

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

Financial Statements

December 31, 2018 and 2017

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Thomas, Judy & Tucker, P.A.
Certified Public Accountants

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 statements of financial position as of December 31, 2018 and 2017 and the related statements of activities, functional expenses, and 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Thomas, Judy & Duck, P.A.

June 6, 2019

RONALD MCDONALD HOUSE OF DURHAM, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 389,401	\$ 494,911
Contributions Receivable, Current Portion	138,972	226,154
Contribution Receivable, Facilities Use - Current	28,487	27,131
Investments	2,730,335	3,092,310
Gift Card Inventory	11,493	11,879
Prepaid Expenses and Other Current Assets	33,009	33,667
	3,331,697	3,886,052
 Total Current Assets	 3,331,697	 3,886,052
Long-Term Contributions Receivable, Net	31,405	73,564
Long-Term Contribution Receivable, Facilities Use, Net	1,151,763	1,180,249
Property and Equipment, Net	6,182,615	6,456,722
	6,182,615	6,456,722
 Total Assets	 \$ 10,697,480	 \$ 11,596,587
	\$ 10,697,480	\$ 11,596,587
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Long-Term Debt, Current Portion	\$ 363,080	\$ 70,298
Accounts Payable	54,530	47,465
Accrued Payroll and Vacation	103,825	94,411
Other Accrued Liabilities	2,593	6,340
	524,028	218,514
 Total Current Liabilities	 524,028	 218,514
Long-Term Liabilities:		
Long-Term Debt, Less Current Portion		362,831
		362,831
 Total Liabilities	 524,028	 581,345
	524,028	581,345
Net Assets:		
Without Donor Restrictions		
Undesignated	713,651	675,056
Designated by Board for Endowment	823,724	1,455,980
Invested in Property and Equipment, Net of Debt	5,819,535	6,023,593
With Donor Restrictions	2,816,542	2,860,613
	10,173,452	11,015,242
 Total Net Assets	 10,173,452	 11,015,242
 Total Liabilities and Net Assets	 \$ 10,697,480	 \$ 11,596,587
	\$ 10,697,480	\$ 11,596,587

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions	\$ 1,393,847	\$ 126,137	\$ 1,519,984	\$ 1,303,314	\$ 113,078	\$ 1,416,392
Room Fees	36,559		36,559	71,608		71,608
Donated Materials and Services	931,443		931,443	903,632		903,632
Special Events Income, Net	224,496		224,496	347,461		347,461
Other Income	3,863		3,863	4,406		4,406
Investment Earnings	(64,257)	(52,015)	(116,272)	219,265	216,958	436,223
Net Present Value Change					(7,105)	(7,105)
Total Support and Revenue	2,525,951	74,122	2,600,073	2,849,686	322,931	3,172,617
Net Assets Released from Restrictions	118,193	(118,193)		129,798	(129,798)	
Total Support, Revenue and Net Assets Released from Restrictions	2,644,144	(44,071)	2,600,073	2,979,484	193,133	3,172,617
Expenses:						
Program Expenses						
Ronald McDonald House of Durham	2,039,476		2,039,476	1,942,856		1,942,856
Ronald McDonald House at WakeMed	262,820		262,820	266,521		266,521
Family Room at Duke Children's Hospital	142,220		142,220	145,867		145,867
Family Room at WakeMed Hospital	109,690		109,690	113,890		113,890
Management and General	233,453		233,453	384,029		384,029
Fundraising	654,204		654,204	613,930		613,930
Total Expenses	3,441,863		3,441,863	3,467,093		3,467,093
Change in Net Assets	(797,719)	(44,071)	(841,790)	(487,609)	193,133	(294,476)
Net Assets, Beginning of Year	8,154,629	2,860,613	11,015,242	8,642,238	2,667,480	11,309,718
Net Assets, End of Year	<u>\$ 7,356,910</u>	<u>\$ 2,816,542</u>	<u>\$ 10,173,452</u>	<u>\$ 8,154,629</u>	<u>\$ 2,860,613</u>	<u>\$ 11,015,242</u>

