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RONALD MCDONALD HOUSE
OF CHAPEL HILL, INC.

Financial Statements

December 31, 2019 and 2018

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TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6-17



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, 2019 and 2018, 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, 2019 and 2018, 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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August 27, 2020

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RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Statements of Financial Position
December 31, 2019 and 2018

ASSETS		
	2019	2018
CURRENT ASSETS:		
Cash	\$ 357,153	\$ 398,147
Investments	2,275,150	2,124,301
Promises to Give, net		109,806
Sales Tax Refund and Other Receivables	6,417	4,393
Prepaid Expenses	3,560	10,000
Total Current Assets	2,642,280	2,646,647
PROPERTY AND EQUIPMENT:		
Building and Improvements	11,920,742	11,844,161
Furniture and Equipment	332,501	334,501
Vehicle	30,000	30,000
Subtotal	12,283,243	12,208,662
Less: Accumulated Depreciation	3,205,558	2,879,827
Net Property and Equipment	9,077,685	9,328,835
OTHER ASSETS:		
Investments--Endowment Fund	1,041,655	1,041,655
Promises to Give, net		4,385
Total Other Assets	1,041,655	1,046,040
Total Assets	\$ 12,761,620	\$ 13,021,522
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 43,992	\$ 35,831
Accrued Payroll	37,015	
Note Payable		237,289
Total Current Liabilities	81,007	273,120
NET ASSETS:		
Without Donor Restrictions	11,553,832	11,626,747
With Donor Restrictions	1,126,781	1,121,655
Total Net Assets	12,680,613	12,748,402
Total Liabilities and Net Assets	\$ 12,761,620	\$ 13,021,522

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, 2019 and 2018

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
SUPPORT AND REVENUE:			
SUPPORT:			
Contributions	\$ 588,002	\$ 35,126	\$ 623,128
In-Kind Contributions	211,339		211,339
Special Events, net	302,807		302,807
Grants	192,224		192,224
Subtotal	<u>1,294,372</u>	<u>35,126</u>	<u>1,329,498</u>
Net Assets Released from Restrictions:			
Satisfaction of Program and Timing Restrictions	<u>30,000</u>	<u>(30,000)</u>	
Total Support	<u>1,324,372</u>	<u>5,126</u>	<u>1,329,498</u>
REVENUE:			
Investment Income (Loss), net	484,047		484,047
Room Rental/Medicaid Billings	244,418		244,418
Other Income	16,323		16,323
Total Revenue	<u>744,788</u>		<u>744,788</u>
 Total Support and Revenue	 <u>2,069,160</u>	 <u>5,126</u>	 <u>2,074,286</u>
EXPENSES:			
Program Service	<u>1,806,569</u>		<u>1,806,569</u>
Support Services:			
Fundraising	150,420		150,420
Management and General	185,086		185,086
Total Support Services	<u>335,506</u>		<u>335,506</u>
 Total Expenses	 <u>2,142,075</u>		 <u>2,142,075</u>
CHANGES IN NET ASSETS	(72,915)	5,126	(67,789)
NET ASSETS--Beginning of Year	<u>11,626,747</u>	<u>1,121,655</u>	<u>12,748,402</u>
NET ASSETS--End of Year	<u>\$ 11,553,832</u>	<u>\$ 1,126,781</u>	<u>\$ 12,680,613</u>

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

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 841,738	\$ 50,000	\$ 891,738
227,126		227,126
279,537	30,000	309,537
<u>226,321</u>		<u>226,321</u>
1,574,722	<u>80,000</u>	<u>1,654,722</u>
<u>40,000</u>	<u>(40,000)</u>	
<u>1,614,722</u>	<u>40,000</u>	<u>1,654,722</u>
(280,999)		(280,999)
205,850		205,850
<u>11,913</u>		<u>11,913</u>
<u>(63,236)</u>		<u>(63,236)</u>
<u>1,551,486</u>	<u>40,000</u>	<u>1,591,486</u>
<u>1,641,838</u>		<u>1,641,838</u>
145,481		145,481
<u>153,019</u>		<u>153,019</u>
<u>298,500</u>		<u>298,500</u>
<u>1,940,338</u>		<u>1,940,338</u>
(388,852)	40,000	(348,852)
<u>12,015,599</u>	<u>1,081,655</u>	<u>13,097,254</u>
<u>\$ 11,626,747</u>	<u>\$ 1,121,655</u>	<u>\$ 12,748,402</u>

