

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

Financial Statements

December 31, 2021 and 2020

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Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

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

### Opinion

We have audited the accompanying financial statements of Ronald McDonald House of Durham and Wake, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House of Durham and Wake, Inc. as of December 31, 2021 and 2020, 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.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ronald McDonald House of Durham and Wake, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ronald McDonald House of Durham and Wake, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one

resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Ronald McDonald House of Durham and Wake, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ronald McDonald House of Durham and Wake, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Thomas, Judy & Packer, P.A.*

Durham, North Carolina  
April 20, 2022

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2021 and 2020

	2021	2020
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,417,157	\$ 1,152,693
Contributions Receivable, Current Portion	102,495	32,862
Contribution Receivable, Facilities Use, Current Portion	32,978	31,407
Investments	3,718,946	3,334,232
Gift Card Inventory	11,679	13,505
Prepaid Expenses and Other Current Assets	13,035	7,642
Total Current Assets	5,296,290	4,572,341
Long-Term Contributions Receivable, Net	13,938	29,035
Long-Term Contribution Receivable, Facilities Use, Net	1,057,465	1,090,443
Property and Equipment, Net	5,667,868	5,809,116
Total Assets	\$ 12,035,561	\$ 11,500,935
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current Liabilities:		
Long-Term Debt, Current Portion	\$	\$ 72,659
Accounts Payable		21,503
Accrued Payroll and Vacation	93,162	82,059
Other Accrued Liabilities	9,747	6,345
Deferred Revenue	26,750	37,500
Total Current Liabilities	129,659	220,066
Long-Term Liabilities:		
Long-Term Debt, Less Current Portion		153,653
Total Liabilities	129,659	373,719
Net Assets:		
Without Donor Restrictions		
Undesignated	1,422,040	821,422
Designated by Board for Endowment	1,028,826	954,048
Invested in Property and Equipment, Net of Debt	5,667,868	5,582,804
With Donor Restrictions	3,787,168	3,768,942
Total Net Assets	11,905,902	11,127,216
Total Liabilities and Net Assets	\$ 12,035,561	\$ 11,500,935

See Accompanying Notes

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

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions	\$ 2,635,103	\$ 99,719	\$ 2,734,822	\$ 2,160,005	\$ 134,491	\$ 2,294,496
Room Fees				26,701		26,701
Donated Materials and Services	784,470		784,470	712,393		712,393
Special Events Income, Net of Fees of \$43,761 in 2021 and \$174,525 in 2020	364,581		364,581	321,528		321,528
Other Income	623		623	1,257		1,257
Grant Revenue				242,700		242,700
Investment Earnings, Net	92,447	236,895	329,342	120,939	246,099	367,038
Total Support and Revenue	3,877,224	336,614	4,213,838	3,585,523	380,590	3,966,113
Net Assets Released from Restrictions	318,388	(318,388)		173,403	(173,403)	
Total Support, Revenue and Net Assets Released from Restrictions	4,195,612	18,226	4,213,838	3,758,926	207,187	3,966,113
Expenses:						
Program Expenses:						
Ronald McDonald House of Durham	1,905,344		1,905,344	1,794,123		1,794,123
Ronald McDonald House at WakeMed	247,730		247,730	236,574		236,574
Family Room at Duke Children's Hospital	134,406		134,406	132,847		132,847
Family Room at WakeMed Hospital	97,190		97,190	77,512		77,512
Management and General	271,678		271,678	300,124		300,124
Fundraising	778,804		778,804	724,848		724,848
Total Expenses	3,435,152		3,435,152	3,266,028		3,266,028
Change in Net Assets	760,460	18,226	778,686	492,898	207,187	700,085
Net Assets, Beginning of Year	7,358,274	3,768,942	11,127,216	6,865,376	3,561,755	10,427,131
Net Assets, End of Year	\$ 8,118,734	\$ 3,787,168	\$ 11,905,902	\$ 7,358,274	\$ 3,768,942	\$ 11,127,216

