

**RONALD MCDONALD HOUSE OF
CHAPEL HILL, INC.**

Financial Statements

December 31, 2020

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Ronald McDonald House of Chapel Hill, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020 and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House of Chapel Hill, Inc. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of an Error

As discussed in Note 16 to the financial statements, certain errors resulting in the overstating of previously reported net assets with donor restrictions and understating contributions receivable as of December 31, 2019 were discovered by management of the Organization during the year. Accordingly, amounts reported for net assets with and without donor restrictions have been restated in the financial statements now presented. Our opinion has not been modified with respect to that matter.

Thomas, Judy & Puckett, P.A.

Durham, North Carolina
May 3, 2021

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2020

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 443,482
Accounts Receivable	50,681
Contribution Receivable, Facilities Use - Current	116,911
Investments	3,640,873
Prepaid Expenses	<u>34,351</u>

Total Current Assets 4,286,298

Long-Term Contribution Receivable, Facilities Use, Net	2,405,863
Property and Equipment, Net	<u>8,817,815</u>

Total Assets \$ 15,509,976

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 52,861
Accrued Payroll	10,363
Deferred Revenue	<u>37,500</u>

Total Current Liabilities 100,724

Net Assets:

Without Donor Restrictions	
Undesignated	2,635,172
Net Assets Invested in Property and Equipment	8,817,815
Designated by Board for Endowment	683,850
With Donor Restrictions	<u>3,272,415</u>

Total Net Assets 15,409,252

Total Liabilities and Net Assets \$ 15,509,976

See Accompanying Notes

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Contributions	\$ 639,495	\$ 222,570	\$ 862,065
Grants	468,389		468,389
Room Fees	126,540		126,540
Donated Materials and Services	376,684		376,684
Special Events Income, Net of Expenses of \$82,282	300,344		300,344
Other Income	1,702		1,702
Investment Earnings, Net	198,280	62,356	260,636
Total Support and Revenue	2,111,434	284,926	2,396,360
Net Assets Released from Restrictions	310,175	(310,175)	
Total Support, Revenue and Net Assets Released from Restrictions	2,421,609	(25,249)	2,396,360
Expenses:			
Program Expenses:			
Ronald McDonald House at Chapel Hill	1,684,948		1,684,948
Management and General	264,964		264,964
Fundraising	351,927		351,927
Total Expenses	2,301,839		2,301,839
Change in Net Assets	119,770	(25,249)	94,521
Net Assets, Beginning of Year, as Previously Stated	11,553,832	1,126,781	12,680,613
Prior Period Adjustments	463,235	2,170,883	2,634,118
Net Assets, End of Year	<u>\$ 12,136,837</u>	<u>\$ 3,272,415</u>	<u>\$ 15,409,252</u>

See Accompanying Notes

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2020

	Program Services	Management and General	Fundraising	Cost of Direct Benefit to Donors	Total
Salaries	\$ 569,272	\$ 90,967	\$ 95,615	\$	\$ 755,854
Payroll Taxes	42,144	6,734	7,079		55,957
Employee Benefits	69,553	11,115	11,682		92,350
Total Salaries and Related Expenses	<u>680,969</u>	<u>108,816</u>	<u>114,376</u>		<u>904,161</u>
Advertising	2,956		2,956		5,912
Contract Services	87,117	42,908			130,025
Depreciation	287,774	22,136	14,758		324,668
Guest Services	45,401				45,401
Van	175	44	73		292
In-Kind	180,024	81	194,834		374,939
Donated Rent and Land Lease	215,430	16,572	11,048		243,050
Insurance	26,774	2,060	1,373		30,207
Linens and Laundry	6,832				6,832
Maintenance and Repairs	37,002	2,846	1,898		41,746
Meetings and Training	3,516	879	1,465		5,860
Office Supplies	6,111	470	313		6,894
Postage	5,476	421	281		6,178
Printing	8,316	640	426		9,382
Professional Fees	9,038	51,213			60,251
Telephone	12,397	3,099	5,166		20,662
Bank Fees	6,549	6,548			13,097
Utilities	57,714	4,439	2,960		65,113
Special Events				82,282	82,282
Other	5,377	1,792			7,169
Total Expenses by Function	<u>1,684,948</u>	<u>264,964</u>	<u>351,927</u>	<u>82,282</u>	<u>2,384,121</u>
Less Expenses Included with Revenue:					
Cost of Direct Benefit to Donors				<u>(82,282)</u>	<u>(82,282)</u>
Total Expenses Included in Expense Section in Statement of Activities	<u>\$ 1,684,948</u>	<u>\$ 264,964</u>	<u>\$ 351,927</u>	<u>\$</u>	<u>\$ 2,301,839</u>

