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RONALD MCDONALD HOUSE
OF CHAPEL HILL, INC.

Financial Statements

December 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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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 May 31, 2018

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RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Statements of Financial Position
December 31, 2017 and 2016

ASSETS		
	2017	2016
CURRENT ASSETS:		
Cash	\$ 548,522	\$ 582,344
Investments	2,346,838	1,858,822
Promises to Give, net	84,631	233,322
Sales Tax Refund and Other Receivables	4,572	3,446
Prepaid Expenses	10,000	14,688
Total Current Assets	2,994,563	2,692,622
PROPERTY AND EQUIPMENT:		
Building and Improvements	11,438,016	11,476,339
Furniture and Equipment	334,501	353,043
Vehicle	30,000	43,300
Subtotal	11,802,517	11,872,682
Less: Accumulated Depreciation	2,548,362	2,267,164
Net Property and Equipment	9,254,155	9,605,518
OTHER ASSETS:		
Permanently Restricted Investments	1,041,655	1,041,655
Promises to Give, net	49,383	148,899
Total Other Assets	1,091,038	1,190,554
Total Assets	\$ 13,339,756	\$ 13,488,694
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 4,920	\$ 177,143
Accrued Retirement and Payroll Taxes		2,473
Total Current Liabilities	4,920	179,616
LONG-TERM DEBT	237,582	307,582
Total Liabilities	242,502	487,198
NET ASSETS:		
Unrestricted	12,015,599	11,778,549
Temporarily Restricted	40,000	181,292
Permanently Restricted	1,041,655	1,041,655
Total Net Assets	13,097,254	13,001,496
Total Liabilities and Net Assets	\$ 13,339,756	\$ 13,488,694

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

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Activities
 For the Years Ended December 31, 2017 and 2016

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE:				
SUPPORT:				
Contributions	\$ 655,781	\$	\$	\$ 655,781
In-Kind Contributions	265,290			265,290
Special Events, net	255,942	40,000		295,942
Grants	135,498			135,498
Subtotal	1,312,511	40,000		1,352,511
Net Assets Released from Restrictions:				
Satisfaction of Program and Timing Restrictions	181,292	(181,292)		
Total Support	1,493,803	(141,292)		1,352,511
REVENUE:				
Investment Income, net	535,655			535,655
Room Rental/Medicaid Billings	164,172			164,172
Other Income	11,271			11,271
Total Revenue	711,098			711,098
 Total Support and Revenue	2,204,901	(141,292)		2,063,609
EXPENSES:				
Program Service	1,583,269			1,583,269
Support Services:				
Fundraising	243,504			243,504
Management and General	141,078			141,078
Total Support Service	384,582			384,582
Total Expenses	1,967,851			1,967,851
CHANGES IN NET ASSETS	237,050	(141,292)		95,758
NET ASSETS--Beginning of Year	11,778,549	181,292	1,041,655	13,001,496
NET ASSETS--End of Year	\$ 12,015,599	\$ 40,000	\$ 1,041,655	\$ 13,097,254

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

2016			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 483,426	\$ 176,324	\$	\$ 659,750
278,603			278,603
318,219			318,219
77,000			77,000
<u>1,157,248</u>	<u>176,324</u>		<u>1,333,572</u>
229,503	(229,503)		
<u>1,386,751</u>	<u>(53,179)</u>		<u>1,333,572</u>
348,490			348,490
58,794			58,794
21,310			21,310
<u>428,594</u>			<u>428,594</u>
<u>1,815,345</u>	<u>(53,179)</u>		<u>1,762,166</u>
<u>1,599,173</u>			<u>1,599,173</u>
237,845			237,845
107,231			107,231
<u>345,076</u>			<u>345,076</u>
<u>1,944,249</u>			<u>1,944,249</u>
(128,904)	(53,179)		(182,083)
<u>11,907,453</u>	<u>234,471</u>	<u>1,041,655</u>	<u>13,183,579</u>
<u>\$ 11,778,549</u>	<u>\$ 181,292</u>	<u>\$ 1,041,655</u>	<u>\$ 13,001,496</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Functional Expenses
 For the Years Ended December 31, 2017 and 2016

