

**RONALD MCDONALD HOUSE  
OF DURHAM AND WAKE, INC.**

Financial Statements

December 31, 2020 and 2019

## CONTENTS

INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7 - 8
NOTES TO FINANCIAL STATEMENTS	9 - 21



Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Ronald McDonald House of Durham and Wake, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019 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 and Wake, Inc. as of December 31, 2020 and 2019, 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 & Packer, P.A.*

Durham, North Carolina  
April 15, 2021

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2020 and 2019

	2020	2019
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,152,693	\$ 531,271
Contributions Receivable, Current Portion	32,862	64,283
Contribution Receivable, Facilities Use, Current Portion	31,407	29,912
Investments	3,334,232	3,071,892
Gift Card Inventory	13,505	11,482
Prepaid Expenses and Other Current Assets	7,642	12,213
Total Current Assets	4,572,341	3,721,053
Long-Term Contributions Receivable, Net	29,035	25,756
Long-Term Contribution Receivable, Facilities Use, Net	1,090,443	1,121,850
Property and Equipment, Net	5,809,116	6,010,592
Total Assets	\$ 11,500,935	\$ 10,879,251
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current Liabilities:		
Long-Term Debt, Current Portion	\$ 72,659	\$ 70,094
Accounts Payable	21,503	50,091
Accrued Payroll and Vacation	82,059	103,196
Other Accrued Liabilities	6,345	3,044
Deferred Revenue	37,500	
Total Current Liabilities	220,066	226,425
Long-Term Liabilities:		
Long-Term Debt, Less Current Portion	153,653	225,695
Total Liabilities	373,719	452,120
Net Assets:		
Without Donor Restrictions		
Undesignated	821,422	338,450
Designated by Board for Endowment	954,048	812,123
Invested in Property and Equipment, Net of Debt	5,582,804	5,714,803
With Donor Restrictions	3,768,942	3,561,755
Total Net Assets	11,127,216	10,427,131
Total Liabilities and Net Assets	\$ 11,500,935	\$ 10,879,251

See Accompanying Notes

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**STATEMENTS OF ACTIVITIES**  
Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions	\$ 2,160,005	\$ 134,491	\$ 2,294,496	\$ 1,716,845	\$ 159,616	\$ 1,876,461
Room Fees	26,701		26,701	40,306		40,306
Donated Materials and Services	712,393		712,393	901,810		901,810
Special Events Income, Net of Fees of \$174,525 in 2020 and \$184,763 in 2019	321,528		321,528	445,215		445,215
Other Income	1,257		1,257	3,889		3,889
Grant Revenue	242,700		242,700			
Investment Earnings, Net	120,939	246,099	367,038	156,760	301,239	457,999
Total Support and Revenue	3,585,523	380,590	3,966,113	3,264,825	460,855	3,725,680
Net Assets Released from Restrictions	173,403	(173,403)		132,562	(132,562)	
Total Support, Revenue and Net Assets Released from Restrictions	3,758,926	207,187	3,966,113	3,397,387	328,293	3,725,680
Expenses:						
Program Expenses:						
Ronald McDonald House of Durham	1,786,006		1,786,006	1,930,157		1,930,157
Ronald McDonald House at WakeMed	240,597		240,597	273,656		273,656
Family Room at Duke Children's Hospital	135,137		135,137	165,035		165,035
Family Room at WakeMed Hospital	78,207		78,207	96,311		96,311
Management and General	300,732		300,732	250,749		250,749
Fundraising	725,349		725,349	756,093		756,093
Total Expenses	3,266,028		3,266,028	3,472,001		3,472,001
Change in Net Assets	492,898	207,187	700,085	(74,614)	328,293	253,679
Net Assets, Beginning of Year	6,865,376	3,561,755	10,427,131	6,939,990	3,233,462	10,173,452
Net Assets, End of Year	<u>\$ 7,358,274</u>	<u>\$ 3,768,942</u>	<u>\$ 11,127,216</u>	<u>\$ 6,865,376</u>	<u>\$ 3,561,755</u>	<u>\$ 10,427,131</u>

