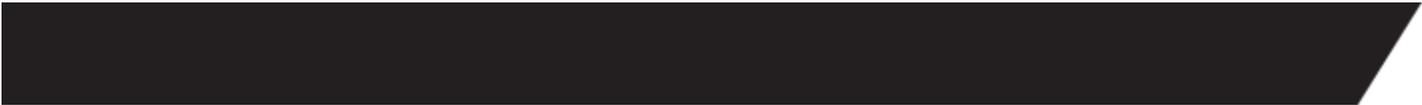


Ronald McDonald House Charities of Memphis, Inc.



Financial Statements

Years Ended December 31, 2021 and 2020

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Independent Auditor's Report

Board of Directors
Ronald McDonald House Charities of Memphis, Inc.
Memphis, TN

Opinion

We have audited the financial statements of Ronald McDonald House Charities of Memphis, Inc. (a nonprofit organization, "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 accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, and the results of its changes in net assets, functional expenses, and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 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 the Organization's ability to continue as a going concern for the 12 months from the date the financial statements were available to be issued.

Auditor's 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 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.

FORVIS, LLP

**Memphis, TN
July 25, 2022**

Ronald McDonald House Charities of Memphis, Inc.
Statements of Financial Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,630,161	\$ 2,549,537
Current portion of pledges receivable, net	315,403	316,052
Prepaid expenses	27,760	25,713
	<u>2,973,324</u>	<u>2,891,302</u>
Investments:		
Endowment investments	5,603,339	5,015,264
Other investments	9,033,754	7,884,885
	<u>14,637,093</u>	<u>12,900,149</u>
Pledges receivables, net	340,301	650,301
Land lease	745,552	755,362
Property and equipment, net of accumulated depreciation	6,720,604	6,704,500
	<u>6,720,604</u>	<u>6,704,500</u>
Total assets	<u>\$ 25,416,874</u>	<u>\$ 23,901,614</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 153,846	\$ 61,499
Accrued payroll liabilities	46,633	43,376
	<u>200,479</u>	<u>104,875</u>
Net assets:		
Without donor restrictions:		
Undesignated	18,520,092	17,428,701
Board-designated endowment fund	5,092,089	4,504,014
	<u>23,612,181</u>	<u>21,932,715</u>
Total without donor restrictions	23,612,181	21,932,715
With donor restrictions	1,604,214	1,864,024
	<u>1,604,214</u>	<u>1,864,024</u>
Total net assets	<u>25,216,395</u>	<u>23,796,739</u>
Total liabilities and net assets	<u>\$ 25,416,874</u>	<u>\$ 23,901,614</u>

Ronald McDonald House Charities of Memphis, Inc.
Statement of Activities
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenues:			
General contributions	\$ 1,285,896	\$ -	\$ 1,285,896
Special event revenue, net	703,550	-	703,550
Program service fees	979,397	-	979,397
Investment income, net	1,718,179	59,948	1,778,127
Net assets released from restrictions	319,758	(319,758)	-
Total support and other revenues	5,006,780	(259,810)	4,746,970
Expenses:			
Program services	2,582,493	-	2,582,493
Supporting services:			
Management and general	216,522	-	216,522
Fundraising	528,299	-	528,299
Total expenses	3,327,314	-	3,327,314
Change in net assets	1,679,466	(259,810)	1,419,656
Net assets at beginning of year	21,932,715	1,864,024	23,796,739
Net assets at end of year	\$ 23,612,181	\$ 1,604,214	\$ 25,216,395

Ronald McDonald House Charities of Memphis, Inc.
Statement of Activities
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenues:			
General contributions	\$ 1,236,776	\$ -	\$ 1,236,776
Special event revenue, net	721,962	-	721,962
Program service fees	967,879	-	967,879
Investment income, net	1,066,687	47,512	1,114,199
Net assets released from restrictions	309,027	(309,027)	-
Total support and other revenues	4,302,331	(261,515)	4,040,816
Expenses:			
Program services	2,450,910	-	2,450,910
Supporting services:			
Management and general	219,180	-	219,180
Fundraising	574,733	-	574,733
Total expenses	3,244,823	-	3,244,823
Change in net assets	1,057,508	(261,515)	795,993
Net assets at beginning of year	20,875,207	2,125,539	23,000,746
Net assets at end of year	<u>\$ 21,932,715</u>	<u>\$ 1,864,024</u>	<u>\$ 23,796,739</u>