	2017			
	Program Services	Support Services		Total
		Fundraising	Management and General	
Salaries	\$ 530,793	\$ 152,694	\$ 43,627	\$ 727,114
Payroll Taxes	40,197	11,563	3,304	55,064
Employee Benefits	87,699	25,229	7,208	120,136
Total Salaries and Related Expenses	<u>658,689</u>	<u>189,486</u>	<u>54,139</u>	<u>902,314</u>
Depreciation	315,878	6,581	6,581	329,040
Guest Services and Family Assistance	281,195			281,195
Contract Services	77,268		38,058	115,326
Utilities	65,246	1,359	1,359	67,964
Advertising and Promotion	22,022	26,933		48,955
Maintenance and Repairs	45,477	947	947	47,371
Insurance	25,629	534	534	26,697
Linens and Laundry	25,351			25,351
Meetings, Training, and Seminars	14,216	5,924	3,554	23,694
Professional Fees	3,300		18,700	22,000
Telephone	13,076	5,449	3,269	21,794
Bank Fees	8,866		8,866	17,732
Miscellaneous	9,419		3,140	12,559
Office Supplies	5,837	2,433	1,460	9,730
Interest Expense	6,631	138	138	6,907
Printing	3,364	3,363		6,727
Postage	1,542	247	267	2,056
Transportation	263	110	66	439
Total Expenses	<u>\$ 1,583,269</u>	<u>\$ 243,504</u>	<u>\$ 141,078</u>	<u>\$ 1,967,851</u>

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

2016			
Program Services	Support Services		Total
	Fundraising	Management and General	
\$ 583,373	\$ 155,566	\$ 38,892	\$ 777,831
45,629	12,167	3,042	60,838
<u>74,468</u>	<u>19,858</u>	<u>4,965</u>	<u>99,291</u>
<u>703,470</u>	<u>187,591</u>	<u>46,899</u>	<u>937,960</u>
316,993	6,604	6,604	330,201
282,829			282,829
22,763		11,211	33,974
65,397	2,409	1,363	69,169
27,283	27,283		54,566
43,710	911	910	45,531
21,115	440	440	21,995
20,585			20,585
7,426	3,094	1,856	12,376
3,300		18,700	22,000
12,027	5,011	3,007	20,045
11,498		11,498	22,996
7,165		2,388	9,553
3,641	1,518	911	6,070
45,878	956	956	47,790
1,468	1,468		2,936
2,186	350	378	2,914
<u>439</u>	<u>210</u>	<u>110</u>	<u>759</u>
<u>\$ 1,599,173</u>	<u>\$ 237,845</u>	<u>\$ 107,231</u>	<u>\$ 1,944,249</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
 Statements of Cash Flows
 For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	\$ 95,758	\$ (182,083)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	329,040	330,201
Net Realized Gain on Sale of Investments	(119,019)	(326,944)
Unrealized Holding (Gain) Loss on Investments	(363,083)	90,573
Change in Allowance for Uncollectible Promises to Give	(11,104)	(5,265)
Adjustment of Discount on Promises to Give	(12,859)	(7,775)
Changes in Assets and Liabilities:		
Promises to Give	272,170	89,712
Sales Tax Refund and Other Receivables	(1,126)	192,319
Prepaid Expenses	4,688	(1,743)
Accounts Payable	(172,223)	(8,509)
Accrued Retirement and Payroll Taxes	(2,473)	1,946
Net Cash Provided by Operating Activities	19,769	172,432
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	773,961	2,777,968
Purchases of Investments	(757,552)	(495,232)
Purchases of Property and Equipment		(215,468)
Net Cash Provided by Investing Activities	16,409	2,067,268
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of Long-Term Debt	(70,000)	(2,690,189)
Net Cash Used by Financing Activities	(70,000)	(2,690,189)
NET DECREASE IN CASH	(33,822)	(450,489)
CASH--Beginning of Year	582,344	1,032,833
CASH--End of Year	\$ 548,522	\$ 582,344
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
In-Kind Contributions	\$ 265,290	\$ 278,603
Cash Paid for Interest	6,907	47,790

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

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2017 and 2016

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 Ronald McDonald House of Chapel Hill 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 Ronald McDonald House of Chapel Hill 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.

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.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2017 and 2016

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

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.

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, 2017 and 2016 totaled \$329,040 and \$330,201, 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 3,800 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.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2017 and 2016

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

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.

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, 2017 and 2016 totals \$48,955 and \$54,566, 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.

2. Promises to Give

Promises to give consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Promises to Give	\$ 145,585	\$ 417,755
Less: Allowance for Uncollectible Promises to Give	7,279	18,383
Less: Unamortized Discount	<u>4,292</u>	<u>17,151</u>
	134,014	382,221
Less: Current Portion	<u>84,631</u>	<u>233,322</u>
Amounts Due After One Year	<u>\$ 49,383</u>	<u>\$ 148,899</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>2017</u>	<u>2016</u>
Amounts due in less than one year	\$ 89,085	\$ 242,966
Amounts due in one to five years	<u>56,500</u>	<u>174,789</u>
	145,585	417,755
Less: Allowance for Uncollectible Promises to Give	7,279	18,383
Less: Unamortized Discount	<u>4,292</u>	<u>17,151</u>
	<u>\$ 134,014</u>	<u>\$ 382,221</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2017 and 2016

