

RONALD MCDONALD HOUSE OF  
DURHAM, INC.  
(DBA RONALD MCDONALD  
HOUSE OF DURHAM AND WAKE)  
Audited Financial Statements

December 31, 2016 and 2015



RONALD MCDONALD HOUSE  
DURHAM & WAKE

# Ronald McDonald House of Durham & Wake

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December 31, 2016 and 2015

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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, 2016 and 2015, and the related statements of activities, functional expenses, cash flows for the years then ended, and the related notes to the financial statements.

### **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, 2016 and 2015, 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 25, 2017

# Ronald McDonald House of Durham & Wake

## Statements of Financial Position December 31, 2016 and 2015

<i>December 31,</i>	2016	2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 381,845	\$ 442,210
Contributions receivable	354,278	359,653
Contributions receivable, use of facilities	25,839	24,609
Prepaid expenses and other current assets	42,931	20,626
Total current assets	804,893	847,098
<b>Non-current assets</b>		
Long-term contributions receivable, net	356,318	405,589
Long-term contributions receivable - use of facilities, net	1,207,380	1,233,219
Investments	2,791,283	2,693,752
Building and equipment, net	6,742,837	6,965,495
Total non-current assets	11,097,818	11,298,055
<b>TOTAL ASSETS</b>	<b>\$11,902,711</b>	<b>\$12,145,153</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 48,401	\$ 16,569
Accrued expenses	43,027	33,280
Current portion of long-term debt	67,844	607,892
Total current liabilities	159,272	657,741
Long term debt, net of current portion	433,721	-
Total liabilities	592,993	657,741
<b>Net Assets</b>		
Unrestricted	8,642,238	8,797,736
Temporarily restricted	1,763,137	1,835,333
Permanently restricted	904,343	854,343
Total net assets	11,309,718	11,487,412
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$11,902,711</b>	<b>\$12,145,153</b>

See accompanying notes to financial statements.

# Ronald McDonald House of Durham & Wake

## Statement of Activities and Changes in Net Assets Year Ended December 31, 2016

	2016			2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Contributions	\$1,298,193	\$ 93,641	\$ 50,000	\$ 1,441,834
Room fees	56,754	—	—	56,754
Donated materials and services	910,653	—	—	910,653
Special events, net of direct costs of \$109,270	403,639	—	—	403,639
Other income	5,475	—	—	5,475
Interest and dividend income	31,506	29,333	—	60,839
Realized gain on investments	98,360	44,630	—	142,990
Net unrealized gain (loss) on investments	24,009	14,304	—	38,313
Net present value change	—	3,841	—	3,841
Net assets released from restrictions	257,945	(257,945)	—	—
<b>Total support and revenue</b>	<b>3,086,534</b>	<b>(72,196)</b>	<b>50,000</b>	<b>3,064,338</b>
<b>EXPENSES</b>				
Program services	2,409,281	—	—	2,409,281
Management and general	248,515	—	—	248,515
Fundraising	584,236	—	—	584,236
<b>Total expenses</b>	<b>3,242,032</b>	<b>—</b>	<b>—</b>	<b>3,242,032</b>
<b>Change in net assets</b>	<b>(155,498)</b>	<b>(72,196)</b>	<b>50,000</b>	<b>(177,694)</b>
<b>Net assets, beginning of year</b>	<b>8,797,736</b>	<b>1,835,333</b>	<b>854,343</b>	<b>11,487,412</b>
<b>Net assets, end of year</b>	<b>\$8,642,238</b>	<b>\$1,763,137</b>	<b>\$904,343</b>	<b>\$11,309,718</b>

See accompanying notes to financial statements.

# Ronald McDonald House of Durham & Wake

## Statement of Activities and Changes in Net Assets 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 \$95,375	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 (loss) gain 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</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 & Wake

## Statements of Cash Flows Years Ended December 31, 2016 and 2015

<i>December 31,</i>	<b>2016</b>	2015
Cash flow from operating activities:		
Change in net assets	\$ (177,694)	\$ (161,200)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	285,251	278,056
Donated building renovations	(33,766)	–
Donated investments	(40,938)	(131,951)
Unrealized loss (gain) on investments	(38,313)	84,649
Realized loss (gain) on sale of investments	(142,991)	(43,725)
Changes in operating assets and liabilities:		
Contributions receivable	79,255	31,475
Prepaid expenses and other current assets	(22,305)	3,968
Accounts payable and accrued expenses	41,579	(23,323)
Net cash provided by operating activities	(49,922)	37,949
Cash flows from investing activities:		
Purchases of investments	(889,895)	(197,792)
Proceeds from sale of investments	1,014,606	448,711
Purchases of building and equipment	(28,827)	(31,237)
Net cash provided by (used in) investing activities	95,884	219,682
Cash flows from financing activities:		
Repayments of long-term debt	(106,327)	(143,923)
Net cash (used in) provided by financing activities	(106,327)	(143,923)
Net change in cash and cash equivalents	(60,365)	113,708
Cash and cash equivalents, beginning of the year	442,210	328,502
Cash and cash equivalents, end of the year	\$ 381,845	\$ 442,210
Supplemental cash flow disclosure:		
Cash paid for interest	\$ 16,907	\$ 20,151

