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RONALD MCDONALD HOUSE
OF CHAPEL HILL, INC.

Financial Statements

December 31, 2016 and 2015

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Ronald McDonald House of Chapel Hill, Inc. (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House of Chapel Hill, Inc. as of December 31, 2016 and 2015, 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.

Koonce, Wooten + Haywood, LLP

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June 14, 2017

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RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Financial Position
 December 31, 2016 and 2015

ASSETS		
	2016	2015
CURRENT ASSETS:		
Cash	\$ 582,344	\$ 1,032,833
Investments	1,858,822	3,905,187
Promises to Give, net	233,322	243,660
Sales Tax Refund Receivable	3,446	195,765
Prepaid Expenses	14,688	12,945
Total Current Assets	2,692,622	5,390,390
PROPERTY AND EQUIPMENT:		
Building and Improvements	11,476,339	11,262,870
Furniture and Equipment	353,043	351,043
Vehicle	43,300	43,300
Subtotal	11,872,682	11,657,213
Less: Accumulated Depreciation	2,267,164	1,936,962
Net Property and Equipment	9,605,518	9,720,251
OTHER ASSETS:		
Permanently Restricted Investments	1,041,655	1,041,655
Promises to Give, net	148,899	215,233
Total Other Assets	1,190,554	1,256,888
Total Assets	\$ 13,488,694	\$ 16,367,529
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 177,143	\$ 185,652
Accrued Retirement and Payroll Taxes	2,473	527
Total Current Liabilities	179,616	186,179
LONG-TERM DEBT	307,582	2,997,771
Total Liabilities	487,198	3,183,950
NET ASSETS:		
Unrestricted	11,778,549	11,907,453
Temporarily Restricted	181,292	234,471
Permanently Restricted	1,041,655	1,041,655
Total Net Assets	13,001,496	13,183,579
Total Liabilities and Net Assets	\$ 13,488,694	\$ 16,367,529

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

STATEMENTS OF ACTIVITIES

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Activities
 For the Years Ended December 31, 2016 and 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE:				
SUPPORT:				
Contributions	\$ 483,426	\$	\$	\$ 483,426
Contributions--Capital Campaign		176,324		176,324
In-Kind Contributions	278,603			278,603
Special Events, net	318,219			318,219
Grants	77,000			77,000
Subtotal	<u>1,157,248</u>	<u>176,324</u>		<u>1,333,572</u>
Net Assets Released from Restrictions:				
Satisfaction of Program and Timing Restrictions	<u>229,503</u>	<u>(229,503)</u>		
Total Support	<u>1,386,751</u>	<u>(53,179)</u>		<u>1,333,572</u>
REVENUE:				
Investment Income, net	348,490			348,490
Room Rental and Parking Fees	58,794			58,794
Other Income	21,310			21,310
Total Revenue	<u>428,594</u>			<u>428,594</u>
 Total Support and Revenue	 <u>1,815,345</u>	 <u>(53,179)</u>		 <u>1,762,166</u>
EXPENSES:				
Program Service	<u>1,599,173</u>			<u>1,599,173</u>
Support Services:				
Fundraising	237,845			237,845
Management and General	107,231			107,231
Total Support Service	<u>345,076</u>			<u>345,076</u>
 Total Expenses	 <u>1,944,249</u>			 <u>1,944,249</u>
CHANGES IN NET ASSETS	(128,904)	(53,179)		(182,083)
NET ASSETS--Beginning of Year	<u>11,907,453</u>	<u>234,471</u>	<u>1,041,655</u>	<u>13,183,579</u>
NET ASSETS--End of Year	<u>\$ 11,778,549</u>	<u>\$ 181,292</u>	<u>\$ 1,041,655</u>	<u>\$ 13,001,496</u>

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

2015			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 347,891	\$ 686,521	\$	\$ 347,891
445,740			686,521
290,698			445,740
34,000			290,698
<u>1,118,329</u>	<u>686,521</u>		<u>34,000</u>
			1,804,850
<u>3,623,997</u>	<u>(3,623,997)</u>		
<u>4,742,326</u>	<u>(2,937,476)</u>		<u>1,804,850</u>
(91,945)			(91,945)
33,474			33,474
12,743			12,743
<u>(45,728)</u>			<u>(45,728)</u>
<u>4,696,598</u>	<u>(2,937,476)</u>		<u>1,759,122</u>
<u>1,280,487</u>			<u>1,280,487</u>
237,688			237,688
100,293			100,293
<u>337,981</u>			<u>337,981</u>
<u>1,618,468</u>			<u>1,618,468</u>
3,078,130	(2,937,476)		140,654
<u>8,829,323</u>	<u>3,171,947</u>	<u>1,041,655</u>	<u>13,042,925</u>
<u>\$ 11,907,453</u>	<u>\$ 234,471</u>	<u>\$ 1,041,655</u>	<u>\$ 13,183,579</u>

