

# RONALD MCDONALD HOUSE OF DURHAM, INC. (DBA RONALD MCDONALD HOUSE OF DURHAM AND WAKE)

Audited Financial Statements

December 31, 2015 and 2014



# Ronald McDonald House of Durham, Inc.

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## **Independent Auditors' Report**

To the Board of Directors  
Ronald McDonald House of Durham, Inc.  
(DBA Ronald McDonald House of Durham & Wake)

We have audited the accompanying statements of financial position of Ronald McDonald House of Durham, Inc. (the "Organization") as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, cash flows and note disclosures for the years then ended.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House of Durham, Inc. as of December 31, 2015 and 2014, and the changes in its net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Handwritten signature in blue ink that reads "TRSCPA, PLLC".

St Petersburg, Florida

April 26, 2016

# Ronald McDonald House of Durham, Inc.

## Statements of Financial Position As of December 31, 2015 and 2014 (as restated)

<i>December 31,</i>	<b>2015</b>	2014 <i>(as restated)</i>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 442,210	\$ 328,502
Contributions receivable	359,653	426,227
Contributions receivable, use of facilities	24,609	23,437
Prepaid expenses and other current assets	20,626	24,594
Total current assets	<b>847,098</b>	802,760
<b>Non-current assets</b>		
Long-term contributions receivable, net	405,589	347,053
Long-term contributions receivable - use of facilities, net	1,233,219	1,257,828
Investments	2,693,752	2,853,644
Building and equipment, net	6,965,495	7,212,314
Total non-current assets	<b>11,298,055</b>	11,670,839
<b>TOTAL ASSETS</b>	<b>\$12,145,153</b>	\$12,473,599
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 16,569	\$ 45,262
Accrued expenses	33,280	27,910
Current portion of long-term debt	607,892	142,982
Total current liabilities	<b>657,741</b>	216,154
Long term debt, net of current portion	-	608,833
Total liabilities	<b>657,741</b>	824,987
<b>Net Assets</b>		
Unrestricted	8,797,736	9,179,731
Temporarily restricted	1,835,333	1,714,538
Permanently restricted	854,343	754,343
Total net assets	<b>11,487,412</b>	11,648,612
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$12,145,153</b>	\$12,473,599

See accompanying notes to financial statements.

# Ronald McDonald House of Durham, Inc.

## Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2015

	2015			2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Contributions	\$1,112,802	\$312,951	\$100,000	\$ 1,525,753
Room fees	85,960	—	—	85,960
Donated materials and services	782,421	—	—	782,421
Special events, net of direct costs of \$115,355	413,959	—	—	413,959
Other income	5,350	—	—	5,350
Interest and dividend income	31,855	28,501	—	60,356
Realized gain on investments	32,340	11,385	—	43,725
Net unrealized gain (loss) on investments	(92,811)	4,299	—	(88,512)
Net present value change		3,841	—	3,841
Net assets released from restrictions	240,182	(240,182)	—	—
<b>Total support and revenue</b>	<b>2,612,058</b>	<b>120,795</b>	<b>100,000</b>	<b>2,832,853</b>
<b>EXPENSES</b>				
Program services	2,369,125	—	—	2,369,125
Management and general	192,430	—	—	192,430
Fundraising	432,498	—	—	432,498
<b>Total expenses</b>	<b>2,994,053</b>	<b>—</b>	<b>—</b>	<b>2,994,053</b>
<b>Change in net assets</b>	<b>(381,995)</b>	<b>120,795</b>	<b>100,000</b>	<b>(161,200)</b>
<b>Net assets, beginning of year (as restated)</b>	<b>9,179,731</b>	<b>1,714,538</b>	<b>754,343</b>	<b>11,648,612</b>
<b>Net assets, end of year</b>	<b>\$8,797,736</b>	<b>\$1,835,333</b>	<b>\$854,343</b>	<b>\$11,487,412</b>

See accompanying notes to financial statements.

