



FINANCIAL STATEMENTS

DECEMBER 31, 2022



Leaf & Cole, LLP

Certified Public Accountants

A Partnership of Professional Corporations

RONALD MCDONALD HOUSE CHARITIES OF SAN DIEGO, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022

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Independent Auditor's Report

To the Board of Trustees and Audit Committee
Ronald McDonald House Charities of San Diego, Inc.

Opinion

We have audited the accompanying financial statements of Ronald McDonald House Charities of San Diego, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, 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 San Diego, Inc. as of December 31, 2022, and the changes in its net assets 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ronald McDonald House Charities of San Diego, Inc., 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 San Diego, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are 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 generally accepted auditing standards will always detect a material misstatement when it exists.

To the Board of Trustees and Audit Committee
Ronald McDonald House Charities of San Diego, Inc.

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, including omissions, 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 San Diego, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ronald McDonald House Charities of San Diego, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Ronald McDonald House Charities of San Diego, Inc.'s 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 8, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Leaf & Cole LLP

San Diego, California
August 9, 2023

RONALD MCDONALD HOUSE CHARITIES OF SAN DIEGO, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2021)

ASSETS

	<u>2022</u>	<u>2021</u>
<u>Assets:</u> (Notes 2, 4, 5, 6, 7, 8 and 16)		
Cash and cash equivalents	\$ 3,250,529	\$ 3,324,722
Investments	18,745,792	19,721,682
Contributions receivable, net	683,753	99,205
In-kind and other receivables	2,000,348	2,147,823
Prepaid expenses and other assets	304,899	242,094
Right-of-use assets - operating leases, net	32,417	-
Property and equipment, net	19,849,713	20,439,219
TOTAL ASSETS	\$ <u>44,867,451</u>	\$ <u>45,974,745</u>

LIABILITIES AND NET ASSETS

<u>Liabilities:</u> (Notes 2, 8 and 16)		
Accounts payable and accrued expenses	\$ 570,335	\$ 415,415
Deferred revenue	30,313	42,130
Operating lease liability	32,273	-
Note payable	6,038,244	7,003,941
Total Liabilities	<u>6,671,165</u>	<u>7,461,486</u>
<u>Commitments and Contingencies</u> (Notes 9, 15 and 16)		
<u>Net Assets:</u> (Notes 2, 10, 11 and 12)		
Without Donor Restrictions:		
Undesignated	25,496,465	25,000,706
Board designated reserve fund	3,207,205	3,141,039
Board designated endowment	1,704,643	1,404,942
Total Net Assets Without Donor Restrictions	<u>30,408,313</u>	<u>29,546,687</u>
With Donor Restrictions:		
Purpose restriction	2,346,805	2,502,018
Perpetual in nature	5,441,168	6,464,554
Total Net Assets With Donor Restrictions	<u>7,787,973</u>	<u>8,966,572</u>
Total Net Assets	<u>38,196,286</u>	<u>38,513,259</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>44,867,451</u>	\$ <u>45,974,745</u>

The accompanying notes are an integral part of the financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SAN DIEGO, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>2022</u>	<u>2021</u>
<u>Revenue and Support:</u>				
Contributions	\$ 4,252,240	\$ 891,334	\$ 5,143,574	\$ 4,418,594
Special events, net of direct expenses of \$2,146,706 and \$2,067,102 for 2022 and 2021, respectively)	5,085,462	-	5,085,462	5,669,148
In-kind contributions	826,033	241,119	1,067,152	874,700
Program revenue	424,984	21,745	446,729	358,159
Grants	234,836	-	234,836	1,717,387
(Loss) gain on disposal of property and equipment	(6,696)	-	(6,696)	5,006
Investment (loss) income	(1,706,115)	(816,429)	(2,522,544)	2,364,714
Net assets released from restrictions	1,516,368	(1,516,368)	-	-
Total Revenue and Support	<u>10,627,112</u>	<u>(1,178,599)</u>	<u>9,448,513</u>	<u>15,407,708</u>
<u>Expenses:</u>				
Program services	<u>5,170,496</u>	<u>-</u>	<u>5,170,496</u>	<u>4,364,473</u>
Supporting Services:				
Management and general	744,508	-	744,508	858,288
Fundraising	3,850,482	-	3,850,482	3,415,432
Total Supporting Services	<u>4,594,990</u>	<u>-</u>	<u>4,594,990</u>	<u>4,273,720</u>
Total Expenses	<u>9,765,486</u>	<u>-</u>	<u>9,765,486</u>	<u>8,638,193</u>
Change in Net Assets	861,626	(1,178,599)	(316,973)	6,769,515
Net Assets at Beginning of the Year	<u>29,546,687</u>	<u>8,966,572</u>	<u>38,513,259</u>	<u>31,743,744</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 30,408,313</u></u>	<u><u>\$ 7,787,973</u></u>	<u><u>\$ 38,196,286</u></u>	<u><u>\$ 38,513,259</u></u>

