

RONALD MCDONALD HOUSE OF DURHAM, INC.
DBA Ronald McDonald House of Durham and Wake

Financial Statements

December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Ronald McDonald House of Durham, Inc.
DBA Ronald McDonald House of Durham and Wake
Durham, North Carolina

We have audited the accompanying financial statements of Ronald McDonald House of Durham, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017 and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditors' 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 from 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 auditors' 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, 2017, 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.

Prior Period Financial Statements

The financial statements of the Ronald McDonald House of Durham, Inc. as of December 31, 2016, were audited by other auditors, whose report dated April 25, 2017, expressed an unmodified opinion on those financial statements.

Thomas, Judy & Dickel, P.A.

April 18, 2018

RONALD MCDONALD HOUSE OF DURHAM, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 494,911	\$ 381,845
Contributions Receivable, Current Portion	226,154	354,278
Contribution Receivable, Facilities Use - Current	27,131	25,839
Investments	3,092,310	2,791,283
Gift Card Inventory	11,879	
Prepaid Expenses and Other Current Assets	33,667	42,931
Total Current Assets	3,886,052	3,596,176
Long-Term Contributions Receivable, Net	73,564	356,318
Long-Term Contribution Receivable, Facilities Use, Net	1,180,249	1,207,380
Property and Equipment, Net	6,456,722	6,742,837
Total Assets	\$ 11,596,587	\$ 11,902,711
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Long-Term Debt, Current Portion	\$ 70,298	\$ 66,556
Accounts Payable	47,465	48,401
Accrued Payroll and Vacation	94,411	39,338
Other Accrued Liabilities	6,340	4,977
Total Current Liabilities	218,514	159,272
Long-Term Liabilities:		
Long-Term Debt, Less Current Portion	362,831	433,721
Total Liabilities	581,345	592,993
Net Assets:		
Unrestricted	8,154,629	8,642,238
Temporarily Restricted	1,918,770	1,763,137
Permanently Restricted	941,843	904,343
Total Net Assets	11,015,242	11,309,718
Total Liabilities and Net Assets	\$ 11,596,587	\$ 11,902,711

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Contributions	\$ 1,303,314	\$ 75,578	\$ 37,500	\$ 1,416,392	\$ 1,298,193	\$ 93,641	\$ 50,000	\$ 1,441,834
Room Fees	71,608			71,608	56,754			56,754
Donated Materials and Services	903,632			903,632	910,653			910,653
Special Events Income, Net	360,346			360,346	403,639			403,639
Other Income	4,406			4,406	5,475			5,475
Interest and Dividend Income	33,859	27,498		61,357	31,506	29,333		60,839
Realized and Unrealized Gain on Investments	185,406	189,460		374,866	122,369	58,934		181,303
Net Present Value Change		(7,105)		(7,105)		3,841		3,841
Total Support and Revenue	2,862,571	285,431	37,500	3,185,502	2,828,589	185,749	50,000	3,064,338
Net Assets Released from Restrictions	129,798	(129,798)			257,945	(257,945)		
Total Support, Revenue and Net Assets Released from Restrictions	2,992,369	155,633	37,500	3,185,502	3,086,534	(72,196)	50,000	3,064,338
Expenses:								
Program Expenses	2,394,772			2,394,772	2,409,281			2,409,281
Management and General	423,028			423,028	248,515			248,515
Fundraising	662,178			662,178	584,236			584,236
Total Expenses	3,479,978			3,479,978	3,242,032			3,242,032
Change in Net Assets	(487,609)	155,633	37,500	(294,476)	(155,498)	(72,196)	50,000	(177,694)
Net Assets, Beginning of Year	8,642,238	1,763,137	904,343	11,309,718	8,797,736	1,835,333	854,343	11,487,412
Net Assets, End of Year	\$ 8,154,629	\$ 1,918,770	\$ 941,843	\$ 11,015,242	\$ 8,642,238	\$ 1,763,137	\$ 904,343	\$ 11,309,718