# Ronald McDonald House of Durham, Inc.

## Statement of Activities and Changes in Net Assets (as restated) For the Year Ended December 31, 2014

	2014			2014 total (as restated)
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 966,270	\$196,449	\$ –	\$1,162,719
Room fees	60,556	–	–	60,556
Donated materials and services	446,708	–	–	446,708
Special events, net of direct costs of \$95,375	400,498	–	–	400,498
Other income	4,051	–	–	4,051
Interest and dividend income	53,162	20,921	–	74,083
Realized gain on investments	16,386	11,599	–	27,985
Net unrealized (loss) gain on investments	40,307	12,646	–	52,953
Net present value change	–	4,378	–	4,378
Net assets released from restrictions	341,245	(341,245)	–	–
<b>Total support and revenue</b>	<b>2,329,183</b>	<b>(95,252)</b>	<b>–</b>	<b>2,233,931</b>
<b>EXPENSES</b>				
Program services	1,881,058	–	–	1,881,058
Management and general	184,790	–	–	184,790
Fundraising	459,232	–	–	459,232
<b>Total expenses</b>	<b>2,525,080</b>	<b>–</b>	<b>–</b>	<b>2,525,080</b>
<b>Change in net assets</b>	<b>(195,897)</b>	<b>(95,252)</b>	<b>–</b>	<b>(291,149)</b>
<b>Net assets, beginning of year</b>	<b>9,375,628</b>	<b>1,809,790</b>	<b>754,343</b>	<b>11,939,761</b>
<b>Net assets, end of year</b>	<b>\$9,179,731</b>	<b>\$1,714,538</b>	<b>\$754,343</b>	<b>\$11,648,612</b>

See accompanying notes to financial statements.

# Ronald McDonald House of Durham, Inc.

## Statements of Cash Flows For the Years Ended December 31, 2015 and 2014 (as restated)

<i>December 31,</i>	<b>2015</b>	2014 <i>(as restated)</i>
Cash flow from operating activities:		
Change in net assets	\$ (161,200)	\$ (291,149)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	278,056	287,872
Donated investments	(131,951)	(117,359)
Unrealized loss (gain) on investments	84,649	(52,953)
Realized loss (gain) on sale of investments	(43,725)	(27,985)
Changes in operating assets and liabilities:		
Contributions receivable	31,475	231,306
Prepaid expenses and other current assets	3,968	28,888
Accounts payable and accrued expenses	(23,323)	41,560
Net cash provided by operating activities	37,949	100,180
Cash flows from investing activities:		
Purchases of investments	(197,792)	(51,346)
Proceeds from sale of investments	448,711	273,188
Purchases of building and equipment	(31,237)	(11,984)
Net cash provided by (used in) investing activities	219,682	209,858
Cash flows from financing activities:		
Repayments of long-term debt	(143,923)	(263,309)
Net cash (used in) provided by financing activities	(143,923)	(263,309)
Net change in cash and cash equivalents	113,708	46,729
Cash and cash equivalents, beginning of the year	328,502	281,773
Cash and cash equivalents, end of the year	\$ 442,210	\$ 328,502
Supplemental cash flow disclosure:		
Cash paid for interest	\$ 20,151	\$ 25,931

*See accompanying notes to financial statements.*



# Ronald McDonald House of Durham, Inc.

## Statement of Functional Expenses Year ended December 31, 2015

	2015			2015 Total
	Program	Management and general	Fundraising	
Salaries	\$ 603,440	\$ 94,225	\$178,984	\$ 876,649
Payroll taxes	43,071	6,725	12,775	62,571
Employee benefits	105,003	14,340	27,239	146,582
Total salaries and related expenses	751,514	115,290	218,998	1,085,802
Bad debt expense	70,000	–	–	70,000
Bank charges and credit card fees	1,650	4,010	18,234	23,894
Computer support	4,939	3,447	2,231	10,617
Depreciation	278,056	–	–	278,056
Donor & volunteer recognition	4,804	–	–	4,804
Fundraising	–	–	8,079	8,079
Insurance	16,740	7,069	–	23,809
Interest	19,954	–	–	19,954
Operating supplies and expenses	963,911	21,998	9,575	995,484
Printing and postage	6,876	194	175,381	182,451
Professional fees	–	17,109	–	17,109
Rent expense, use of facilities	87,500	–	–	87,500
Repairs and maintenance	41,609	–	–	41,609
Telephone	17,130	1,903	–	19,033
Training and seminars	–	8,442	–	8,442
Travel and entertainment	–	12,968	–	12,968
Utilities	104,442	–	–	104,442
	1,617,611	77,140	213,500	1,908,251
Total expenses	\$2,369,125	\$192,430	\$432,498	\$2,994,053