STATEMENTS OF FUNCTIONAL EXPENSES

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Functional Expenses
 For the Years Ended December 31, 2019 and 2018

	2019			
	Program Services	Support Services		Total
		Fundraising	Management and General	
Salaries	\$ 663,460	\$ 78,054	\$ 39,027	\$ 780,541
Employee Benefits	97,343	11,452	5,726	114,521
Payroll Taxes	49,219	5,791	2,895	57,905
Total Salaries and Related Expenses	<u>810,022</u>	<u>95,297</u>	<u>47,648</u>	<u>952,967</u>
Depreciation	313,853	6,539	6,539	326,931
Guest Services and Family Assistance	244,534			244,534
Contract Services	131,560		64,798	196,358
Maintenance and Repairs	91,628	1,909	1,909	95,446
Utilities	81,757	1,703	1,703	85,163
Professional Fees	7,600		43,347	50,947
Insurance	35,885	748	748	37,381
Advertising and Promotion	8,006	21,991		29,997
Telephone	13,993	5,830	3,498	23,321
Linens and Laundry	22,342			22,342
Office Supplies	12,202	5,085	3,051	20,338
Bank Fees	7,366		7,366	14,732
Meetings, Training, and Seminars	8,595	3,580	2,149	14,324
Printing	6,898	6,898		13,796
Dues, Subscriptions, Memberships, and Volunteer Recognition	4,517		1,505	6,022
Postage	3,997	639	693	5,329
Interest Expense	1,401	29	29	1,459
Transportation	413	172	103	688
Total Expenses	<u>\$ 1,806,569</u>	<u>\$ 150,420</u>	<u>\$ 185,086</u>	<u>\$ 2,142,075</u>

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

2018			
Program Services	Support Services		Total
	Fundraising	Management and General	
\$ 569,794	\$ 84,414	\$ 49,241	\$ 703,449
102,142	15,132	8,827	126,101
42,443	6,288	3,668	52,399
<u>714,379</u>	<u>105,834</u>	<u>61,736</u>	<u>881,949</u>
318,207	6,629	6,629	331,465
247,477			247,477
87,998		43,343	131,341
70,867	1,476	1,476	73,819
73,541	1,532	1,532	76,605
3,300		18,700	22,000
26,080	543	543	27,166
8,155	10,770		18,925
13,427	5,595	3,357	22,379
25,860			25,860
10,166	4,236	2,542	16,944
6,094		6,094	12,188
8,839	3,683	2,210	14,732
4,441	4,441		8,882
12,393		4,131	16,524
2,822	451	489	3,762
7,467	156	156	7,779
325	135	81	541
<u>\$ 1,641,838</u>	<u>\$ 145,481</u>	<u>\$ 153,019</u>	<u>\$ 1,940,338</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Cash Flows
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	\$ (67,789)	\$ (348,852)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	326,931	331,465
Net Realized Gain on Sale of Investments	(718,277)	(69,620)
Unrealized Holding Loss on Investments	308,125	413,719
Change in Allowance for Uncollectible Promises to Give	(6,029)	(1,250)
Adjustment of Discount on Promises to Give	(365)	(3,927)
Changes in Assets and Liabilities:		
Promises to Give	120,585	25,000
Sales Tax Refund and Other Receivables	(2,024)	179
Prepaid Expenses	6,440	
Accounts Payable and Accrued Payroll	45,176	30,911
Net Cash Provided by Operating Activities	<u>12,773</u>	<u>377,625</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	4,613,764	439,363
Purchases of Investments	(4,353,661)	(560,925)
Purchases of Property and Equipment	(76,581)	(406,145)
Net Cash Provided (Used) by Investing Activities	<u>183,522</u>	<u>(527,707)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of Long-Term Debt	(237,289)	(293)
Net Cash Used by Financing Activities	<u>(237,289)</u>	<u>(293)</u>
NET DECREASE IN CASH	(40,994)	(150,375)
CASH--Beginning of Year	<u>398,147</u>	<u>548,522</u>
CASH--End of Year	<u>\$ 357,153</u>	<u>\$ 398,147</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
In-Kind Contributions	\$ 211,339	\$ 227,126
Cash Paid for Interest	1,459	7,779