The accompanying notes are an integral part of the financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SAN DIEGO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

	Program House Operations	Supporting Services			2022	2021
		Management and General	Fundraising	Total Supporting Services		
Salaries and payroll taxes	\$ 1,903,589	\$ 514,365	\$ 1,428,460	\$ 1,942,825	\$ 3,846,414	\$ 3,144,472
Donated goods and services	951,561	-	181,590	181,590	1,133,151	1,010,095
Depreciation	1,052,815	4,596	31,160	35,756	1,088,571	1,046,521
Advertising and promotion	-	1	616,875	616,876	616,876	524,398
Printing and graphic design	34,817	29	480,593	480,622	515,439	406,155
Legal and professional	25,396	175,802	93,620	269,422	294,818	360,189
Utilities	258,118	8,795	27,580	36,375	294,493	209,270
Interest expense	272,124	2,783	5,114	7,897	280,021	320,849
Postage and shipping	3,640	2,761	265,159	267,920	271,560	289,331
Supplies	171,802	633	77,877	78,510	250,312	187,593
Maintenance and repairs	183,453	10,447	39,188	49,635	233,088	172,304
Outside services	-	-	205,241	205,241	205,241	220,117
Events	4,796	291	179,094	179,385	184,181	300,375
Insurance	103,059	7,986	34,178	42,164	145,223	137,831
Merchant fees	1,719	445	134,866	135,311	137,030	165,645
Facility and equipment	77,659	4,639	22,811	27,450	105,109	83,376
Miscellaneous	87,189	3,778	6,009	9,787	96,976	39,812
Travel, dues and entertainment	5,456	838	14,889	15,727	21,183	11,912
Program expense	17,692	-	-	-	17,692	-
Employee/volunteer development	8,956	936	6,178	7,114	16,070	7,821
Bad debt expense (recovery)	6,655	-	-	-	6,655	(2,500)
Taxes and other corporate expenses	-	5,383	-	5,383	5,383	2,627
TOTAL EXPENSES	\$ 5,170,496	\$ 744,508	\$ 3,850,482	\$ 4,594,990	\$ 9,765,486	\$ 8,638,193

The accompanying notes are an integral part of the financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SAN DIEGO, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

	<u>2022</u>	<u>2021</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (316,973)	\$ 6,769,515
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,088,571	1,046,521
Amortization of debt issuance costs	569	569
Net realized and unrealized loss (gain) on investments	2,821,676	(2,153,396)
Loss (gain) on disposal of property and equipment	6,696	(5,006)
In-kind contributions of investments	(19,288)	(12,539)
Forgiveness of payroll protection program loan	-	(576,492)
Bad debt expense (recovery)	6,655	(2,500)
Amortization of right-of-use assets – operating leases	14,455	-
(Increase) Decrease in:		
Accounts and contributions receivables, net	(498,022)	182,956
In-kind and other receivables	147,475	176,532
Prepaid expenses and other assets	(155,986)	90,296
Increase (Decrease) in:		
Accounts payable and accrued expenses	154,920	(120,483)
Deferred revenue	(11,817)	(167,294)
Operating lease liability	(14,599)	-
Net Cash Provided by Operating Activities	<u>3,224,332</u>	<u>5,228,679</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of investments, net	(18,040,147)	(8,676,785)
Proceeds from maturities and sales of investments	16,213,649	5,177,209
Purchase of property and equipment	(505,761)	(250,926)
Net Cash Used in Investing Activities	<u>(2,332,259)</u>	<u>(3,750,502)</u>
<u>Cash Flows From Financing Activities:</u>		
Payments on note payable	(966,266)	(926,518)
Net Cash Used in Financing Activities	<u>(966,266)</u>	<u>(926,518)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(74,193)	551,659
Cash and Cash Equivalents at Beginning of Year	<u>3,324,722</u>	<u>2,773,063</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 3,250,529</u></u>	<u><u>\$ 3,324,722</u></u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for interest	\$ <u>279,451</u>	\$ <u>320,280</u>
Income tax paid	\$ <u>714</u>	\$ <u>2,237</u>
In-kind contributions of goods and services	\$ <u>1,067,152</u>	\$ <u>874,700</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	\$ <u>15,348</u>	\$ <u>-</u>
Right-of-use assets upon ASC 842 implementation:		
Operating leases	\$ <u>5,563</u>	\$ <u>-</u>
Right-of-use assets after ASC 842 implementation:		
Operating leases	\$ <u>41,309</u>	\$ <u>-</u>

The accompanying notes are an integral part of the financial statements.