STATEMENTS OF FUNCTIONAL EXPENSES

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Functional Expenses
 For the Years Ended December 31, 2016 and 2015

	2016			
	Program Services	Support Services		Total
		Fundraising	Management and General	
Salaries	\$ 583,373	\$ 155,566	\$ 38,892	\$ 777,831
Payroll Taxes	45,629	12,167	3,042	60,838
Employee Benefits	74,468	19,858	4,965	99,291
Total Salaries and Related Expenses	<u>703,470</u>	<u>187,591</u>	<u>46,899</u>	<u>937,960</u>
Depreciation	316,993	6,604	6,604	330,201
Guest Services and Family Assistance	282,829			282,829
Utilities	65,397	2,409	1,363	69,169
Advertising and Promotion	27,283	27,283		54,566
Interest Expense	45,878	956	956	47,790
Maintenance and Repairs	43,710	911	910	45,531
Contract Services	22,763		11,211	33,974
Bank Fees	11,498		11,498	22,996
Professional Fees	3,300		18,700	22,000
Insurance	21,115	440	440	21,995
Linens and Laundry	20,585			20,585
Telephone	12,027	5,011	3,007	20,045
Meetings, Training, and Seminars	7,426	3,094	1,856	12,376
Miscellaneous	7,165		2,388	9,553
Office Supplies	3,641	1,518	911	6,070
Printing	1,468	1,468		2,936
Postage	2,186	350	378	2,914
Transportation	439	210	110	759
Total Expenses	<u>\$ 1,599,173</u>	<u>\$ 237,845</u>	<u>\$ 107,231</u>	<u>\$ 1,944,249</u>

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

2015			
Support Services			
Program Services	Fundraising	Management and General	Total
\$ 475,158	\$ 145,187	\$ 39,596	\$ 659,941
39,117	11,952	3,260	54,329
<u>57,303</u>	<u>17,509</u>	<u>4,775</u>	<u>79,587</u>
<u>571,578</u>	<u>174,648</u>	<u>47,631</u>	<u>793,857</u>
140,701	2,931	2,931	146,563
330,516			330,516
35,452	739	739	36,930
39,277	39,276		78,553
4,109	86	86	4,281
43,096	898	898	44,892
21,204		10,444	31,648
6,442		6,442	12,884
3,000		17,300	20,300
19,041	397	397	19,835
12,137			12,137
12,562	5,235	3,141	20,938
13,109	5,462	3,277	21,848
10,185		3,395	13,580
10,370	4,321	2,592	17,283
2,479	2,479		4,958
3,749	600	650	4,999
<u>1,480</u>	<u>616</u>	<u>370</u>	<u>2,466</u>
<u>\$ 1,280,487</u>	<u>\$ 237,688</u>	<u>\$ 100,293</u>	<u>\$ 1,618,468</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Cash Flows
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	\$ (182,083)	\$ 140,654
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	330,201	146,563
Net Realized Gain on Sale of Investments	(326,944)	(66,827)
Unrealized Holding Loss on Investments	90,573	295,917
Change in Allowance for Uncollectible Promises to Give	(5,265)	(24,770)
Adjustment of Discount on Promises to Give	(7,775)	(7,497)
Changes in Assets and Liabilities:		
Promises to Give	89,712	551,065
Sales Tax Refund Receivable	192,319	(188,235)
Prepaid Expenses	(1,743)	2,584
Accounts Payable	(8,509)	177,534
Accrued Retirement and Payroll Taxes	1,946	(7,576)
Net Cash Provided by Operating Activities	<u>172,432</u>	<u>1,019,412</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	2,777,968	932,256
Purchases of Investments	(495,232)	(1,145,382)
Purchases of Property and Equipment	(215,468)	(5,679,429)
Net Cash Provided (Used) by Investing Activities	<u>2,067,268</u>	<u>(5,892,555)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Long-Term Debt		2,997,771
Payments of Long-Term Debt	(2,690,189)	
Net Cash Provided (Used) by Financing Activities	<u>(2,690,189)</u>	<u>2,997,771</u>
NET DECREASE IN CASH	(450,489)	(1,875,372)
CASH--Beginning of Year	<u>1,032,833</u>	<u>2,908,205</u>
CASH--End of Year	<u>\$ 582,344</u>	<u>\$ 1,032,833</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
In-Kind Contributions	\$ 278,603	\$ 445,740
Cash Paid for Interest	47,790	4,281