Ronald McDonald House Charities of Memphis, Inc.
Statement of Functional Expenses
Year Ended December 31, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ -	\$ -	\$ 20,268	\$ 20,268
Bank fees	-	-	21,766	21,766
Cable television	13,925	-	-	13,925
Computer support	54,631	28,771	17,722	101,124
Depreciation	561,140	5,106	5,726	571,972
Direct mailing fees	-	-	105,565	105,565
Dues and subscriptions	469	10	3,179	3,658
Family services	181,682	-	-	181,682
Health insurance	99,266	3,734	21,423	124,423
Insurance	87,188	-	-	87,188
Miscellaneous	-	3,504	1,867	5,371
Office expenses	-	1,051	852	1,903
Payroll services	-	6,218	-	6,218
Payroll taxes	61,467	11,968	16,587	90,022
Postage	-	-	11,989	11,989
Printing	-	867	7,912	8,779
Professional fees	-	48,728	4,165	52,893
Rent	20,131	-	24	20,155
Repairs and maintenance	210,216	-	-	210,216
Retirement expenses	29,664	2,791	11,927	44,382
Salaries and wages	844,010	85,844	274,269	1,204,123
Security services	198,546	-	-	198,546
Supplies	21,106	4,629	1,572	27,307
Taxes and licenses	550	4,546	-	5,096
Telephone	30,844	1,560	1,486	33,890
Training	-	7,195	-	7,195
Utilities	167,658	-	-	167,658
	<u>\$ 2,582,493</u>	<u>\$ 216,522</u>	<u>\$ 528,299</u>	<u>\$ 3,327,314</u>

See accompanying notes.

Ronald McDonald House Charities of Memphis, Inc.
Statement of Functional Expenses
Year Ended December 31, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ -	\$ -	\$ 22,855	\$ 22,855
Bad debt recovery	-	(6,737)	-	(6,737)
Bank fees	-	-	20,559	20,559
Cable television	14,064	-	-	14,064
Computer support	47,729	36,893	14,640	99,262
Depreciation	538,079	1,625	5,844	545,548
Direct mailing fees	-	-	94,225	94,225
Dues and subscriptions	368	750	1,288	2,406
Family services	281,799	-	-	281,799
Health insurance	80,984	4,194	18,839	104,017
Insurance	96,430	-	-	96,430
Miscellaneous	-	3,742	1,735	5,477
Office expenses	-	3,036	164	3,200
Payroll services	-	6,489	-	6,489
Payroll taxes	56,789	6,395	21,503	84,687
Postage	-	-	16,084	16,084
Printing	-	103	18,716	18,819
Professional fees	-	45,399	5,695	51,094
Rent	19,578	-	26	19,604
Repairs and maintenance	143,523	-	-	143,523
Retirement expenses	16,819	1,412	6,933	25,164
Salaries and wages	729,007	108,024	320,277	1,157,308
Scholarships	5,000	-	-	5,000
Security services	211,190	-	-	211,190
Supplies	23,715	3,356	462	27,533
Taxes and licenses	-	2,723	-	2,723
Telephone	25,285	1,776	4,888	31,949
Utilities	160,551	-	-	160,551
	<u>\$ 2,450,910</u>	<u>\$ 219,180</u>	<u>\$ 574,733</u>	<u>\$ 3,244,823</u>

See accompanying notes.