RONALD MCDONALD HOUSE CHARITIES OF SAN DIEGO, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

Note 1 - Organization:

Ronald McDonald House Charities of San Diego, Inc. (the “Organization”) is a not-for-profit corporation organized in California in 1978. The Organization’s mission is to provide comfort, strength, and stability by offering a “home-away-from-home” for families with children being treated for serious, often life-threatening conditions at local San Diego hospitals. The Organization operates a 48-bedroom Ronald McDonald House (the “House”), which was completed in 2009, and replaced the 12-bedroom original house (the “North House”). In July 2017, the Organization reopened the North House, adding 8 additional guest rooms for families with children at local hospitals.

Note 2 - Significant Accounting Policies:

Accounting Method

The financial statements of the Organization have been prepared on the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), and, accordingly, reflects all significant receivables, payables, and other liabilities.

Financial Statement Presentation

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 thereon 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.
- 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. 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.

Estimates

The preparation of a financial statement in conformity with accounting principles generally accepted in the United States of America 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 and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value, and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy), and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

RONALD MCDONALD HOUSE CHARITIES OF SAN DIEGO, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

Note 2 - Significant Accounting Policies: (Continued)

Fair Value Measurements (Continued)

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The Organization's statements of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in mutual and exchange traded funds are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method, based on historical experience and management's evaluation of outstanding receivables. The allowance for doubtful contributions receivable totaled \$22,988 and \$-0- at December 31, 2022 and 2021, respectively.

Capitalization and Depreciation

The Organization capitalizes expenditures in excess of \$2,500 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

	<u>Estimated Life</u>
Buildings	39 years
Leasehold improvements	5 - 40 years
Internally developed software	7 years
Furniture and fixtures	2 - 20 years
Machinery and equipment	3 - 15 years
Vehicles	5 - 7 years

The Organization capitalizes costs incurred during the application development stage related to internally developed software. Once the capitalization criteria have been met, the Organization capitalizes costs paid to vendors under development contracts. The cost of minor enhancements or maintenance to the software is expensed as incurred. Amortization of capitalized costs begins when the software is ready for its intended use. Capitalized cost totaled \$457,867 at each of the years ended December 31, 2022 and 2021.

RONALD MCDONALD HOUSE CHARITIES OF SAN DIEGO, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

Note 2 - Significant Accounting Policies: (Continued)

Capitalization and Depreciation (Continued)

Depreciation totaled \$1,088,571 and \$1,046,521 for the years ended December 31, 2022 and 2021, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property, furniture, or equipment, the asset account is reduced by the cost, and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Impairment of Long-Lived Assets

The Organization reviews its investment in long-lived assets for impairment whenever events and changes in circumstances indicate that the carrying value of such assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the assets to the estimated proceeds from the eventual disposition of the assets. If assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of assets exceeds the fair value of such property. There were no impairment losses recognized in 2022 and 2021.

Debt Issuance Costs

Debt issuance costs are incurred in order to obtain financing for the Organization. Debt issuance costs are amortized on a straight-line basis over the term of the related loan, which approximates the interest method. Unamortized deferred financing costs are presented as a direct reduction from the carrying value of the related obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense, and totaled \$569 for each of the years ended December 31, 2022 and 2021.

Compensated Absences

Accumulated unpaid vacation totaling \$149,359 and \$144,392 at December 31, 2022 and 2021, respectively, is accrued when earned, and included in accounts payable and accrued expenses.

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are 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. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Special event revenue is recognized in the period that the event occurs. Deferred special event revenue totaled \$2,750 and \$-0- at December 31, 2022 and 2021, respectively.

Program revenue is recognized as performance obligations are satisfied, and any non-refundable portion of the contract is recorded as revenue upon receipt. Deferred program revenue totaled \$27,563 and \$42,130 at December 31, 2022 and 2021, respectively.