*See accompanying notes to financial statements.*

# Ronald McDonald House of Durham, Inc.

## Statement of Functional Expenses Year ended December 31, 2014 (as restated)

	2014			2014 total (as restated)
	Program	Management and general	Fundraising	
Salaries	\$ 552,214	\$ 55,789	\$154,221	\$ 762,224
Payroll taxes	32,025	10,180	10,401	52,606
Employee benefits	80,910	21,630	23,323	125,863
Total salaries and related expenses	665,149	87,599	187,945	940,693
Bad debt expense	64,648	–	–	64,648
Bank charges and credit card fees	–	9,304	21,384	30,688
Computer support	5,855	3,497	2,245	11,597
Depreciation	287,872	–	–	287,872
Donor & volunteer recognition	1,471	–	2,831	4,302
Fundraising	–	–	6,488	6,488
Insurance	11,224	4,740	–	15,964
Interest	25,570	–	–	25,570
Operating supplies and expenses	577,674	26,067	24,910	628,651
Printing and postage	–	4,908	213,429	218,337
Professional fees	–	30,302	–	30,302
Rent expense (use of facilities)	87,500	–	–	87,500
Repairs and maintenance	30,543	–	–	30,543
Telephone	20,720	2,302	–	23,022
Training and seminars	–	8,269	–	8,269
Travel and entertainment	–	7,802	–	7,802
Utilities	102,832	–	–	102,832
	1,215,909	97,191	271,287	1,584,387
Total expenses	\$1,881,058	\$184,790	\$459,232	\$2,525,080

See accompanying notes to financial statements.

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

### 1. Nature of Activities

Built with love, the Ronald McDonald House of Durham, Inc. (the Organization, doing business as Ronald McDonald House of Durham & Wake) was incorporated in 1978 and offers a comforting home away from home and a community of support for seriously ill children and their families. The Organization operates a 55-bedroom house in Durham for short- and long-term stays and provides five bedrooms in Raleigh at the WakeMed Hospital, as well as in-hospital support through family rooms located at Duke Children's Hospital (Durham) and WakeMed Children's Hospital (Raleigh). The Organization is a non-stock, non-profit organization and revenues come primarily from contributions.

### 2. Significant Accounting Policies

#### **Basis of Presentation**

The accompanying financial statements are presented on the accrual basis of accounting. Assets are presented in the accompanying statement of financial position according to their nearness of conversion to cash, and liabilities according to the nearness of their maturity and resulting use of cash.

Unrestricted net assets consist of amounts that are available for use in carrying out the activities of the Organization. Temporarily restricted net assets represent those amounts which are not available until future periods or are donor-restricted for specific purposes. Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently.

#### **Use of Estimates**

The preparation of financial statements in accordance 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 the 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 may differ from such estimates and such differences could be material.

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

### Cash and equivalents

The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Cash and investments are maintained in bank deposit accounts and brokerage accounts, which exceed federally insured limits. The Organization believes it is not exposed to any significant credit risk in these accounts.

### Contributions Receivable

Contributions receivable are unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. The discount is calculated using a risk-adjusted rate of 1%. This rate does not include any consideration of collectability, for which the Organization records a separate allowance for uncollectible promises. Amortization of the discounts is included in contribution revenue. Contributions receivable are written off when deemed uncollectible.

### Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Realized and unrealized gains and losses and income are included in the statements of activities.

The Organization maintains investment accounts for its donor-restricted and board-designated endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of each endowment to the total fair value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

### **Property and Equipment**

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost, or if donated, at the fair value at the date of the donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are 31.5-50 years for buildings and 5-10 years for equipment, vehicles and furniture. Maintenance and repair cost and minor replacements are charged to expense when incurred.

### **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.

### **Allocation of Functional Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program and supporting services benefited. Other expenses are allocated based on management's estimate of the benefit derived by each activity.

### **Donated Assets, Property and Equipment, and Services**

Donated marketable securities, property and equipment, and other noncash donations are recorded as contributions at their fair values at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization also receives donated services from other contributors and volunteers that are not measurable, and therefore, are excluded from the financial statements.