*See accompanying notes to financial statements.*



# Ronald McDonald House of Durham & Wake

## Statement of Functional Expenses Year ended December 31, 2016

	2016			2016 Total
	Program	Management and general	Fundraising	
Salaries	\$ 602,405	\$ 139,726	\$ 263,568	\$1,005,699
Payroll taxes	42,611	9,883	18,643	71,137
Employee benefits	68,975	15,999	30,179	115,153
Total salaries and related expenses	713,991	165,608	312,390	1,191,989
Bad debt expense	55,000	–	–	55,000
Bank charges and credit card fees	–	5,954	25,590	31,544
Computer support	5,216	3,972	2,569	11,757
Depreciation	285,251	–	–	285,251
Donor & volunteer recognition	4,343	–	–	4,343
Fundraising	–	–	27,062	27,062
Insurance	20,092	6,170	–	26,262
Interest	17,364	–	–	17,364
Operating supplies and expenses	1,055,194	33,617	8,998	1,097,809
Printing and postage	5,454	351	207,425	213,230
Professional fees	2,544	16,500	–	19,044
Rent expense, use of facilities	87,500	–	–	87,500
Repairs and maintenance	33,480	–	–	33,480
Telephone	15,452	1,717	–	17,169
Training and seminars	4,925	3,662	202	8,789
Travel and entertainment	–	10,964	–	10,964
Utilities	103,475	–	–	103,475
	1,695,290	82,907	271,846	2,050,043
Total expenses	\$2,409,281	248,515	\$ 584,236	\$3,242,032

*See accompanying notes to financial statements.*

# Ronald McDonald House of Durham & Wake

## Statement of Functional Expenses Year ended December 31, 2015 (as restated)

	2015			2015 total (as restated)
	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 & Wake

Notes to financial statements  
December 31, 2016 and 2015

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## 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 & Wake

## Notes to financial statements December 31, 2016 and 2015

### **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 & Wake

## Notes to financial statements December 31, 2016 and 2015

### **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 & Wake

## Notes to financial statements December 31, 2016 and 2015

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 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 by 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 & Wake

## Notes to financial statements December 31, 2016 and 2015

### 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 & Wake

## Notes to financial statements December 31, 2016 and 2015

Fair values of investments measured on a recurring basis are as follows as of December 31, 2016 and 2015:

<i>December 31, 2016</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Other Observable Inputs (Level 2)</i>	<i>Other Unobservable Inputs (Level 3)</i>
Stocks and exchange traded funds	\$2,244,315	–	–
Fixed income securities	209,885	–	–
McDonald's Inc. common stock	337,083	–	–
Total	\$2,791,283	–	–

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

### **Income Taxes**

Ronald McDonald House of Durham and Wake 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 2013.

### **Subsequent Events**

The Organization has evaluated events and transactions occurring subsequent to December 31, 2016 as of April 25, 2017, which is the date the financial statements were issued.



# Ronald McDonald House of Durham & Wake

## Notes to financial statements December 31, 2016 and 2015

### 3. Contributions Receivable

Contributions receivable are expected to be received as follows:

<i>December 31,</i>	<b>2016</b>	2015
Within one year	<b>\$354,278</b>	\$359,653
In one to five years	<b>400,145</b>	408,145
In more than five years	<b>20,000</b>	30,000
Contributions receivable before discount and allowance for uncollectible contributions	<b>774,423</b>	797,798
Less: Unamortized discount	<b>(6,154)</b>	(8,046)
Subtotal	<b>768,269</b>	789,752
Less: allowance for uncollectible contributions	<b>(57,673)</b>	(24,510)
Net contributions receivable	<b>\$710,596</b>	\$765,242

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

<i>December 31,</i>	<b>2016</b>	2015
Capital campaign	<b>345,563</b>	\$416,241
Endowment	<b>60,000</b>	80,000
Other (unrestricted)	<b>368,860</b>	301,557
Contributions receivable, before discount and allowance for uncollectible contributions	<b>\$774,423</b>	\$797,798

# Ronald McDonald House of Durham & Wake

## Notes to financial statements December 31, 2016 and 2015

### 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>	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Stocks and exchange traded funds	\$2,018,301	\$2,244,315	\$2,005,976	\$2,201,388
Fixed income securities	213,687	209,885	174,037	172,264
McDonald's Inc. common stock	97,477	337,083	85,001	320,100
	<b>\$2,329,465</b>	<b>\$2,791,283</b>	\$2,265,014	\$2,693,752