See Accompanying Notes

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2021

	2021								
	Program Services							Cost of Direct Benefit to Donors	
	Ronald McDonald House of Durham	Ronald McDonald House at WakeMed	Family Room at Duke Children's Hospital	Family Room at WakeMed Hospital	Total Program Services	Management and General	Fundraising		Total
Salaries	\$ 562,269	\$ 71,883	\$ 62,407	\$ 53,822	\$ 750,381	\$ 174,385	\$ 350,477	\$	\$ 1,275,243
Payroll Taxes	39,443	5,043	4,378	3,776	52,640	12,233	24,586	\$	89,459
Employee Benefits	82,681	10,570	9,177	7,914	110,342	25,643	51,537	\$	187,522
Total Salaries and Related Expenses	<u>684,393</u>	<u>87,496</u>	<u>75,962</u>	<u>65,512</u>	<u>913,363</u>	<u>212,261</u>	<u>426,600</u>	<u>\$</u>	<u>1,552,224</u>
Advertising							9,342		9,342
Automobile	3,081	848			3,929				3,929
Bad Debt Expense						17,665			17,665
Bank and Credit Card Fees						3,880	27,181		31,061
Cleaning Services and Supplies	70,332				70,332				70,332
COVID-19 Supplies and Linens	16,067				16,067				16,067
Depreciation	239,537	12,138	6,911	2,098	260,684	1,834	1,511		264,029
Direct Mail							220,371		220,371
Donor Recognition							3,309		3,309
Facilities and Equipment Rental								8,600	8,600
Family Support Services and Supplies	45,414	8,000			53,414				53,414
In Kind	526,389	127,750	44,888	26,933	725,960	1,100			727,060
Insurance	27,358	1,386	789	240	29,773	209	173		30,155
Interest	7,849	398	226	69	8,542	60	49		8,651
Linens and Laundry	6,321				6,321				6,321
Maintenance and Repairs	68,496	3,471	1,976	600	74,543	524	432		75,499
Meetings, Education and Training	50				50	3,769	961		4,780
Merchandise							10,091		10,091
Office Supplies	2,192	280	243	210	2,925	4,137	7,144	6,063	20,269
Postage and Courier	1,835				1,835	451	8,729		11,015
Printing and Publishing	1,588				1,588		27,968		29,556
Professional Fees	10,000				10,000	16,800			26,800
Donated Rent and Land Lease	87,500				87,500				87,500
Technology	18,346	1,016	882	760	21,004	7,961	19,125		48,090
Telephone	17,787	901	513	156	19,357	136	112		19,605
Travel, Meals and Entertainment								27,218	27,218
Utilities	69,873	3,541	2,016	612	76,042	535	441		77,018
Volunteer Resources and Recognition	20				20	96	130		246
Other	916	505			1,421	260	15,135	1,880	18,696
Total Expenses by Function	<u>1,905,344</u>	<u>247,730</u>	<u>134,406</u>	<u>97,190</u>	<u>2,384,670</u>	<u>271,678</u>	<u>778,804</u>	<u>43,761</u>	<u>3,478,913</u>
Less Expenses Included with Revenue: Cost of Direct Benefit to Donors								<u>(43,761)</u>	<u>(43,761)</u>
Total Expenses Included in Expense Section in Statement of Activities	<u>\$ 1,905,344</u>	<u>\$ 247,730</u>	<u>\$ 134,406</u>	<u>\$ 97,190</u>	<u>\$ 2,384,670</u>	<u>\$ 271,678</u>	<u>\$ 778,804</u>	<u>\$</u>	<u>\$ 3,435,152</u>