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	2018								
	Program Services							Cost of Direct Benefit to Donors	Total
	Ronald McDonald House of Durham	Ronald McDonald House at WakeMed	Family Room at Duke Children's Hospital	Family Room at WakeMed Hospital	Total Program Services	Management and General	Fundraising		
Salaries	\$ 521,737	\$ 60,539	\$ 66,515	\$ 40,854	\$ 689,645	\$ 139,953	\$ 294,072	\$	\$ 1,123,670
Payroll Taxes	36,703	4,259	4,679	2,874	48,515	9,845	20,687		79,047
Employee Benefits	78,579	9,118	10,018	6,153	103,868	21,078	44,290		169,236
Total Salaries and Related Expenses	<u>637,019</u>	<u>73,916</u>	<u>81,212</u>	<u>49,881</u>	<u>842,028</u>	<u>170,876</u>	<u>359,049</u>		<u>1,371,953</u>
Advertising						5	30		35
Automobile	3,480	1,484			4,964	102	372		5,438
Bank and Credit Card Fees	10		232		242	2,937	27,099		30,278
Cleaning Services and Supplies	71,412		254	43	71,709				71,709
Depreciation	266,414	7,687	2,333	13,500	289,934	2,040	1,680		293,654
Direct Mail							185,727		185,727
Family Support Services and Supplies	40,231	15,174	4,055	2,897	62,357	73	4,919		67,349
In Kind	687,948	152,750	49,876	29,925	920,499	1,300		9,644	931,443
Insurance	20,224	583	177	1,025	22,009	155	128		22,292
Interest	12,918	373	113	655	14,059	99	81		14,239
Linens and Laundry	34,124				34,124				34,124
Maintenance and Repairs	41,709	1,203	365	2,114	45,391	320	263		45,974
Meetings, Education and Training	2,999	2,300	450		5,749	255	145		6,149
Office Supplies	16,712	946	575	43	18,276	3,611	3,968		25,855
Printing and Postage	5,915	98			6,013	884	58,026		64,923
Professional Fees						15,300			15,300
Rent and Land Lease	79,383	2,290	695	4,023	86,391	10,170	501	35,970	133,032
Technology	11,194	398	558	327	12,477	3,572	11,190		27,239
Telephone	17,463	504	153	885	19,005	134	110		19,249
Travel, Meals and Entertainment	2,706		16		2,722	19,475		60,523	82,720
Utilities	86,283	2,489	756	4,372	93,900	661	544		95,105
Volunteer Resources and Recognition	1,171	200	400		1,771	525	372		2,668
Other	161	425			586	959		27,173	28,718
Total Expenses by Function	<u>2,039,476</u>	<u>262,820</u>	<u>142,220</u>	<u>109,690</u>	<u>2,554,206</u>	<u>233,453</u>	<u>654,204</u>	<u>133,310</u>	<u>3,575,173</u>
Less Expenses Included with Revenue: Cost of Direct Benefit to Donors								<u>(133,310)</u>	<u>(133,310)</u>
Total Expenses Included in Expense Section in Statement of Activities	<u>\$ 2,039,476</u>	<u>\$ 262,820</u>	<u>\$ 142,220</u>	<u>\$ 109,690</u>	<u>\$ 2,554,206</u>	<u>\$ 233,453</u>	<u>\$ 654,204</u>	<u>\$</u>	<u>\$ 3,441,863</u>