See Accompanying Notes

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2020

Cash Flows from Operating Activities:	
Change in Net Assets	\$ 94,521
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	324,668
Realized and Unrealized Gains on Investments	(197,855)
Donated Securities	(37,987)
Changes in Assets and Liabilities that Provided (Used) Cash:	
Accounts Receivable	(44,264)
Contributions Receivable, Facilities Use	111,344
Prepaid Expenses and Other Current Assets	(30,791)
Accounts Payable	8,869
Accrued Payroll	(26,652)
Deferred Revenue	37,500
	<hr/>
Net Cash Provided by Operating Activities	239,353
	<hr/>
Cash Flows from Investing Activities:	
Purchase of Investments	(1,921,813)
Proceeds from Sale of Investments	1,833,588
Purchases of Property and Equipment	(64,799)
	<hr/>
Net Cash Used by Investing Activities	(153,024)
	<hr/>
Net Increase in Cash and Cash Equivalents	86,329
Cash and Cash Equivalents, Beginning of Year	357,153
	<hr/>
Cash and Cash Equivalents, End of Year	<u>\$ 443,482</u>

See Accompanying Notes

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

1. Summary of Significant Accounting Policies

Operations

Ronald McDonald House of Chapel Hill, Inc. (the "Organization") is a North Carolina non-profit organization incorporated in March 1984. The mission of the Organization 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 Organization 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.

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.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

1. Summary of Significant Accounting Policies (Continued)

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.

Special Event Revenue – 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. 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. As of December 31, 2020, all contributions receivable were expected to be collected within one year.

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, the allowance for uncollectible contributions receivable was \$0.

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 \$151,692 of cash equivalents at December 31, 2020.

Investments

Investments in marketable securities with readily determinable fair values and all investments in other equity and real estate securities are reported at their fair values in the statement of financial position. Realized and unrealized gains and losses and income are included in the change in net assets in the accompanying statement of activities.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

1. Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Donated securities are recorded at their fair values on the dates of the gifts and, except where otherwise required by the donor or Board of Directors, are immediately sold by the Organization.

Income Taxes

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

Functional Allocation of Expenses

The statement 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, maintenance and repairs, utilities, office supplies, postage and printing. The expenses allocated on a 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 \$2,500 or more and estimated useful life of more than one year, and expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets. Purchased property and equipment are carried at cost.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives as follows:

Buildings and Improvements	15 – 40 years
Vehicles, Furnishings and Equipment	5 – 10 years
Computer Software	3 years

Depreciation expense totaled \$324,668 for the year ended December 31, 2020.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

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 could 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 statement of financial position.

Advertising

The Organization expenses the cost of advertising and promotion as it is incurred. Advertising and promotion expense for the year ended December 31, 2020 totaled \$5,912.

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 \$67,595.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

3. Liquidity and Availability

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

Financial assets available within one year:	
Cash and Cash Equivalents	\$ 443,482
Investments	3,640,873
Accounts Receivable	<u>50,681</u>
Financial Assets at Year End	<u>4,135,036</u>
Less amounts unavailable to be used in one year:	
Net Assets with Donor Restriction	3,272,415
Quasi-Endowment Established by the Board	<u>683,850</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 178,771</u>

It is the Organization's policy to maintain an operating reserve of one to three years of annual expenses. The Organization defines its operating reserve as net assets without restrictions less property and equipment divided by annual operating expenses.

The 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 amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated quasi endowment of \$683,850 is not subject to an annual spending rate. 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. Investment earnings on the quasi-endowment are considered board-designated funds.