RONALD MCDONALD HOUSE CHARITIES OF SAN DIEGO, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

Note 2 - Significant Accounting Policies: (Continued)

Donated Space, Food and Materials

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements, unless the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended December 31, 2022 and 2021 did not meet the requirements above; therefore, no amounts were recognized in the financial statements.

The Organization received the following in-kind contributions for the year ending December 31:

	<u>2022</u>	<u>2021</u>
Property and Equipment:		
Furniture and office equipment	\$ 35,814	\$ -
Building and improvements	<u>27,460</u>	<u>7,108</u>
Total Property and Equipment	<u>63,274</u>	<u>7,108</u>
Revenue:		
Family support and supplies	478,265	446,493
Food	257,041	153,176
Media	209,800	171,000
Vehicles	42,625	28,150
Auction and event	7,961	57,893
Utilities	7,210	6,304
Rent	976	976
Professional services	<u>-</u>	<u>3,600</u>
Total Revenue	<u>1,003,878</u>	<u>867,592</u>
Total In-Kind Contributions	<u>\$ 1,067,152</u>	<u>\$ 874,700</u>

The Organization recognized in-kind contributions within revenue, including office equipment and supplies, family support and supplies, food, utilities, auction items, media, rent and professional services.

In valuing office equipment and supplies, family support services, and auction items, the Organization estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

Contributed rent is for the Organization's 8-bedroom "North House" space which is used to house guest families. In valuing the contributed space, the Organization estimated the fair value on the basis of comparable rental prices in San Diego in the same location where the North House is located. The amount of contributed rent over the remaining lease term is reported as a "promised use of facility" in the accompanying statement of financial position, and the related rent expense is recorded straight line over the life of the lease in the accompanying statement of activities.

Contributed food is recorded based on the number of meals actually served times the value of an average meal per data available in USDA's "What We Eat in America" report for any applicable year.

RONALD MCDONALD HOUSE CHARITIES OF SAN DIEGO, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

Note 2 - Significant Accounting Policies: (Continued)

Donated Space, Food and Materials (Continued)

Contributed household goods and clothing were utilized in the Organization's family programs and in valuing these items, the Organization estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

Contributed utilities, such as electricity, gas, internet and telephone are used for general and administrative, fundraising, and programmatic activities. These items are valued based on rates as published by the donors.

Professional services as well as media services are used for general and administrative, fundraising, and programmatic activities. These items are valued based on rates as published by the donors.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expense totaled \$616,876 and \$524,398 for the years ended December 31, 2022 and 2021, respectively, which are included in advertising and promotional expense.

Functional Allocation of Expenses

The statement of functional expenses presents expenses by function and natural classification. The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of head count, space utilized, and estimates made by the Organization's management.

Income Taxes

The Organization is a public charity, and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. 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. The Organization is not a private foundation.

The Organization's Return of Organization Exempt from Income Tax for the years ended December 31, 2022, 2021, 2020, and 2019 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three-to-four years after the returns were filed.

Leases

The Organization determines if an arrangement is a lease at inception. Operating leases are included in right-of-use ("ROU") assets – operating and lease liability – operating, and finance leases are included in right-of-use ("ROU") assets – financing and lease liability – financing in the statement of financial position.

RONALD MCDONALD HOUSE CHARITIES OF SAN DIEGO, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

Note 2 - Significant Accounting Policies: (Continued)

Leases (Continued)

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statement of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts and money market funds which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Organization's revenue activity is derived from individual, corporate, and foundation contributions. Approximately 43% and 31% of total unrestricted support and revenue was derived from a single special event for the years ended December 31, 2022 and 2021, respectively. This event, which is conducted annually, is regulated. Changes in regulations, administrative or legal actions, or changes in event procedures which occur from time to time, could have an impact on event revenues and expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Risks and Uncertainties

The Organization invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term, and such changes could materially affect the amounts reported in the statement of financial position.

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Note 2 - Significant Accounting Policies: (Continued)

Accounting Pronouncement Adopted

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. ASU 2020-07 improves transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit entities. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. This standard is applied on a retrospective basis. The adoption had no effect on the 2022 financial statements.

Change in Accounting Principle

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) 842, *Leases (“FASB ASC 842”)* to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the statement of financial position by lessees, and the disclosures of key information about leasing arrangements.