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2017 and 2016

	2017				2016			
	Program Expenses	Management and General	Fundraising	Total	Program Expenses	Management and General	Fundraising	Total
Salaries	\$ 646,861	\$ 154,657	\$ 284,029	\$ 1,085,547	\$ 602,405	\$ 139,726	\$ 263,568	\$ 1,005,699
Payroll Taxes	40,520	12,524	20,628	73,672	42,611	9,883	18,643	71,137
Employee Benefits	72,166	25,985	36,739	134,890	68,975	15,999	30,179	115,153
Bad Debt Expense		162,537		162,537	55,000			55,000
Bank and Credit Card Fees	369	3,625	34,201	38,195		5,954	25,590	31,544
Computer Support	5,617	4,247	2,776	12,640	5,216	3,972	2,569	11,757
Depreciation	280,400	8,344		288,744	285,251			285,251
Donor and Volunteer Recognition	1,088	253	743	2,084	4,343			4,343
Fundraising			51,080	51,080			27,062	27,062
Insurance	23,185			23,185	20,092	6,170		26,262
Interest	16,646	495		17,141	17,364			17,364
Operating Supplies and Expenses	1,058,967	25,293	23,132	1,107,392	1,055,194	33,617	8,998	1,097,809
Printing and Postage	6,992	761	205,943	213,696	5,454	351	207,425	213,230
Professional Fees		16,500		16,500	2,544	16,500		19,044
Rent Expense, Facilities Use	87,500			87,500	87,500			87,500
Repairs and Maintenance	38,122	1,134		39,256	33,480			33,480
Telephone and Communications	17,841	531		18,372	15,452	1,717		17,169
Training and Seminars	700		1,000	1,700	4,925	3,662	202	8,789
Travel and Entertainment	59	3,234	1,907	5,200		10,964		10,964
Utilities	97,739	2,908		100,647	103,475			103,475
Total Expenses	\$ 2,394,772	\$ 423,028	\$ 662,178	\$ 3,479,978	\$ 2,409,281	\$ 248,515	\$ 584,236	\$ 3,242,032

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (294,476)	\$ (177,694)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	288,744	285,251
Donated Building Renovations		(33,766)
Donated Investments	(32,325)	(40,938)
Realized and Unrealized Gains on Investments	(374,866)	(181,304)
Changes in Assets and Liabilities that Provided (Used) Cash:		
Contributions Receivable	410,878	54,646
Contributions Receivable, Facilities Use	25,839	24,609
Gift Card Inventory	(11,879)	
Prepaid Expenses and Other Current Assets	9,264	(22,305)
Accounts Payable	(936)	31,832
Accrued Payroll and Vacation	55,073	9,077
Other Accrued Liabilities	1,363	670
Contributions Received for Long-Term Purposes	<u>(209,077)</u>	<u>(70,678)</u>
Net Cash Used by Operating Activities	<u>(132,398)</u>	<u>(120,600)</u>
Cash Flows from Investing Activities:		
Purchase of Investments	(806,745)	(889,895)
Proceeds from Sale of Investments	912,909	1,014,606
Purchases of Property and Equipment	<u>(2,629)</u>	<u>(28,827)</u>
Net Cash Provided by Investing Activities	<u>103,535</u>	<u>95,884</u>
Cash Flows from Financing Activities:		
Contributions Received for Long-Term Purposes	209,077	70,678
Payments on Long-Term Debt	<u>(67,148)</u>	<u>(106,327)</u>
Net Cash Provided (Used) by Financing Activities	<u>141,929</u>	<u>(35,649)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	113,066	(60,365)
Cash and Cash Equivalents, Beginning of Year	<u>381,845</u>	<u>442,210</u>
Cash and Cash Equivalents, End of Year	<u>\$ 494,911</u>	<u>\$ 381,845</u>
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	<u>\$ 18,429</u>	<u>\$ 16,907</u>

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. Summary of Significant Accounting Policies

Operations

The Ronald McDonald House of Durham, Inc. DBA Ronald McDonald House of Durham and Wake (the "Organization") is a not-for-profit corporation incorporated under the laws of the State of North Carolina in 1978. The Organization was formed to provide a home away from home as well as community support for seriously ill children and their families. The Organization operates a 55 bedroom house in Durham, NC for short and long-term stays. The Organization also provides five bedrooms at WakeMed Hospital in Raleigh, NC as well as in-hospital support through family rooms located at Duke Children's Hospital in Durham and WakeMed Children's Hospital in Raleigh.