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

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies

A. Organization and Purpose:

Ronald McDonald House of Chapel Hill, Inc. (the Organization) is a North Carolina non-profit organization incorporated in November 1984. The mission of the Organization is to provide a "home away from home" for families of children who are receiving health care at area hospitals. The Organization offers physical comfort and emotional support through programs dedicated to the well-being of the whole family.

B. Basis of Presentation:

The accompanying financial statements have been, in all material respects, prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Net assets and support, revenue, expenses, gains, and losses are classified based on the existence or absence of externally-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets--Net assets that are not subject to externally-imposed restrictions. Certain net assets classified as unrestricted may, from time to time, be designated for specific purposes or uses under various internal operating budgets or for board designated purposes.

Temporarily Restricted Net Assets--Net assets subject to externally-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets--Net assets subject to externally-imposed restrictions that they be maintained permanently by the Organization.

C. Accounting Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions are used for, but not limited to, the fair value of investments and in-kind contributions, discounted to net present value for promises to give, depreciable lives of property and equipment, and functional allocation of expenses.

D. Promises to Give:

The Organization recognizes as revenues contributions received and made, including unconditional, legally enforceable promises to give, in the period in which the Organization is notified that the donor has made a promise to give. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designed for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases that net asset class. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Unconditional promises to give expected to be collected within one year are recorded at net realizable value and at the present value of estimated future cash flows if expected to be collected beyond one year. Amortization of the discount is included in contribution revenue. Unconditional promises are also recorded net of an allowance for uncollectible promises. The allowance is based on management's analysis of specific promises to give and current economic conditions.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2016 and 2015

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

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

E. Investments:

Investments are recorded at fair value. Fair value is based on quoted market prices when available. Gains and losses are determined using the specific identification method. Unrealized gains and losses are included in the changes in net assets.

F. Property and Equipment:

Property and equipment is recorded at cost if purchased or at fair value if donated at the date of donation. A capitalization threshold of \$2,500 is utilized. Expenditures for repairs and maintenance are charged against operations. Depreciation is provided using the straight-line method over estimated useful lives ranging from three to forty years. Depreciation expense for the years ended December 31, 2016 and 2015 totaled \$330,201 and \$146,563, respectively.

G. Contributions:

Contributions of cash and other assets, as well as grants, are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any externally-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is presented as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions.

H. In-Kind Contributions:

The Organization records in-kind contributions of services, materials, and other at their estimated fair values at the date of the contribution.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would otherwise be purchased by the Organization.

The Organization is also the recipient of services donated by approximately 3,900 volunteers that perform a variety of tasks. No amounts have been reflected in the financial statements for volunteer hours since these services do not meet the requirements for recognition in the financial statements. In addition, the Organization's officers and board of directors serve without compensation.

I. Functional Allocation of Expenses:

The cost of providing the various program and support services of the Organization has been summarized on a functional basis in the statements of functional expenses. Certain costs have been allocated among the program and support services benefited on the basis of time records and estimates made by management. Support services include expenses which are not directly identifiable with any specific program but provide support for the Organization's overall operations.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2016 and 2015

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

J. Advertising and Promotion:

The Organization expenses the cost of advertising and promotion as it is incurred. Advertising and promotion expense for the years ended December 31, 2016 and 2015 totals \$54,566 and \$78,553, respectively.

K. Income Tax Status:

The Organization is exempt from federal and state income taxes under Section 501(a) of the Internal Revenue Code and is classified under Section 501(c)(3) as a public charity. In addition, the Organization qualifies for deductible contributions under Section 170(b)(1)(A)(vi) of the Internal Revenue Code. Further, the Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code. Accordingly, the accompanying financial statements do not include a provision for income taxes.

The Organization files Form 990 information returns in the U.S. Federal jurisdiction. These returns are subject to examination by the Internal Revenue Service for a period of three years after the respective filing deadlines.

