

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

Financial Statements

December 31, 2022 and 2021

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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

### Opinion

We have audited the accompanying financial statements of Ronald McDonald House of Chapel Hill, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021 and the related statements of activities, functional expenses, and cash flows for the years 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 Chapel Hill, Inc. as of December 31, 2022 and 2021, 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 Chapel Hill, 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 Chapel Hill, 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 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 Chapel Hill, 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 Chapel Hill, 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 & Dickler, P.A.*

Durham, North Carolina  
April 28, 2023

**RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2022 and 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Current Assets:		
Cash and Cash Equivalents	\$ 979,612	\$ 676,557
Accounts Receivable	19,097	335,720
Contribution Receivable, Facilities Use - Current	128,894	122,757
Inventory	63,321	
Investments	3,633,105	3,936,190
Prepaid Expenses	18,711	26,794
Total Current Assets	4,842,740	5,098,018
Long-Term Contribution Receivable, Facilities Use, Net	2,154,212	2,283,106
Property and Equipment, Net	8,232,627	8,532,599
Total Assets	\$ 15,229,579	\$ 15,913,723
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 21,679	\$ 70,212
Accrued Payroll	11,049	11,766
Deferred Revenue	35,050	20,000
Total Current Liabilities	67,778	101,978
Net Assets:		
Without Donor Restrictions		
Undesignated	3,002,508	3,339,112
Net Assets Invested in Property and Equipment	8,232,627	8,532,599
Designated by Board for Endowment	786,070	737,083
With Donor Restrictions	3,140,596	3,202,951
Total Net Assets	15,161,801	15,811,745
Total Liabilities and Net Assets	\$ 15,229,579	\$ 15,913,723

See Accompanying Notes

**RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.**  
**STATEMENTS OF ACTIVITIES**  
Year Ended December 31, 2022

	2022		Total
	Without Donor Restrictions	With Donor Restrictions	
Support and Revenue:			
Contributions of Cash and Other Financial Assets	\$ 593,816	\$ 62,944	\$ 656,760
Contributions of Nonfinancial Assets	865,294	120,293	985,587
Grants	301,714		301,714
Third-Party Reimbursements	260,371		260,371
Special Events Income, Net of Fees of \$306,171	322,550		322,550
Other Income	9,100		9,100
Loss on Disposal of Property and Equipment	(5,528)		(5,528)
Investment Earnings (Loss), Net	(355,273)	50,200	(305,073)
<b>Total Support and Revenue</b>	<b>1,992,044</b>	<b>233,437</b>	<b>2,225,481</b>
Net Assets Released from Restrictions	295,792	(295,792)	
<b>Total Support, Revenue and Net Assets Released from Restrictions</b>	<b>2,287,836</b>	<b>(62,355)</b>	<b>2,225,481</b>
Expenses:			
Program Expenses:			
Ronald McDonald House at Chapel Hill	2,254,075		2,254,075
Family Room at UNC Children's Hospital	92,242		92,242
Management and General	251,372		251,372
Fundraising	277,736		277,736
<b>Total Expenses</b>	<b>2,875,425</b>		<b>2,875,425</b>
Change in Net Assets	(587,589)	(62,355)	(649,944)
Net Assets, Beginning of Year	12,608,794	3,202,951	15,811,745
Net Assets, End of Year	<u>\$ 12,021,205</u>	<u>\$ 3,140,596</u>	<u>\$ 15,161,801</u>

See Accompanying Notes

**RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.**  
**STATEMENTS OF ACTIVITIES**  
Year Ended December 31, 2021  
(Continued)

	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
Support and Revenue:			
Contributions of Cash and Other Financial Assets	\$ 768,212	\$ 34,435	\$ 802,647
Contributions of Nonfinancial Assets	406,886	126,139	533,025
Grants	519,112		519,112
Third-Party Reimbursements	129,542		129,542
Special Events Income, Net of Fees of \$217,900	291,838		291,838
Other Income	4,848		4,848
Loss on Disposal of Property and Equipment	(3,978)		(3,978)
Employer Retention Tax Credit	276,153		276,153
Investment Earnings, Net	212,900	54,550	267,450
<b>Total Support and Revenue</b>	<b>2,605,513</b>	<b>215,124</b>	<b>2,820,637</b>
Net Assets Released from Restrictions	284,588	(284,588)	
<b>Total Support, Revenue and Net Assets Released from Restrictions</b>	<b>2,890,101</b>	<b>(69,464)</b>	<b>2,820,637</b>
Expenses:			
Program Expenses:			
Ronald McDonald House at Chapel Hill	1,825,870		1,825,870
Family Room at UNC Children's Hospital	84,715		84,715
Management and General	258,336		258,336
Fundraising	249,223		249,223
<b>Total Expenses</b>	<b>2,418,144</b>		<b>2,418,144</b>
Change in Net Assets	471,957	(69,464)	402,493
Net Assets, Beginning of Year	12,136,837	3,272,415	15,409,252
Net Assets, End of Year	<u>\$ 12,608,794</u>	<u>\$ 3,202,951</u>	<u>\$ 15,811,745</u>