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

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2019 and 2018

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. 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 and not subject to donor (or certain grantor) restrictions. 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 donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

C. Adoption of New Accounting Pronouncements:

The Organization has adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 requires an entity to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to in exchange for those goods and services. Additional disclosure is required to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flow arising from contracts with customers. The adoption of this ASU did not materially impact the timing or amount of revenue recognized by the Organization in these financial statements.

The Organization has adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 provides (1) a framework for determining whether a particular transaction is an exchange or a contribution (a nonreciprocal transaction), including how to evaluate whether a resource provider receives commensurate value in an exchange transaction, and (2) guidance to assist entities in determining whether a contribution is either conditional or unconditional. The adoption of this ASU did not materially impact these financial statements.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2019 and 2018

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.

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 initially reported at cost if purchased or, if donated, at fair value at the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment income or loss is reported on the statements of activities and consists of dividend and interest income plus realized and unrealized gains and losses less external investment management expenses.

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, 2019 and 2018 totaled \$326,931 and \$331,465, 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.

Sponsorship Revenue

The portion of sponsorship revenue that relates to the commensurate value the sponsor received in return is recognized when the related events are held and performance obligations are met.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2019 and 2018

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

Special Event Revenue – Ticket Sales

The portion of ticket sales that relates to the commensurate value the attendee receives in return is recognized when the related events are held and performance obligations are met.

Third-Party Reimbursements

Third-party reimbursements are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing housing to eligible families. These amounts are due from third party payors, as applicable, and include variable consideration and price concessions due to coverage. Revenue is recognized as performance obligations are satisfied based on actual charges incurred in relation to total expected collections.

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 3,500 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 program 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, 2019 and 2018 totaled \$29,997 and \$18,925, 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 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.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2019 and 2018

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

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 tax authorities that any of its tax years are under examination as of December 31, 2019.

M. Recently Issued Accounting Pronouncements:

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will govern the accounting for lease contracts. The key difference between current standards and ASU 2016-02 is the requirement for lessees to recognize on their statement of financial position all lease contracts with lease terms greater than twelve months, including operating leases. Specifically, at lease commencement, lessees will be required to recognize on the statement of financial position both a right-of-use asset and a lease liability. The standard requires a modified retrospective application, which will require entities to apply the new guidance as of the beginning of the earliest comparative period presented in the financial statements for the year in which the standard is adopted. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which defers the effective date for those topics, including amendments issued after the issuance of the original update. For *Leases (Topic 842)*, the effective date was deferred an additional year. In May 2020, the effective date was deferred an additional year and will now be effective for the Organization in 2022.

2. Promises to Give

At December 31, 2019, there were no promises to give.

