reporting date, this estimate is updated to reflect any changes in credit risk since the financial asset was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist.

The Organization uses the aging method to estimate its allowance for credit losses. The allowance estimate is derived from a review of the Organization's historical losses based on the aging of financial assets. The Organization believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Organization's customer base has remained consistent since the Organization's inception. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Organization.

The Organization writes off financial assets when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized as an offset to credit loss expense in the year of recovery.

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

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

Promises to give:

Unconditional promises to give are recognized as revenues or gains at their estimated net realizable value in the period received and as assets, decreases of liabilities, or expense depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give, which are collectible over future periods, are discounted to their net present value. The Organization records an allowance when promises to give are considered doubtful. Promises to give are considered fully collectible by management at December 31, 2023.

Investments:

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

Fair value measurements:

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

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

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

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

Property, equipment, and depreciation:

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

Buildings and building improvements	5 - 30 years
Furniture, fixtures and equipment	5 - 10 years
Vehicles	5 years

Impairment of long-lived assets:

The Organization reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of the long-lived assets is less than the carrying amount, the asset is considered impaired. Impairment losses would be measured as the amount by which the carrying amount exceeds the fair value of the asset. There was no impairment of long-lived assets recognized for 2023.

Beneficial interest in funds held by others:

The Organization measures the fair value of agency advised funds held at the Arizona Community Foundation (ACF) using the fair value of the underlying investment assets. Realized gains or losses on disposition of investments are recorded on a trade date basis using the specific identification method. The fair value of investment securities is estimated based upon the last trade price on a national securities exchange or in the over-the-counter market. If no trade price is reported for the measurement date, the fair value is estimated based upon the current bid price at the close of business on the measurement date.

The ACF, on behalf of the Organization, invests in professionally managed portfolios that contain equity and fixed income securities. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect these investment balances and the amounts reported in the accompanying financial statements. ACF does not have variance power over the funds.

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

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

Endowments:

The Organization's endowments consist of funds established under either donor restriction or as designated by the Board of Directors for operating purposes. As required by GAAP, net assets associated with endowment funds (including funds designated by the Board of Directors to function as endowments) are classified and reported based on the existence or absence of donor-imposed restrictions. The endowments are held and managed at the ACF and are comprised of agency advised funds. Agency advised funds represent assets transferred by the Organization to the ACF to establish an endowment for the benefit of the Ronald McDonald House Charities of Central and Northern Arizona (i.e., the Organization has specified themselves as the beneficiary).

The Board of Directors of the Organization have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Functional allocation of expenses:

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

Advertising:

Advertising costs are expensed as incurred.

Income taxes:

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

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

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

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

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to December 31, 2023 through May 15, 2024, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Liquidity and availability of financial assets:

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of donor-imposed restrictions or internal designations. Amounts not available include amounts set aside for long-term investing in the operating and capital reserves that could be drawn upon if the governing board approves that action.

Cash and cash equivalents	\$ 1,024,622
Accounts receivable, net	178,415
Promises to give	140,705
Investments	<u>10,817,091</u>
Total financial assets	12,160,833
Donor-imposed restrictions:	
Endowment funds	(638,246)
Other donor restrictions	(912,341)
Board designations:	
Operating reserves	(2,517,968)
Cambridge remodel	(750,000)
Capital reserves	<u>(1,293,145)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,049,133</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

3. Investments:

Fixed income securities	\$ 2,907,020
Equities	3,887,501
Exchange traded products	<u>2,372,745</u>
	9,167,266
Funds held by Arizona Community Foundation	<u>1,649,825</u>
Total investments at fair value	10,817,091
Less endowments:	
Endowments included in funds held by Arizona Community Foundation	541,857
Other endowments	<u>96,389</u>
	<u>638,246</u>
	<u>\$ 10,178,845</u>

Net investment income for the year ended December 31, 2023 is as follows:

Interest and dividends	\$ 500,377
Net realized and unrealized gains on investments	545,140
Investment fees	<u>(45,686)</u>
	<u>\$ 999,831</u>

4. Fair value measurements:

At December 31, 2023, the fair value of assets measured on a recurring basis is as follows:

Investments at level 1:	
Fixed income securities	\$ 2,907,020
Equities	3,887,501
Exchange traded products	2,372,745
Investments measured at level 3:	
Beneficial interest in funds held by others	<u>1,649,825</u>
	<u>\$ 10,817,091</u>

The preceding table is based on the following hierarchy of observable independent market inputs and unobservable market assumptions:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

4. Fair value measurements (continued):

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets or active markets that the Organization does not have access to;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

The beneficial interest in funds held at ACF are classified within Level 3 of the fair value hierarchy due to the lack of a market in which the Organization's units of participation in the Foundation's long-term pool (i.e., the beneficial interest) could be bought or sold. The Organization measures the fair value of its beneficial interest using the fair value of the underlying assets.

The preceding method described may produce a fair value calculation that may not be indicative of the net realizable value reflective of future fair values. Furthermore, although the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

A reconciliation of assets measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) from January 1, 2023 to December 31, 2023 is as follows:

	<u>2023</u>
Beginning balance	\$ 1,556,546
Investment activity	161,879
Withdrawals	<u>(68,600)</u>
Ending balance	<u>\$ 1,649,825</u>

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

5. Property and equipment:

Buildings and building improvements	\$ 13,252,014
Construction in progress	710,489
Furniture, fixtures and equipment	711,694
Land	636,179
Vehicles	<u>33,489</u>
	15,343,865
Less accumulated depreciation	<u>7,508,998</u>
	<u>\$ 7,834,867</u>

6. Beneficial use of land:

The Organization is leasing property consisting of land and a building for two of their current facilities. The lease terms are 99 years at an annual rental of \$1. The total fair market value of the land and building at inception was approximately \$3,588,000. Contribution revenue is recorded annually as donor restricted support to reflect the use restriction of the land to the operation of the Ronald McDonald House over the 99-year lease terms. The Organization recognized \$40,536 as donor restricted support for the year ending 2023 and recorded the funds as additions to net assets with donor restrictions. Total annual rent expense for the two leases for 2023 is \$36,250 and is recorded as a release of donor restricted net assets and an addition of net assets without donor restrictions. As of December 31, 2023, the balance of donated land use lease is \$231,030.

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

7. Net assets with donor restrictions:

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

Subject to expenditure for specified purpose:

Santa's Workshop	\$ 23,980
Cambridge House renovations	<u>50,000</u>
	73,980

Subject to the passage of time:

Keeping families together	10,000
Land lease	231,030
Nights of Rest	575,331
Northern Trust	<u>22,000</u>
	<u>912,341</u>

Endowments:

Subject to the Organization's endowment spending policy and appropriation:

Restricted by donors for:

Operating purposes	541,857
Maruska Family Fund	<u>96,389</u>
	<u>638,246</u>
	<u>\$ 1,550,587</u>

8. Endowments:

The Organization's endowments consist of the Maruska Family Fund, an Adopt-A-Room donor restricted endowment, and endowments held in the Ronald McDonald House Charities Fund (the ACF Fund) established with the ACF. Investment earnings from the Maruska Family Fund are restricted for specific spending needs related to Adopt-A-Room purposes. The ACF Fund is comprised of board designated (quasi-endowment) funds and donor restricted endowment funds. The primary purpose for investment earnings for endowments held with the ACF is to provide additional funding for operations, excluding capital purchases. Funds established at ACF are subject to ACF's variance power.

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

8. Endowments (continued):

Changes in endowment net assets for the year ended December 31, 2023 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning	\$ 1,045,326	\$ 602,495	\$ 1,647,821
Investment return, net	84,113	58,281	142,394
Appropriations	<u>(21,470)</u>	<u>(22,530)</u>	<u>(44,000)</u>
	<u>\$ 1,107,969</u>	<u>\$ 638,246</u>	<u>\$ 1,746,215</u>

Funds with deficiencies:

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of December 31, 2023, there were no deficiencies of this nature.

Return objectives, risk parameters and spending policy:

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for operating purposes supported by the endowment fund while seeking to maintain the original value of any contributions to the endowment assets. The Organizations current spending policy states that an annual distribution is issued to the Organization consisting of 4.5% of the average quarterly value of investments over the previous 12 months. Endowment assets include those assets of board designated funds and donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the board of directors, the endowment assets are invested with a growth and income style of investing in a portfolio comprised of cash, fixed income securities, and equities. Investment income is appropriated for expenditure in the year earned, and is, therefore, included in net assets without donor restrictions.