Ronald McDonald House Charities of Memphis, Inc.
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,419,656	\$ 795,993
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	571,972	545,548
Land lease amortization	9,810	9,810
Bad debt recoveries	-	(6,737)
Change in fair value of investments	(1,359,548)	(787,213)
Changes in operating assets and liabilities:		
Pledges receivable	310,649	299,702
Prepaid expenses	(2,047)	3,640
Accounts payable	92,347	(19,440)
Accrued payroll liabilities	3,257	11,393
Total adjustments	<u>(373,560)</u>	<u>56,703</u>
Net cash provided by operating activities	1,046,096	852,696
Cash flows from investing activities:		
Proceeds from sale of investments	337,341	367,743
Purchases of investments	(714,737)	(741,134)
Purchases of property and equipment	<u>(588,076)</u>	<u>(223,483)</u>
Cash flows used in investing activities	<u>(965,472)</u>	<u>(596,874)</u>
Net increase in cash and cash equivalents	80,624	255,822
Cash and cash equivalents at beginning of year	<u>2,549,537</u>	<u>2,293,715</u>
Cash and cash equivalents at end of year	<u>\$ 2,630,161</u>	<u>\$ 2,549,537</u>

1. Summary of Significant Accounting Policies

Organization and activities

Ronald McDonald House Charities of Memphis, Inc. (the "Organization") offers children with pediatric cancer and other catastrophic illnesses undergoing treatment at St. Jude Children's Research Hospital and their families a nurturing, family-centered residential community. The House fosters an environment of hope through support services and child-centered activities that encourage children to be children and keep families together "near the care they need with the family they love", always free of charge. The Organization operates as a "Ronald McDonald House" by virtue of a non-exclusive licensing agreement with McDonald's Corporation. While the Organization is not owned or operated by McDonald's Corporation or St. Jude Children's Research Hospital, they do provide financial and logistical support. The majority of funding is raised through community support. The Organization is located in Memphis, Tennessee.

Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets in which no payer or donor-imposed restrictions were stipulated beyond the general stated purposes of the Organization. At the discretion of the Organization's management and Board of Directors, these net assets may be expended for any purpose in performing the primary objectives of the Organization.

Net assets without donor restrictions consist of two categories: undesignated funds and Board-designated funds. Undesignated funds are available for any purpose within the scope of the Organization's activities. Designated funds have been appropriated by the Organization's Board of Directors for a specific activity or group of activities. Such designations could be changed by action of the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization pursuant to those stipulations or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds to be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Contributions and support

Contributions received are recorded as unrestricted or donor restricted support depending upon the existence and/or nature of any donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restriction. When a donor restriction expires in the same year received, revenue first flows through donor restricted net assets as an increase and is also shown as a release during the same year.

Ronald McDonald House Charities of Memphis, Inc.
Notes to Financial Statements

Unconditional promises to give, which consist of pledges receivable, are recorded when the pledge is received. Those due in the following year are recorded at their net realizable value, while those due in subsequent years have been discounted to the present value of their net realizable value using risk-free interest rates applicable to the years in which the pledges were received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. There are no conditional promises to give as of December 31, 2021 or 2020.

Credit risks

The Organization's credit risks primarily relate to cash and cash equivalents, investments, and receivables. Cash and cash equivalents are primarily held in bank accounts at several institutions. Accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to an aggregate of \$250,000 at each institution. The Organization's cash deposits exceeded FDIC limits at various times during the year. The Organization believes it is not exposed to any significant credit risk on its cash balances, due to its policy of banking with high quality financial institutions.

Investments, which are not insured by the FDIC, are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with these investments, it is at least possible that changes in the values of investments will occur in the near term and such changes could materially affect the Organization's financial position and changes in its net assets.

Fair value measurements

The Organization applies GAAP for fair value measurements of financial asset and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. See Note 4 for additional disclosures.

Cash and cash equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid instruments such as non-negotiable certificates of deposit purchased with original maturities of three months or less to be cash equivalents, except those temporarily held in investment accounts for reinvestment.

Receivables

Pledges and other receivables are stated at the amount management expects to collect from outstanding balances. Management monitors outstanding balances and provides for probable uncollectible amounts through a valuation allowance based upon its assessment of the individual accounts. Balances that are still outstanding after a reasonable period of time has elapsed are written off through a charge to the valuation allowance and a credit to the appropriate receivable.

Investments

Investments are carried at fair value in the statements of financial position. Realized and unrealized gains and losses and interest and dividend income, net of investment fees, are included in investment income on the statements of activities.

Property and equipment

Property and equipment items are recorded at acquisition cost, if purchased, or the estimated fair value on the date received, if donated. The Organization capitalizes expenditures for property and equipment with a cost in excess of \$5,000 and provides for depreciation using the straight-line method over the estimated useful lives of the assets,

Ronald McDonald House Charities of Memphis, Inc.
Notes to Financial Statements

generally ten to forty years for buildings and building improvements, five years for computer equipment, and seven to ten years for other equipment and furniture and fixtures.

