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RONALD MCDONALD HOUSE
OF CHAPEL HILL, INC.

Financial Statements

December 31, 2018 and 2017

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The Board of Directors
Ronald McDonald House of Chapel Hill, Inc.
Chapel Hill, North Carolina

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Ronald McDonald House of Chapel Hill, Inc. (a not-for-profit 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.

Auditor's 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House of Chapel Hill, 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.

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RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Financial Position
 December 31, 2018 and 2017

	ASSETS	
	2018	2017
CURRENT ASSETS:		
Cash	\$ 398,147	\$ 548,522
Investments	2,124,301	2,346,838
Promises to Give, net	109,806	84,631
Sales Tax Refund and Other Receivables	4,393	4,572
Prepaid Expenses	10,000	10,000
Total Current Assets	2,646,647	2,994,563
PROPERTY AND EQUIPMENT:		
Building and Improvements	11,844,161	11,438,016
Furniture and Equipment	334,501	334,501
Vehicle	30,000	30,000
Subtotal	12,208,662	11,802,517
Less: Accumulated Depreciation	2,879,827	2,548,362
Net Property and Equipment	9,328,835	9,254,155
OTHER ASSETS:		
Investments--Endowment Fund	1,041,655	1,041,655
Promises to Give, net	4,385	49,383
Total Other Assets	1,046,040	1,091,038
Total Assets	\$ 13,021,522	\$ 13,339,756
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 35,831	\$ 4,920
Note Payable	237,289	
Total Current Liabilities	273,120	4,920
LONG-TERM DEBT		
Total Liabilities	273,120	242,502
NET ASSETS:		
Without Donor Restrictions	11,626,747	12,015,599
With Donor Restrictions	1,121,655	1,081,655
Total Net Assets	12,748,402	13,097,254
Total Liabilities and Net Assets	\$ 13,021,522	\$ 13,339,756

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF ACTIVITIES

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Activities
 For the Years Ended December 31, 2018 and 2017

	2018		Total
	Without Donor Restrictions	With Donor Restrictions	
SUPPORT AND REVENUE:			
SUPPORT:			
Contributions	\$ 841,738	\$ 50,000	\$ 891,738
In-Kind Contributions	227,126		227,126
Special Events, net	279,537	30,000	309,537
Grants	226,321		226,321
Subtotal	<u>1,574,722</u>	<u>80,000</u>	<u>1,654,722</u>
Net Assets Released from Restrictions:			
Satisfaction of Program and Timing Restrictions	40,000	(40,000)	
Total Support	<u>1,614,722</u>	<u>40,000</u>	<u>1,654,722</u>
REVENUE:			
Investment Income (Loss), net	(280,999)		(280,999)
Room Rental/Medicaid Billings	205,850		205,850
Other Income	11,913		11,913
Total Revenue	<u>(63,236)</u>		<u>(63,236)</u>
Total Support and Revenue	<u>1,551,486</u>	<u>40,000</u>	<u>1,591,486</u>
EXPENSES:			
Program Service	<u>1,641,838</u>		<u>1,641,838</u>
Support Services:			
Fundraising	145,481		145,481
Management and General	153,019		153,019
Total Support Services	<u>298,500</u>		<u>298,500</u>
Total Expenses	<u>1,940,338</u>		<u>1,940,338</u>
CHANGES IN NET ASSETS	(388,852)	40,000	(348,852)
NET ASSETS--Beginning of Year	<u>12,015,599</u>	<u>1,081,655</u>	<u>13,097,254</u>
NET ASSETS--End of Year	<u>\$ 11,626,747</u>	<u>\$ 1,121,655</u>	<u>\$ 12,748,402</u>

The accompanying notes are an integral part of the financial statements.