The Organization adopted this guidance Accounting Standards Codification (ASC) 842 in 2022 using the effective date transition method which allows the Organization to apply the guidance for the current year presentation and not adjust the prior year numbers. The Organization elected the package of practical expedients that allows an entity to not reassess (i) whether any expired or existing contracts are or contain leases, (ii) lease classification for any expired or existing leases and (iii) initial direct costs for any expired or existing leases. The Organization did not elect to use hindsight for leases existing at the adoption date.

As a result of the adoption of FASB ASC 842 on January 1, 2022, right of use assets of \$5,563 and operating lease liability of \$5,563 was recorded.

Comparative Totals for December 31, 2021

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. This summarized information is for comparative purposes only, and accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended December 31, 2021, from which the summarized comparative information was derived.

Subsequent Events

The Organization has evaluated subsequent events through August 9, 2023, which is the date the financial statements are available for issuance and concluded that there were no events or transactions that needed to be disclosed.

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Note 3 - Liquidity and Availability

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing programs, as well as the conduct of services undertaken to support those activities, to be general expenditures.

The table below presents financial assets available for general expenditures within one year at December 31, 2022:

Cash and cash equivalents	\$ 3,250,529
Contributions and other receivable, net	781,218
Investments, at fair value	<u>18,745,792</u>
Total financial assets available within one year	22,777,539
Less those unavailable for general expenditure within one year due to:	
Restricted by donor with time or purpose restrictions	(7,787,973)
Funds reserved for maintenance of facilities by Board	(3,207,205)
Board-designated endowment	<u>(1,704,643)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,077,718</u>

Income generated by the donor-restricted and Board-designated funds during the year is available for the payment of general expenditures. As part of the organization's liquidity management, the Organization prepares monthly cash requirement projections which are used to ensure that needed balances are liquid and available for payment of general expenses and loan balances due.

The Organization employs a detailed annual budgeting process to ensure that the Organization holds no less than one year of its future cash flow needs, as well as a minimum of six months of total cash expenses plus debt principal, available in its unrestricted and unreserved cash accounts for the upcoming five fiscal years. As of the balance sheet date and as of the date of this audit report, the Organization held sufficient liquid resources to meet both requirements.

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Note 4 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at December 31:

	<u>2022</u>			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2022
Mutual funds / exchange traded funds:				
Equity - large cap domestic	\$ 8,596,870	\$ -	\$ -	\$ 8,596,870
Equity - mid-cap domestic	1,534,747	-	-	1,534,747
Equity - small domestic	1,348,500	-	-	1,348,500
Equity - international	984,391	-	-	984,391
Equity - hedge fund	819,947	-	-	819,947
Fixed income - domestic	5,461,337	-	-	5,461,337
	<u>\$ 18,745,792</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,745,792</u>
	<u>2021</u>			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2021
Mutual funds / exchange traded funds:				
Equity - large cap domestic	\$ 8,708,507	\$ -	\$ -	\$ 8,708,507
Equity - mid-cap domestic	1,621,643	-	-	1,621,643
Equity - small domestic	1,481,265	-	-	1,481,265
Equity - international	1,332,692	-	-	1,332,692
Equity - emerging markets	818,988	-	-	818,988
Equity - hedge fund	1,083,893	-	-	1,083,893
Fixed income - domestic	4,674,694	-	-	4,674,694
	<u>\$ 19,721,682</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,721,682</u>

Note 5 - Investments:

Investments consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Mutual funds / exchange traded funds	\$ 18,745,792	\$ 19,721,682
Total Investments	<u>\$ 18,745,792</u>	<u>\$ 19,721,682</u>

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Note 5 - Investments (Continued):

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

	<u>2022</u>	<u>2021</u>
Investment income	\$ 393,622	\$ 296,622
Realized gain on investments, net	61,312	864,282
Unrealized (loss) gain on investments, net	(2,882,988)	1,289,118
Investment fees	(94,490)	(85,308)
Total Investment (Loss) Income	<u>\$ (2,522,544)</u>	<u>\$ 2,364,714</u>

Note 6 - Contributions Receivable:

Contributions receivable consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Contributions receivable	\$ 166,741	\$ 99,205
Pledges receivable	540,000	-
Contributions receivable before adjustment to fair value	706,741	99,205
Less: Adjustments to record contributions receivable at fair value	-	-
Discount to present value	(22,988)	-
Total contributions receivable, net	<u>\$ 683,753</u>	<u>\$ 99,205</u>

Contributions receivable are expected to be realized in the following periods:

	<u>2022</u>	<u>2021</u>
Due in one year or less	\$ 306,741	\$ 99,205
Due in more than one year	377,012	-
Total Contributions Receivable, Net	<u>\$ 683,753</u>	<u>\$ 99,205</u>

Note 7 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Buildings	\$ 25,285,239	\$ 25,285,239
Leasehold improvements	3,750,051	3,488,289
Internally developed software	457,867	457,867
Furniture and fixtures	625,657	631,273
Machinery and equipment	407,116	241,970
Vehicles	147,973	125,635
Subtotal	30,673,903	30,230,273
Less: Accumulated Depreciation	(10,824,190)	(9,791,054)
Property and Equipment, Net	<u>\$ 19,849,713</u>	<u>\$ 20,439,219</u>

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Note 8 - Note Payable:

The Organization had a note payable to a bank in the original amount of \$14,200,000 with initial monthly principal and interest payments of \$83,153, bearing interest at the fixed rate of 4.95% through October 2023. After the initial 10-year period, the interest rate would have reset to the 10-year Treasury Constant Maturity rate in effect at that time, plus 2.40%. Monthly principal and interest payments were calculated over a 25-year amortization period, and was payable through October 2033, at which time all unpaid principal and interest remaining on the note would have been due. The note was secured by a deed of trust, and included a pre-payment penalty provision subject to the terms of the loan agreement.

On March 2, 2018, the Organization refinanced the original amount of the \$14,200,000 note payable by issuing a new note payable to a bank in the original amount of \$10,123,820 with initial monthly principal and interest payments of \$104,105 commencing on April 1, 2018, bearing interest at the fixed rate of 4.25% through March 1, 2028, when all unpaid principal and interest at that time will become due. The note is secured by inventory, chattel paper, accounts, equipment, and general intangibles, and includes a pre-payment penalty provision subject to the terms of the loan agreement. Concurrent with the refinance, the Organization expensed previously capitalized loan fees associated with the original debt of \$34,032. The note payable totaled \$6,038,244 and \$7,003,941 at December 31, 2022 and 2021, respectively.

The note outstanding on December 31, 2022 is subject to the terms and conditions contained in the loan and security agreement with the bank. The agreement requires the Organization to maintain certain financial and non-financial covenants as defined in the agreement. The Organization was in compliance with all covenants as of December 31, 2022 and 2021.

Debt issuance costs total \$5,694, less accumulated amortization of \$2,751 and \$2,182 at December 31, 2022 and 2021, respectively.

Future principal payments on the note payable are as follows:

<u>Years Ended December 31</u>	
2023	\$ 1,008,735
2024	1,052,478
2025	1,099,329
2026	1,147,646
2027	1,198,086
Thereafter	534,913
Total before Unamortized debt issuance costs	6,041,187
Less: Unamortized debt issuance costs	(2,943)
Total	<u>\$ 6,038,244</u>

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Note 9 - Line-of-Credit

On February 16, 2017, the Organization entered into a revolving line-of-credit agreement with a bank under which the Organization can borrow up to \$1,000,000, and bears interest at a rate of LIBOR plus 1.75%. Loans are repayable immediately upon demand by the bank. There was no outstanding balance on the line-of-credit at December 31, 2022 and 2021.

Note 10 - Board-Designated Reserve Fund

The Organization's governing board has designated a portion of its resources without donor restrictions to be used for repairs and maintenance of the House. The board-designated reserve fund totaled \$3,207,205 and \$3,141,039 at December 31, 2022 and 2021, respectively.

Note 11 - Net Assets With Donor Restrictions:

Net assets with donor restrictions represent contributions and other inflows received by the Organization, which are limited in their use by the donor-imposed stipulations. Net assets with donor restrictions are available for the following purposes at December 31:

	<u>2022</u>	<u>2021</u>
Subject to Expenditure for Specified Purpose:		
In-kind rent	\$ 1,971,290	\$ 2,147,823
BBQ area remodel	94,122	-
Coca-Cola	83,540	109,318
Education enrichment	40,045	47,542
Guest holiday celebration	39,487	42,331
Laundry room remodel	29,822	-
Employee education & emergency	21,750	26,711
Meal program	20,752	31,027
Guest room remodel	16,908	52,821
Beach buddies program	9,338	4,965
Main House pavement	9,000	-
Gift cards for guests	4,912	-
North House railing	3,954	-
57 th guest suite remodel	1,181	-
Recycling	688	688
Other	16	29
Flooring	-	20,000
Pacific Island family stays	-	10,000
Vehicle & radios	-	8,763
Total Subject to Expenditure for Specified Purpose	<u>2,346,805</u>	<u>2,502,018</u>
Perpetual in Nature:		
Endowments (Note 12)	<u>5,441,168</u>	<u>6,464,554</u>
Total Net Assets with Donor Restrictions	<u>\$ 7,787,973</u>	<u>\$ 8,966,572</u>