Impairment of long-lived assets

The Organization evaluates its long-lived assets for any events or changes in circumstances which indicate that the carrying amount of such assets may not be fully recoverable. The Organization evaluates the recoverability of long-lived assets by measuring the carrying amount of such assets against the estimated undiscounted future cash flows associated with them. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

In-kind contributions

Donated supplies and services are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended December 31, 2021 and 2020, in-kind donations for the general use and special events totaled \$25,000 and \$25,000.

Functional expense allocation

The cost of providing various programs and supporting services have been reported on a functional basis on the statement of functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services based on estimates made by management. The expenses that are allocated include depreciation, travel, insurance, and office and occupancy, which are allocated on a square-footage basis, as well as salaries, benefits, and services, which are allocated based on estimates of time and effort.

Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is similarly exempt from Tennessee state income taxes under provisions of the Tennessee tax regulations. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization files an exempt organization return in the United States federal jurisdiction.

The Organization believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

Advertising

Advertising costs were \$20,268 and \$22,855 for the years ended December 31, 2021 and 2020, respectively, and are expensed as incurred.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. Reclassifications did not impact change in net assets.

Subsequent events

The Organization evaluated its December 31, 2021, financial statements for subsequent events through July 25, 2022, the date the financial statements were available to be issued.

Ronald McDonald House Charities of Memphis, Inc.
Notes to Financial Statements

2. Availability and Liquidity

The following represents the Organization's financial assets available within one year of the statement of financial position dates for general expenditure:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,630,161	\$ 2,549,537
Pledges receivable, net	655,704	966,353
Investments	<u>14,637,093</u>	<u>12,900,149</u>
Total financial assets	17,922,958	16,416,039
Less amounts not available to be used within one year:		
Board designated net assets	5,092,089	4,504,014
Net assets with donor restrictions	<u>1,604,214</u>	<u>1,864,024</u>
	<u>6,696,303</u>	<u>6,368,038</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 11,226,655</u>	<u>\$ 10,048,001</u>

Management's goal is to maintain cash and cash equivalents sufficient to meet 25% of annual operating expenses, with amounts above that level transferred to investments quarterly. Cash in excess of quarterly requirements is invested in short-term investments such as money market funds and certificates of deposit.

3. Pledges Receivable

Pledges receivable consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Receivable in less than one year	\$ 320,730	\$ 321,754
Receivable within one to five years	370,000	680,000
Less discount	(29,699)	(29,699)
Less allowance for doubtful accounts	<u>(5,327)</u>	<u>(5,702)</u>
Net pledges receivable	<u>\$ 655,704</u>	<u>\$ 966,353</u>

Pledges receivable are recorded as income when contributed and have been discounted to net present value using a discount rate ranging from 1.90-2.77% based on expected payments.

4. Investments and Fair Value Measurements

GAAP establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, as described below:

Level 1 – Quoted prices in active markets for identical assets or liabilities the Organization has the ability to access.

Level 2 – Inputs (other than quoted prices within Level 1) such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable market data.

Level 3 – Inputs which are unobservable for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

In determining fair values, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2021.

- Common trust funds: Valued at the net asset value (“NAV”) of shares held by the Organization at year end. The fund manager values shares in the fund based on the fair values of the underlying investments.
- Money market, negotiable CDs, US Treasury notes, equity and bond mutual funds: Valued at the closing price reported on the active market in which they are traded.

The following tables set forth by level, within the fair value hierarchy, the Organization’s assets measured at fair value on a recurring basis at December 31, 2021 and 2020.