2017		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 655,781	\$	\$ 655,781
265,290		265,290
255,942	40,000	295,942
135,498		135,498
<u>1,312,511</u>	<u>40,000</u>	<u>1,352,511</u>
181,292	(181,292)	
<u>1,493,803</u>	<u>(141,292)</u>	<u>1,352,511</u>
535,655		535,655
164,172		164,172
11,271		11,271
<u>711,098</u>		<u>711,098</u>
<u>2,204,901</u>	<u>(141,292)</u>	<u>2,063,609</u>
<u>1,583,269</u>		<u>1,583,269</u>
243,504		243,504
141,078		141,078
<u>384,582</u>		<u>384,582</u>
<u>1,967,851</u>		<u>1,967,851</u>
237,050	(141,292)	95,758
<u>11,778,549</u>	<u>1,222,947</u>	<u>13,001,496</u>
<u>\$ 12,015,599</u>	<u>\$ 1,081,655</u>	<u>\$ 13,097,254</u>

STATEMENTS OF FUNCTIONAL EXPENSES

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Functional Expenses
 For the Years Ended December 31, 2018 and 2017

	2018			
	Program Services	Support Services		Total
		Fundraising	Management and General	
Salaries	\$ 569,794	\$ 84,414	\$ 49,241	\$ 703,449
Employee Benefits	102,142	15,132	8,827	126,101
Payroll Taxes	42,443	6,288	3,668	52,399
Total Salaries and Related Expenses	714,379	105,834	61,736	881,949
Depreciation	318,207	6,629	6,629	331,465
Guest Services and Family Assistance	247,477			247,477
Contract Services	87,998		43,343	131,341
Utilities	73,541	1,532	1,532	76,605
Maintenance and Repairs	70,867	1,476	1,476	73,819
Insurance	26,080	543	543	27,166
Linens and Laundry	25,860			25,860
Telephone	13,427	5,595	3,357	22,379
Professional Fees	3,300		18,700	22,000
Advertising and Promotion	8,155	10,770		18,925
Office Supplies	10,166	4,236	2,542	16,944
Dues, Subscriptions, Memberships, and Volunteer Recognition	12,393		4,131	16,524
Meetings, Training, and Seminars	8,839	3,683	2,210	14,732
Bank Fees	6,094		6,094	12,188
Printing	4,441	4,441		8,882
Interest Expense	7,467	156	156	7,779
Postage	2,822	451	489	3,762
Transportation	325	135	81	541
Total Expenses	\$ 1,641,838	\$ 145,481	\$ 153,019	\$ 1,940,338

The accompanying notes are an integral part of the financial statements.

2017			
Support Services			
Program Services	Fundraising	Management and General	Total
\$ 530,793	\$ 152,694	\$ 43,627	\$ 727,114
87,699	25,229	7,208	120,136
<u>40,197</u>	<u>11,563</u>	<u>3,304</u>	<u>55,064</u>
<u>658,689</u>	<u>189,486</u>	<u>54,139</u>	<u>902,314</u>
315,878	6,581	6,581	329,040
281,195			281,195
77,268		38,058	115,326
65,246	1,359	1,359	67,964
45,477	947	947	47,371
25,629	534	534	26,697
25,351			25,351
13,076	5,449	3,269	21,794
3,300		18,700	22,000
22,022	26,933		48,955
5,837	2,433	1,460	9,730
9,419		3,140	12,559
14,216	5,924	3,554	23,694
8,866		8,866	17,732
3,364	3,363		6,727
6,631	138	138	6,907
1,542	247	267	2,056
<u>263</u>	<u>110</u>	<u>66</u>	<u>439</u>
<u>\$ 1,583,269</u>	<u>\$ 243,504</u>	<u>\$ 141,078</u>	<u>\$ 1,967,851</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Cash Flows
 For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	\$ (348,852)	\$ 95,758
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	331,465	329,040
Net Realized Gain on Sale of Investments	(69,620)	(119,019)
Unrealized Holding (Gain) Loss on Investments	413,719	(363,083)
Change in Allowance for Uncollectible Promises to Give	(1,250)	(11,104)
Adjustment of Discount on Promises to Give	(3,927)	(12,859)
Changes in Assets and Liabilities:		
Promises to Give	25,000	272,170
Sales Tax Refund and Other Receivables	179	(1,126)
Prepaid Expenses		4,688
Accounts Payable	30,911	(172,223)
Accrued Retirement and Payroll Taxes		(2,473)
Net Cash Provided by Operating Activities	377,625	19,769
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	439,363	773,961
Purchases of Investments	(560,925)	(757,552)
Purchases of Property and Equipment	(406,145)	
Net Cash Provided (Used) by Investing Activities	(527,707)	16,409
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of Long-Term Debt	(293)	(70,000)
Net Cash Used by Financing Activities	(293)	(70,000)
NET DECREASE IN CASH	(150,375)	(33,822)
CASH--Beginning of Year	548,522	582,344
CASH--End of Year	\$ 398,147	\$ 548,522
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
In-Kind Contributions	\$ 227,126	\$ 265,290
Cash Paid for Interest	7,779	6,907