See Accompanying Notes

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2020

	2020								
	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	\$ 533,419	\$ 69,233	\$ 79,807	\$ 51,634	\$ 734,093	\$ 179,661	\$ 335,710	\$	\$ 1,249,464
Payroll Taxes	38,379	4,981	5,742	3,715	52,817	12,926	24,154		89,897
Employee Benefits	74,859	9,716	11,200	7,246	103,021	25,213	47,113		175,347
Total Salaries and Related Expenses	<u>646,657</u>	<u>83,930</u>	<u>96,749</u>	<u>62,595</u>	<u>889,931</u>	<u>217,800</u>	<u>406,977</u>		<u>1,514,708</u>
Advertising							3,127		3,127
Automobile	1,089	672			1,761		106		1,867
Bad Debt Expense						27,992			27,992
Bank and Credit Card Fees			133		133	3,307	29,861		33,301
Cleaning Services and Supplies	70,559				70,559				70,559
Depreciation	226,861	11,496	6,545	1,987	246,889	1,737	1,431		250,057
Direct Mail							208,616		208,616
Donor Recognition							2,966		2,966
Facilities and Equipment Rental								42,927	42,927
Family Support Services and Supplies	34,589	2,579	1,392	643	39,203				39,203
In Kind	522,630	127,750	21,945	10,055	682,380	1,100			683,480
Insurance	24,210	1,227	699	212	26,348	185	153		26,686
Interest	9,178	465	265	80	9,988	70	58		10,116
Linens and Laundry	11,324				11,324				11,324
Maintenance and Repairs	45,917	2,327	1,325	402	49,971	352	290		50,613
Meetings, Education and Training	623		6		629	6,349	145		7,123
Merchandise	1,646				1,646		6,364		8,010
Office Supplies	2,508	262	302	195	3,267	5,061	4,026	6,544	18,898
Postage and Courier						5,127	12,884		18,011
Printing and Publishing	2,340				2,340		32,318		34,658
Professional Fees						16,000			16,000
Donated Rent and Land Lease	79,383	4,023	2,290	695	86,391	608	501		87,500
Technology	13,930	726	837	542	16,035	11,998	13,997		42,030
Telephone	17,058	864	492	149	18,563	131	108		18,802
Travel, Meals and Entertainment						2,345	1	96,367	98,713
Utilities	74,413	3,771	2,147	652	80,983	570	469		82,022
Volunteer Resources and Recognition	15		10		25		394		419
Other	1,076	505			1,581		557	28,687	30,825
Total Expenses by Function	<u>1,786,006</u>	<u>240,597</u>	<u>135,137</u>	<u>78,207</u>	<u>2,239,947</u>	<u>300,732</u>	<u>725,349</u>	<u>174,525</u>	<u>3,440,553</u>
Less Expenses Included with Revenue:									
Cost of Direct Benefit to Donors								<u>(174,525)</u>	<u>(174,525)</u>
Total Expenses Included in Expense Section in Statement of Activities	<u>\$ 1,786,006</u>	<u>\$ 240,597</u>	<u>\$ 135,137</u>	<u>\$ 78,207</u>	<u>\$ 2,239,947</u>	<u>\$ 300,732</u>	<u>\$ 725,349</u>	<u>\$</u>	<u>\$ 3,266,028</u>

