

# **Ronald McDonald House Charities of the Carolinas, Inc.**

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**Financial Statements**

**Year Ended December 31, 2018**

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## **Independent Auditors' Report**

The Board of Directors  
Ronald McDonald House Charities of the Carolinas, Inc.  
Greenville, South Carolina

We have audited the accompanying financial statements of Ronald McDonald House Charities of the Carolinas, Inc. (the "Organization") which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 Charities of the Carolinas, Inc. as of December 31, 2018, and changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, the Organization adopted FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2018. Our opinion is not modified with respect to that matter.

*Dixon Hughes Goodman LLP*

Greenville, South Carolina  
June 27, 2019

**Ronald McDonald House Charities of the Carolinas, Inc.**  
**Statement of Financial Position**  
**December 31, 2018**

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**Assets**

Cash and cash equivalents:

Checking cash	\$	344,807
Brokerage cash accounts		<u>71,517</u>
Total cash and cash equivalents		416,324
Investments		1,414,608
Accounts receivable		19,055
Unconditional promises to give, net		277,637
Property and equipment, less accumulated depreciation		<u>4,951,435</u>
Total assets	\$	<u><u>7,079,059</u></u>

**Liabilities and Net Assets**

Accounts payable	\$	35,708
Accrued expenses		<u>7,156</u>
Total liabilities		<u>42,864</u>
Net assets:		
Without donor restrictions		6,521,519
With donor restrictions		<u>514,676</u>
Total net assets		<u>7,036,195</u>
Total liabilities and net assets	\$	<u><u>7,079,059</u></u>

**Ronald McDonald House Charities of the Carolinas, Inc.**  
**Statement of Activities**  
**For the Year Ended December 31, 2018**

	<u>Without</u> <u>Donor Restrictions</u>	<u>With</u> <u>Donor Restrictions</u>	<u>Total</u>
<b>Public Support and Other Revenue</b>			
Public Support:			
Contributions	\$ 633,743	\$ 609,957	\$ 1,243,700
Special events	369,581	-	369,581
Other Revenue:			
Room rental	29,060	-	29,060
Interest and dividends, net of investment fees	29,719	-	29,719
Net realized and unrealized losses on investments	(126,702)	-	(126,702)
Net assets released from restrictions	609,957	(609,957)	-
Total public support and other revenue	<u>1,545,358</u>	<u>-</u>	<u>1,545,358</u>
<b>Expenses</b>			
Program services expense	726,634	-	726,634
General and administrative expenses	91,785	-	91,785
Fundraising expense	305,958	-	305,958
Payments to RMHC National	34,774	-	34,774
Total expenses	<u>1,159,151</u>	<u>-</u>	<u>1,159,151</u>
Increase in net assets	386,207	-	386,207
Net assets as adjusted, at beginning of year	<u>6,135,312</u>	<u>514,676</u>	<u>6,649,988</u>
Net assets, at end of year	<u>\$ 6,521,519</u>	<u>\$ 514,676</u>	<u>\$ 7,036,195</u>

**Ronald McDonald House Charities of the Carolinas, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2018**

	Program Services			Supporting Services		
	<u>House Operations</u>	<u>Grants to Other Agencies</u>	<u>Total</u>	<u>General &amp; Administrative</u>	<u>Fund-Raising</u>	<u>Total</u>
Employee costs	\$ 246,562	\$ -	\$ 246,562	\$ 49,312	\$ 32,875	\$ 328,749
Employee benefits	40,759	-	40,759	8,152	5,435	54,346
Payroll taxes	19,554	-	19,554	3,911	2,607	26,072
Special events	-	-	-	-	100,950	100,950
House maintenance	143,501	-	143,501	7,553	-	151,054
Family room	2,513	-	2,513	-	-	2,513
Insurance	24,670	-	24,670	2,741	-	27,411
Utilities	31,188	-	31,188	1,642	-	32,830
Printing	1,904	-	1,904	866	692	3,462
Promotional	6,845	-	6,845	3,112	2,489	12,446
Office supplies	5,254	-	5,254	2,389	1,911	9,554
Professional fees	62,915	-	62,915	3,311	63,061	129,287
Board planning	1,509	-	1,509	580	232	2,321
Travel	3,656	-	3,656	1,406	562	5,624
Volunteer recognition	2,136	-	2,136	-	1,150	3,286
Depreciation	99,202	-	99,202	5,221	-	104,423
Miscellaneous	14,302	-	14,302	1,589	-	15,891
Grants	-	20,164	20,164	-	-	20,164
Red Shoe Society	-	-	-	-	28,491	28,491
Fundraising expenses - canisters	-	-	-	-	36,685	36,685
Capital campaign development expense	-	-	-	-	28,818	28,818
	<u>\$ 706,470</u>	<u>\$ 20,164</u>	<u>\$ 726,634</u>	<u>\$ 91,785</u>	<u>\$ 305,958</u>	<u>\$ 1,124,377</u>