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

Promises to Give	\$ 120,586
Less: Allowance for Uncollectible Promises to Give	6,029
Less: Unamortized Discount	<u>366</u>
	114,191
Less: Current Portion	<u>109,806</u>
Amounts Due After One Year	<u>\$ 4,385</u>

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

Amounts due in less than one year	\$ 115,586
Amounts due in one to five years	<u>5,000</u>
	120,586
Less: Allowance for Uncollectible Promises to Give	6,029
Less: Unamortized Discount	<u>366</u>
	<u>\$ 114,191</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2019 and 2018

3. Investments

Investments consist of the following at December 31, 2019 and 2018:

	<u>Historical Cost</u>	<u>Market Value</u>
<u>December 31 2019:</u>		
Equity Securities	\$ 1,069,303	\$ 1,542,174
Fixed Income	940,475	937,643
Exchange-Traded Funds	553,773	584,014
Real Estate Interests	<u>250,000</u>	<u>252,974</u>
	<u>\$ 2,813,551</u>	<u>\$ 3,316,805</u>
 <u>December 31 2018:</u>		
Equity Securities	\$ 2,025,137	\$ 2,479,501
Fixed Income	<u>706,862</u>	<u>686,455</u>
	<u>\$ 2,731,999</u>	<u>\$ 3,165,956</u>

Investment income (loss) consists of the following for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest and Dividends, net	\$ 97,965	\$ 85,913
Net Realized Gain on Sale of Investments	718,277	69,620
Unrealized Holding Loss on Investments	(308,125)	(413,719)
Investment Management Fees	<u>(24,070)</u>	<u>(22,813)</u>
Investment Income (Loss), net	<u>\$ 484,047</u>	<u>\$ (280,999)</u>

Amount Allocable to:

Net Assets Without Donor Restrictions	<u>\$ 484,047</u>	<u>\$ (280,999)</u>
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4. Fair Value Measurements

The Organization follows ASC 820, *Fair Value Measurements and Disclosures*, as amended, 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.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2019 and 2018

3. Investments (Continued)

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 (Equity and Fixed Income)**
Shares of marketable securities are valued at quoted market prices and are deemed to be actively traded and have been considered to be Level 1 investments.
- **Exchange-Traded Funds**
Investments also include shares of exchange-traded funds (ETFs). An ETF is a type of security that involves a collection of securities, such as stocks, that often tracks an underlying index (e.g. S&P 500 Index), although it can invest in any number of industry sectors or use various strategies. While similar to mutual funds, ETFs are listed on exchanges and shares are traded throughout the day like ordinary stock. ETFs have been reported with Level 1 investments.
- **Investments – Real Estate Interests**
Capital invested in real estate holdings valued by the brokerage firm that holds and manages the investment portfolio. These real estate interests have been considered to be Level 3 investments.

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.

The following assets required to be measured at fair value on a recurring basis and the classification within the hierarchy as of December 31, 2019 and 2018 were as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2019:</u>				
Equity Securities	\$ 1,542,174	\$ 1,542,174	\$	\$
Fixed Income	937,643	937,643		
Exchange-Traded Funds	584,014	584,014		
Real Estate Interests	252,974			252,974
	<u>\$ 3,316,805</u>	<u>\$ 3,063,831</u>	<u>\$ 0</u>	<u>\$ 252,974</u>
<u>December 31, 2018:</u>				
Equity Securities	\$ 2,479,501	\$ 2,479,501	\$	\$
Fixed Income	686,455	686,455		
	<u>\$ 3,165,956</u>	<u>\$ 3,165,956</u>	<u>\$ 0</u>	<u>\$ 0</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2019 and 2018

4. Fair Value Measurements (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2019 were as follows:

Beginning Balance	\$ -
Purchases	250,000
Total Gains (Realized/Unrealized) included in Changes in Net Assets	<u>2,974</u>
Ending Balance	<u>\$ 252,974</u>

At December 31, 2018, there were no Level 3 investments.

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 \$28,001 and \$26,876 to the plan during the years ended December 31, 2019 and 2018, 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 \$126,000 and \$66,000 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018 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 2019 and 2018 was \$14,775 and \$9,878, respectively.

Future minimum lease payments under these operating lease agreements (copier buyout) at December 31, 2019 are as follows:

<u>Years Ending</u> <u>December 31</u>	<u>Amount</u>
2020	\$ 8,835
2021	<u>7,631</u>
	<u>\$ 16,466</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2019 and 2018

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, 2019, the Organization had no uninsured cash as the Organization's cash balance was fully insured. At December 31, 2018, the Organization had uninsured balances of \$170,788.