See Accompanying Notes

**RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2022

	Ronald McDonald House at Chapel Hill	Family Room at UNC Children's Hospital	Total Program Services	Management and General	Fundraising	Cost of Direct Benefit to Donors	Total
Salaries	\$ 484,681	\$ 76,359	\$ 561,040	\$ 49,621	\$ 185,485	\$	\$ 796,146
Payroll Taxes	35,840	5,646	41,486	3,669	13,716		58,871
Employee Benefits	64,981	10,237	75,218	6,653	24,868		106,739
Total Salaries and Related Expenses	<u>585,502</u>	<u>92,242</u>	<u>677,744</u>	<u>59,943</u>	<u>224,069</u>		<u>961,756</u>
Advertising	7,741		7,741		7,741		15,482
Contract Services	104,877		104,877	51,656			156,533
Depreciation	292,930		292,930	22,533	15,022		330,485
Guest Services	41,597		41,597				41,597
Van	421		421	105	175		701
In-Kind	706,395		706,395			59,440	765,835
Donated Rent and Land Lease	215,431		215,431	16,571	11,048		243,050
Insurance	35,859		35,859	2,758	1,839		40,456
Linens and Laundry	11,892		11,892				11,892
Maintenance and Repairs	74,324		74,324	5,717	3,812		83,853
Meetings and Training	6,418		6,418	1,604	2,674		10,696
Office Supplies	8,904		8,904	685	457		10,046
Postage	3,416		3,416	263	175		3,854
Printing	4,541		4,541	349	233		5,123
Professional Fees	11,287		11,287	63,957			75,244
Telephone	11,757		11,757	2,939	4,899		19,595
Bank Fees	9,989		9,989	9,989			19,978
Utilities	58,052		58,052	4,466	2,977		65,495
Technology Fees	50,999		50,999	3,923	2,615		57,537
Special Events						246,731	246,731
Other	11,743		11,743	3,914			15,657
Total Expenses by Function	<u>2,254,075</u>	<u>92,242</u>	<u>2,346,317</u>	<u>251,372</u>	<u>277,736</u>	<u>306,171</u>	<u>3,181,596</u>
Less Expenses Included with Revenue: Cost of Direct Benefit to Donors						<u>(306,171)</u>	<u>(306,171)</u>
Total Expenses Included in Expense Section in Statements of Activities	<u>\$ 2,254,075</u>	<u>\$ 92,242</u>	<u>\$ 2,346,317</u>	<u>\$ 251,372</u>	<u>\$ 277,736</u>	<u>\$</u>	<u>\$ 2,875,425</u>

See Accompanying Notes



**RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2021

	Ronald McDonald House at Chapel Hill	Family Room at UNC Children's Hospital	Total Program Services	Management and General	Fundraising	Cost of Direct Benefit to Donors	Total
Salaries	\$ 454,143	\$ 70,398	\$ 524,541	\$ 52,542	\$ 168,913	\$	\$ 745,996
Payroll Taxes	33,231	5,151	38,382	3,845	12,360		54,587
Employee Benefits	59,133	9,166	68,299	6,841	21,994		97,134
Total Salaries and Related Expenses	<u>546,507</u>	<u>84,715</u>	<u>631,222</u>	<u>63,228</u>	<u>203,267</u>		<u>897,717</u>
Advertising	2,754		2,754		2,754		5,508
Contract Services	119,254		119,254	58,737			177,991
Depreciation	289,414		289,414	22,262	14,842		326,518
Guest Services	31,458		31,458				31,458
Van	61		61	15	26		102
In-Kind	369,272		369,272			38,072	407,344
Donated Rent and Land Lease	215,431		215,431	16,571	11,048		243,050
Insurance	24,112		24,112	1,854	1,237		27,203
Linens and Laundry	4,211		4,211				4,211
Maintenance and Repairs	44,114		44,114	3,394	2,262		49,770
Meetings and Training	4,395		4,395	1,099	1,831		7,325
Office Supplies	7,995		7,995	619	410		9,024
Postage	4,150		4,150	319	213		4,682
Printing	15,782		15,782	1,214	809		17,805
Professional Fees	11,484		11,484	65,079			76,563
Telephone	12,882		12,882	3,220	5,368		21,470
Bank Fees	8,459		8,459	8,458			16,917
Utilities	55,606		55,606	4,277	2,852		62,735
Technology Fees	44,926		44,926	3,456	2,304		50,686
Special Events						179,828	179,828
Other	13,603		13,603	4,534			18,137
Total Expenses by Function	<u>1,825,870</u>	<u>84,715</u>	<u>1,910,585</u>	<u>258,336</u>	<u>249,223</u>	<u>217,900</u>	<u>2,636,044</u>
Less Expenses Included with Revenue: Cost of Direct Benefit to Donors						<u>(217,900)</u>	<u>(217,900)</u>
Total Expenses Included in Expense Section in Statements of Activities	<u>\$ 1,825,870</u>	<u>\$ 84,715</u>	<u>\$ 1,910,585</u>	<u>\$ 258,336</u>	<u>\$ 249,223</u>	<u>\$</u>	<u>\$ 2,418,144</u>