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Note 12 - Endowment Net Assets:

The Organization's endowments consist of two individual funds established by donor restrictions. The endowments also include funds designated by the Board of Trustees to function as an endowment. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies donor-restricted net assets of a perpetual nature as (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts donated to the permanent endowment; (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in donor-restricted net assets of a perpetual nature is classified as donor-restricted net assets with time restrictions, until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose 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

The Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. The Organization has no underwater endowment funds at December 31, 2022 and 2021.

Endowment net asset composition by type of fund at December 31:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowments	\$ -	\$ 5,441,168	\$ 5,441,168
Board-designated endowments	1,704,643	-	1,704,643
Total endowments	<u>\$ 1,704,643</u>	<u>\$ 5,441,168</u>	<u>\$ 7,145,811</u>

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Note 12 - Endowment Net Assets: (Continued)

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowments	\$ -	\$ 6,464,554	\$ 6,464,554
Board-designated endowments	1,404,942	-	1,404,942
Total endowments	<u>\$ 1,404,942</u>	<u>\$ 6,464,554</u>	<u>\$ 7,869,496</u>

Changes in endowment net assets of the years ended December 31:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at December 31, 2020	\$ 590,951	\$ 5,810,703	\$ 6,401,654
Contributions	689,618	217,423	907,041
Investment income, net	12,097	70,795	82,892
Net realized and unrealized gains	112,276	756,249	868,525
Appropriation of endowment assets for expenditures	-	(390,616)	(390,616)
Balance at December 31, 2021	1,404,942	6,464,554	7,869,496
Contributions	473,842	156,747	630,589
Investment income, net	20,196	71,593	91,789
Net realized and unrealized loss	(194,337)	(893,035)	(1,087,372)
Appropriation of endowment assets for expenditures	-	(358,691)	(358,691)
Balance at December 31, 2022	<u>\$ 1,704,643</u>	<u>\$ 5,441,168</u>	<u>\$ 7,145,811</u>

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods.

Under this policy, as approved by the Finance/Investment Committee of the Board, the endowment assets are invested in a manner that preserves and protects its assets by earning a total return appropriate for each fund's time horizon, liquidity needs, and risk tolerance. The endowment fund consists of equity securities and fixed income securities.

To satisfy its long-term rate-of-return 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).

The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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Note 12 - Endowment Net Assets: (Continued)

The Organization adopted a spending policy which provides a stable spend rate over time. The overall goal for endowment assets is to produce a real (after inflation) average annual rate of return, net of fees, which will provide for a 4% annual spending policy distribution. Actual results during any period may vary from these expectations. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 13 - Joint Costs

The Organization conducts activities that include fundraising appeals, as well as program components. These activities include direct mail and other constituent relationship activities. The costs of conducting these joint activities which meet the purpose, audience, and content were \$115,228 and \$96,030 for the years ended December 31, 2022 and 2021, respectively. They were comprised of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Fundraising	\$ 80,660	\$ 67,221
Programs service costs	34,568	28,809
Total	<u>\$ 115,228</u>	<u>\$ 96,030</u>

Note 14 - Related Party Transactions

The Organization is a local chapter of Ronald McDonald House Charities, Inc. ("RMHC, Inc."), an organization that supports a global network of Ronald McDonald Houses and other programs directed at children around the world. The Organization has a license agreement with the McDonald's Corporation for the use of its name and trademarks. This license agreement also includes programmatic guidelines that should be followed. As part of the license agreement, twenty-five percent of the proceeds from certain fundraising events are remitted to RMHC, Inc.

There were no donations made to RMHC, Inc. during the years ended December 31, 2022 and 2021.

RMHC, Inc. also makes donations to the Organization throughout the year. These donations totaled \$57,000 and \$4,000 for the years ended December 31, 2022 and 2021, respectively.

Support received from the board of trustees and management totaled \$149,558 and \$81,977 for the years ended December 31, 2022 and 2021, respectively. There were no pledged contributions from the board of trustees and management outstanding at December 31, 2022 and 2021.