Basis of Presentation

The Organization prepares its financial statements on the accrual basis of accounting, which recognizes income in the period earned and expenses when incurred. The financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB) ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under these provisions, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The Organization has also adopted FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. Under these provisions, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of donor restrictions.

Contributions, Grants and Bequests

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 unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Bequests are recorded when the amount and rate of payment is probable.

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. Contributions receivable are written off when deemed uncollectible.

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. Summary of Significant Accounting Policies (Continued)

Contributions Receivable (Continued)

The Organization uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made and the uncollectible amounts are charged as a loss in the statements of activities. At December 31, 2017 and 2016, allowance for uncollectible contributions receivable was \$30,000 and \$63,829, respectively.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers cash on hand, cash in demand deposit accounts, and all short-term debt securities with a maturity of three months or less to be cash equivalents. The Organization had \$124,675 and \$123,025 of cash equivalents at December 31, 2017 and 2016, respectively.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Realized and unrealized gains and losses and income are included in the change in net assets in the accompanying 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.

Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Donated securities are recorded at their fair values on the dates of the gifts and, except where otherwise required by the donor or Board of Directors, are immediately sold by the Organization.

Income Taxes

The Organization is exempt from income taxes as a not-for-profit organization under IRS code section 501(c)(3). In addition, the Organization has been approved under Internal Revenue Code for recognition as a public charity and not as a private foundation.

Accounting for Uncertainty in Income Taxes

As of December 31, 2017, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress.

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting services based on percentages provided by management.

Property and Equipment

It is the Organization's policy to capitalize property and equipment with an original cost or donated value of \$1,000 or more and estimated useful life of more than one year and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets. Purchased property and equipment are carried at cost. Donations of equipment are recorded as contributions at their estimated fair value at the date of the 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. In the absence of such stipulations, contributions of equipment are recorded as unrestricted assets. Depreciation and amortization are computed using the straight-line method over the estimated useful lives as follows:

Buildings and Improvements	31 – 45 years
Vehicles, Furnishings and Equipment	5 – 15 years

Depreciation expense totaled \$288,744 and \$285,251 for the years ended December 31, 2017 and 2016, respectively.

Donated Services

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.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may differ from those estimates.

Risks and Uncertainties

The Organization invests in various investment securities. Investment securities 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 that such change could materially affect the amounts reported in the statements of financial position.

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. Summary of Significant Accounting Policies (Continued)

Advertising

The Organization expenses advertising costs when incurred. Advertising expenses totaled \$133 and \$969 for the years ended December 31, 2017 and 2016, respectively.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Such reclassifications had no effect on previously reported change in net assets.

2. Concentrations of Credit Risk

The Organization occasionally maintains deposits in excess of federally insured limits. These are identified as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions. The Federal Deposit Insurance Corporation insures up to \$250,000 for all accounts held at a single institution. As of December 31, 2017, the Organization's uninsured cash balance was \$405.

3. Contributions Receivable

At December 31, 2017 and 2016, contributions receivable are expected to be received as follows:

	<u>2017</u>	<u>2016</u>
Less than One Year	\$ 226,154	\$ 354,278
One to Five Years	110,669	400,145
Five Years or More		20,000
	<u>336,823</u>	<u>774,423</u>
Less: Unamortized Discount	(7,105)	(6,154)
	<u>329,718</u>	<u>768,269</u>
Less: Allowance for Uncollectible Contributions	<u>(30,000)</u>	<u>(57,673)</u>
Net Contributions Receivable	<u>\$ 299,718</u>	<u>\$ 710,596</u>

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

	<u>2017</u>	<u>2016</u>
Capital Campaign	\$ 63,986	\$ 345,563
Endowment	40,000	60,000
Other (Unrestricted)	<u>232,837</u>	<u>368,860</u>
Contributions Receivable, Before Discount and Allowance for Uncollectible Contributions	<u>\$ 336,823</u>	<u>\$ 774,423</u>

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

4. Contribution Receivable – Facilities Use

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, 2017 and 2016 is \$1,207,380 and \$1,233,219, respectively, and has been recorded as contribution receivable – facilities use on the statements of financial position. Rent expense recorded in connection with this lease agreement was \$87,500 for each of the years ended December 31, 2017 and 2016.