### 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, 2016 and 2015 is \$1,233,219 and \$1,257,828, respectively, and has been recorded as such on the

# Ronald McDonald House of Durham & Wake

## Notes to financial statements December 31, 2016 and 2015

statements of financial position. For each of the years ended December 31, 2016 and 2015, 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 & Wake

## Notes to financial statements December 31, 2016 and 2015

### 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, 2016 and 2015 the Organization approved distributions of \$60,000 and \$48,000 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 & Wake

## Notes to financial statements December 31, 2016 and 2015

### 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, 2016 and 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<i>December 31, 2016</i>				
Donor-restricted	\$ –	\$347,342	\$904,343	\$1,251,685
Board-designated	1,467,766	–	–	1,467,766
	<b>1,467,766</b>	<b>347,342</b>	<b>904,343</b>	<b>2,719,451</b>
<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>

# Ronald McDonald House of Durham & Wake

## Notes to financial statements December 31, 2016 and 2015

Changes in endowment net assets as of December 31, 2016 and 2015 are as follows:

### *December 31, 2016*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$1,501,875	\$322,691	\$854,343	\$2,678,909
Contributions	–	–	50,000	50,000
Interest & dividends	39,390	29,333	–	68,723
Realized & unrealized gains	119,565	58,934	–	178,499
Investment fees	(8,064)	(3,593)	–	(11,657)
Transfers in (out)	(185,000)	(60,023)	–	(245,023)
Endowment net assets, end of year	\$1,467,766	\$347,342	\$904,343	\$2,719,451

### *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

# Ronald McDonald House of Durham & Wake

## Notes to financial statements December 31, 2016 and 2015

### 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. None of the funds were deficient in 2016 or 2015.

### 7. **Building and Equipment**

The Organization is designated as a Ronald McDonald House. The details of building and equipment at December 31, 2016 and 2015 are as follows:

	2016	2015
Building and leased land	\$8,478,757	\$8,418,828
Equipment and furniture	581,386	578,722
Vehicle	39,956	39,956
	9,100,099	9,037,506
Less: accumulated depreciation	(2,357,262)	(2,072,011)
	<b>\$6,742,837</b>	<b>\$6,965,495</b>

Depreciation expense for the years ended December 31, 2016 and 2015 totaled \$285,251 and \$278,056, respectively.

### 8. **Long-term debt**

The Organization has a term loan with a financial institution, payable in monthly principal and interest payments of \$7,024 through August 2019 at which the remaining outstanding principal is due. The loan bears interest at 3.5 percent and is secured by one of the Organization's investment accounts. The value of the investments collateralizing the loan was \$1,277,000 and \$1,266,000 at December 31, 2016 and 2015, respectively.

# Ronald McDonald House of Durham & Wake

## Notes to financial statements December 31, 2016 and 2015

The aggregate maturities of long-term debt for years subsequent to December 31, 2016 are as follows.

<u>Year ended December 31,</u>	
2017	\$ 67,844
2018	70,257
2019	363,464
	<u>\$501,565</u>

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, 2016 and 2015.

### 9. Restrictions on Net Assets

Temporarily restricted net assets as of December 31, 2016 and 2015 are as follows:

	2016	2015
Land lease	\$1,233,219	\$1,257,828
Wake Med house construction	150,000	150,000
Wake Med family room	32,575	90,032
Duke family room	–	14,782
Temporary endowment for house operations	347,343	322,691
	<u>\$1,763,137</u>	<u>\$1,835,333</u>



# Ronald McDonald House of Durham & Wake

## Notes to financial statements December 31, 2016 and 2015

Releases of temporarily restricted net assets as of December 31, 2016 and 2015 are as follows:

	2016	2015
Land lease	\$ 87,500	\$ 87,500
Wake Med family room	58,170	4,076
Duke family room	21,016	6,191
Kitchen appliances	–	14,000
Capital campaign	25,000	59,919
Temporary endowment for house operations	66,259	68,495
	<b>\$257,945</b>	<b>\$240,181</b>

Permanently restricted net assets as of December 31, 2016 and 2015 are as follows:

	2016	2015
Permanent endowment for operations of the house	\$781,813	\$731,813
Permanent endowment for Duke family room	122,530	122,530
	<b>\$904,343</b>	<b>\$854,343</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, 2016 and 2015 were \$908,652 and \$767,421, respectively.

The Organization received donated professional services for legal and accounting assistance. Management has estimated the value of these in-kind contributions to be \$2,000 and \$15,000 for 2016 and 2015, 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 & Wake

## Notes to financial statements December 31, 2016 and 2015

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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 and Wake 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, 2016 and 2015 were \$23,366 and \$23,510, respectively.