**Ronald McDonald House Charities of the Carolinas, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2018**

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Cash flows from operating activities:	
Increase in net assets	\$ 386,207
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	104,423
Net realized and unrealized losses on investments	126,702
In-kind donations	(9,285)
Loss on disposal of property and equipment	8,285
Net change in operating assets and liabilities:	
Accounts receivable	(385)
Unconditional promises to give	137,088
Accounts payable	(49,925)
Accrued expenses	(219,386)
Net cash provided by operating activities	<u>483,724</u>
Cash flows from investing activities:	
Purchase of property and equipment	(1,159,382)
Purchases of investments	(78,720)
Sales of investments	62,633
Net cash used by investing activities	<u>(1,175,469)</u>
Cash flows from financing activities:	
Principal payments on construction loan	(6,015)
Net cash used by financing activities	<u>(6,015)</u>
Net decrease in cash and cash equivalents	(697,760)
Cash and cash equivalents, beginning of year	<u>1,114,084</u>
Cash and cash equivalents, end of year	<u>\$ 416,324</u>

## **Notes to Financial Statements**

### **1. Summary of Significant Accounting Policies**

#### ***Organization and Purpose***

Ronald McDonald House Charities of the Carolinas, Inc. (the "Organization") is a South Carolina not-for-profit corporation. The purpose of the Organization is to establish, own and operate a facility or facilities to provide housing and other assistance for seriously ill children and their families. Additionally, the Organization grants funds to other area not-for-profit organizations which benefit children and their families.

#### ***Basis of Presentation***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents consists of all highly liquid investments with an original maturity of three months or less when purchased.

#### ***Concentration of Credit Risk***

The Organization maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation ("FDIC"). At times throughout the year, the Organization may maintain bank account balances in excess of the FDIC insured limit. The Organization believes it is not exposed to any significant credit risk.

#### ***Investments***

The Organization carries investments in marketable equity securities, bonds and mutual funds with readily determinable fair values at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The Organization also invests in alternative investments. Alternative investments comprise of a global alternative market and multi-strategy funds. These investments do not have a quoted market price. The fair value is determined by the fund manager based upon the estimated fair values of the underlying investments using quoted market prices where applicable or upon estimated fair values determined as by the fund manager.

#### ***Unconditional Promises to Give***

The Organization measures contributions received and promises to give at their fair value and reports them as an increase within the appropriate net assets category. Unconditional promises to give are recorded at net realizable value.

**Ronald McDonald House Charities of the Carolinas, Inc.**  
**Notes to Financial Statements**

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***Property and Equipment***

Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Additions with a value of \$500 or greater are capitalized and expenditures for repairs and maintenance are expensed when incurred. Depreciation is computed on the straight-line basis over the estimated useful life of the respective assets. The estimated useful lives are:

Buildings	40 years
Equipment	5 years
Furniture and fixtures	7 years

***Net Assets***

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Net Assets without Donor Restrictions*– Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by the Organization or may otherwise be limited by contractual agreements with outside parties.

*Net Assets with Donor Restrictions*– Net assets whose use by the Organization is a) subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time or b) subject to donor-imposed stipulations that they be maintained by the Organization.

***Restricted and Unrestricted Revenue and Support***

Contributions received are recorded as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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.

***Non-Cash Contributions***

Donated marketable securities, professional services, supplies and other noncash donations are recorded as contributions at their estimated fair values at the date of donation. Such donations are reported as net assets without restrictions unless the donor has restricted the donated asset to a specific purpose. A substantial number of volunteers have made significant contributions of their time to the Organization principally in the areas of meal preparation, house assistance and office assistance. The value of non-professional contributed time has not been reflected in the accompanying financial statements since the recognition criteria under accounting standards were not met.