### **Net Assets**

The Organization's net assets and changes therein are classified and reported as follows:

#### **Unrestricted**

Net assets that are not subject to donor-imposed restrictions or law.

#### **Temporarily Restricted**

Net assets subject to restrictions imposed by donor or law that may be met either by actions of the Organization or the passage of time.

#### **Permanently Restricted**

Net assets subject to donor-imposed restrictions that the principal be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for unrestricted purposes.

### **Revenue Recognition**

Contributions receivable are recognized as revenue in the period the promise was made. Conditional promises are recorded as revenue when the conditions are substantially met. Contributions, grants, and bequests are recognized as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

### Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### Fair Value of Financial Instruments

The fair value of financial instruments is measured as the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs corroborated by market data.
- Level 3: Unobservable inputs not corroborated by market data.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include cash and equivalents, prepaid expenses, accounts payable and accrued expenses. The Organization's investments are all valued at quoted market prices and are classified as Level 1 financial instruments.

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

Fair values of investments measured on a recurring basis are as follows as of December 31, 2015 and 2014:

	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Other Observable Inputs (Level 2)</i>	<i>Other Unobservable Inputs (Level 3)</i>
<i>December 31, 2015</i>			
Stocks and exchange traded funds	\$2,201,388	–	–
Fixed income securities	172,264	–	–
McDonald's Inc. common stock	320,100	–	–
<b>Total</b>	<b>\$2,693,752</b>	<b>–</b>	<b>–</b>

	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Other Observable Inputs (Level 2)</i>	<i>Other Unobservable Inputs (Level 3)</i>
<i>December 31, 2014</i>			
Stocks and exchange traded funds	\$2,438,413	–	–
Fixed income securities	228,125	–	–
McDonald's Inc. common stock	187,106	–	–
<b>Total</b>	<b>\$2,853,644</b>	<b>–</b>	<b>–</b>

### **Income Taxes**

Ronald McDonald House of Durham, Inc. is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization believes 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's federal returns are subject to examination by the IRS, generally for three years after they were filed. The Organization is no longer subject to IRS examination for tax years prior to 2012.

### **Reclassifications**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the current year presentation.



# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

### Subsequent Events

The Organization has evaluated events and transactions occurring subsequent to December 31, 2015 as of April 26, 2016, which is the date the financial statements were issued.

### 3. Contributions Receivable

Contributions receivable are expected to be received as follows:

<i>December 31,</i>	<b>2015</b>	2014
Within one year	<b>\$359,653</b>	\$426,227
In one to five years	<b>408,145</b>	387,974
In more than five years	<b>30,000</b>	30,000
Contributions receivable before discount and allowance for uncollectible contributions	<b>797,798</b>	844,201
Less: Unamortized discount	<b>(8,046)</b>	(9,364)
Subtotal	<b>789,752</b>	834,837
Less: allowance for uncollectible contributions	<b>(24,510)</b>	(61,557)
Net contributions receivable	<b>\$765,242</b>	\$773,280

Contributions receivable were designated by the donor for the following purposes:

<i>December 31,</i>	<b>2015</b>	2014
Capital campaign	<b>\$396,241</b>	\$481,427
Other (unrestricted)	<b>401,557</b>	362,774
Contributions receivable, before discount and allowance for uncollectible contributions	<b>\$797,798</b>	\$844,201

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

### 4. Investments

Investments are summarized below. McDonald's Corporation has the right of first refusal should the Organization choose to sell its McDonalds, Inc. stock.

<i>December 31,</i>	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Stocks and exchange traded funds	\$2,005,976	\$2,201,388	\$2,023,430	\$2,370,012
Fixed income securities	174,037	172,264	229,057	228,125
McDonald's Inc. common stock	85,001	320,100	87,770	255,507
	<b>\$2,265,014</b>	<b>\$2,693,752</b>	\$2,340,257	\$2,853,644

### 5. Use of Facilities

The Organization entered into a land and improvements lease with Duke University for the site upon which the Organization's Durham house is located. The lease restricts the use of the property to operating a short-term residence facility for children and parents of children who are being treated at Duke University Medical Center. The original lease began May 1979. The Organization entered into a new lease with similar terms in May 2012 through November 2041 with two 10-year renewal periods through November 2061. No rent is paid, and the lessor retains the right to renegotiate rent not in excess of \$1,000 per annum each succeeding fifth year. The lessee is responsible for all assessments against the property, and upon termination of the lease, the improvements thereon become the property of the lessor.