See Accompanying Notes

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

	2020								
	Program Services							Cost of Direct Benefit to Donors	
	Ronald McDonald House of Durham	Ronald McDonald House at WakeMed	Family Room at Duke Children's Hospital	Family Room at WakeMed Hospital	Total Program Services	Management and General	Fundraising		Total
Salaries	\$ 533,419	\$ 69,233	\$ 79,807	\$ 51,634	\$ 734,093	\$ 179,661	\$ 335,710	\$	\$ 1,249,464
Payroll Taxes	38,379	4,981	5,742	3,715	52,817	12,926	24,154	\$	89,897
Employee Benefits	74,859	9,716	11,200	7,246	103,021	25,213	47,113	\$	175,347
Total Salaries and Related Expenses	<u>646,657</u>	<u>83,930</u>	<u>96,749</u>	<u>62,595</u>	<u>889,931</u>	<u>217,800</u>	<u>406,977</u>	\$	<u>1,514,708</u>
Advertising							3,127		3,127
Automobile	1,089	672			1,761		106		1,867
Bad Debt Expense						27,992			27,992
Bank and Credit Card Fees			133		133	3,307	29,861		33,301
Cleaning Services and Supplies	70,559				70,559				70,559
Depreciation	226,861	11,496	6,545	1,987	246,889	1,737	1,431		250,057
Direct Mail							208,616		208,616
Donor Recognition							2,966		2,966
Facilities and Equipment Rental								42,927	42,927
Family Support Services and Supplies	34,589	2,579	1,392	643	39,203				39,203
In Kind	522,630	127,750	21,945	10,055	682,380	1,100			683,480
Insurance	24,210	1,227	699	212	26,348	185	153		26,686
Interest	9,178	465	265	80	9,988	70	58		10,116
Linens and Laundry	11,324				11,324				11,324
Maintenance and Repairs	45,917	2,327	1,325	402	49,971	352	290		50,613
Meetings, Education and Training	623		6		629	6,349	145		7,123
Merchandise	1,646				1,646		6,364		8,010
Office Supplies	2,508	262	302	195	3,267	5,061	4,026	6,544	18,898
Postage and Courier						5,127	12,884		18,011
Printing and Publishing	2,340				2,340		32,318		34,658
Professional Fees						16,000			16,000
Donated Rent and Land Lease	87,500				87,500				87,500
Technology	13,930	726	837	542	16,035	11,998	13,997		42,030
Telephone	17,058	864	492	149	18,563	131	108		18,802
Travel, Meals and Entertainment						2,345	1	96,367	98,713
Utilities	74,413	3,771	2,147	652	80,983	570	469		82,022
Volunteer Resources and Recognition	15		10		25		394		419
Other	1,076	505			1,581		557	28,687	30,825
Total Expenses by Function	<u>1,794,123</u>	<u>236,574</u>	<u>132,847</u>	<u>77,512</u>	<u>2,241,056</u>	<u>300,124</u>	<u>724,848</u>	<u>174,525</u>	<u>3,440,553</u>
Less Expenses Included with Revenue: Cost of Direct Benefit to Donors								<u>(174,525)</u>	<u>(174,525)</u>
Total Expenses Included in Expense Section in Statement of Activities	<u>\$ 1,794,123</u>	<u>\$ 236,574</u>	<u>\$ 132,847</u>	<u>\$ 77,512</u>	<u>\$ 2,241,056</u>	<u>\$ 300,124</u>	<u>\$ 724,848</u>	<u>\$</u>	<u>\$ 3,266,028</u>

See Accompanying Notes



**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 778,686	\$ 700,085
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	264,029	250,057
In-Kind Property and Equipment	(57,410)	(28,913)
Donated Investments		(30,923)
Realized and Unrealized Gains on Investments	(262,520)	(310,713)
Changes in Assets and Liabilities that Provided (Used) Cash:		
Contributions Receivable	(54,536)	28,142
Contributions Receivable, Facilities Use	31,407	29,912
Gift Card Inventory	1,826	(2,023)
Prepaid Expenses and Other Current Assets	(5,393)	4,571
Accounts Payable	(21,503)	(28,588)
Accrued Payroll and Vacation	11,103	(21,137)
Other Accrued Liabilities	3,402	3,301
Deferred Revenue	(10,750)	37,500
Contributions Received for Long-Term Purposes	(32,000)	(85,165)
	646,341	546,106
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities:		
Purchase of Investments	(1,521,268)	(950,029)
Proceeds from Sale of Investments	1,399,074	1,029,325
Purchases of Property and Equipment	(65,371)	(19,668)
	(187,565)	59,628
Net Cash Provided (Used) by Investing Activities		
Cash Flows from Financing Activities:		
Contributions Received for Long-Term Purposes	32,000	85,165
Payments on Long-Term Debt	(226,312)	(69,477)
	(194,312)	15,688
Net Cash Provided (Used) by Financing Activities		
Net Increase in Cash and Cash Equivalents	264,464	621,422
Cash and Cash Equivalents, Beginning of Year	1,152,693	531,271
Cash and Cash Equivalents, End of Year	\$ 1,417,157	\$ 1,152,693