See Accompanying Notes

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2019

	2019								
	Program Services								
	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	Cost of Direct Benefit to Donors	Total
Salaries	\$ 497,257	\$ 65,654	\$ 79,723	\$ 48,805	\$ 691,439	\$ 153,220	\$ 320,700		\$ 1,165,359
Payroll Taxes	35,432	4,678	5,681	3,478	49,269	10,918	22,851		83,038
Employee Benefits	67,385	8,897	10,804	6,614	93,700	20,763	43,459		157,922
Total Salaries and Related Expenses	<u>600,074</u>	<u>79,229</u>	<u>96,208</u>	<u>58,897</u>	<u>834,408</u>	<u>184,901</u>	<u>387,010</u>		<u>1,406,319</u>
Advertising	10				10		193		203
Automobile	20,770	22,629			43,399		82		43,481
Bad Debt Expense						23,560			23,560
Bank and Credit Card Fees			223		223	4,480	26,904		31,607
Cleaning Services and Supplies	70,230			80	70,310				70,310
Depreciation	238,120	12,066	6,870	2,086	259,142	1,823	1,502		262,467
Direct Mail							235,743		235,743
Donor Recognition							1,745		1,745
Facilities and Equipment Rental								36,623	36,623
Family Support Services and Supplies	49,905	16,440	2,865	2,309	71,519				71,519
In Kind	624,504	127,750	49,875	29,925	832,054	1,300			833,354
Insurance	23,578	1,195	680	207	25,660	181	149		25,990
Interest	10,230	518	295	90	11,133	78	65		11,276
Linens and Laundry	34,162				34,162				34,162
Maintenance and Repairs	40,079	2,031	1,156	351	43,617	307	253		44,177
Meetings, Education and Training	2,217		314		2,531	2,282	1,568		6,381
Merchandise	25,678				25,678	1,068	26,874		53,620
Office Supplies	3,088	374	454	278	4,194	2,268	6,834	3,100	16,396
Postage and Courier							16,991		16,991
Printing and Publishing							33,590		33,590
Professional Fees						16,300			16,300
Donated Rent and Land Lease	79,383	4,023	2,290	695	86,391	608	501		87,500
Technology	8,692	1,883	868	531	11,974	5,282	14,050		31,306
Telephone	16,510	837	476	145	17,968	126	104		18,198
Travel, Meals and Entertainment						5,458		119,552	125,010
Utilities	81,892	4,150	2,363	717	89,122	627	516		90,265
Volunteer Resources and Recognition	193	41	98		332	100	859		1,291
Other	842	490			1,332		560	25,488	27,380
Total Expenses by Function	<u>1,930,157</u>	<u>273,656</u>	<u>165,035</u>	<u>96,311</u>	<u>2,465,159</u>	<u>250,749</u>	<u>756,093</u>	<u>184,763</u>	<u>3,656,764</u>
Less Expenses Included with Revenue:									
Cost of Direct Benefit to Donors								<u>(184,763)</u>	<u>(184,763)</u>
Total Expenses Included in Expense Section in Statement of Activities	<u>\$ 1,930,157</u>	<u>\$ 273,656</u>	<u>\$ 165,035</u>	<u>\$ 96,311</u>	<u>\$ 2,465,159</u>	<u>\$ 250,749</u>	<u>\$ 756,093</u>	<u>\$</u>	<u>\$ 3,472,001</u>

See Accompanying Notes



**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 700,085	\$ 253,679
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	250,057	262,467
In-Kind Property and Equipment	(28,913)	(68,456)
Donated Investments	(30,923)	(82,646)
Realized and Unrealized Gains on Investments	(310,713)	(393,206)
Changes in Assets and Liabilities that Provided (Used) Cash:		
Contributions Receivable	28,142	80,338
Contributions Receivable, Facilities Use	29,912	28,488
Gift Card Inventory	(2,023)	11
Prepaid Expenses and Other Current Assets	4,571	20,796
Accounts Payable	(28,588)	(4,439)
Accrued Payroll and Vacation	(21,137)	(629)
Other Accrued Liabilities	3,301	451
Deferred Revenue	37,500	
Contributions Received for Long-Term Purposes	<u>(85,165)</u>	<u>(123,500)</u>
Net Cash Provided (Used) by Operating Activities	<u>546,106</u>	<u>(26,646)</u>
Cash Flows from Investing Activities:		
Purchase of Investments	(950,029)	(630,666)
Proceeds from Sale of Investments	1,029,325	764,961
Purchases of Property and Equipment	<u>(19,668)</u>	<u>(21,988)</u>
Net Cash Provided by Investing Activities	<u>59,628</u>	<u>112,307</u>
Cash Flows from Financing Activities:		
Contributions Received for Long-Term Purposes	85,165	123,500
Payments on Long-Term Debt	<u>(69,477)</u>	<u>(67,291)</u>
Net Cash Provided by Financing Activities	<u>15,688</u>	<u>56,209</u>
Net Increase in Cash and Cash Equivalents	621,422	141,870
Cash and Cash Equivalents, Beginning of Year	<u>531,271</u>	<u>389,401</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,152,693</u>	<u>\$ 531,271</u>