See Accompanying Notes

**RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.**  
**STATEMENTS OF CASH FLOWS**  
Year Ended December 31, 2022

	2022	2021
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (649,944)	\$ 402,493
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	330,485	326,518
Loss on Disposal of Property and Equipment	5,528	3,978
Realized and Unrealized (Gain) Loss on Investments	401,998	(202,985)
Changes in Assets and Liabilities that Provided (Used) Cash:		
Accounts Receivable	316,623	(285,039)
Contributions Receivable, Facilities Use	122,757	116,911
Inventory	(63,321)	
Prepaid Expenses	8,083	7,557
Accounts Payable	(48,533)	17,351
Accrued Payroll	(717)	1,403
Deferred Revenue	15,050	(17,500)
	438,009	370,687
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities:		
Purchase of Investments	(1,161,231)	(868,090)
Proceeds from Sale of Investments	1,062,318	775,758
Purchases of Property and Equipment	(36,041)	(45,280)
	(134,954)	(137,612)
Net Cash Used by Investing Activities		
Net Increase in Cash and Cash Equivalents	303,055	233,075
Cash and Cash Equivalents, Beginning of Year	676,557	443,482
Cash and Cash Equivalents, End of Year	\$ 979,612	\$ 676,557

See Accompanying Notes

**RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021

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.

In 2022, Ronald McDonald House of Durham and Wake and Ronald McDonald House Chapel Hill formally voted to merge effective July 1, 2023. The name of the merged entity will be Ronald McDonald House Charities of the Triangle.

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, 2022 and 2021

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, 2022 and 2021, 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, 2022 and 2021, 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 \$142,315 and \$118,421 of cash equivalents at December 31, 2022 and 2021, respectively.

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 statements of activities.

**RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021

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, 2022 and 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, maintenance and repairs, utilities, technology fees, donated rent and land lease, 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 is 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 for the years ended December 31, 2022 and 2021 was \$330,485 and \$326,518, respectively.

**RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021

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 were \$15,482 and \$5,508 for the years ended December 31, 2022 and 2021, 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.

New Accounting Pronouncement

In September 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU was issued to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancement to presentation and disclosures. The amendments for this ASU require entities to (1) disaggregate contributed nonfinancial assets from contributed financial assets in the statement of activities, (2) disclose qualitative information about whether the contributed nonfinancial assets were either monetized or used during the reporting period and, if used, a description of the programs or other activities in which the assets were used (3) disclose a description of any donor-imposed restrictions associated with the contributed nonfinancial assets, and (4) disclose a description of the valuation techniques and inputs used in fair value measurement of contributed nonfinancial assets as well as the principal market used to arrive at the fair value measurements. The implementation of this standard only impacts the presentation and disclosure requirements in the financial statements and has no impact to net assets or on the accounting and recognition of nonfinancial assets.

**RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

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, 2022, the Organization's uninsured cash balance was \$558,786.

3. Liquidity and Availability

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

	<u>2022</u>	<u>2021</u>
Financial assets available within one year:		
Cash and Cash Equivalents	\$ 979,612	\$ 676,557
Investments	3,633,105	3,936,190
Accounts Receivable	<u>19,097</u>	<u>335,720</u>
Total financial assets	4,631,814	4,948,467
Less amounts unavailable to be used in one year:		
Net Assets with Donor Restriction	861,244	797,088
Quasi-Endowment Established by the Board	<u>786,070</u>	<u>737,083</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 2,984,500</u>	<u>\$ 3,414,296</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 \$786,070 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.