L. Subsequent Events:

Subsequent events have been evaluated through June 14, 2017, which is the date the financial statements were available to be issued. The Organization is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

2. Promises to Give

Promises to give consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Promises to Give	\$ 417,755	\$ 507,467
Less: Allowance for Uncollectible Promises to Give	18,383	23,648
Less: Unamortized Discount	<u>17,151</u>	<u>24,926</u>
	382,221	458,893
Less: Current Portion	<u>233,322</u>	<u>243,660</u>
Amounts Due After One Year	<u>\$ 148,899</u>	<u>\$ 215,233</u>

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

	<u>2016</u>	<u>2015</u>
Amounts due in less than one year	\$ 242,966	\$ 254,667
Amounts due in one to five years	<u>174,789</u>	<u>252,800</u>
	417,755	507,467
Less: Allowance for Uncollectible Promises to Give	18,383	23,648
Less: Unamortized Discount	<u>17,151</u>	<u>24,926</u>
	<u>\$ 382,221</u>	<u>\$ 458,893</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2016 and 2015

3. Investments

Investments in marketable securities consist of the following at December 31, 2016:

	Historical Cost	Market Value
Equity Securities	\$ <u>2,486,779</u>	\$ <u>2,900,477</u>

Investments in marketable securities consist of the following at December 31, 2015:

	Historical Cost	Market Value
Equity Securities	\$ 3,820,043	\$ 4,661,046
Corporate Notes	197,661	181,718
Government Securities	<u>106,464</u>	<u>104,078</u>
	\$ <u>4,124,168</u>	\$ <u>4,946,842</u>

Investment income consists of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Interest and Dividends	\$ 131,421	\$ 172,167
Net Realized Gain on Sale of Investments	326,944	66,827
Unrealized Holding Loss on Investments	(90,573)	(295,917)
Investment Management Fees	<u>(19,302)</u>	<u>(35,022)</u>
Investment Income, net	\$ <u>348,490</u>	\$ <u>(91,945)</u>

4. Fair Value Measurements

The Organization follows ASC 820, *Fair Value Measurements and Disclosures*, as amended, with respect to fair value measurements of its financial assets and financial liabilities. This standard defines fair value as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The standard also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The hierarchy is broken down into three levels. Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2016 and 2015

4. Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for the Organization's assets measured at fair value in the accompanying financial statements. There have been no changes in the methodologies used at December 31, 2016 or 2015.

- ***Marketable Securities, Corporate Notes and Government Securities***

Shares of marketable securities, corporate notes and government securities are valued at quoted market prices and are considered to be Level 1 investments.

The following table sets forth by level, within the fair value hierarchy, the fair value of the Organization's investments measured on a recurring basis at December 31, 2016 and 2015:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)
<u>December 31, 2016:</u>		
Investments	\$ <u>2,900,477</u>	\$ <u>2,900,477</u>
 <u>December 31, 2015:</u>		
Investments	\$ <u>4,946,842</u>	\$ <u>4,946,842</u>

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

5. Retirement Plan

The Organization sponsors a retirement plan that is available to all full-time employees and matches up to 5% of the employees' retirement contributions. The Organization made contributions of \$17,375 and \$21,725 to the plan during the years ended December 31, 2016 and 2015, respectively.

6. Related Parties

The Organization is related to the University of North Carolina Hospitals, the University of North Carolina at Chapel Hill, and the McDonald's Corporation through the composition of the Organization's Board of Directors. The Organization is related to Ronald McDonald House Charities (RMHC) through support received in the amount of \$56,389 and \$381,307 for the years ended December 31, 2016 and 2015, respectively.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2016 and 2015

6. Related Parties (Continued)

The Organization leases land from the University of North Carolina at Chapel Hill for a nominal rental amount. The lease began in November 1985 and expires in 2035.

The Organization receives subsidized transportation services from the University of North Carolina Hospitals for transportation to and from the University of North Carolina Hospitals. Currently these services are donated to the Organization. The value of the services recognized for each of the years ended December 31, 2016 and 2015 was \$100,000.

7. Operating Lease Commitments

During 2016, the Organization entered into an operating lease for its mailing equipment. The lease provides for quarterly payments of \$176 over a term of sixty months. During 2016, the Organization entered into an operating lease for a copier. The lease provides for monthly payments of \$678 over a term of sixty-two months.

Future minimum lease payments under these operating lease agreements at December 31, 2016 are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2017	\$ 14,050
2018	8,835
2019	8,835
2020	8,835
2021	<u>7,631</u>
	<u>\$ 48,186</u>

8. Concentrations

Cash Balances

The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Organization maintains its operating bank accounts at several financial institutions located in North Carolina. Balances in interest-bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2016 and 2015, the Organization had uninsured balances of \$334,688 and \$818,941, respectively.