The Organization is also subject to the ACF's investment and spending policies for endowment assets. These policies attempt to provide a predictable stream of funding to programs supported by the endowment funds while seeking to preserve the purchasing power and achieve long-term growth of capital of the endowment assets. The endowment assets are invested in a manner that is intended to achieve long-term (10+ years) absolute returns in excess of inflation, investment expenses, and spending. To achieve its long-term objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

8. Endowments (continued):

Return objectives, risk parameters and spending policy (continued):

The recommended distribution rate for endowed funds and voluntary guidance for non-endowed funds will be based on the nominal return projection for the ACF's long-term diversified pool, net of expected inflation and expenses. The Organization's policy is to approve for spending the entire amount distributed by the ACF. Accumulated earnings on this endowment are released from board designated or donor restricted net assets when distributed by the ACF.

9. Net assets without donor restrictions:

Net assets without donor restrictions at December 31, 2023 is as follows:

Undesignated	\$ 6,109,123
Investment in property and equipment, net	7,834,867
Board designated:	
Operating reserves	2,517,968
Cambridge remodel	750,000
Capital reserve studies	<u>1,293,145</u>
	<u>\$ 18,505,103</u>

10. In-kind contributions:

The Organization received the following in-kind contributions during the year ended December 31, 2023:

Advertising	\$ 7,725
Family support supplies	114,164
Audio and visual	31,628
Linens and laundry	2,000
Supplies	316
Food, beverage and room	23,500
Utilities	12,600
Other direct donor benefits	<u>66,193</u>
	<u>\$ 258,126</u>

The Organization recognizes in-kind contributions within support. Unless otherwise noted, these contributions did not have donor-imposed restrictions.

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

10. In-kind contributions (continued):

Advertising, audio and visual, family support supplies, food, beverage and room, furniture, fixtures and equipment, linens and laundry, supplies, and utilities were utilized in the Organization's program services. The value of the items is based on estimated retail value that would be paid for purchasing a similar product.

Dinnertime items, which are included with family support services and supplies on the statement of functional expenses, were utilized in the Organization's program services. The value of the meals is based on estimated value that would be paid for purchasing a similar meal.

Cost of direct benefits to donors include items utilized for the Organization's fundraising efforts. The value of the items is based on estimated retail value that would be paid for purchasing or renting a similar item.

11. Joint cost allocations:

During the year ended December 31, 2023, the Organization incurred joint costs of \$103,931 for informational materials that are included in fundraising appeals. During 2023, the Organization allocated \$31,179 to program expense and \$72,752 to fundraising expenses.

12. Retirement plan:

The Organization maintains a 401(k) plan (the Plan) covering all employees who have completed over one year of continuous employment. Participants can elect to make limited salary deferral contributions and the Organization matches employee contributions to the Plan up to 4% of the eligible employee's salary. Contributions to the Plan for the year ended December 31, 2023 were \$32,530.

13. Related party transactions:

During the year ended December 31, 2023, the Organization paid \$190,103 for Insurance, commercial cleaning and maintenance, and legal services to companies that are owned and/or operated by three board members.

Ronald McDonald House Charities of Central and Northern Arizona

Notes to Financial Statements (continued)

Year Ended December 31, 2023

14. Contingencies:

Litigation:

From time to time, the Organization may be party to certain pending or threatened lawsuits arising out of or incident to the ordinary course of business for which it carries general liability and other insurance coverages. In the opinion of management and based upon consultation with legal counsel, resolution of any pending or threatened lawsuits will not have a material adverse effect on the Organization's financial statements.

Payroll Protection Program (PPP):

The Organization obtained loans totaling \$516,400 under the PPP that were forgiven in 2021. The SBA may undertake a review of a loan of any size during the ten-year period following forgiveness. The review will include the loan forgiveness application, as well as whether the Organization met the eligibility requirements of the program and received the proper loan amount. The timing and outcome of any SBA review is not known.