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>2019</u>	<u>2018</u>
Gross Proceeds	\$ 574,197	\$ 546,631
Less: Direct Costs	<u>271,390</u>	<u>237,094</u>
	<u>\$ 302,807</u>	<u>\$ 309,537</u>

10. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2019 and 2018 were available for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Private Contributions:		
Garden Endowment	\$ 72,000	\$ 50,000
Expenses related to years ended December 31, 2020 and 2019	13,126	30,000
Operating Endowment	<u>1,041,655</u>	<u>1,041,655</u>
	<u>\$ 1,126,781</u>	<u>\$ 1,121,655</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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Expenses related to:		
Special Events	<u>\$ 30,000</u>	<u>\$ 40,000</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2019 and 2018

12. Endowment Fund

The Organization's endowment fund at December 31, 2019 and 2018 consists of the following:

	2019	2018
J. Kroc House Operating Endowment	\$ 500,000	\$ 500,000
Various Donors Operating Endowments	541,655	541,655
	\$ 1,041,655	\$ 1,041,655

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.

No amounts were added to the endowment during either of the years ended December 31, 2019 or 2018. Donor-restricted net assets associated with the Organization's endowment funds are included in cash and investments.

Interpretation of Relevant Law and Endowment Policies

The State of North Carolina enacted the North Carolina Uniform Prudent Management of Institutional Funds Act (NC-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. In order to adhere to the standards of care and prudence articulated in NC-UPMIFA, the Organization adopted the following policies:

- The Organization shall continue to present as net assets with donor restrictions on its financial statements the dollar value of donor-restricted endowment funds at the time of the donation; provided, however, that such characterization shall not be in derogation of the organization's obligation to preserve the spending power of such funds in accordance with NC-UPMIFA; and provided further, that such financial statement presentation shall not be in derogation of any protections, restrictions, or other applicable principles or rules applicable under North Carolina law to monies attributable or allocable to the obligation to preserve spending power.
- In accordance with U.S. generally accepted accounting principles, all donor-restricted endowment funds of the Organization, whether of a temporary or permanent nature, shall be presented in net assets with donor restrictions until appropriated for expenditure by the governing board, at which time they will be presented as net assets without donor restrictions. For this purpose, funds shall be deemed to be appropriated (i) upon the first day of the taxable year of the organization contemplated by the annual budget for such year as finally approved by the governing board, or (ii) by a specific resolution of appropriation of the governing board, which identifies the funds so appropriated and the reason for such appropriation. Notwithstanding the foregoing, donor-restricted funds subject to a donor specified time or purpose restriction shall continue to be presented as net assets with donor restrictions until the expiration of the time-period or the satisfaction of the purpose, as applicable.

Spending Policy

Each year a distribution can be made available from the endowment funds by the Finance Committee, which shall determine the amount of funds available in keeping with the investment objectives described in the Organization's investment policy. The cash flow requirements, as currently stated by the Finance Committee, are to pay for capital expenses. The cash flow required varies by year depending on when capital assets need to be replaced.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2019 and 2018

12. Endowment Fund (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or NC-UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies at December 31, 2019 or 2018.

Investment Return Objectives

The Organization's investment policies include several investment objectives relative to its long-term investments, including permanent endowment funds. In order to achieve the objectives of the Organization's investment policies, the Organization's investments must earn a rate of return that meets its long-term goals. The long-term investment objective is to earn a return of 4.5% - 5.5% plus inflation. Given that this benchmark is not directly related to market performance, success or failure in achieving this goal should be evaluated over five to seven years. An additional performance objective is to maintain \$1,000,000 in the Endowment at all times.