Investments

The Organization's investments in marketable securities are insured against certain acts through coverage provided by the Securities Investor Protection Corporation. The Organization's investments in marketable securities are also exposed to various risks such as interest rate, currency, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the Organization's financial statements.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.

Notes to Financial Statements

December 31, 2016 and 2015

9. Special Events

Special events consist of the following fundraising activities:

	<u>2016</u>	<u>2015</u>
Gross Proceeds	\$ 506,752	\$ 475,815
Less: Direct Costs	<u>188,533</u>	<u>185,117</u>
	<u>\$ 318,219</u>	<u>\$ 290,698</u>

10. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2016 and 2015 were available for the following purposes or periods:

	<u>2016</u>	<u>2015</u>
Private Contributions:		
Expenses related to capital campaign	\$ 174,217	\$ 174,217
Expenses related to years ended December 31, 2015 and later	<u>7,075</u>	<u>60,254</u>
	<u>\$ 181,292</u>	<u>\$ 234,471</u>

11. Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
J. Kroc House Operating Endowment	\$ 500,000	\$ 500,000
Various Donors Operating Endowments	<u>541,655</u>	<u>541,655</u>
	<u>\$ 1,041,655</u>	<u>\$ 1,041,655</u>

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

The State of North Carolina enacted the North Carolina (NC) Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective March 2009, the provisions of which apply to endowment funds existing on or established after that date. Absent donor stipulations to the contrary, the provisions of this state law do not impose either a permanent or a temporary restriction on the income or capital appreciation derived from the original gifts.

The Organization classifies as permanently restricted net assets (a) the original value of gifts donated to permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, 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. Any remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted 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 described in UPMIFA.

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11. Permanently Restricted Net Assets (Continued)

Changes in endowment net assets for the years ended December 31, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance as of December 31, 2014	\$ 466,880	\$ 1,041,655	\$ 1,508,535
Investment Return:			
Investment Income	<u>(19,361)</u>	<u> </u>	<u>(19,361)</u>
Balance as of December 31, 2015	447,519	1,041,655	1,489,174
Investment Return:			
Investment Income	<u>125,153</u>	<u> </u>	<u>125,153</u>
Balance as of December 31, 2016	\$ <u>572,672</u>	\$ <u>1,041,655</u>	\$ <u>1,614,327</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies at December 31, 2016 or 2015.

Policy for Investment of Endowment Funds

The Organization's investment policies include several investment objectives relative to its long-term investments, including permanent endowment funds. These objectives include (1) investing these assets in order to obtain the optimum rate of return and (2) alternative investments to provide additional diversification. Overall, the Organization's long-term investments should be diversified and comprise a substantial equity component. The actual composition at any given time is dependent upon a number of factors, including the amount available for investment and current market conditions.

12. In-Kind Contributions

The fair value of donated services, materials, and other included as contributions in the financial statements for the years ended December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Transportation Services	\$ 100,000	\$ 100,000
Food, Materials, and Supplies	144,789	185,235
Materials--Building Expansion	3,814	125,505
Advertising and Promotion	<u>30,000</u>	<u>35,000</u>
	\$ <u>278,603</u>	\$ <u>445,740</u>

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13. Long-Term Debt

Long-term debt relates to the financing of the building expansion and consists of the following at December 31, 2016 and 2015:

	2016	2015
Note payable with Branch Banking and Trust Company (BB&T) in order to finance the construction of the building expansion. The total financing available through the note payable is \$3,000,000. The note matures February 2022 and bears interest at a variable rate (one month LIBOR plus 1.45%). Accrued monthly interest-only payments commence March 2015 ending February 2018. Monthly principal and interest payments of \$ 27,802 commence March 2018 with final payment scheduled for February 2022. The note payable is collateralized by pledges and cash received from the related capital campaigns.	\$ 307,582	\$ 2,997,771
Less Amount Classified as Current Liability	_____	_____
Amount Due After One Year	\$ 307,582	\$ 2,997,771

Scheduled maturities of long-term debt are as follows:

Year Ending December 31	Amount
2018	\$ 275,323
2019	32,259
	\$ 307,582

14. Reclassifications

Certain amounts for 2015 have been reclassified to conform to the 2016 presentation. Such reclassifications have no effect on changes in net assets or cash flows as previously reported.