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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.

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%.

The value remaining on the use of facilities as of December 31, 2022 and 2021 is \$2,283,106 and \$2,405,683, 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 \$243,050 for each of the years ended December 31, 2022 and 2021.

5. Investments

Investments are summarized below:

	<u>Cost</u>	<u>Market Value</u>
<u>December 31, 2022</u>		
Equity Securities	\$ 2,219,390	\$ 2,323,326
Fixed Income	645,677	554,725
Exchange-Traded Funds	404,613	400,552
Real Estate Interests	<u>300,000</u>	<u>354,502</u>
Total	<u>\$ 3,569,680</u>	<u>\$ 3,633,105</u>
 <u>December 31, 2021</u>		
Equity Securities	\$ 1,512,695	\$ 1,804,382
Fixed Income	1,277,016	1,264,932
Exchange-Traded Funds	476,426	544,826
Real Estate Interests	<u>300,000</u>	<u>322,050</u>
Total	<u>\$ 3,566,137</u>	<u>\$ 3,936,190</u>



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5. Investments (Continued)

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

	<u>2022</u>	<u>2021</u>
Interest and Dividends, Net	\$ 121,961	\$ 89,321
Realized and Unrealized Gain (Loss)	(401,998)	202,985
Investment Management Fees	<u>(25,036)</u>	<u>(24,856)</u>
Total	<u>\$ (305,073)</u>	<u>\$ 267,450</u>

6. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Building and Improvements	\$ 11,993,663	\$ 12,020,022
Furnishings and Equipment	308,198	336,345
Vehicle	<u>30,000</u>	<u>30,000</u>
Total Property and Equipment	12,331,861	12,386,367
Less: Accumulated Depreciation	<u>(4,099,234)</u>	<u>(3,853,768)</u>
Property and Equipment, Net	<u>\$ 8,232,627</u>	<u>\$ 8,532,599</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 (UPFIMA) was signed into law March 2009 and is applied to the Organization's endowment funds existing at December 31, 2022. 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.

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7. Cash and Investments Held in Endowments (Continued)

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 Finance Committee of the Board of Directors.

*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 years ended December 31, 2022 and 2021, 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.

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7. Cash and Investments Held in Endowments (Continued)

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.

Endowment net asset composition by fund type for the years ended December 31 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>2022</u>			
Board-Designated Funds	\$ 786,070	\$	\$ 786,070
Donor-Restricted Funds	<u>                    </u>	<u>818,919</u>	<u>818,919</u>
Total Funds	<u>\$ 786,070</u>	<u>\$ 818,919</u>	<u>\$ 1,604,989</u>
<u>2021</u>			
Board-Designated Funds	\$ 737,083	\$	\$ 737,083
Donor-Restricted Funds	<u>                    </u>	<u>755,327</u>	<u>755,327</u>
Total Funds	<u>\$ 737,083</u>	<u>\$ 755,327</u>	<u>\$ 1,492,410</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>2022</u>			
Endowment Net Assets, Beginning of Year	\$ 737,083	\$ 755,327	\$ 1,492,410
Contributions	<u>                    </u>	<u>13,392</u>	<u>13,392</u>
Investment Earnings	<u>48,987</u>	<u>50,200</u>	<u>99,187</u>
Endowment Net Assets, End of Year	<u>\$ 786,070</u>	<u>\$ 818,919</u>	<u>\$ 1,604,989</u>
<u>2021</u>			
Endowment Net Assets, Beginning of Year	\$ 683,850	\$ 700,776	\$ 1,384,626
Investment Earnings	<u>53,233</u>	<u>54,551</u>	<u>107,784</u>
Endowment Net Assets, End of Year	<u>\$ 737,083</u>	<u>\$ 755,327</u>	<u>\$ 1,492,410</u>

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, 2022 and 2021.

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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.

