

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

Financial Statements

December 31, 2022 and 2021

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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, 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 Durham and Wake, 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 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 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 & Puckett, P.A.

Durham, North Carolina
April 19, 2023

RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

	2022	2021
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,409,349	\$ 1,417,157
Contributions Receivable, Current Portion	88,145	102,495
Contribution Receivable, Facilities Use, Current Portion	34,627	32,978
Grants Receivable	20,782	
Investments	3,292,572	3,718,946
Gift Card Inventory	14,644	11,679
Prepaid Expenses and Other Current Assets	13,785	13,035
Total Current Assets	4,873,904	5,296,290
Long-Term Contributions Receivable, Net	21,535	13,938
Long-Term Contribution Receivable, Facilities Use, Net	1,022,840	1,057,465
Property and Equipment, Net	5,593,980	5,667,868
Total Assets	\$ 11,512,259	\$ 12,035,561
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accrued Payroll and Vacation	\$ 92,977	\$ 93,162
Other Accrued Liabilities	3,531	9,747
Deferred Revenue	38,750	26,750
Total Liabilities	135,258	129,659
Net Assets:		
Without Donor Restrictions		
Undesignated	1,473,997	1,422,040
Designated by Board for Endowment	936,532	1,028,826
Invested in Property and Equipment, Net of Debt	5,593,980	5,667,868
With Donor Restrictions	3,372,492	3,787,168
Total Net Assets	11,377,001	11,905,902
Total Liabilities and Net Assets	\$ 11,512,259	\$ 12,035,561

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions of Cash and Other Financial Assets	\$ 2,269,690	\$ 35,248	\$ 2,304,938	\$ 2,635,103	\$ 43,626	\$ 2,678,729
Contributions of Nonfinancial Assets	1,109,192	54,523	1,163,715	784,470	56,093	840,563
Third Party Reimbursements	1,690		1,690			
Special Events Income, Net of Fees of \$126,855 in 2022 and \$43,761 in 2021	372,179		372,179	364,581		364,581
Gain on Sale of Property, Plant, & Equipment	5,933		5,933			
Other Income	2,379		2,379	623		623
Investment Earnings, Net	(140,951)	(308,699)	(449,650)	92,447	236,895	329,342
Total Support and Revenue	3,620,112	(218,928)	3,401,184	3,877,224	336,614	4,213,838
Net Assets Released from Restrictions	195,748	(195,748)		318,388	(318,388)	
Total Support, Revenue and Net Assets Released from Restrictions	3,815,860	(414,676)	3,401,184	4,195,612	18,226	4,213,838
Expenses:						
Program Expenses:						
Ronald McDonald House of Durham	2,373,219		2,373,219	1,905,344		1,905,344
Ronald McDonald House at WakeMed	248,309		248,309	247,730		247,730
Family Room at Duke Children's Hospital	97,778		97,778	134,406		134,406
Family Room at WakeMed Hospital	115,776		115,776	97,190		97,190
Management and General	319,716		319,716	271,678		271,678
Fundraising	775,287		775,287	778,804		778,804
Total Expenses	3,930,085		3,930,085	3,435,152		3,435,152
Change in Net Assets	(114,225)	(414,676)	(528,901)	760,460	18,226	778,686
Net Assets, Beginning of Year	8,118,734	3,787,168	11,905,902	7,358,274	3,768,942	11,127,216
Net Assets, End of Year	\$ 8,004,509	\$ 3,372,492	\$ 11,377,001	\$ 8,118,734	\$ 3,787,168	\$ 11,905,902