An internal valuation determined that the fair value of the land and improvements at the date of inception was \$1,750,000. The annual rental value was estimated to be approximately \$87,500 per year. In connection with this lease agreement, the Organization discounted the value of the 30-year initial term of the lease using a discount rate of 5.0%, and recorded a restricted contribution in 2012 in the amount of \$1,345,089. The value remaining on the use of facilities as of December 31, 2015 and 2014 is \$1,257,828 and \$1,281,265, respectively, and has been recorded as such on the

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

statements of financial position. For each of the years ended December 31, 2015 and 2014, rent expense of \$87,500 was recorded in connection with this lease agreement.

### 6. Endowments

The Organization's endowments consist of three funds established for the ongoing operations of the Organization. The endowment balances include board-designated and donor-restricted endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 the following as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment and (c) 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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the Organization and the donor-restricted endowment fund (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

### Investment Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets over the long-term. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce reasonable income while preserving capital. Results of the investments will be compared against industry standards for each type of investment.

The Organization has adopted as a Strategic Asset Allocation Plan that envisions a reasonably stable distribution of assets among major asset classes and has adopted the following asset allocation objectives:

Asset Class	Strategic Asset Allocation %	Allowable Range
Equities	70%	60%-80%
Fixed Income	25%	10%-40%
Real Assets	5%	0%-10%
Alternative Assets	5%	0%-10%
Cash & Equivalents	5%	0%-15%

### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has two funds established by donors and one board-designated fund. Based on the terms of the KROC endowment, the Organization can make a 5% distribution from the endowment each year. For the years ended December 31, 2015 and 2014 the Organization approved distributions of \$48,000 and \$50,000 from the KROC endowment. The policy for the other funds allows the Organization to appropriate investment income generated from the funds as directed by donors and or the Board of Trustees.

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

### Strategies Employed for Achieving 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 to achieve its long-term return objectives within prudent risk constraints.

Endowment net asset composition by fund type as of December 31, 2015 and 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<i>December 31, 2015</i>				
Donor-restricted	\$ –	\$322,691	\$854,343	\$1,177,034
Board-designated	1,501,875	–	–	1,501,875
	<b>\$1,501,875</b>	<b>\$322,691</b>	<b>\$854,343</b>	<b>\$2,678,909</b>
<i>December 31, 2014</i>				
Donor-restricted	\$ –	\$345,185	\$754,343	\$1,099,528
Board-designated	1,639,175	–	–	1,639,175
	<b>\$1,639,175</b>	<b>\$345,185</b>	<b>\$754,343</b>	<b>\$2,738,703</b>

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

Changes in endowment net assets as of December 31, 2015 and 2014 are as follows:

### *December 31, 2015*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$1,639,175	\$345,185	\$754,343	\$2,738,703
Contributions	–	–	100,000	100,000
Interest & dividends	39,765	28,501	–	68,266
Realized & unrealized gains	(78,641)	15,684	–	(62,957)
Investment fees	(8,492)	(3,660)	–	(12,152)
Transfers in (out)	(89,932)	(63,019)	–	(152,951)
Endowment net assets, end of year	\$1,501,875	\$322,691	\$854,343	\$2,678,909

### *December 31, 2014*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$1,632,751	\$386,400	\$754,343	\$2,773,494
Contributions	–	1,869	–	1,869
Interest & dividends	41,514	24,709	–	66,223
Realized & unrealized gains	58,845	24,244	–	83,089
Investment fees	(8,497)	(3,788)	–	(12,285)
Transfers in (out)	(85,438)	(88,249)	–	(173,687)
Endowment net assets, end of year	\$1,639,175	\$345,185	\$754,343	\$2,738,703

### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor required the Organization to maintain as a fund of perpetual duration. As of December 31, 2015 none of the

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

Organization's endowment funds were deficient. None of the funds were deficient 2015 or 2014.