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017

	2017								
	Program Services							Cost of Direct Benefit to Donors	Total
	Ronald McDonald House of Durham	Ronald McDonald House at WakeMed	Family Room at Duke Children's Hospital	Family Room at WakeMed Hospital	Total Program Services	Management and General	Fundraising		
Salaries	\$ 483,665	\$ 64,516	\$ 70,399	\$ 43,014	\$ 661,594	\$ 145,809	\$ 281,823	\$	\$ 1,089,226
Payroll Taxes	32,714	4,364	4,762	2,909	44,749	9,862	19,062		73,673
Employee Benefits	58,263	7,771	8,480	5,182	79,696	17,564	33,949		131,209
Total Salaries and Related Expenses	574,642	76,651	83,641	51,105	786,039	173,235	334,834		1,294,108
Advertising							133		133
Automobile	603	622		240	1,465				1,465
Bad Debt Expense						162,537			162,537
Bank and Credit Card Fees	39		232	30	301	3,676	34,167		38,144
Cleaning Services and Supplies	70,851		274		71,125				71,125
Depreciation	261,959	7,558	2,294	13,274	285,085	2,006	1,652		288,743
Direct Mail							155,514		155,514
Donor Recognition							996		996
Family Support Services and Supplies	64,481	18,014	3,249	2,854	88,598				88,598
In Kind	652,027	155,101	52,227	32,277	891,632	5,000	7,000		903,632
Insurance	21,034	607	184	1,066	22,891	161	133		23,185
Interest	15,551	449	136	788	16,924	119	98		17,141
Linens and Laundry	32,032				32,032				32,032
Maintenance and Repairs	38,545	1,112	338	1,953	41,948	295	243		42,486
Meetings, Education and Training	5,880	246	334	192	6,652		590	4,799	12,041
Office Supplies						2,938	6,094		9,032
Printing and Postage						761	57,572		58,333
Professional Fees						16,500			16,500
Rent and Land Lease	79,383	2,290	695	4,023	86,391	8,229	1,245	25,490	121,355
Technology	16,451	755	1,067	616	18,889	3,437	7,194		29,520
Telephone	16,668	481	146	845	18,140	128	105		18,373
Travel, Meals and Entertainment						3,234	258	56,238	59,730
Utilities	91,310	2,635	800	4,627	99,372	699	576		100,647
Volunteer Resources and Recognition	136		200		336				336
Other	1,264		50		1,314	484	1,317	39,066	42,181
Total Expenses by Function	1,942,856	266,521	145,867	113,890	2,469,134	384,029	613,930	120,794	3,587,887
Less Expenses Included with Revenue: Cost of Direct Benefit to Donors								(120,794)	(120,794)
Total Expenses Included in Expense Section in Statement of Activities	<u>\$ 1,942,856</u>	<u>\$ 266,521</u>	<u>\$ 145,867</u>	<u>\$ 113,890</u>	<u>\$ 2,469,134</u>	<u>\$ 384,029</u>	<u>\$ 613,930</u>	<u>\$</u>	<u>\$ 3,467,093</u>

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (841,790)	\$ (294,476)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	293,654	288,744
Donated Investments	(54,484)	(32,325)
Realized and Unrealized (Gains) Losses on Investments	177,170	(374,866)
Changes in Assets and Liabilities that Provided (Used) Cash:		
Contributions Receivable	129,341	410,878
Contributions Receivable, Facilities Use	27,130	25,839
Gift Card Inventory	386	(11,879)
Prepaid Expenses and Other Current Assets	658	9,264
Accounts Payable	7,065	(936)
Accrued Payroll and Vacation	9,414	55,073
Other Accrued Liabilities	(3,747)	1,363
Contributions Received for Long-Term Purposes	(70,821)	(209,077)
Net Cash Used by Operating Activities	(326,024)	(132,398)
Cash Flows from Investing Activities:		
Purchase of Investments	(566,984)	(806,745)
Proceeds from Sale of Investments	806,273	912,909
Purchases of Property and Equipment	(19,547)	(2,629)
Net Cash Provided by Investing Activities	219,742	103,535
Cash Flows from Financing Activities:		
Contributions Received for Long-Term Purposes	70,821	209,077
Payments on Long-Term Debt	(70,049)	(67,148)
Net Cash Provided by Financing Activities	772	141,929
Net Increase (Decrease) in Cash and Cash Equivalents	(105,510)	113,066
Cash and Cash Equivalents, Beginning of Year	494,911	381,845
Cash and Cash Equivalents, End of Year	\$ 389,401	\$ 494,911
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	\$ 14,239	\$ 18,429

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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 the following net asset classifications:

- **Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.
- **Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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

The Organization has also adopted FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. Under these provisions, contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions 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 not restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (Continued)

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.

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, 2018 and 2017, allowance for uncollectible contributions receivable was \$11,770 and \$30,000, 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 \$81,473 and \$124,675 of cash equivalents at December 31, 2018 and 2017, 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.

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (Continued)

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, 2018, 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.