Investment Strategy

As a long-term investor, the following issues are significant factors in the prudent allocation of the Organization's assets:

- In order to achieve a rate of return that will support the above-mentioned Investment Return Objectives while protecting the assets from inflation, the Organization must be willing to take some investment risk.
- The Organization believes that the most effective way to establish an appropriate volatility level for its investment portfolio is through its asset allocation (i.e. stocks, bonds, and cash). Long-term investment returns and volatility depend on the portfolio's strategic asset allocation. A strategic asset allocation policy has been adopted with an acceptable volatility level.
- There is significant evidence that long-term investors do not benefit from attempting to earn returns through short-term asset class forecasts or market timing. As a result, the Organization has adopted a strategic long-term asset allocation for the portfolio. Over time, the portfolio will remain invested in percentages that are within the ranges specified in the Organization's strategic investment allocations.
- The Organization strongly believes in the long-term benefits of diversifying its portfolio into a number of different asset classes and investment strategies. While each asset class and strategy are carefully selected, the focus of the investment process is always on the overall portfolio.
- To achieve the long-term benefits of a widely diversified portfolio, the Organization has adopted strategic targets for each asset class that it utilizes. It expects that the portfolio weight for each asset class will remain within minimum and maximum percentages, including targets and acceptable ranges.
- Within each asset class, the Organization seeks to earn the most efficient rate of return possible (after investment expenses). Investments will be well diversified by investment style and strategy. Style/strategy diversification will increase the probability over a five to seven year time horizon that the Organization will achieve its investment goals and reduce volatility.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2019 and 2018

12. Endowment Fund (Concluded)

Changes in endowment net assets for the years ended December 31, 2019 and 2018 are as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</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	644,883	1,041,655	1,686,538
Investment Return:			
Investment Income	<u>152,017</u>	<u> </u>	<u>152,017</u>
Balance as of December 31, 2019	\$ <u>796,900</u>	\$ <u>1,041,655</u>	\$ <u>1,838,555</u>

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, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Transportation Services	\$ 100,000	\$ 100,000
Food, Materials, and Supplies	107,236	121,160
Advertising and Promotion	<u>4,103</u>	<u>5,966</u>
	\$ <u>211,339</u>	\$ <u>227,126</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:

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
Less Amount Classified as Current Liability	<u>237,289</u>
Amount Due After One Year	\$ <u>0</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2019 and 2018

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 active in managing costs to ensure the entity remains liquid.

The Organization's financial assets as of December 31, 2019 and 2018 expected to be available within one year to meet the cash needs for general expenditures comprise the following:

	2019	2018
Financial assets available within one year:		
Cash	\$ 357,153	\$ 398,147
Investments	3,316,805	3,165,956
Promises to Give, net		109,806
Sales Tax Refund and Other Receivables	6,417	4,393
Financial assets, at year end	3,680,375	3,678,302
Less those unavailable for general expenditures within one year, due to:		
Contractual or Donor-Imposed Restrictions:		
Restricted by donor with time or purpose restrictions	1,126,781	1,121,655
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,553,594	\$ 2,556,647

16. Small Business Administration Loan Pursuant to CARES Act

In April 2020, the Organization obtained a Paycheck Protection Program (PPP) loan under Section 1102 of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") in the amount of \$163,200. Pursuant to Section 1106 of the CARES Act, the loan can be forgiven up to the full principal amount of the loan and any accrued interest if the Organization maintains employment and compensation levels and restricts use of the loan proceeds for eligible purposes, including payroll, rent and utilities.

17. Subsequent Events

Subsequent events have been evaluated through August 27, 2020, which is the date the financial statements were available to be issued and considered any relevant matters in the preparation of the financial statements and note disclosures.

For the year-ended December 31, 2019, the Organization evaluated subsequent events for potential recognition and disclosure through August 27, 2020, the date of financial statement issuance. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact the Organization.

18. Reclassifications

Certain amounts for 2018 have been reclassified to conform to the 2019 presentation. Such reclassifications have no effect on changes in net assets or cash flows as previously reported.