See Accompanying Notes

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**STATEMENTS OF CASH FLOWS (Continued)**  
Years Ended December 31, 2020 and 2019

	2020	2019
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	\$ 10,116	\$ 11,276
Supplemental Schedule of Noncash Operating and Investing Activities:		
Purchase of Property and Equipment	\$ (48,581)	\$ (90,444)
Less: Amounts Received as In-Kind Contribution	28,913	68,456
Cash Paid for Purchase of Property and Equipment	\$ (19,668)	\$ (21,988)

See Accompanying Notes

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies

Operations

The Ronald McDonald House of Durham and Wake, Inc. (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, North Carolina for short and long-term stays. The Organization also provides five bedrooms at WakeMed Hospital in Raleigh, North Carolina 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 ("FASB") Accounting Standards Codification ("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.

Revenue Recognition

*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 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 AND WAKE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

*Special Event Income – Ticket Sales*

The portion of ticket sales that relates to the commensurate value the sponsor received in return is recognized when the related events are held and performance obligations are met. Proceeds received in advance of the event are recorded as deferred revenue.

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, 2020 and 2019, the allowance for uncollectible contributions receivable was \$3,517 and \$8,278, 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 \$134,109 and \$91,834 of cash equivalents at December 31, 2020 and 2019, 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 AND WAKE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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). The Organization has been approved under Internal Revenue Code for recognition as a public charity and not as a private foundation. The Organization has adopted the provisions of FASB ASC 740-10-25, *Accounting for Uncertainty in Income Taxes*. Under this standard, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained upon examination. The Organization does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. No interest or penalties were accrued as of December 31, 2020.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods.

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, donated rent and land lease, telephone, and utilities. The expenses allocated on the basis of estimates of time and effort are salaries, payroll taxes, and employee benefits. All other expenses are allocated based on specific identification.

Property and Equipment

It is the Organization's policy to capitalize property and equipment with an original cost or donated value of \$5,000 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	20 – 45 years
Vehicles, Furnishings and Equipment	5 – 15 years

Depreciation expense totaled \$250,057 and \$262,467 for the years ended December 31, 2020 and 2019, respectively.

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (Continued)

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.

Advertising

The Organization expenses advertising costs when incurred. Advertising expenses totaled \$3,127 and \$203 for the years ended December 31, 2020 and 2019, respectively.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported net assets or 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, 2020, the Organization's uninsured cash balance was \$641,527.

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020 and 2019

3. Liquidity and Availability

The following represents the Organization's financial assets at December 31, 2020 and 2019:

Cash and Cash Equivalents	\$ 1,152,693	\$ 531,271
Contributions Receivable, Current Portion	32,862	64,283
Investments	<u>3,334,232</u>	<u>3,071,892</u>
Total financial assets	4,519,787	3,667,446
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>3,768,942</u>	<u>3,561,755</u>
Financial Assets available to meet general expenditures over the next twelve months	<u>\$ 750,845</u>	<u>\$ 105,691</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 donor restrictions less property and equipment divided by annual operating expenses.

Endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowment of \$954,048 is subject to an annual spending rate of 5% as described in Note 8. Although the Organization does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

4. Contributions Receivable

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

	<u>2020</u>	<u>2019</u>
Less than One Year	\$ 32,862	\$ 64,283
One to Five Years	<u>32,552</u>	<u>34,034</u>
	65,414	98,317
Less: Allowance for Uncollectible Contributions	<u>(3,517)</u>	<u>(8,278)</u>
Net Contributions Receivable	<u>\$ 61,897</u>	<u>\$ 90,039</u>

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020 and 2019

4. Contributions Receivable (Continued)

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

	2020	2019
Capital Campaign	\$ 12,000	\$ 31,165
Other (Unrestricted)	53,414	67,152
Contributions Receivable, Before Discount and Allowance for Uncollectible Contributions	\$ 65,414	\$ 98,317

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, 2020 and 2019 is \$1,121,850 and \$1,151,762, 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, 2020 and 2019.



**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020 and 2019

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, 2020</u>		
Stocks and Exchange Traded Funds	\$ 2,328,823	\$ 2,849,188
McDonald's Inc. Common Stock	<u>79,577</u>	<u>485,044</u>
Total	<u>\$ 2,408,400</u>	<u>\$ 3,334,232</u>
<u>December 31, 2019</u>		
Stocks and Exchange Traded Funds	\$ 2,306,130	\$ 2,543,128
Fixed Income Securities	94,158	93,717
McDonald's Inc. Common Stock	<u>68,360</u>	<u>435,047</u>
Total	<u>\$ 2,468,648</u>	<u>\$ 3,071,892</u>

Investment earnings for the years ended December 31 are as follows:

	<u>2020</u>	<u>2019</u>
Interest and Dividends, Net	\$ 56,325	\$ 64,793
Realized and Unrealized Gains	<u>310,713</u>	<u>393,206</u>
Total	<u>\$ 367,038</u>	<u>\$ 457,999</u>

7. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2020</u>	<u>2019</u>
Building and Leased Land	\$ 8,559,223	\$ 8,510,642
Furnishings and Equipment	691,377	691,377
Vehicle	<u>39,956</u>	<u>39,956</u>
Total Property and Equipment	9,290,556	9,241,975
Less: Accumulated Depreciation	<u>(3,481,440)</u>	<u>(3,231,383)</u>
Property and Equipment, Net	<u>\$ 5,809,116</u>	<u>\$ 6,010,592</u>

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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, 2020 and 2019. 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.

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, 2020 and 2019 the Organization approved distributions of \$59,424 and \$0, respectively, 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 AND WAKE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2020 and 2019

8. Cash and Investments Held in Endowments (Continued)

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 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>2020</u>			
Board-Designated Funds	\$ 954,048	\$	\$ 954,048
Donor-Restricted Funds	<u>                    </u>	<u>2,417,530</u>	<u>2,417,530</u>
Total Funds	<u>\$ 954,048</u>	<u>\$ 2,417,530</u>	<u>\$ 3,371,578</u>
<u>2019</u>			
Board-Designated Funds	\$ 812,123	\$	\$ 812,123
Donor-Restricted Funds	<u>                    </u>	<u>2,259,992</u>	<u>2,259,992</u>
Total Funds	<u>\$ 812,123</u>	<u>\$ 2,259,992</u>	<u>\$ 3,072,115</u>

Changes in endowments for the years ended December 31 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>2020</u>			
Endowment Net Assets, Beginning of Year	\$ 812,123	\$ 2,259,992	\$ 3,072,115
Contributions	3,147	85,500	88,647
Investment Earnings	110,818	246,098	359,916
Transfers	75,000	(75,000)	
Distributions	<u>(47,040)</u>	<u>(99,060)</u>	<u>(146,100)</u>
Endowment Net Assets, End of Year	<u>\$ 954,048</u>	<u>\$ 2,417,530</u>	<u>\$ 3,371,578</u>
<u>2019</u>			
Endowment Net Assets, Beginning of Year	\$ 851,639	\$ 1,903,212	\$ 2,754,851
Contributions	3,000	89,000	92,000
Investment Earnings	147,656	301,239	448,895
Transfers	20,828	(20,828)	
Distributions	<u>(211,000)</u>	<u>(12,631)</u>	<u>(223,631)</u>
Endowment Net Assets, End of Year	<u>\$ 812,123</u>	<u>\$ 2,259,992</u>	<u>\$ 3,072,115</u>

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

8. Cash and Investments Held in Endowments (Continued)

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, 2020, there were no underwater endowments.