Functional Allocation of Expenses

The statements of functional expenses report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated on a square footage basis include: depreciation, insurance, interest, maintenance and repairs, rent and land lease, and utilities. The expenses that are allocated based on full-time equivalents are: payroll taxes, meetings, education and training, office supplies, technology and telephone expenses. The expenses allocated on the basis of estimates of time and effort are salaries and employee benefits.

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 net assets without donor restrictions 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 \$293,654 and \$288,743 for the years ended December 31, 2018 and 2017, 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.

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. Summary of Significant Accounting Policies (Continued)

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.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-4, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Advertising

The Organization expenses advertising costs when incurred. Advertising expenses totaled \$35 and \$133 for the years ended December 31, 2018 and 2017, respectively.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. Such reclassifications had no effect on previously reported 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, 2018, the Organization's cash balance was fully insured.

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

3. Liquidity and Availability

The following represents the Organization's financial assets at December 31, 2018:

Cash and Cash Equivalents	\$	389,401
Contributions Receivable, Current Portion		138,972
Investments		<u>2,730,335</u>
Total financial assets		3,258,708
Less amounts not available to be used within one year:		
Net assets with donor restrictions		<u>2,816,542</u>
Financial Assets available to meet general expenditures over the next twelve months	\$	<u>442,166</u>

The Organization maintains financial assets consisting of cash and short-term investments on hand to meet its normal operating expenses based on its annual budget. Operating expenses are compared to budgeted expenses on a monthly basis and financial assets on hand are adjusted as necessary. It is the Organization's policy to maintain an operating reserve of one to three years of annual expenses. The Organization defines its operating reserve as net assets without restrictions less property and equipment divided by annual operating expenses.

4. Contributions Receivable

At December 31, 2018 and 2017, contributions receivable are expected to be received as follows:

	2018	2017
Less than One Year	\$ 138,972	\$ 226,154
One to Five Years	<u>43,175</u>	<u>110,669</u>
	182,147	336,823
Less: Unamortized Discount	<u>182,147</u>	<u>(7,105)</u>
	182,147	329,718
Less: Allowance for Uncollectible Contributions	<u>(11,770)</u>	<u>(30,000)</u>
Net Contributions Receivable	<u>\$ 170,377</u>	<u>\$ 299,718</u>

RONALD MCDONALD HOUSE OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

4. Contributions Receivable (Continued)

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

	2018	2017
Capital Campaign	\$ 45,665	\$ 63,986
Endowment	20,000	40,000
Other (Unrestricted)	116,482	232,837
Contributions Receivable, Before Discount and Allowance for Uncollectible Contributions	\$ 182,147	\$ 336,823

5. 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, 2018 and 2017 is \$1,180,250 and \$1,207,380, 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, 2018 and 2017.

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6. 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>Cost</u>	<u>Fair Value</u>
<u>December 31, 2018</u>		
Stocks and Exchange Traded Funds	\$ 2,012,939	\$ 2,040,785
Fixed Income Securities	200,308	191,836
McDonald's Inc. Common Stock	<u>188,658</u>	<u>497,714</u>
Total	<u>\$ 2,401,905</u>	<u>\$ 2,730,335</u>
<u>December 31, 2017</u>		
Stocks and Exchange Traded Funds	\$ 2,060,988	\$ 2,408,318
Fixed Income Securities	198,424	195,061
McDonald's Inc. Common Stock	<u>176,719</u>	<u>488,931</u>
Total	<u>\$ 2,436,131</u>	<u>\$ 3,092,310</u>

Investment earnings for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Interest and Dividends	\$ 74,354	\$ 73,575
Investment Fees	(13,456)	(12,218)
Realized Gains (Losses)	104,022	181,720
Unrealized Gains (Losses)	<u>(281,192)</u>	<u>193,146</u>
Total	<u>\$ (116,272)</u>	<u>\$ 436,223</u>

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7. Property and Equipment

Property and equipment consists of the following at December 31:

	2018	2017
Building and Leased Land	\$ 8,510,642	\$ 8,510,642
Furnishings and Equipment	600,933	581,386
Vehicle	39,956	39,956
Total Property and Equipment	9,151,531	9,131,984
Less: Accumulated Depreciation	(2,968,916)	(2,675,262)
Property and Equipment, Net	\$ 6,182,615	\$ 6,456,722

8. 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, 2018 and 2017. 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.