Note 15 - Retirement Plan

Effective January 1, 2013, the Organization amended and restated its 403(b) plan (the "Plan") covering all employees of the Organization. Employees are eligible to participate in the Plan immediately upon hire. The Plan includes an employer match component for 100% of the first 3% of salary deferrals, plus 50% in excess of 3% of salary deferrals, not to exceed 4% of employee compensation. The Organization made employer matching contributions totaling \$67,496 and \$66,782 for the years ended December 31, 2022 and 2021, respectively.

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Note 16 - Commitments and Contingencies:

Leases

In conjunction with the construction of the House, the Organization entered into a land lease with the landlord with a term of sixty years from the effective date of October 2007. The annual rent payment is \$1. The lease provides for two ten-year options to extend. The fair market value of rent has not been included in the accompanying Statement of Activities, because the costs required by the Organization to prepare the land for construction exceed the fair market value.

On February 17, 2017, the Organization entered into a lease agreement with Rady Children's Hospital for its North House. The lease was for a 7-year term. On February 28, 2020, the Organization entered into an amendment to this lease, which extended the lease term through February 28, 2034. The annual lease payment remained \$1 per year. The annual fair market value of the rent was \$177,509 for each of the years ended December 31, 2022 and 2021. In-kind rent receivable totaled \$1,971,290 and \$2,147,823 at December 31, 2022 and 2021, respectively, and is included in in-kind and other receivables.

The Organization rents various pieces of equipment under operating lease agreements extending through July 2027. Equipment rent expense totaled \$15,463 and \$15,170 for the years ended December 31, 2022 and 2021, respectively.

The following summarizes the line items on the statement of financial position for the operating lease at December 31, 2022:

Operating lease right-of-use asset	\$ <u>32,417</u>
Operating lease liability - current portion	\$ 13,553
Operating lease liability - less current portion	<u>18,720</u>
Total Operating Lease Liabilities	<u>\$ 32,273</u>

The following summarizes the weighted average remaining lease term and discount rate as of December 31, 2022:

Weighted average remaining lease term - Operating	2.47 years
Weighted average discount rate	3.16%

The following summarizes the line items in the statement of activities which include the components of lease expense for the year ended December 31, 2022:

Operating lease expense	\$ 13,007
Total Lease Cost	<u>\$ 13,007</u>

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Note 16 - Commitments and Contingencies (Continued):

Leases (Continued)

The following summarizes cash flow information related to leases for the year ended December 31, 2022:

Operating cash flows from operating leases	\$ <u>15,348</u>
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The following is a schedule of future minimum lease payments under the lease:

Years Ended December 31	
2023	\$ 15,507
2024	15,507
2025	2,384
2026	1,191
2027	597
Thereafter	47
Total	\$ 35,233
Less: Discount	(2,960)
Present Value of Lease Liabilities	<u>32,273</u>

Paycheck Protection Program Loans

In May 2020, the Organization received a loan totaling \$576,492 from the U.S. Small Business Administration (“SBA”), under the CARES Act Paycheck Protection Program (“PPP”). The loan is forgivable to the extent that the Organization meets the terms and conditions of the PPP. Any portion of the loan that is not forgiven bears interest at 1%, and matures May 2022. The Organization has recognized \$0- and \$576,492 as grant revenue for the years ended December 31, 2022 and 2021, respectively. The PPP loan was granted forgiveness on March 11, 2021.

Employee Retention Tax Credits

On June 1, 2021, and on August 27, 2021, the Organization received and recorded as grant revenue \$239,214 and \$251,635, respectively, for Employee Retention Tax Credits administered by the Internal Revenue Service under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which the Organization used to fund payroll expenses during the first and second quarters in 2021.

On May 6, 2021, the Organization filed for \$231,888 of Employee Retention Tax Credits, which the Organization used to fund payroll expenses during the second, third and fourth quarter of 2020. As of the balance sheet date December 31, 2022, the requested funds have been received. On July 19, 2022, the organization received \$64,564 of the requested funds for the third quarter of 2020. On July 20, 2022, the organization received \$143,178 of the requested funds for the second quarter of 2020.

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Note 17 - Litigation and Regulation

In the normal course of business, the Organization is occasionally named as a defendant in various claims. It is the opinion of management that the outcome of any pending claims will not materially affect the operation or the financial position of the Organization.

From time to time, the Organization receives, and timely responds to, requests for information from governmental agencies. It is the opinion of management that providing information to governmental agencies will not lead to legal or administrative actions that would have a material impact to the 2022 financial statements.