	2021		Total
	Level 1	Level 2	
Money market mutual funds	\$ 12,126	\$ -	\$ 12,126
Negotiable CDs	-	526,872	526,872
Equity mutual funds	5,742,860	-	5,742,860
Bond mutual funds	2,675,201	-	2,675,201
US Treasury Notes	-	258,824	258,824
Investments, in fair value hierarchy	<u>\$ 8,430,187</u>	<u>\$ 785,696</u>	9,215,883
Investments measured at NAV ^(a)			<u>5,350,884</u>
Investments, at fair value			14,566,767
Temporary cash investments			<u>70,326</u>
			<u>\$ 14,637,093</u>

Ronald McDonald House Charities of Memphis, Inc.
Notes to Financial Statements

	2020		Total
	Level 1	Level 2	
Money market mutual funds	\$ 16,823	\$ -	\$ 16,823
Negotiable CDs	-	438,373	438,373
Equity mutual funds	4,983,698	-	4,983,698
Bond mutual funds	<u>2,306,206</u>	-	<u>2,306,206</u>
Investments, in fair value hierarchy	<u>\$ 7,306,727</u>	<u>\$ 438,373</u>	7,745,100
Investments measured at NAV ^(a)			<u>4,943,164</u>
Investments, at fair value			12,688,264
Temporary cash investments			<u>211,885</u>
			<u>\$ 12,900,149</u>

^(a) In accordance with Topic 820, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

The determination of fair value above incorporates various factors such as the credit standing of the counterparties involved and the impact of credit enhancements. The following table summarizes investments for which fair value is measured using the NAV practical expedient as of December 31, 2021 and 2020.

	2021	2020
Common trust funds:		
U.S. active equity	\$ 959,435	\$ 711,294
U.S. core equity	1,450,524	1,323,077
International equity	1,258,774	1,070,287
Short duration fixed income	112,861	83,276
Core fixed income	1,268,567	1,385,749
Multi-strategy	<u>300,723</u>	<u>369,481</u>
	<u>\$ 5,350,884</u>	<u>\$ 4,943,164</u>

There were no unfunded commitments or redemption restrictions for the common trust funds at December 31, 2021 and 2020.

The following schedule summarizes investment income for the years ended December 31:

	2021	2020
Interest and dividends	\$ 418,579	\$ 426,986
Realized and unrealized gain on investments, net	<u>1,359,548</u>	<u>687,213</u>
Total investment income	<u>\$ 1,778,127</u>	<u>\$ 1,114,199</u>

Ronald McDonald House Charities of Memphis, Inc.
Notes to Financial Statements

5. Land Lease

The Organization entered into a lease agreement in 1998 with American Lebanese Syrian Associated Charities, Inc. ("ALSAC") for a portion of its land for \$1 per year through 2097. ALSAC is the fundraising arm of St. Jude Children's Research Hospital. The value of the lease was determined to be \$974,902, which was the estimated fair market value of the land at the lease inception. The net amount of the land lease is reflected in donor restricted net assets due to time restrictions.

Amortization is recorded in the statements of functional expenses as rent. The land lease consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Land lease	\$ 974,902	\$ 974,902
Less accumulated amortization	<u>(229,350)</u>	<u>(219,540)</u>
	<u>\$ 745,552</u>	<u>\$ 755,362</u>

Future amortization expense is as follows for the years ending December 31:

2022	\$ 9,810
2023	9,810
2024	9,810
2025	9,810
2026	9,810
Thereafter	<u>696,502</u>
	<u>\$ 745,552</u>

6. Property and Equipment

A summary of property and equipment at December 31 is as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 236,009	\$ 236,009
Buildings and improvements	12,986,908	12,986,908
Furniture and fixtures	616,905	615,173
Equipment and vehicles	1,817,078	1,161,383
Computer equipment	194,405	145,015
Construction in progress	<u>76,259</u>	<u>195,000</u>
	15,927,564	15,339,488
Less accumulated depreciation	<u>(9,206,960)</u>	<u>(8,634,988)</u>
	<u>\$ 6,720,604</u>	<u>\$ 6,704,500</u>

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7. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2021</u>	<u>2020</u>
Time restrictions	\$ 1,092,964	\$ 1,352,774
Endowment funds not subject to appropriation or expenditure	<u>511,250</u>	<u>511,250</u>
	<u>\$ 1,604,214</u>	<u>\$ 1,864,024</u>

8. Endowment Fund

The Organization has an endowment fund which was created with the proceeds of the sale of donated stock. This donor-restricted gift, which was received in 1993, is to be held in perpetuity for the benefit of the Organization. The donor stipulated that income from these funds could be used for operating expenses. The Board of Directors' intent is to treat the unrestricted portion of the endowment as a "rainy day" fund, allowing for continued growth of the fund. The endowment and its cumulative earnings make up the entirety of this investment account, as listed on the statements of financial position as endowment investments.