***Functional Expenses***

The cost of providing various programs and supporting services has been reported on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the various programs and supporting services based on estimates made by management. Such allocations are determined by management on an equitable basis and consistent with program and supporting revenues.

**Ronald McDonald House Charities of the Carolinas, Inc.**  
**Notes to Financial Statements**

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***Income Taxes***

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Organization has determined that there are no material unrecognized tax benefits or obligations as of December 31, 2018.

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates could also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***New Accounting Standards***

During 2018, the Organization adopted FASB ASU No. 2016-14 – *Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of available resources, and the lack of consistency in the type of information provided about expenses and investment return. These disclosures have been presented for 2018 as allowed by ASU No. 2016-14.

**2. Investments**

Investments are comprised of the following at December 31:

Equity securities	\$	836,206
Mutual funds		326,176
Bonds		151,349
Alternative investments		<u>100,877</u>
Total	\$	<u>1,414,608</u>

Interest and dividend income is reported net of custodial and investment management fees approximating \$20,000 for the year ended December 31, 2018.

**3. Fair Value Disclosures**

The Financial Accounting Standards Board (“FASB”) issued a statement that defines fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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 that are derived principally from or corroborated by observable market data by correlation or other means.

**Ronald McDonald House Charities of the Carolinas, Inc.**  
**Notes to Financial Statements**

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If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following are descriptions of the valuation methodologies used for assets measured at fair value:

***Equity securities***

These investments are valued at the closing price reported on the active market on which the individual securities are traded. These are classified within Level 1 of the valuation hierarchy.

***Mutual funds***

These investments are public investment vehicles valued using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlining assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market and classified within Level 1 of the valuation hierarchy.

***Bonds***

These investments are valued at the closing price reported on the active market in which the individual bonds are traded. These are classified within Level 1 of the valuation hierarchy.

***Alternative investments***

The Organization invests in certain investments for which quoted prices are not available in active markets for identical instruments. The Organization utilizes the NAV provided by the administrator of the fund as a practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the fund will sell the investment for an amount different from the reported NAV. These investments are not required to be classified within a level on the fair value hierarchy.

**Ronald McDonald House Charities of the Carolinas, Inc.**  
**Notes to Financial Statements**

The following table sets forth by level the fair value hierarchy of the Organization's assets accounted for at fair value on a recurring basis as of December 31, 2018:

	Fair value at December 31, 2018	Fair value measurements at December 31, 2018 using:		
		Quoted prices in active markets for identical assets (Level 1 inputs)	Significant other observable inputs (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
Investments:				
Equity securities:				
Consumer discretionary	\$ 102,600	\$ 102,600	\$ -	\$ -
Consumer staples	73,187	73,187	-	-
Energy	60,388	60,388	-	-
Finance	113,434	113,434	-	-
Health Care	105,346	105,346	-	-
Industrials	77,292	77,292	-	-
Information technology	119,594	119,594	-	-
Materials	37,095	37,095	-	-
Real estate	55,454	55,454	-	-
Telecommunication services	72,251	72,251	-	-
Utilities	19,565	19,565	-	-
Total equity securities	<u>836,206</u>	<u>836,206</u>	-	-
Mutual funds:				
Equity mutual funds:				
US asset backed securities	100,944	100,944	-	-
High income securities	31,222	31,222	-	-
Long-short credit	20,507	20,507	-	-
Multi-strategy fund	87,583	87,583	-	-
Nontraditional bond	45,429	45,429	-	-
World bond	40,491	40,491	-	-
Total mutual funds	<u>326,176</u>	<u>326,176</u>	-	-
Bonds:				
Corporate bonds	93,853	93,853	-	-
Government bonds	46,830	46,830	-	-
Asset/mortgage backed	10,666	10,666	-	-
Total bonds	<u>151,349</u>	<u>\$ 151,349</u>	<u>\$ -</u>	<u>\$ -</u>
Total assets in the fair value hierarchy	1,313,731			
Investments at NAV (a)	100,877			
Total investments at fair value	<u>\$ 1,414,608</u>			

(a) In accordance with Topic 820, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented on the Statement of Financial Position.

The following table summarizes investments for which fair value is measured using the NAV per share practical expedient as of December 31, 2018:

	Fair Value at December 31, 2018	Unfunded Commitments	Other Redemption Restrictions	Redemption Notice Period
Global alternative market	\$ 45,283	None	Monthly	None
Multi-strategy	\$ 55,594	None	Quarterly	None

Unrealized losses are included in unrestricted net assets for the year and are reported in other revenue.