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, 2020 and 2019.

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020 and 2019

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. The loan bore interest at 3.5% and was secured by one of the Organization's investment accounts. The loan was extended through December 2019 when it was refinanced. Monthly principal and interest payments of \$6,633 began in January 2020, and will continue through December 2023, at which time all unpaid principal, accrued interest, and any other unpaid amounts are due. The refinanced loan bears interest at 3.6% and is secured by one of the Organization's investment accounts. The outstanding balance on the loan was \$226,312 and \$295,789 at December 31, 2020 and 2019, respectively.

Future maturities of the long-term debt are as follows:

2021		\$ 72,659
2022		75,319
2023		<u>78,334</u>
Total Long Term Debt		<u>\$ 226,312</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, 2020 and 2019. The value of the investments collateralizing the loan was \$408,602 and \$627,866 at December 31, 2020 and 2019, respectively.

11. Net Assets with Donor Restrictions

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

	2020	2019
Subject to appropriation and expenditure when a specified event occurs:		
Restricted by donors for:		
Land Lease	\$ 1,121,851	\$ 1,151,763
WakeMed House Construction	150,000	150,000
House Operations	1,330,255	1,159,156
Duke Family Room	89,225	89,225
Subject to endowment spending policy and appropriation:		
House Operations	1,037,611	971,611
Duke Family Room	<u>40,000</u>	<u>40,000</u>
	<u>\$ 3,768,942</u>	<u>\$ 3,561,755</u>

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020 and 2019

11. Net Assets with Donor Restrictions (Continued)

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 years ended December 31:

	2020	2019
Satisfaction of purpose restrictions		
WakeMed Family Room	\$ 1,420	\$ 1,865
Duke Family Room	9,483	9,738
Land Lease	87,500	87,500
House Operations	75,000	33,459
Satisfaction of purpose restrictions	\$ 173,403	\$ 132,562

12. Related Party Transactions

The Organization received pledges and contributions from Board members in 2020 and 2019 totaling \$74,974 and \$69,806, respectively. As of December 31, 2020 and 2019, total outstanding pledges due from board members was \$0.

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, 2020 and 2019 were \$35,354 and \$31,811, 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, 2020 and 2019 were \$712,393 and \$901,810, respectively.

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.

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

15. Operating Leases

The Organization leases copiers, other equipment, and vehicles under noncancelable operating lease agreements expiring at various dates through July 2023. Additionally, the Organization has various short-term and month-to-month leases. Monthly installments range from \$66 to \$1,300. Rent expense related to these leases totaled \$19,507 and \$58,651 for the years ended December 31, 2020 and 2019, respectively.

Minimum lease payments under these operating leases are as follows:

2021	\$	9,107
2022		3,907
2023		<u>2,148</u>
	\$	<u>15,162</u>

16. Paycheck Protection Program

In May 2020, the Organization received loan proceeds in the amount of \$242,700 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the "PPP"). In November 2020, the PPP loan proceeds were forgiven by the U.S. Small Business Administration ("SBA"). The Organization recognized these proceeds as grant revenue on the statements of activities for the year ended December 31, 2020.

17. Uncertainties

As a result of the COVID-19 outbreak in the United States, economic uncertainties have arisen which may have a negative impact of the Organization's financial results in the future. The extent of the impact of COVID-19 on the operational and financial performance of the Organization will depend on certain developments, including duration and spread of the outbreak, and impact on customers, employees and vendors, all of which are uncertain at this time. The extent to which COVID-19 may impact the Organization's financial condition or results in the future is uncertain.

18. Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through April 15, 2021, which is the date the financial statements were available to be issued.