	<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, 2022</u>			
Equity Securities	\$ 2,323,326	\$ 1,775,878	\$ 547,448
Fixed Income	554,725	554,725	
Exchange -Traded Funds	400,552	400,552	
Real Estate Interests	<u>354,502</u>		<u>354,502</u>
	<u>\$ 3,633,105</u>	<u>\$ 2,731,155</u>	<u>\$ 901,950</u>
<u>December 31, 2021</u>			
Equity Securities	\$ 1,804,382	\$ 1,353,368	\$ 451,014
Fixed Income	1,264,932	1,264,932	
Exchange -Traded Funds	544,826	544,826	
Real Estate Interests	<u>322,050</u>		<u>322,050</u>
	<u>\$ 3,936,190</u>	<u>\$ 3,163,126</u>	<u>\$ 773,064</u>

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8. Fair Value Measurements (Continued)

*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, 2022 and 2021.

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

<u>2022</u>	
Beginning Balance	\$ 773,064
Purchases	21,720
Total Gains (Realized/Unrealized) included in Changes in Net Assets	<u>107,166</u>
Ending Balance	<u>\$ 901,950</u>
<u>2021</u>	
Beginning Balance	\$ 476,413
Purchases	224,702
Total Gains (Realized/Unrealized) included in Changes in Net Assets	<u>71,949</u>
Ending Balance	<u>\$ 773,064</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.

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9. Net Assets with Donor Restrictions

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

	2022	2021
Subject to appropriation and expenditure when a specified event occurs:		
Restricted by donors for:		
Land Lease	\$ 2,283,106	\$ 2,405,863
Garden Enhancement	19,894	14,927
Operations	225,632	180,399
Garden Maintenance		500
Family Programs	38,430	40,149
Other	142	1,113
	2,567,204	2,642,951
Subject to endowment spending policy and appropriation:		
House Operations	500,000	500,000
Garden Enhancement	73,392	60,000
	\$ 3,140,596	\$ 3,202,951

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:

	2022	2021
Satisfaction of purpose restrictions		
Land Lease	\$ 243,050	\$ 243,050
Garden Maintenance	500	344
Family Programs	51,271	28,068
Capital Improvements		13,126
Other	971	
Satisfaction of purpose restrictions	\$ 295,792	\$ 284,588

10. Related Party Transactions

The Organization received pledges and contributions from board members in 2022 and 2021 totaling \$17,103 and \$16,778, respectively. As of December 31, 2022 and 2021, total outstanding due from board members was \$0.

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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 \$22,365 and \$7,250 to the plan for the years ended December 31, 2022 and 2021, respectively.

12. Contributed Nonfinancial Assets

The Organization received the following contributions of nonfinancial assets for the years ended December 31:

	2022	2021
Property and Equipment:		
Buildings	\$ 3,200	\$
Furniture and Fixtures	32,938	
Inventory of Household Supplies	63,321	
Expenses:		
Meals and Supplies	567,503	268,814
Facilities Use	120,293	126,139
Transportation Services	138,892	100,000
Fundraising Services	59,440	38,072
	\$ 985,587	\$ 533,025

The Organization recognized contributed nonfinancial assets within revenue, including meals and supplies, family support services, transportation services, household supplies, and miscellaneous services.

In valuing property and equipment, the Organization estimated fair value at the date of donation. In valuing meals and supplies, family support services, transportation services, household supplies, and miscellaneous services, the Organization estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

Contributed rent is for the land and facilities which are used for program and general and administrative activities. In valuing the contributed land and facilities, which is located in Chapel Hill, North Carolina, the Organization estimated the fair value on the basis of recent comparable sales prices in Chapel Hill, North Carolina's real estate market.

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12. Contributed Nonfinancial Assets (Continued)

Contributed food, household goods, and clothing were utilized in the following programs: Ronald McDonald House and Ronald McDonald Family Room. In valuing these items, the Organization estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the united states. All donated assets were utilized by the Organization's programs and supporting services.

13. Paycheck Protection Program and Employee Retention Tax Credit

The Organization applied for funding through the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act ("CARES") to fund payroll and related expenses. In March 2021 the Organization received loan proceeds in the amount of \$156,063. The Organization recognized these proceeds as grant revenue on the statements of activities for the year ended December 31, 2021 as management determined it was probable it would meet both (a) the eligibility criteria for the PPP loan and (b) the loan forgiveness criteria for all of the PPP loan. In February 2022, the PPP loan proceeds were forgiven by the U.S. Small Business Administration.

Under the provisions of the CARES Act, the Organization was eligible for a refundable employee retention credit ("ERC") subject to certain criteria. The Organization received tax credits under the ERC provisions for qualified wages through December 31, 2021. During the year ended December 31, 2021, the Organization recorded \$276,153 as revenue. At December 31, 2022 and 2021, total receivables related to the ERC were \$0 and \$276,153, respectively.

14. Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through April 28, 2023, which is the date the financial statements were available to be issued.