At December 31, the endowment net asset composition is as follows:

	<u>2021</u>	<u>2020</u>
Donor-restricted endowment fund	\$ 511,250	\$ 511,250
Board-designated endowment fund	<u>5,092,089</u>	<u>4,504,014</u>
	<u>\$ 5,603,339</u>	<u>\$ 5,015,264</u>

A reconciliation of the endowment fund's balance at December 31 by net asset class is as follows:

	<u>2021</u>		
	<u>Board Designated</u>	<u>Donor Restricted</u>	<u>Total</u>
Beginning endowment net assets	\$ 4,504,014	\$ 511,250	\$ 5,015,264
Investment return:			
Interest and dividends	93,108	10,569	103,677
Change in fair value	468,498	53,179	521,677
Management fees	<u>(33,479)</u>	<u>(3,800)</u>	<u>(37,279)</u>
Total investment return	528,127	59,948	588,075
Appropriation of endowment assets for expenditure	<u>59,948</u>	<u>(59,948)</u>	<u>-</u>
Ending endowment net assets	<u>\$ 5,092,089</u>	<u>\$ 511,250</u>	<u>\$ 5,603,339</u>

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	2020		
	Board Designated	Donor Restricted	Total
Beginning endowment net assets	\$ 4,077,560	\$ 511,250	\$ 4,588,810
Investment return:			
Interest and dividends	81,296	10,193	91,489
Change in fair value	325,463	40,807	366,270
Management fees	<u>(27,817)</u>	<u>(3,488)</u>	<u>(31,305)</u>
Total investment return	378,942	47,512	426,454
Appropriation of endowment assets for expenditure	<u>47,512</u>	<u>(47,512)</u>	<u>-</u>
Ending endowment net assets	<u>\$ 4,504,014</u>	<u>\$ 511,250</u>	<u>\$ 5,015,264</u>

Endowment investment policy

The primary purpose of the Organization's investment policy is to supplement annual operating expenses, provide for short-term capital needs, and allow sufficient long-term growth of capital to meet future capital and budgetary requirements. This includes maintaining an appropriate combination of assets to meet its performance objectives and ensuring a proper level of diversification within the asset classes of cash and cash equivalents, fixed income securities, equities, and publicly traded real estate.

Spending policy

The Organization has a policy in which the general rule of appropriating for distribution each year is through a formal annual budget approved by the governing board. In establishing this policy, the Organization considered the long-term expected returns on its endowment investments. Accordingly, over the long-term, the Organization's intent is that the current spending policy will allow its endowment to retain the original fair value of the gifts. There are no underwater funds at December 31, 2021 or 2020.

Interpretation of relevant law

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), as enacted by the State of Tennessee, applies to the Organization's endowment fund. Management interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted portion of the endowment fund. Among other considerations, management considers the duration and preservation of the fund and general economic conditions in making a determination to appropriate or accumulate donor-restricted endowment funds.

9. Retirement Plan

The Organization maintains a 401(k) retirement plan for all employees working at least thirty-two (32) hours a week and at least twenty-one (21) years of age. Optional employee contributions are withheld from the employees' compensation. The Organization will make a matching contribution for each participant equal to 100% of the participant's salary contributions, up to 5% of annual compensation. Employer contributions for the years ended December 31, 2021 and 2020, were \$44,382 and \$25,164, respectively.

10. Concentrations of Risk and Uncertainties

For the years ended December 31, 2021 and 2020, St. Jude Children's Research Hospital program service fees received accounted for approximately 33% of support and other revenue. Two donors accounted for approximately 98% and 97% of total pledges receivable as of December 31, 2021 and 2020, respectively.

During 2020, the World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. The Coronavirus outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of the outbreak on our operational and financial performance will depend on certain developments, including the duration and spread of outbreak, impact on our sponsors, employees and vendors, and governmental, regulatory and private sector responses. The financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.