See Accompanying Notes

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
**STATEMENTS OF CASH FLOWS (Continued)**  
Years Ended December 31, 2021 and 2020

	2021	2020
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	\$ 8,651	\$ 10,116
Supplemental Schedule of Noncash Operating and Investing Activities:		
Purchase of Property and Equipment	\$ (122,781)	\$ (48,581)
Less: Amounts Received as In-Kind Contribution	57,410	28,913
Cash Paid for Purchase of Property and Equipment	\$ (65,371)	\$ (19,668)

See Accompanying Notes

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2021 and 2020

1. Summary of Significant Accounting Policies

Operations

The Ronald McDonald House of Durham and Wake, Inc. (the "Organization") is a not-for-profit corporation incorporated under the laws of the State of North Carolina in 1978. The Organization was formed to provide a home away from home as well as community support for seriously ill children and their families. The Organization operates a 55 bedroom house in Durham, North Carolina for short and long-term stays. The Organization also provides five bedrooms at WakeMed Hospital in Raleigh, North Carolina as well as in-hospital support through family rooms located at Duke Children's Hospital in Durham and WakeMed Children's Hospital in Raleigh.

Basis of Presentation

The Organization prepares its financial statements on the accrual basis of accounting, which recognizes income in the period earned and expenses when incurred. The financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under these provisions, the Organization is required to report information regarding its financial position and activities according to the following net asset classifications:

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

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

The Organization has also adopted FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. Under these provisions, contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence or nature of donor restrictions.

Revenue Recognition

*Contributions, Grants and Bequests*

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Bequests are recorded when the amount and rate of payment is probable.

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2021 and 2020

1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

*Special Event Income – Ticket Sales*

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

Contributions Receivable

Contributions receivable are unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. The discount is calculated using a risk-adjusted rate of 1%. This rate does not include any consideration of collectability, for which the Organization records a separate allowance for uncollectible promises. Contributions receivable are written off when deemed uncollectible.

The Organization uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made and the uncollectible amounts are charged as a loss in the statements of activities. At December 31, 2021 and 2020, the allowance for uncollectible contributions receivable was \$5,477 and \$3,517, respectively.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers cash on hand, cash in demand deposit accounts, and all short-term debt securities with a maturity of three months or less to be cash equivalents. The Organization had \$103,252 and \$134,109 of cash equivalents at December 31, 2021 and 2020, respectively.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Realized and unrealized gains and losses and income are included in investment earnings, net in the accompanying statements of activities.

The Organization maintains investment accounts for its donor-restricted and board-designated endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of each endowment to the total fair value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Donated securities are recorded at their fair values on the dates of the gifts and, except where otherwise required by the donor or Board of Directors, are immediately sold by the Organization.

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2021 and 2020

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Organization is exempt from income taxes as a not-for-profit organization under IRS code section 501(c)(3). The Organization has been approved under Internal Revenue Code for recognition as a public charity and not as a private foundation. The Organization has adopted the provisions of FASB ASC 740-10-25, *Accounting for Uncertainty in Income Taxes*. Under this standard, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained upon examination. The Organization does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. No interest or penalties were accrued as of December 31, 2021.

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

Functional Allocation of Expenses

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

Property and Equipment

It is the Organization's policy to capitalize property and equipment with an original cost or donated value of \$5,000 or more and estimated useful life of more than one year and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets. Purchased property and equipment are carried at cost. Donations of equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. In the absence of such stipulations, contributions of equipment are recorded as unrestricted assets. Depreciation and amortization are computed using the straight-line method over the estimated useful lives as follows:

Buildings and Improvements	20 – 45 years
Vehicles, Furnishings and Equipment	5 – 15 years

Depreciation expense totaled \$264,029 and \$250,057 for the years ended December 31, 2021 and 2020, respectively.

**RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2021 and 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 may differ from those estimates.

Risks and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

Advertising

The Organization expenses advertising costs when incurred. Advertising expenses totaled \$9,342 and \$3,127 for the years ended December 31, 2021 and 2020, respectively.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported net assets or change in net assets.

Accrued Vacation

The Organization allows all full-time employees discretionary time off based on years of continuous service. Employees working less than 40 hours per week are not eligible for paid time off. The maximum number of accrued vacation hours that an employee may carry-over each year is 160 hours. Accrued vacation at December 31, 2021 and 2020 was \$72,706 and \$66,806, respectively.

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, 2021, the Organization's uninsured cash balance was \$676,668.

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3. Liquidity and Availability

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

	2021	2020
Cash and Cash Equivalents	\$ 1,417,157	\$ 1,152,693
Contributions Receivable, Current Portion	102,495	32,862
Investments	3,718,946	3,334,232
Total financial assets	5,238,598	4,519,787
Less amounts not available to be used within one year:		
Net assets with donor restrictions	2,918,485	2,647,091
Financial assets available to meet general expenditures over the next twelve months	\$ 2,320,113	\$ 1,872,696

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

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

The board-designated endowment of \$1,028,826 is subject to an annual spending rate of 5% as described in Note 8. Although the Organization does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

4. Contributions Receivable

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

	2021	2020
Less than One Year	\$ 102,495	\$ 32,862
One to Five Years	19,415	32,552
	121,910	65,414
Less: Allowance for Uncollectible Contributions	(5,477)	(3,517)
Net Contributions Receivable	\$ 116,433	\$ 61,897

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4. Contributions Receivable (Continued)

At December 31, contributions receivable were designated by the donor for the following purposes:

	2021	2020
Capital Campaign	\$ 9,500	\$ 12,000
Other (Unrestricted)	112,410	53,414
Contributions Receivable, Before Discount and Allowance for Uncollectible Contributions	\$ 121,910	\$ 65,414

5. Contribution Receivable – Facilities Use

The Organization entered into a land and improvements lease with Duke University for the site upon which the Organization’s Durham house is located. The lease restricts the use of the property to operating a short-term residence facility for children and parents of children who are being treated at Duke University Medical Center. The original lease began May 1979. The Organization entered into a new lease with similar terms in May 2012 through November 2041 with two 10-year renewal periods through November 2061. No rent is paid, and the lessor retains the right to renegotiate rent not in excess of \$1,000 per annum each succeeding fifth year. The lessee is responsible for all assessments against the property, and upon termination of the lease, the improvements thereon become the property of the lessor.

An internal valuation determined that the fair value of the land and improvements at the date of inception was \$1,750,000. The annual rental value was estimated to be approximately \$87,500 per year. In connection with this lease agreement, the Organization discounted the value of the 30-year initial term of the lease using a discount rate of 5.0%, and recorded a restricted contribution in 2012 in the amount of \$1,345,089.

The value remaining on the use of facilities at December 31, 2021 and 2020 is \$1,090,443 and \$1,121,850, respectively, and has been recorded as contribution receivable – facilities use on the statements of financial position. Rent expense recorded in connection with this lease agreement was \$87,500 for each of the years ended December 31, 2021 and 2020.



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6. Investments

Investments are summarized below. McDonald's Corporation has the right of first refusal should the Organization choose to sell its McDonald's, Inc. stock.