3. Investments

Investments in marketable securities consist of the following at December 31, 2017 and 2016:

	<u>Historical Cost</u>	<u>Market Value</u>
<u>December 31 2017:</u>		
Equity Securities	\$ <u>2,603,458</u>	\$ <u>3,388,493</u>
<u>December 31, 2016:</u>		
Equity Securities	\$ <u>2,486,779</u>	\$ <u>2,900,477</u>

Investment income consists of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and Dividends	\$ 74,820	\$ 131,421
Net Realized Gain on Sale of Investments	119,019	326,944
Unrealized Holding Gain (Loss) on Investments	363,083	(90,573)
Investment Management Fees	<u>(21,267)</u>	<u>(19,302)</u>
Investment Income, net	\$ <u>535,655</u>	\$ <u>348,490</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.

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***

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

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2017 and 2016

4. Fair Value Measurements (Continued)

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, 2017 and 2016:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
<u>December 31, 2017:</u>		
Investments	\$ <u>3,388,493</u>	\$ <u>3,388,493</u>
<u>December 31, 2016:</u>		
Investments	\$ <u>2,900,477</u>	\$ <u>2,900,477</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 \$25,541 and \$17,375 to the plan during the years ended December 31, 2017 and 2016, 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 \$66,230 and \$56,389 for the years ended December 31, 2017 and 2016, respectively.

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, 2017 and 2016 was \$100,000.

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2017 and 2016

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 2012, the Organization entered into an operating lease for its copier. The lease provides for monthly payments of \$745 over a term of sixty-three months. During 2016, the Organization entered into an operating lease for an additional and eventual replacement copier. The lease provides for monthly payments of \$678 over a term of sixty-two months. Total rent expense for 2017 and 2016 was \$14,050 and \$10,365, respectively.

Future minimum lease payments under these operating lease agreements at December 31, 2017 are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2018	\$ 8,835
2019	8,835
2020	8,835
2021	<u>7,631</u>
	<u>\$ 34,136</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, 2017 and 2016, the Organization had uninsured balances of \$210,371 and \$334,688, 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.

9. Special Events

Special events consist of the following fundraising activities:

	<u>2017</u>	<u>2016</u>
Gross Proceeds	\$ 522,427	\$ 506,752
Less: Direct Costs	<u>226,485</u>	<u>188,533</u>
	<u>\$ 295,942</u>	<u>\$ 318,219</u>

RONALD MCDONALD HOUSE OF CHAPEL HILL, INC.
Notes to Financial Statements
December 31, 2017 and 2016

10. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 and 2016 were available for the following purposes or periods:

	2017	2016
Private Contributions:		
Expenses related to capital campaign	\$	\$ 174,217
Expenses related to years ended December 31, 2018 and 2017	40,000	7,075
	\$ 40,000	\$ 181,292

11. Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2017 and 2016 consist of the following:

	2017	2016
J. Kroc House Operating Endowment	\$ 500,000	\$ 500,000
Various Donors Operating Endowments	541,655	541,655
	\$ 1,041,655	\$ 1,041,655

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)

Funds with Deficiencies

Changes in endowment net assets for the years ended December 31, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</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	572,672	1,041,655	1,614,327
Investment Return:			
Investment Income	<u>164,665</u>	<u> </u>	<u>164,665</u>
Balance as of December 31, 2017	\$ <u>737,337</u>	\$ <u>1,041,655</u>	\$ <u>1,778,992</u>

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, 2017 or 2016.

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, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Transportation Services	\$ 100,000	\$ 100,000
Food, Materials, and Supplies	128,350	144,789
Materials--Building Expansion		3,814
Advertising and Promotion	<u>36,940</u>	<u>30,000</u>
	\$ <u>265,290</u>	\$ <u>278,603</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, 2017 and 2016:

	2017	2016
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 2019. Monthly principal and interest payments of \$27,802 commence March 2019 with final payment scheduled for February 2022. The note payable is collateralized by pledges receivable and cash received from the related capital campaigns.	\$ 237,582	\$ 307,582
Less Amount Classified as Current Liability	0	0
Amount Due After One Year	\$ 237,582	\$ 307,582

Scheduled maturities of long-term debt are as follows:

Year Ending December 31	Amount
2019	\$ 59,098
2020	80,920
2021	83,414
2022	14,150
	\$ 237,582

14. Subsequent Events

Subsequent events have been evaluated through May 31, 2018, 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.

15. Reclassifications

Certain amounts for 2016 have been reclassified to conform to the 2017 presentation. Such reclassifications have no effect on changes in net assets or cash flows as previously reported.