The accompanying notes are an integral part of the financial statements.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies

A. Organization and Purpose:

Ronald McDonald House of Chapel Hill, Inc. (the Organization) is a North Carolina non-profit organization incorporated in November 1984. The mission of the Ronald McDonald House of Chapel Hill is to provide a home-away-from-home for families of seriously ill children who must travel from across North Carolina and beyond for specialized medical treatment at area hospitals.

In addition to safe and supportive accommodations in close proximity to UNC Children's Hospital, the Ronald McDonald House of Chapel Hill provides a comprehensive mix of creative and participatory services designed to actively engage all family members, create a community of support, and ease everyday burdens so families can focus on what matters most – the health and well-being of their children.

B. Adoption of New Accounting Pronouncement:

For the year ended December 31, 2018, the Organization adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. A key change required by ASU 2016-14 is the net asset classes used in these financial statements wherein amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. The changes required by the update have been applied retrospectively to all periods presented.

C. Basis of Accounting and Presentation:

The accompanying financial statements have been, in all material respects, prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Net assets and support, revenue, expenses, gains, and losses are classified based on the existence or absence of externally-imposed restrictions. The Organization follows standards for external financial reporting by not-for-profit organizations that requires its resources be classified for accounting and reporting purposes into two net asset categories according to externally-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions--Net assets without donor restrictions are available for use at the discretion of the Board and/or management for general operating purposes. From time to time the Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

Net Assets With Donor Restrictions--Net assets subject to externally-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time. Also, net assets subject to externally-imposed restrictions that they be maintained permanently by the Organization. Net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a Board approved spending policy.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies (Continued)

D. Accounting Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions are used for, but not limited to, the fair value of investments and in-kind contributions, discounted to net present value for promises to give, depreciable lives of property and equipment, and functional allocation of expenses.

E. Promises to Give:

The Organization recognizes as revenues contributions received and made, including unconditional, legally enforceable promises to give, in the period in which the Organization is notified that the donor has made a promise to give. All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received that are designed for future periods or restricted by the donor for specific purposes are reported as donor restricted support that increases that net asset class. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support without donor restrictions.

Unconditional promises to give expected to be collected within one year are recorded at net realizable value and at the present value of estimated future cash flows if expected to be collected beyond one year. Amortization of the discount is included in contribution revenue. Unconditional promises are also recorded net of an allowance for uncollectible promises. The allowance is based on management's analysis of specific promises to give, prior years' experience, and current economic conditions.

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

F. Investments:

Investments are recorded at fair value. Fair value is based on quoted market prices when available. Gains and losses are determined using the specific identification method. Unrealized gains and losses are included in the changes in net assets.

G. Property and Equipment:

Property and equipment is recorded at cost if purchased or at fair value if donated at the date of donation. A capitalization threshold of \$2,500 is utilized. Expenditures for repairs and maintenance are charged against operations. Depreciation is provided using the straight-line method over estimated useful lives ranging from three to forty years. Depreciation expense for the years ended December 31, 2018 and 2017 totaled \$331,465 and \$329,040, respectively.