	<u>Cost</u>	<u>Fair Value</u>
<u>December 31, 2021</u>		
Stocks and Exchange Traded Funds	\$ 3,047,057	\$ 3,490,006
McDonald's Inc. Common Stock	<u>84,002</u>	<u>228,941</u>
Total	<u>\$ 3,131,059</u>	<u>\$ 3,718,946</u>
<u>December 31, 2020</u>		
Stocks and Exchange Traded Funds	\$ 2,328,823	\$ 2,849,188
McDonald's Inc. Common Stock	<u>79,577</u>	<u>485,044</u>
Total	<u>\$ 2,408,400</u>	<u>\$ 3,334,232</u>

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

	<u>2021</u>	<u>2020</u>
Interest and Dividends, Net	\$ 81,802	\$ 67,346
Investment Fees	(14,980)	(11,021)
Realized and Unrealized Gains	<u>262,520</u>	<u>310,713</u>
Total	<u>\$ 329,342</u>	<u>\$ 367,038</u>

7. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Building and Leased Land	\$ 8,615,089	\$ 8,559,223
Furnishings and Equipment	707,892	691,377
Vehicle	<u>90,356</u>	<u>39,956</u>
Total Property and Equipment	9,413,337	9,290,556
Less: Accumulated Depreciation	<u>(3,745,469)</u>	<u>(3,481,440)</u>
Property and Equipment, Net	<u>\$ 5,667,868</u>	<u>\$ 5,809,116</u>

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8. Cash and Investments Held in Endowments

The Organization's endowments consist of three funds established for the ongoing operations of the Organization. The endowment balances include board-designated and donor-restricted endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

North Carolina G.S. 116, Chapter 36E, Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law March 2009 and is applied to the Organization's endowment funds existing at December 31, 2021 and 2020. The Board of Trustees of the Organization has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies the following as net assets with donor restrictions: (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 as net assets with donor restrictions is classified as net assets without donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the Organization and the donor-restricted endowment fund (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

The ultimate responsibility for managing the cash and investments of the Organization rests with the Board of Trustees, which may delegate responsibility to the Investment Committee of the Board of Trustees.

*Investment Objectives* – The investment objective is to attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets over the long-term. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce reasonable income while preserving capital. Results of the investments will be compared against industry standards for each type of investment.

*Spending Policy* – The Organization has seven funds established by donors and one board-designated fund. Based on the terms of the GSK endowment, the Organization can make a 5% distribution from the endowment each year. The policy for the other funds allows the Organization to appropriate investment income generated from the funds as directed by donors and/or the Board of Trustees.

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8. Cash and Investments Held in Endowments (Continued)

Strategies Employed for Achieving Objectives

The Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Endowment net asset composition by fund type as of December 31 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>2021</u>			
Board-Designated Funds	\$ 1,028,826	\$	\$ 1,028,826
Donor-Restricted Funds	<u>                        </u>	<u>2,687,100</u>	<u>2,687,100</u>
Total Funds	<u>\$ 1,028,826</u>	<u>\$ 2,687,100</u>	<u>\$ 3,715,926</u>
<u>2020</u>			
Board-Designated Funds	\$ 954,048	\$	\$ 954,048
Donor-Restricted Funds	<u>                        </u>	<u>2,417,530</u>	<u>2,417,530</u>
Total Funds	<u>\$ 954,048</u>	<u>\$ 2,417,530</u>	<u>\$ 3,371,578</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>2021</u>			
Endowment Net Assets, Beginning of Year	\$ 954,048	\$ 2,417,530	\$ 3,371,578
Contributions	500	34,500	35,000
Investment Earnings	83,403	236,895	320,298
Distributions	<u>(9,125)</u>	<u>(1,825)</u>	<u>(10,950)</u>
Endowment Net Assets, End of Year	<u>\$ 1,028,826</u>	<u>\$ 2,687,100</u>	<u>\$ 3,715,926</u>
<u>2020</u>			
Endowment Net Assets, Beginning of Year	\$ 812,123	\$ 2,259,992	\$ 3,072,115
Contributions	3,147	85,500	88,647
Investment Earnings	110,818	246,098	356,916
Transfers	75,000	(75,000)	
Distributions	<u>(47,040)</u>	<u>(99,060)</u>	<u>(146,100)</u>
Endowment Net Assets, End of Year	<u>\$ 954,048</u>	<u>\$ 2,417,530</u>	<u>\$ 3,371,578</u>

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8. Cash and Investments Held in Endowments (Continued)

From time to time, certain donor-restricted funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2021, there were no underwater endowments.

9. Fair Value Measurements

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

The three levels of the fair value hierarchy are described as follows:

- Level 1    Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2    Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3    Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. All investments of the Organization have been classified as Level 1.