5. Investments

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

<u>December 31, 2017</u>	<u>Cost</u>	<u>Fair Value</u>
Stocks and Exchange Traded Funds	\$ 2,060,988	\$ 2,408,318
Fixed Income Securities	198,424	195,061
McDonald’s Inc. Common Stock	176,719	488,931
Total	\$ 2,436,131	\$ 3,092,310
<u>December 31, 2016</u>	<u>Cost</u>	<u>Fair Value</u>
Stocks and Exchange Traded Funds	\$ 2,018,301	\$ 2,244,315
Fixed Income Securities	213,687	209,885
McDonald’s Inc. Common Stock	97,477	337,083
Total	\$ 2,329,465	\$ 2,791,283

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

6. Property and Equipment

Property and equipment consists of the following at December 31:

	2017	2016
Building and Leased Land	\$ 8,510,642	\$ 8,478,757
Furnishings and Equipment	581,386	581,386
Vehicle	39,956	39,956
 Total Property and Equipment	 9,131,984	 9,100,099
Less: Accumulated Depreciation	(2,675,262)	(2,357,262)
 Property and Equipment, Net	 \$ 6,456,722	 \$ 6,742,837

7. Cash and Investments Held in 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

North Carolina G.S. 116, Chapter 36E, Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law March 2009 and is applied to the Organization's endowment funds existing at December 31, 2017 and 2016. The Board of Trustees of the Organization has interpreted the 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 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 UPMIFA.

In accordance with UPMIFA, 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, 2017 and 2016

7. Cash and Investments Held in Endowments (Continued)

The ultimate responsibility for managing the cash and investments of the Organization rests with the Board of Trustees, which may delegate responsibility to the Investment Committee of the Board of Trustees.

Investment Objectives – The investment objective is to 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.

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, 2017 and 2016 the Organization approved distributions of \$0 and \$60,000 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.

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, 2017 and 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>December 31, 2017</u>				
Board-Designated Funds	\$ 1,455,980	\$	\$	\$ 1,455,980
Donor-Restricted Funds	<u> </u>	<u>561,390</u>	<u>941,843</u>	<u>1,503,233</u>
Total Funds	<u>\$ 1,455,980</u>	<u>\$ 561,390</u>	<u>\$ 941,843</u>	<u>\$ 2,959,213</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>December 31, 2016</u>				
Board-Designated Funds	\$ 1,467,766	\$	\$	\$ 1,467,766
Donor-Restricted Funds	<u> </u>	<u>347,342</u>	<u>904,343</u>	<u>1,251,685</u>
Total Funds	<u>\$ 1,467,766</u>	<u>\$ 347,342</u>	<u>\$ 904,343</u>	<u>\$ 2,719,451</u>

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

7. Cash and Investments Held in Endowments (Continued)

Changes in endowments for the years ended December 31, 2017 and 2016 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>December 31, 2017</u>				
Endowment Net Assets, Beginning of Year	\$ 1,467,766	\$ 347,342	\$ 904,343	\$ 2,719,451
Contributions	10,000		37,500	47,500
Interest and Dividends	38,276	31,180		69,456
Realized and Unrealized Gains	148,198	189,460		337,658
Investment Fees	(8,260)	(3,681)		(11,941)
Distributions	(200,000)	(2,911)		(202,911)
Endowment Net Assets, End of Year	<u>\$ 1,455,980</u>	<u>\$ 561,390</u>	<u>\$ 941,843</u>	<u>\$ 2,959,213</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>December 31, 2016</u>				
Endowment Net Assets, Beginning of Year	\$ 1,501,875	\$ 322,691	\$ 854,343	\$ 2,678,909
Contributions			50,000	50,000
Interest and Dividends	39,390	29,333		68,723
Realized and Unrealized Gains	119,565	58,934		178,499
Investment Fees	(8,064)	(3,593)		(11,657)
Distributions	(185,000)	(60,023)		(245,023)
Endowment Net Assets, End of Year	<u>\$ 1,467,766</u>	<u>\$ 347,342</u>	<u>\$ 904,343</u>	<u>\$ 2,719,451</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature are reported as negative unrestricted net assets in the schedules above. There were no deficiencies at December 31, 2017 and 2016.