H. Support and Revenue Without and With Donor Restrictions:

Contributions of cash and other assets, as well as grants, are recorded as increases in without or with donor restrictions, depending on the existence or nature of any externally-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is presented as an increase in net assets with donor restrictions depending on the nature of the restrictions.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies (Concluded)

I. In-Kind Contributions:

The Organization records in-kind contributions of services, materials, and other at their estimated fair values at the date of the contribution.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would otherwise be purchased by the Organization.

The Organization is also the recipient of services donated by approximately 3,400 volunteers that perform a variety of tasks. No amounts have been reflected in the financial statements for volunteer hours since these services do not meet the requirements for recognition in the financial statements. In addition, the Organization's officers and board of directors serve without compensation.

J. Functional Allocation of Expenses:

The cost of providing the various program and support services of the Organization has been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and support services benefited. Directly identifiable expenses are charged to programs and support services. Expenses attributable to more than one function are generally allocated based on time and effort as tracked by Organization staff and estimates made by management. Support services include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization.

K. Advertising and Promotion:

The Organization expenses the cost of advertising and promotion as it is incurred. Advertising and promotion expense for the years ended December 31, 2018 and 2017 totaled \$18,925 and \$48,955, respectively. These expenses promote the Organization's programs.

L. Income Tax Status:

The Organization is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code and is classified under Section 501(c)(3) as a public charity. In addition, the Organization qualifies for deductible contributions under Section 170(b)(1)(A)(vi) of the Internal Revenue Code. Further, the Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Accordingly, the accompanying financial statements do not include a provision for income taxes.

The Organization files Form 990 information returns in the U.S. Federal jurisdiction. These returns are subject to examination by the Internal Revenue Service for a period of three years after the respective filing deadlines. The Organization has not been informed by any tax authorities for any jurisdictions that any of its tax years are under examination as of December 31, 2018.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2018 and 2017

2. Promises to Give

Promises to give consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Promises to Give	\$ 120,586	\$ 145,585
Less: Allowance for Uncollectible Promises to Give	6,029	7,279
Less: Unamortized Discount	<u>366</u>	<u>4,292</u>
	114,191	134,014
Less: Current Portion	<u>109,806</u>	<u>84,631</u>
Amounts Due After One Year	<u>\$ 4,385</u>	<u>\$ 49,383</u>

Promises to give due in more than one year are discounted to their estimated net present values using a discount rate of 5%.

	<u>2018</u>	<u>2017</u>
Amounts due in less than one year	\$ 115,586	\$ 89,085
Amounts due in one to five years	<u>5,000</u>	<u>56,500</u>
	120,586	145,585
Less: Allowance for Uncollectible Promises to Give	6,029	7,279
Less: Unamortized Discount	<u>366</u>	<u>4,292</u>
	<u>\$ 114,191</u>	<u>\$ 134,014</u>

3. Investments

Investments in marketable securities consist of the following at December 31, 2018 and 2017:

	<u>Historical Cost</u>	<u>Market Value</u>
<u>December 31 2018:</u>		
Equity Securities	<u>\$ 2,731,999</u>	<u>\$ 3,165,956</u>
<u>December 31 2017:</u>		
Equity Securities	<u>\$ 2,603,458</u>	<u>\$ 3,388,493</u>

Investment income (loss) consists of the following for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and Dividends	\$ 85,913	\$ 74,820
Net Realized Gain on Sale of Investments	69,620	119,019
Unrealized Holding Gain (Loss) on Investments	(413,719)	363,083
Investment Management Fees	<u>(22,813)</u>	<u>(21,267)</u>
Investment Income (Loss), net	<u>\$ (280,999)</u>	<u>\$ 535,655</u>

Amount Allocable to:

Net Assets Without Donor Restrictions	<u>\$ (280,999)</u>	<u>\$ 535,655</u>
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RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2018 and 2017

4. Fair Value Measurements

The Organization follows FASB Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, with respect to fair value measurements of its financial assets and financial liabilities. This standard defines fair value as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The standard also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The hierarchy is broken down into three levels. Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for the Organization's assets measured at fair value in the accompanying financial statements.

- ***Marketable Securities***

Shares of marketable securities, corporate notes and government securities are valued at quoted market prices and are considered to be Level 1 investments.