4. Contributions Receivable – Facilities Use

The Organization entered into a land and improvements lease with the State of North Carolina for the site upon which the Organization's Chapel Hill 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 UNC Children's Hospital. The original lease began December 1985. The Organization entered into a new lease with similar terms in June 2001. The new lease expires in October 2035. The Organization pays annual rent of \$1. 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.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

4. Contributions Receivable – Facilities Use (Continued)

An internal valuation determined that the fair value of the land and improvements at the date of inception was \$4,860,997. The annual rental value was estimated to be approximately \$243,050 per year. In connection with this lease agreement, the Organization discounted the value of the 35-year initial term of the lease using a discount rate of 5.0%, and recorded a restricted contribution in 2020 in the amount of \$2,634,118 as a prior period adjustment (see footnote 16).

The value remaining on the use of facilities as of December 31, 2020 is \$2,522,774 and has been recorded as contribution receivable – facilities use on the statement of financial position. Rent expense recorded in connection with this lease agreement was \$243,050 for the year ended December 31, 2020.

5. Investments

Investments consist of the following at December 31, 2020:

	<u>Cost</u>	<u>Market Value</u>
Equity Securities	\$ 1,406,346	\$ 1,590,853
Fixed Income	965,980	991,291
Exchange-Traded Funds	704,718	772,692
Real Estate Interests	<u>275,000</u>	<u>286,037</u>
Total	<u>\$ 3,352,044</u>	<u>\$ 3,640,873</u>

Investment earnings for the year ended December 31, 2020 are as follows:

Interest and Dividends, Net	\$ 84,287
Realized and Unrealized Gain	197,855
Investment Management Fees	<u>(21,506)</u>
Total	<u>\$ 260,636</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

6. Property and Equipment

Property and equipment consists of the following at December 31, 2020:

Building and Improvements	\$ 11,980,040
Furnishings and Equipment	332,501
Computer Software	5,500
Vehicle	<u>30,000</u>
 Total Property and Equipment	 12,348,041
Less: Accumulated Depreciation	<u>(3,530,226)</u>
 Property and Equipment, Net	 <u>\$ 8,817,815</u>

7. Cash and Investments Held in Endowments

The Organization's endowment funds provide long-term support for operations and various projects. 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.

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. The Board of Directors 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 Directors, which may delegate responsibility to the Investment Committee of the Board of Directors.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

7. Cash and Investments Held in Endowments (Continued)

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.

Spending Policy

The Organization's funds that are established by donors can make between 4% and 5% distributions from the endowment each year. For the year ended December 31, 2020, there were no distributions from either endowment.

Investment Strategy

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 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. A diversified investment portfolio is to be maintained with funds invested in different asset classes and investment strategies. The Organization has adopted strategic targets for each asset class and expects the portfolio weight for each class to remain within minimum and maximum percentages. Within each asset class, the Organization seeks to earn the most efficient rate of return possible (after investment expenses). 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.

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.

Composition of endowment net assets by fund type for the year ended December 31, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-Designated Funds	\$ 683,850	\$	\$ 683,850
Donor-Restricted Funds	<u> </u>	<u>700,776</u>	<u>700,776</u>
Total Funds	<u>\$ 683,850</u>	<u>\$ 700,776</u>	<u>\$ 1,384,626</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

7. Cash and Investments Held in Endowments (Continued)

Changes in endowments for the year ended December 31, 2020 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year, As Previously Reported	\$ 796,900	\$ 1,041,655	\$ 1,838,555
Prior Period Adjustments	(174,337)	(413,235)	(587,572)
Contributions		10,000	10,000
Investment Earnings	61,287	62,356	123,643
Endowment Net Assets, End of Year	\$ 683,850	\$ 700,776	\$ 1,384,626

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. There were no such deficiencies at December 31, 2020.