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2022

	2022								
	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	\$ 608,763	\$ 74,729	\$ 29,127	\$ 55,516	\$ 768,135	\$ 182,871	\$ 362,938	\$	\$ 1,313,944
Payroll Taxes	44,681	5,238	2,008	3,963	55,890	12,475	25,886	\$	94,251
Employee Benefits	83,576	10,259	3,999	7,622	105,456	25,105	49,827	\$	180,388
Total Salaries and Related Expenses	<u>737,020</u>	<u>90,226</u>	<u>35,134</u>	<u>67,101</u>	<u>929,481</u>	<u>220,451</u>	<u>438,651</u>	\$	<u>1,588,583</u>
Advertising							4,244		4,244
Automobile	4,161				4,161				4,161
Bad Debt Expense						18,198			18,198
Bank and Credit Card Fees						3,396	32,566		35,962
Cleaning Services and Supplies	70,460				70,460				70,460
Depreciation	279,295	14,153	8,058	2,446	303,952	2,139	1,761		307,852
Direct Mail							210,835		210,835
Donor Recognition							5,403		5,403
Facilities and Equipment Rental								48,315	48,315
Family Support Services and Supplies	130,400	831	1,211	15,903	148,345				148,345
In Kind	827,563	127,750	44,888	26,933	1,027,134	1,100			1,028,234
Insurance	34,389	1,743	992	301	37,425	263	217		37,905
Linens and Laundry	24,034				24,034				24,034
Maintenance and Repairs	66,031	3,346	1,905	578	71,860	506	416		72,782
Meetings, Education and Training	826				826	12,328	2,001		15,155
Merchandise							3,178		3,178
Office Supplies	2,804	344	134	256	3,538	4,270	2,829	1,695	12,332
Postage and Courier	3,339				3,339		7,215		10,554
Printing and Publishing	1,876	115			1,991		29,436		31,427
Professional Fees						43,782			43,782
Donated Rent and Land Lease	79,383	4,023	2,290	695	86,391	608	501		87,500
Technology	14,228	991	440	736	16,395	8,751	19,435		44,581
Telephone	17,868	905	516	156	19,445	137	113		19,695
Travel, Meals and Entertainment								64,355	64,355
Utilities	76,608	3,882	2,210	671	83,371	587	483		84,441
Volunteer Resources and Recognition	100				100		1,247		1,347
Other	2,834				2,834	3,200	14,756	12,490	33,280
Total Expenses by Function	<u>2,373,219</u>	<u>248,309</u>	<u>97,778</u>	<u>115,776</u>	<u>2,835,082</u>	<u>319,716</u>	<u>775,287</u>	<u>126,855</u>	<u>4,056,940</u>
Less Expenses Included with Revenue: Cost of Direct Benefit to Donors								<u>(126,855)</u>	<u>(126,855)</u>
Total Expenses Included in Expense Section in Statement of Activities	<u>\$ 2,373,219</u>	<u>\$ 248,309</u>	<u>\$ 97,778</u>	<u>\$ 115,776</u>	<u>\$ 2,835,082</u>	<u>\$ 319,716</u>	<u>\$ 775,287</u>	<u>\$</u>	<u>\$ 3,930,085</u>

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2022

	2021								
	Program Services							Cost of Direct Benefit to Donors	Total
	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		
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>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 CASH FLOWS

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (528,901)	\$ 778,686
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	307,852	264,029
In-Kind Property and Equipment	(80,958)	(57,410)
Realized and Unrealized Gains on Investments	504,554	(262,520)
Gain on Sale of Property, Plant, and Equipment	(5,933)	
Changes in Assets and Liabilities that Provided (Used) Cash:		
Contributions Receivable	6,753	(54,536)
Contributions Receivable, Facilities Use	32,976	31,407
Grant Receivable	(20,782)	
Gift Card Inventory	(2,965)	1,826
Prepaid Expenses and Other Current Assets	(750)	(5,393)
Accounts Payable		(21,503)
Accrued Payroll and Vacation	(185)	11,103
Other Accrued Liabilities	(6,216)	3,402
Deferred Revenue	12,000	(10,750)
Contributions Received for Long-Term Purposes	(35,150)	(32,000)
Net Cash Provided by Operating Activities	182,295	646,341
Cash Flows from Investing Activities:		
Purchase of Investments	(2,232,802)	(1,521,268)
Proceeds from Sale of Investments	2,154,622	1,399,074
Proceeds from Sale of Property, Plant, and Equipment	25,000	
Purchases of Property and Equipment	(172,073)	(65,371)
Net Cash Used by Investing Activities	(225,253)	(187,565)
Cash Flows from Financing Activities:		
Contributions Received for Long-Term Purposes	35,150	32,000
Payments on Long-Term Debt		(226,312)
Net Cash Provided (Used) by Financing Activities	35,150	(194,312)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,808)	264,464
Cash and Cash Equivalents, Beginning of Year	1,417,157	1,152,693
Cash and Cash Equivalents, End of Year	\$ 1,409,349	\$ 1,417,157