The following table sets forth by level, within the fair value hierarchy, the fair value of the Organization's investments measured on a recurring basis at December 31, 2018 and 2017:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
<u>December 31, 2018:</u>		
Investments	\$ <u>3,165,956</u>	\$ <u>3,165,956</u>
 <u>December 31, 2017:</u>		
Investments	\$ <u>3,388,493</u>	\$ <u>3,388,493</u>

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.

Notes to Financial Statements

December 31, 2018 and 2017

5. Retirement Plan

The Organization sponsors a retirement plan that is available to all full-time employees and matches up to 5% of the employees' retirement contributions. The Organization made contributions of \$26,876 and \$25,541 to the plan during the years ended December 31, 2018 and 2017, respectively.

6. Related Parties

The Organization is related to the University of North Carolina Hospitals, the University of North Carolina at Chapel Hill, and the McDonald's Corporation through the composition of the Organization's Board of Directors. The Organization is related to Ronald McDonald House Charities (RMHC) through support received in the amount of \$66,000 and \$66,230 for the years ended December 31, 2018 and 2017, respectively.

The Organization leases land from the University of North Carolina at Chapel Hill for a nominal rental amount. The lease began in November 1985 and expires in 2035.

The Organization receives subsidized transportation services from the University of North Carolina Hospitals for transportation to and from the University of North Carolina Hospitals. Currently these services are donated to the Organization. The value of the services recognized for each of the years ended December 31, 2018 and 2017 was \$100,000.

7. Operating Lease Commitments

The Organization leases its mailing equipment. The lease provides for quarterly payments of \$176 over a term of sixty months. The Organization also leases a copier. The lease provides for monthly payments of \$678 over a term of sixty-two months. Total rent expense for 2018 and 2017 was \$9,578 and \$14,050, respectively.

Future minimum lease payments under these operating lease agreements (copier buyout) at December 31, 2018 are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2019	\$ 8,835
2020	8,835
2021	<u>7,631</u>
	<u>\$ 25,301</u>

8. Concentrations*Cash Balances*

The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Organization maintains its operating bank accounts at several financial institutions located in North Carolina. Balances in interest-bearing accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2018 and 2017, the Organization had uninsured balances of \$170,788 and \$210,371, respectively.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2018 and 2017

8. Concentrations (Continued)

Investments

The Organization's investments in marketable securities are insured against certain acts through coverage provided by the Securities Investor Protection Corporation. The Organization's investments in marketable securities are also exposed to various risks such as interest rate, currency, 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 these investments will occur in the near term and that such changes could materially affect the amounts reported in the Organization's financial statements.

The Organization receives a major portion of its support and revenue from contributions, grants, and special events. A reduction in this level of support could possibly have a significant effect on the Organization's programs and activities.

9. Special Events

Special events consist of the following fundraising activities:

	<u>2018</u>	<u>2017</u>
Gross Proceeds	\$ 546,631	\$ 522,427
Less: Direct Costs	<u>237,094</u>	<u>226,485</u>
	<u>\$ 309,537</u>	<u>\$ 295,942</u>

10. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2018 and 2017 were available for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
Private Contributions:		
Garden Endowment	\$ 50,000	\$ 40,000
Expenses related to years ended December 31, 2019 and 2018	30,000	1,041,655
Operating Endowment	<u>1,041,655</u>	<u>1,041,655</u>
	<u>\$ 1,121,655</u>	<u>\$ 1,081,655</u>

11. Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors. Net assets were released from restrictions for the following during the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Expenses related to:		
Special Events	\$ 40,000	\$ 174,217
Capital Campaign		7,075
Copier Buyout		<u>181,292</u>
	<u>\$ 40,000</u>	<u>\$ 181,292</u>

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12. Endowment Fund

The Organization's endowment fund at December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
J. Kroc House Operating Endowment	\$ 500,000	\$ 500,000
Various Donors Operating Endowments	<u>541,655</u>	<u>541,655</u>
	<u>\$ 1,041,655</u>	<u>\$ 1,041,655</u>

The Organization's endowment funds provide long-term support for operations and eventual Garden maintenance. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of North Carolina enacted the North Carolina (NC) Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective March 2009, the provisions of which apply to endowment funds existing on or established after that date. Absent donor stipulations to the contrary, the provisions of this state law do not impose either a permanent or a temporary restriction on the income or capital appreciation derived from the original gifts.

The Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, 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. Any remaining portion of the donor-restricted endowment fund that is not classified as donor restricted is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence described in UPMIFA.

Changes in endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance as of December 31, 2016	\$ 572,672	\$ 1,041,655	\$ 1,614,327
Investment Return:			
Investment Income	<u>164,665</u>	<u> </u>	<u>164,665</u>
Balance as of December 31, 2017	737,337	1,041,655	1,778,992
Investment Return:			
Investment Loss	<u>(92,454)</u>	<u> </u>	<u>(92,454)</u>
Balance as of December 31, 2018	<u>\$ 644,883</u>	<u>\$ 1,041,655</u>	<u>\$ 1,686,538</u>

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies at December 31, 2018 or 2017.

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12. Endowment Fund (Continued)

Policy for Investment of Endowment Funds

The Organization's investment policies include several investment objectives relative to its long-term investments, including permanent endowment funds. These objectives include (1) investing these assets in order to obtain the optimum rate of return and (2) alternative investments to provide additional diversification. Overall, the Organization's long-term investments should be diversified and comprise a substantial equity component. The actual composition at any given time is dependent upon a number of factors, including the amount available for investment and current market conditions.

13. In-Kind Contributions

The fair value of donated services, materials, and other included as contributions in the financial statements for the years ended December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Transportation Services	\$ 100,000	\$ 100,000
Food, Materials, and Supplies	121,160	128,350
Advertising and Promotion	<u>5,966</u>	<u>36,940</u>
	<u>\$ 227,126</u>	<u>\$ 265,290</u>

14. Long-Term Debt

Long-term debt relates to the financing of the building expansion and consists of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Note payable with Branch Banking and Trust Company in order to finance the construction of the building expansion. The total financing available through the note payable is \$3,000,000. The note matures February 2022 and bears interest at a variable rate (one month LIBOR plus 1.45%). Accrued monthly interest-only payments commence March 2015 ending February 2019. Monthly principal and interest payments of \$27,802 commence March 2019 with final payment scheduled for February 2022. The note payable is collateralized by pledges receivable and cash received from the related capital campaigns. The note was paid in full February 2019.	\$ 237,289	\$ 237,582
Less Amount Classified as Current Liability	<u>237,289</u>	<u>0</u>
Amount Due After One Year	<u>\$ 0</u>	<u>\$ 237,582</u>

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15. Liquidity and Availability of Resources

The Organization manages its liquid resources by focusing on fundraising efforts to ensure the entity has adequate contributions and revenue to cover the programs that are being conducted. The Organization prepares detailed budgets and is very active in managing costs to ensure the entity remains liquid.

The Organization's financial assets as of December 31, 2018 and 2017 expected to be available within one year to meet the cash needs for general expenditures comprise the following:

	<u>2018</u>	<u>2017</u>
Financial assets available within one year:		
Cash	\$ 398,147	\$ 548,522
Investments	3,165,956	3,388,493
Promises to Give, net	109,806	84,631
Sales Tax Refund and Other Receivables	<u>4,393</u>	<u>4,572</u>
Financial assets, at year end	3,678,302	4,026,218
Less those unavailable for general expenditures within one year, due to:		
Contractual or Donor-Imposed Restrictions:		
Restricted by donor with time or purpose restrictions	<u>1,121,655</u>	<u>1,081,655</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>2,556,647</u>	\$ <u>2,944,563</u>

16. Subsequent Events

Subsequent events have been evaluated through July 2, 2019, which is the date the financial statements were available to be issued. The Organization is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

17. Reclassifications

Certain amounts for 2017 have been reclassified to conform to the 2018 presentation. Such reclassifications have no effect on changes in net assets or cash flows as previously reported.