*Changes in Fair Value Levels* – The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Change in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period. There have been no changes in levels or valuation techniques for these assets and liabilities for the years ended December 31, 2021 and 2020.

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10. Long-Term Debt

The Organization had a term loan with a financial institution, payable in monthly principal and interest payments of \$6,633 through December 2023. The loan bore interest at 3.6% and was secured by one of the Organization's investment accounts. The loan was paid in full during 2021. The outstanding balance on the loan was \$0 and \$226,312 at December 31, 2021 and 2020, respectively.

11. Line of Credit

In April of 2021, the Organization opened a standby line of credit with a bank. Total borrowing capacity is based on a percentage of investments held, ranging from 60% to 90% depending on the type of investment. Borrowings of less than \$5,000,000 carry an interest rate of Prime less 0.5% (3% at December 31, 2021) and are due monthly. There were no draws on the line of credit at December 31, 2021.

12. Net Assets with Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Subject to appropriation and expenditure when a Specified event occurs:		
Land Lease	\$ 1,090,444	\$ 1,121,851
WakeMed House Operations	18,134	138,000
House Operations	1,145,128	1,330,255
Duke Family Room	101,407	89,225
General Purpose	310,444	
Subject to time restrictions:		
Durham House Expansion	9,500	12,000
Subject to endowment spending policy and appropriation:		
House Operations	842,500	812,500
General Purpose	175,111	175,111
WakeMed House Operations	54,500	50,000
Duke Family Room	<u>40,000</u>	<u>40,000</u>
	<u>\$ 3,787,168</u>	<u>\$ 3,768,942</u>

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12. Net Assets with Donor Restrictions (Continued)

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

	2021	2020
Satisfaction of purpose restrictions		
WakeMed Family Room	\$ 1,921	\$ 1,420
WakeMed House Operations	140,500	
Duke Family Room	7,206	9,483
Land Lease	87,500	87,500
House Operations	81,261	75,000
Satisfaction of purpose restrictions	\$ 318,388	\$ 173,403

13. Related Party Transactions

The Organization received pledges and contributions from Board members in 2021 and 2020 totaling \$69,921 and \$74,974, respectively. As of December 31, 2021 and 2020, total outstanding pledges due from board members was \$13,975, and \$0, respectively, and is included in contributions receivable on the accompanying statements of financial position.

14. Retirement Plan

The Organization began sponsoring a SIMPLE IRA plan for eligible employees during the year ended December 31, 2008. The Organization contributes a matching contribution of up to 3% of the employee's salary. Total employer contributions for the years ended December 31, 2021 and 2020 were \$32,667 and \$35,354, respectively.

15. Donated Materials and Services

Donated materials are reflected in the accompanying statements at values estimated by the donor at date of receipt. Donated materials for the years ended December 31, 2021 and 2020 were \$784,470 and \$712,393, respectively.

The Organization receives donated services from a variety of unpaid volunteers. No amounts have been recorded in the accompanying statement of activities because the criteria for recognition of such volunteer effort has not been satisfied.

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16. Operating Leases

The Organization leases copiers and other equipment under noncancelable operating lease agreements expiring at various dates through July 2023. Additionally, the Organization has various short-term and month-to-month leases. Monthly installments range from \$66 to \$1,300. Rent expense related to these leases totaled \$19,507 for the years ended December 31, 2021 and 2020.

The Organization leases an apartment under a noncancelable operating lease agreement expiring May 2023 with monthly installments ranging from \$1,148 to \$1,300. Rent expense for this space is donated. Donated rent expense related to this lease totaled \$15,600 for the years ended December 31, 2021 and 2020.

Minimum lease payments under these operating leases are as follows:

2022	\$ 18,291
2023	<u>7,888</u>
	<u>\$ 26,179</u>

17. Paycheck Protection Program

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

18. Uncertainties

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

19. Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through April 20, 2022, which is the date the financial statements were available to be issued.

In 2021, Ronald McDonald House of Durham and Wake and Ronald McDonald House of Chapel Hill entered into negotiations with the intent to merge by December 31, 2023.