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021
(Continued)

	2022	2021
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	\$	\$ 8,651
Supplemental Schedule of Noncash Operating and Investing Activities:		
Purchase of Property and Equipment	\$ (253,031)	\$ (122,781)
Less: Amounts Received as In-Kind Contribution	80,958	57,410
Cash Paid for Purchase of Property and Equipment	\$ (172,073)	\$ (65,371)

See Accompanying Notes

RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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.

In 2022, Ronald McDonald House of Durham and Wake and Ronald McDonald House of 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 DURHAM AND WAKE, 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 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, 2022 and 2021, the allowance for uncollectible contributions receivable was \$5,477.

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 \$422,968 and \$336,039 of cash equivalents at December 31, 2022 and 2021, 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.

RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

1. Summary of Significant Accounting Policies (Continued)

Investments (Continued)

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.

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, 2022.

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, donated rent and land lease, 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.

RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

1. Summary of Significant Accounting Policies (Continued)

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	5 – 45 years
Vehicles, Furnishings and Equipment	3 – 15 years

Depreciation expense totaled \$307,852 and \$264,029 for the years ended December 31, 2022 and 2021, respectively.

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.

RONALD MCDONALD HOUSE OF DURHAM AND WAKE, INC.
NOTES TO FINANCIAL STATEMENTS
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1. Summary of Significant Accounting Policies (Continued)

Advertising

The Organization expenses advertising costs when incurred. Advertising expenses totaled \$4,244 and \$9,342 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.

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, 2022 and 2021 was \$72,706.

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.

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 \$659,874.

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3. Liquidity and Availability

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

	2022	2021
Cash and Cash Equivalents	\$ 1,409,349	\$ 1,417,157
Contributions Receivable, Current Portion	88,145	102,495
Investments	3,292,572	3,718,946
Total financial assets	4,790,066	5,238,598
Less amounts not available to be used within one year:		
Net assets with donor restrictions	2,315,025	2,696,725
Financial assets available to meet general expenditures over the next twelve months	\$ 2,475,041	\$ 2,541,873

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 \$936,532 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:

	2022	2021
Less than One Year	\$ 88,145	\$ 102,495
One to Five Years	27,012	19,415
	115,157	121,910
Less: Allowance for Uncollectible Contributions	(5,477)	(5,477)
Net Contributions Receivable	\$ 109,680	\$ 116,433

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4. Contributions Receivable (Continued)

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

	2022	2021
Capital Campaign	\$ 9,500	\$ 12,000
Other (Unrestricted)	105,657	109,910
Contributions Receivable, Before Discount and Allowance for Uncollectible Contributions	\$ 115,157	\$ 121,910

5. Contributions 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, 2022 and 2021 is \$1,057,467 and \$1,090,443, 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, 2022 and 2021.

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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, 2022</u>		
Stocks and Exchange Traded Funds	\$ 2,108,585	\$ 2,089,882
Fixed Income	969,280	972,424
McDonald's Inc. Common Stock	<u>88,879</u>	<u>230,266</u>
Total	<u>\$ 3,166,744</u>	<u>\$ 3,292,572</u>
<u>December 31, 2021</u>		
Stocks and Exchange Traded Funds	\$ 3,047,057	\$ 3,490,005
McDonald's Inc. Common Stock	<u>84,002</u>	<u>228,941</u>
Total	<u>\$ 3,131,059</u>	<u>\$ 3,718,946</u>

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

	<u>2022</u>	<u>2021</u>
Interest and Dividends	\$ 66,714	\$ 81,802
Investment Fees	(11,810)	(14,980)
Realized and Unrealized Gain (Loss)	<u>(504,554)</u>	<u>262,520</u>
Total	<u>\$ (449,650)</u>	<u>\$ 329,342</u>

7. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Building and Leased Land	\$ 8,697,789	\$ 8,615,089
Furnishings and Equipment	803,187	707,892
Vehicle	<u>138,992</u>	<u>90,356</u>
Total Property and Equipment	9,639,968	9,413,337
Less: Accumulated Depreciation	<u>(4,045,988)</u>	<u>(3,745,469)</u>
Property and Equipment, Net	<u>\$ 5,593,980</u>	<u>\$ 5,667,868</u>

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8. Cash and Investments Held in Endowments

The Organization's endowments consist of eight 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, 2022 and 2021. 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.