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8. Fair Value Measurements

The FASB established a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value of investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. All investments of the Organization have been classified as Level 1.

Changes in Fair Value Levels – The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Change in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period. There have been no changes in levels or valuation techniques for these assets and liabilities for the years ended December 31, 2017 and 2016.

9. 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 time the remaining outstanding principal is due. The loan bears interest at 3.5% and is secured by one of the Organization's investment accounts. The outstanding balance on the loan was \$433,129 and \$500,277 at December 31, 2017 and 2016, respectively. The value of the investments collateralizing the loan was \$1,175,108 and \$1,276,835 at December 31, 2017 and 2016.

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9. Long-Term Debt (Continued)

The aggregate maturities of the long-term debt are as follows:

Year Ended <u>December 31</u>	
2018	\$ 70,298
2019	<u>362,831</u>
	<u>\$ 433,129</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, 2017 and 2016.

10. Restrictions on Net Assets

The financial statements report amounts separately by class of net assets as follows:

- a. Undesignated net assets are those currently available for use in the Organization.
- b. Temporarily restricted net assets are those stipulated by donors for specific operating purposes or those not currently available for use until commitments regarding their use have been fulfilled.
- c. Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used to support the Organization's general activities.

Temporarily restricted net assets consist of cash and investments and represent resources restricted for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Land Lease	\$ 1,207,380	\$ 1,233,219
Wake Med House Construction	150,000	150,000
Wake Med Family Room		32,575
Temporary Endowment for House Operations	<u>561,390</u>	<u>347,343</u>
	<u>\$ 1,918,770</u>	<u>\$ 1,763,137</u>

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10. Restrictions on Net Assets (Continued)

Releases of temporarily restricted net assets as of December 31, 2017 and 2016 are as follows:

	2017	2016
Land Lease	\$ 87,500	\$ 87,500
Wake Med Family Room	37,350	58,170
Duke Family Room	8,092	21,016
Capital Campaign	1,050	25,000
Temporary Endowment for House Operations	(4,194)	66,259
	\$ 129,798	\$ 257,945

Permanently restricted net assets as of December 31, 2017 and 2016 are as follows:

	2017	2016
Permanent Endowment for House Operations	\$ 819,313	\$ 781,813
Permanent Endowment for Duke Family Room	122,530	122,530
	\$ 941,843	\$ 904,343

11. Related Party Transactions

The Organization received pledges and contributions from Board members in 2017 and 2016 totaling \$68,524 and \$51,121, respectively. As of December 31, 2017 and 2016, total outstanding pledges due from board members was \$2,220 and \$2,113, respectively.

12. Retirement Plan

The Organization began sponsoring a SIMPLE IRA plan for eligible employees during the year ended December 31, 2008. The Organization contributes a matching contribution of up to 3% of the employee's salary. Total employer contributions for the years ended December 31, 2017 and 2016 were \$25,538 and \$23,366, respectively.

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13. Donated 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, 2017 and 2016 were \$901,632 and \$908,652, 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 for 2017 and 2016. These amounts have been included as donated materials and services on the statements of activities, with the corresponding expenses being recognized as well.

The Organization receives donated services from a variety of unpaid volunteers. No amounts have been recorded in the accompanying statement of activities because the criteria for recognition of such volunteer effort has not been satisfied.

14. Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through April 18, 2018, which is the date the financial statements were available to be issued.