### 7. Building and Equipment

The Organization is designated as a Ronald McDonald House. The details of building and equipment at December 31, 2015 and 2014 are as follows:

	2015	2014
Building and leased land	\$8,418,828	\$8,418,828
Equipment and furniture	578,722	547,485
Vehicle	39,956	39,956
	9,037,506	9,006,269
Less: accumulated depreciation	(2,072,011)	(1,793,955)
	\$6,965,495	\$7,212,314

Depreciation expense for the years ended December 31, 2015 and 2014 totaled \$278,056 and \$287,872, respectively.

### 8. Long-term debt

In 2014 the Organization had a \$2,000,000 line of credit with a bank which was refinanced in October 2014 and converted into a term loan with monthly payments of principal and interest. The loan is secured by one of the Organization's investment accounts. The loan is due in monthly installments of \$13,656 through October 2016 and bears interest at 2.9%. The outstanding principal was \$607,892 and \$751,815 as of December 31, 2015 and 2014, respectively. The value of the investments collateralizing the loan was \$1,266,000 and \$1,376,000 at December 31, 2015 and 2015, respectively.

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

The aggregate maturities of long-term debt for years subsequent to December 31, 2015 are as follows.

<u>Year ended December 31,</u>	
2016	<b>\$607,892</b>
	<b>\$607,892</b>

The debt agreement requires the Organization to hold securities with a collateral value (as defined in the loan agreement) in excess of the outstanding debt principal. The Organization was in compliance with this requirement as of December 31, 2015 and 2014.

### 9. Restrictions on Net Assets

Temporarily restricted net assets as of December 31, 2015 and 2014 are as follows:

	<b>2015</b>	2014
Land lease	<b>\$1,257,828</b>	\$1,281,265
Wake Med house construction	<b>150,000</b>	–
Wake Med family room	<b>90,032</b>	88,088
Duke family room	<b>14,783</b>	–
Temporary endowment for house operations	<b>322,691</b>	345,185
	<b>\$1,835,334</b>	\$433,273



# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

Releases of temporarily restricted net assets as of December 31, 2015 and 2014 are as follows:

	2015	2014
Land lease	\$ 87,500	\$ 87,500
Wake Med family room	4,076	36,263
Duke family room	6,191	18,698
Kitchen appliances	14,000	–
Capital campaign	59,919	118,514
Temporary endowment for house operations	68,495	80,270
	<b>\$240,181</b>	<b>\$341,245</b>

Permanently restricted net assets as of December 31, 2015 and 2014 are as follows:

	2015	2014
Permanent endowment for operations of the house	\$731,813	\$631,813
Permanent endowment for Duke family room	122,530	122,530
	<b>\$854,343</b>	<b>\$754,343</b>

### 10. Donated Materials and Services

Donated materials are reflected in the accompanying statements at values estimated by the donor at date of receipt. Donated materials for the years ended December 31, 2015 and 2014 were \$767,421 and \$446,708, respectively.

The Organization received donated professional services for legal and accounting assistance. Management has estimated the value of these in-kind contributions to be \$15,000 and \$4,578 for 2015 and 2014, respectively. These amounts have been included as donated materials and services on the statements of activities, with the corresponding expenses being recognized as well.

# Ronald McDonald House of Durham, Inc.

## Notes to financial statements December 31, 2015 and 2014 (as restated)

Numerous individuals volunteer their time and perform a variety of tasks that assist the Organization with its program and supporting services. However, no amounts have been reflected as the services provided do not meet the criteria for recognition under accounting principles.

### **11. Employee Benefit Plan**

The Ronald McDonald House of Durham, Inc. began sponsoring a SIMPLE IRA plan for eligible employees for the year ended December 31, 2008. The Organization contributes a matching contribution of up to 3% of the employee's salary. The total SIMPLE IRA contribution for the years ended December 31, 2015 and 2014 were \$23,510 and \$20,558, respectively.

### **12. Restatement**

The Organization restated its financial statements for the year ended December 31, 2014 to properly reflect the donated use of facilities described above in Note 5. Prior to 2015, the Organization had recorded the value of the donated facilities as current year donation revenue and expense. The 2014 financial statements have been restated to reflect the value of the facilities as a long-term contribution receivable. The effect of this restatement was to increase temporarily restricted net assets by \$1,281,265 as of December 31, 2014 and to decrease the 2014 change in net assets by \$22,321.