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8. Cash and Investments Held in Endowments (Continued)

Spending Policy – The Organization has seven funds established by donors and one board-designated fund. Based on the terms of one of the endowments, 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

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>2022</u>			
Board-Designated Funds	\$ 936,532	\$	\$ 936,532
Donor-Restricted Funds	<u> </u>	<u>2,305,527</u>	<u>2,305,527</u>
Total Funds	<u>\$ 936,532</u>	<u>\$ 2,305,527</u>	<u>\$ 3,242,059</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>

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	\$ 1,028,826	\$ 2,687,100	\$ 3,715,926
Contributions	96,316	35,150	131,466
Investment Earnings	(131,524)	(308,600)	(440,124)
Transfers	1,436		1,436
Distributions	<u>(58,522)</u>	<u>(108,123)</u>	<u>(166,645)</u>
Endowment Net Assets, End of Year	<u>\$ 936,532</u>	<u>\$ 2,305,527</u>	<u>\$ 3,242,059</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>

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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, 2022, there was one underwater endowment in the amount of \$2,196.

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, 2022 and 2021.

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10. 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% (6.75% at December 31, 2022) and are due monthly. There were no draws on the line of credit at December 31, 2022 and 2021.

11. Net Assets with Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Subject to appropriation and expenditure when a Specified event occurs:		
Land Lease	\$ 1,057,467	\$ 1,090,443
WakeMed House Operations	5,709	18,134
House Operations	848,314	1,145,129
Duke Family Room	77,026	101,407
General Purpose	227,215	310,444
Subject to time restrictions:		
Durham House Expansion	9,500	9,500
Subject to endowment spending policy and appropriation:		
WakeMed House Operations	59,650	54,500
House Operations	872,500	842,500
Duke Family Room	40,000	40,000
General Purpose	<u>175,111</u>	<u>175,111</u>
	<u>\$ 3,372,492</u>	<u>\$ 3,787,168</u>

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:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions		
Land Lease	\$ 87,500	\$ 87,500
WakeMed Family Room		1,921
WakeMed House Operations	3,776	140,500
House Operations	74,521	81,261
Duke Family Room	6,674	7,206
General Purpose	<u>23,277</u>	
Satisfaction of purpose restrictions	<u>\$ 195,748</u>	<u>\$ 318,388</u>

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12. Related Party Transactions

The Organization received pledges and contributions from Board members in 2022 and 2021 totaling \$73,874 and \$69,921, respectively. As of December 31, 2022 and 2021, total outstanding pledges due from board members was \$0, and \$13,975, respectively, and is included in contributions receivable on the accompanying statements of financial position.

13. 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, 2022 and 2021 were \$35,311 and \$32,667, respectively.

14. Contributed Services

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.

15. Contributed Nonfinancial Assets

The Organization received the following contributions of nonfinancial assets for the year ending December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Property and Equipment		
Furniture and Equipment	\$ 80,958	\$
Vehicles		57,410
Expenses:		
Meals and Supplies	429,173	299,179
Family Support Services	248,744	250,554
Transportation Services	80,000	80,000
Rent	54,523	56,093
Miscellaneous Services	<u>270,317</u>	<u>97,327</u>
	<u>\$ 1,163,715</u>	<u>\$ 840,563</u>

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

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15. Contributed Nonfinancial Assets (Continued)

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, 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 Durham, North Carolina, the Organization estimated the fair value on the basis of recent comparable sales prices in Durham, North Carolina's real estate market.

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. There were no donor restrictions associated with the donated assets.

16. Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through April 19, 2023, which is the date the financial statements were available to be issued.