**Ronald McDonald House Charities of the Carolinas, Inc.**  
**Notes to Financial Statements**

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**4. Unconditional Promises to Give**

Unconditional promises to give at December 31 are discounted at 2.2% and include the following:

Receivable in less than one year	\$ 279,767
Receivable in one to five years	<u>20,000</u>
Total unconditional promises to give	299,767
Less discounts to present value	<u>(22,130)</u>
Net unconditional promises to give	<u>\$ 277,637</u>

**5. Property and Equipment**

Property and equipment at December 31 follows:

Buildings	\$ 4,629,534
Land and land improvements	924,732
Equipment and furnishings	<u>434,373</u>
	5,988,639
Less accumulated depreciation	<u>(1,037,204)</u>
	<u>\$ 4,951,435</u>

**6. Net Assets With Restrictions**

Net assets with restrictions, not held in perpetuity are comprised of the following at December 31:

Kitchen and laundry renovations	<u>\$ 14,676</u>
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Net assets with restrictions, held in perpetuity consist of an endowment fund established to generate earnings to support house operating expenses.

**7. Endowment Funds**

The endowment fund held in perpetuity included with net assets with donor restrictions was established to support the long-term financial stability of the Organization. The endowment funds consist of donor-restricted funds classified as net assets with donor restrictions. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

***Interpretation of Relevant Law***

Management has interpreted the Uniform Prudent Management of Institutional Funds Act (the "Act"), as enacted by the State of South Carolina 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 has classified as net assets with donor restrictions (a) the original value of gifts donated to the endowment held in perpetuity, (b) the original value of subsequent gifts to the endowment held in perpetuity, and (c) accumulations to the endowment held in perpetuity made in accordance with the direction of the applicable donor gift instrument at the time the accumulated is added to the fund, if any. In accordance with accounting standards issued in the United States of America, the remaining portion of the donor-restricted endowment fund that is not classified to be held in perpetuity is classified as net assets with restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of

**Ronald McDonald House Charities of the Carolinas, Inc.**  
**Notes to Financial Statements**

prudence prescribed by the Act. In accordance with the Act, 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 purposes 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, and (6) the investment policies of the Organization.

The Organization's net asset composition by type of fund as of December 31, 2018 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 500,000	\$ 500,000

Changes in endowment net asset for the year ended December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2017	\$ -	\$ 500,000	\$ 500,000
Investment return:			
Investment income, net	-	22,823	22,823
Net unrealized and realized investments losses	-	(22,823)	(22,823)
Total investment return	-	-	-
Appropriation of assets for expenditures	-	-	-
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>

***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Endowment to retain as a fund of perpetual duration. There were no deficiencies of this nature that are reported in net assets without donor restrictions as of December 31, 2018.

***Return Objectives and Risk Parameters***

The Organization has adopted investment and spending policies for endowment assets that are intended to provide an ongoing stream of funding to Ronald McDonald House Charities of the Carolinas, Inc.'s programs supported by the endowment. Endowment assets include assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce a high level of total investment return consistent with a prudent level of portfolio risk. The Organization expects its endowment funds to provide an average rate of return of approximately 7% percent annually. Actual returns in any given year may vary from this amount.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return 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 that places a greater emphasis on equity-based and mutual fund investments to achieve its long-term return objectives within prudent risk constraints.

**Ronald McDonald House Charities of the Carolinas, Inc.**  
**Notes to Financial Statements**

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***Spending Policy and How the Investment Objectives Relate to Spending Policy***

The Organization's policy is to make available for distribution each year for use in house operations the computed earnings from the endowment held in perpetuity.

**8. Retirement Plan**

The Organization maintains a Savings Incentive Match Plan for Employees ("SIMPLE") to which eligible employees may elect to contribute a portion of their gross wages. The Organization will incur matching contributions based on certain guidelines. Matching contributions of approximately \$5,000 were made for the year ended December 31, 2018.

**9. Liquidity and Availability**

The Organization's liquidity management structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial assets at December 31, 2018:

Cash and cash equivalents	\$ 416,324
Investments	899,932
	<hr/>
	\$ 1,316,256
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**10. Subsequent Events**

The Organization has evaluated subsequent events through June 27, 2019, the date which the financial statements were available to be issued.