8. Fair Value Measurements

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

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.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

8. Fair Value Measurements (Continued)

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2020</u>			
Equity Securities	\$ 1,590,853	\$ 1,400,477	\$ 190,376
Fixed Income	991,291	991,291	
Exchange-Traded Funds	772,692	772,692	
Real Estate Interests	<u>286,037</u>	<u> </u>	<u>286,037</u>
	<u>\$ 3,640,873</u>	<u>\$ 3,164,460</u>	<u>\$ 476,413</u>

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 year ended December 31, 2020.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at December 31, 2020 were as follows:

Beginning Balance	\$ 273,032
Purchases	193,503
Total Gains (Realized/Unrealized) included in Changes in Net Assets	<u>9,878</u>
Ending Balance	<u>\$ 476,413</u>

Level 3 investments consist of capital invested in real estate holdings that are valued by brokerage firms that hold and manage the investment portfolio and investments in private investment companies that are valued using the net asset valuations provided by the underlying private investment companies.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

9. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes and periods at December 31, 2020:

Subject to appropriation and expenditure
when a specified event occurs:

Restricted by donors for:

Land Lease	\$ 2,522,774
Garden Enhancement	9,516
Operations	131,260
Garden Maintenance	344
Family Programs	34,282
Capital Improvements	13,126
Other	<u>1,113</u>

Subject to endowment spending policy
and appropriation:

House Operations	500,000
Garden Enhancement	<u>60,000</u>

\$ 3,272,415

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 year ended December 31, 2020:

Satisfaction of Purpose Restrictions

Land Lease	\$ 243,050
Garden Maintenance	21,656
Family Programs	20,082
Other	<u>25,387</u>

Satisfaction of Purpose Restrictions

\$ 310,175

10. Related Party Transactions

The Organization received pledges and contributions from Board members in 2020 totaling \$36,167. As of December 31, 2020, total outstanding pledges due from Board members was \$0.

11. Retirement Plan

The Organization sponsors a retirement plan that is available to all full-time employees which has a discretionary match of up to 5% of the employees' retirement contributions. The Organization contributed \$73,618 to the plan for the year ended December 31, 2020. The match was suspended in December 2020.

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12. Donated Services and Materials

Donated services and materials are reflected in the accompanying statements at values estimated by the donor at date of receipt. Donated services and materials for the year ended December 31, 2020 were \$376,684.

13. Operating Leases

The Organization leases its mailing equipment. The lease provides for quarterly payments of \$176 over a term of sixty months. A second lease for other mailing equipment provides for monthly payments of \$36 over a term of 36 months. The Organization also leases a copier. The lease provides for monthly payments of \$678 over a term of sixty-two months. The leases expire at various times through November 2023. Total rent expense for 2020 was \$8,908.

Future minimum lease payments under these operating lease agreements are as follows:

2021	\$	7,328
2022		433
2023		<u>361</u>
	\$	<u>8,122</u>

14. Paycheck Protection Program

In April 2020, the Organization received loan proceeds in the amount of \$163,200 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the "PPP"). In January 2021, the PPP loan proceeds were forgiven by the U.S. Small Business Administration ("SBA"). The Organization recognized these proceeds as grant revenue on the statement of activities for the year ended December 31, 2020 as all conditions for forgiveness had been met by year end.

15. Uncertainties

As a result of the COVID-19 outbreak in the United States, economic uncertainties have arisen which may have a negative impact on 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, 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

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16. Correction of Errors

During the year ended December 31, 2019, the Organization discovered that it had under reported net assets with donor restrictions by \$2,170,883, under reported board designated net assets by \$622,563, and under reported contributions receivable – facilities use by \$2,634,118. The results of these corrections are as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated</u>
Contributions Receivable – Current	\$	\$ 111,344	\$ 111,344
Contributions Receivable – Long-term		2,522,774	2,522,774
Board Designated Endowments	796,900	(174,337)	622,563
Donor Designated Endowments	1,041,655	(413,235)	628,420
Non-Endowed Donor Restricted Net Assets	85,126	(50,000)	35,126
Net Assets Without Donor Restrictions	11,553,832	463,235	12,017,067
Net Assets With Donor Restrictions	1,126,781	2,170,883	3,297,664

17. Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through May 3, 2021, which is the date the financial statements were available to be issued.

As a result of the COVID-19 outbreak, the Organization applied for additional funding through the PPP under the CARES Act to fund payroll costs and assist with operating expenses. As a result, the Organization signed a promissory note with a financial institution in March 2021 for \$156,063. The Organization anticipates a majority of the promissory note will be forgiven in accordance with the regulations of the PPP.