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8. 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, 2018 and 2017 the Organization approved distributions of \$0 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, 2018 and 2017 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>December 31, 2018</u>			
Board-Designated Funds	\$ 823,721	\$	\$ 823,721
Donor-Restricted Funds	<u> </u>	<u>1,486,292</u>	<u>1,504,051</u>
Total Funds	<u>\$ 823,721</u>	<u>\$ 1,486,292</u>	<u>\$ 2,310,013</u>
<u>December 31, 2017</u>			
Board-Designated Funds	\$ 1,455,980	\$	\$ 1,455,980
Donor-Restricted Funds	<u> </u>	<u>1,503,233</u>	<u>1,503,233</u>
Total Funds	<u>\$ 1,455,980</u>	<u>\$ 1,503,233</u>	<u>\$ 2,959,213</u>

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8. Cash and Investments Held in Endowments (Continued)

Changes in endowments for the years ended December 31, 2018 and 2017 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>December 31, 2018</u>			
Endowment Net Assets, Beginning of Year	\$ 1,455,980	\$ 1,503,233	\$ 2,959,213
Contributions		52,500	52,500
Investment Earnings	(14,952)	(52,015)	(66,967)
Distributions	<u>(603,006)</u>	<u>(17,426)</u>	<u>(620,432)</u>
Endowment Net Assets, End of Year	<u>\$ 823,721</u>	<u>\$ 1,486,292</u>	<u>\$ 2,310,013</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>December 31, 2017</u>			
Endowment Net Assets, Beginning of Year	\$ 1,467,766	\$ 1,251,685	\$ 2,719,451
Contributions	10,000	37,500	47,500
Investment Earnings	178,214	216,959	395,173
Distributions	<u>(200,000)</u>	<u>(2,911)</u>	<u>(202,911)</u>
Endowment Net Assets, End of Year	<u>\$ 1,455,980</u>	<u>\$ 1,503,233</u>	<u>\$ 2,959,213</u>

From time to time, certain donor-restricted funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift values of \$212,000, fair values of \$187,667, and deficiencies of \$24,333 were reported in net assets with donor restrictions.

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9. 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, 2018 and 2017.

10. 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 \$363,080 and \$433,129 at December 31, 2018 and 2017, respectively. The value of the investments collateralizing the loan was \$512,061 and \$1,175,108 at December 31, 2018 and 2017.

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10. Long-Term Debt (Continued)

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

Year Ended <u>December 31</u>	
2019	<u>\$ 363,080</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, 2018 and 2017.

11. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes and periods:

	2018	2017
Subject to appropriation and expenditure when a specified event occurs:		
Restricted by donors for:		
Land Lease	\$ 1,180,250	\$ 1,207,380
WakeMed House Construction	150,000	150,000
House Operations	491,949	561,390
Subject to endowment spending policy and appropriation:		
House Operations	871,813	819,313
Duke Family Room	<u>122,530</u>	<u>122,530</u>
	<u>\$ 2,816,542</u>	<u>\$ 2,860,613</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the periods ended December 31, 2018 and 2017:

	2018	2017
Satisfaction of purpose restrictions	<u>\$ 118,193</u>	<u>\$ 129,798</u>

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12. Related Party Transactions

The Organization received pledges and contributions from Board members in 2018 and 2017 totaling \$59,353 and \$68,524, respectively. As of December 31, 2018 and 2017, total outstanding pledges due from board members was \$0 and \$2,220, respectively.

13. 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, 2018 and 2017 were \$29,190 and \$25,538, respectively.

14. 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, 2018 and 2017 were \$931,443 and \$903,632, respectively.

In 2017, 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. 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.

15. Operating Leases

The Organization leases copiers and other equipment and vehicles under noncancelable operating lease agreements expiring at various dates through August 2019. Additionally, the Organization has various short-term and month-to-month leases. Monthly installments range from \$61 to \$1,300. Rent expense related to these leases totaled \$13,297 and \$3,447 for the years ended December 31, 2018 and 2017.

Minimum lease payments under these operating leases are as follows:

<u>Year Ending December 31:</u>	<u>Amount</u>
2019	<u>\$ 5,200</u>

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16. Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through June 6, 2019, which is the date the financial statements were available to be issued.