

**RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
WINSTON-SALEM, NORTH CAROLINA**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

**RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
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cannon&company
Certified Public Accountants L.L.P.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ronald McDonald House of Winston-Salem, Inc.
Winston-Salem, North Carolina

We have audited the accompanying financial statements of Ronald McDonald House of Winston-Salem, Inc. (a nonprofit 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 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 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 Winston-Salem, 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.

Cannon & Company, L.L.P.

April 18, 2017

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and Cash Equivalents	\$ 500,743	\$ 259,833	\$ -	\$ 760,576
Accounts Receivable, Net	31,699	-	-	31,699
Contributions Receivable, Net	19,115	-	-	19,115
Prepaid Expenses	156,854	-	-	156,854
Investments	4,078,977	-	490,000	4,568,977
Property and Equipment, Net	4,439,467	-	-	4,439,467
Beneficial Interest in Assets Held by Others	2,508,694	314,000	-	2,822,694
	<u>\$ 11,735,549</u>	<u>\$ 573,833</u>	<u>\$ 490,000</u>	<u>\$ 12,799,382</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 64,059	\$ -	\$ -	\$ 64,059
Capital Lease Obligation	20,649	-	-	20,649
	<u>84,708</u>	<u>-</u>	<u>-</u>	<u>84,708</u>
NET ASSETS				
Unrestricted				-
Undesignated	5,811,374	-	-	5,811,374
Board Designated Maintenance Reserves	1,400,000	-	-	1,400,000
Land, Building & Equipment - Non-spendable Funds	4,439,467	-	-	4,439,467
Temporarily Restricted	-	573,833	-	573,833
Permanently Restricted	-	-	490,000	490,000
	<u>11,650,841</u>	<u>573,833</u>	<u>490,000</u>	<u>12,714,674</u>
Total Liabilities and Net Assets	<u>\$ 11,735,549</u>	<u>\$ 573,833</u>	<u>\$ 490,000</u>	<u>\$ 12,799,382</u>

See Accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and Cash Equivalents	\$ 206,992	\$ 259,833	\$ -	\$ 466,825
Accounts Receivable, Net	31,765	-	-	31,765
Contributions Receivable, Net	8,500	-	-	8,500
Prepaid Expenses	163,323	-	-	163,323
Investments	4,073,734	-	490,000	4,563,734
Property and Equipment, Net	4,009,071	-	-	4,009,071
Beneficial Interest in Assets Held by Others	2,402,601	608,000	-	3,010,601
	<u>\$ 10,895,986</u>	<u>\$ 867,833</u>	<u>\$ 490,000</u>	<u>\$ 12,253,819</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 44,460	\$ -	\$ -	\$ 44,460
Total Liabilities	<u>44,460</u>	<u>-</u>	<u>-</u>	<u>44,460</u>
NET ASSETS				
Unrestricted				-
Undesignated	5,442,455	-	-	5,442,455
Board Designated Maintenance Reserves	1,400,000	-	-	1,400,000
Land, Building & Equipment - Non-spendable Funds	4,009,071	-	-	4,009,071
Temporarily Restricted	-	867,833	-	867,833
Permanently Restricted	-	-	490,000	490,000
Total Net Assets	<u>10,851,526</u>	<u>867,833</u>	<u>490,000</u>	<u>12,209,359</u>
Total Liabilities and Net Assets	<u>\$ 10,895,986</u>	<u>\$ 867,833</u>	<u>\$ 490,000</u>	<u>\$ 12,253,819</u>

See Accompanying Notes to Financial Statements.

**RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Contributions	\$ 1,196,248	\$ 32,000	\$ -	\$ 1,228,248
Special Events Revenue	427,014	1,500	-	428,514
Less Direct Benefit Costs	<u>(80,291)</u>	<u>-</u>	<u>-</u>	<u>(80,291)</u>
Net Revenue from Special Events	346,723	1,500	-	348,223
Membership Dues	15,187	-	-	15,187
RMH Room Donation/Fees	12,245	-	-	12,245
Loss on Disposal of Property	(1,318)	-	-	(1,318)
Net Assets Released from Restrictions	<u>345,162</u>	<u>(345,162)</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Support	<u>1,914,247</u>	<u>(311,662)</u>	<u>-</u>	<u>1,602,585</u>
EXPENSES				
Program Services	1,010,190	-	-	1,010,190
Supporting Services:				
Management and General Administration	80,399	-	-	80,399
Fundraising	<u>218,908</u>	<u>-</u>	<u>-</u>	<u>218,908</u>
Total Expenses	<u>1,309,497</u>	<u>-</u>	<u>-</u>	<u>1,309,497</u>
CHANGE IN NET ASSETS FROM OPERATIONS	604,750	(311,662)	-	293,088
INVESTMENT INCOME, NET	<u>194,565</u>	<u>17,662</u>	<u>-</u>	<u>212,227</u>
CHANGE IN NET ASSETS	799,315	(294,000)	-	505,315
Net Assets - Beginning of Year	<u>10,851,526</u>	<u>867,833</u>	<u>490,000</u>	<u>12,209,359</u>
NET ASSETS - END OF YEAR	<u>\$ 11,650,841</u>	<u>\$ 573,833</u>	<u>\$ 490,000</u>	<u>\$ 12,714,674</u>

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Contributions	\$ 705,702	\$ 32,000	\$ -	\$ 737,702
Special Events Revenue	310,822	1,500	-	312,322
Less Direct Benefit Costs	<u>(51,774)</u>	<u>-</u>	<u>-</u>	<u>(51,774)</u>
Net Revenue from Special Events	259,048	1,500	-	260,548
Membership dues	26,750	-	-	26,750
RMH Room Donation/Fees	13,787	-	-	13,787
Gain on disposal of property	1,818	-	-	1,818
Net Assets Released from Restrictions	<u>(3,423)</u>	<u>3,423</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Support	<u>1,003,682</u>	<u>36,923</u>	<u>-</u>	<u>1,040,605</u>
EXPENSES				
Program Services	961,447	-	-	961,447
Supporting Services:				
Management and General Administration	78,300	-	-	78,300
Fundraising	<u>146,316</u>	<u>-</u>	<u>-</u>	<u>146,316</u>
Total Expenses	<u>1,186,063</u>	<u>-</u>	<u>-</u>	<u>1,186,063</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(182,381)	36,923	-	(145,458)
INVESTMENT LOSS, NET	<u>(53,594)</u>	<u>(8,729)</u>	<u>-</u>	<u>(62,323)</u>
CHANGE IN NET ASSETS	(235,975)	28,194	-	(207,781)
Net Assets - Beginning of Year	<u>11,087,501</u>	<u>839,639</u>	<u>490,000</u>	<u>12,417,140</u>
NET ASSETS - END OF YEAR	<u>\$ 10,851,526</u>	<u>\$ 867,833</u>	<u>\$ 490,000</u>	<u>\$ 12,209,359</u>

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services			Supporting Services		
	Ronald McDonald House	Ronald McDonald Family Room	Total	Management and General	Fundraising	Total
Salaries	\$ 324,677	\$ 54,236	\$ 378,913	\$ 55,298	\$ 109,685	\$ 543,896
Employee Health and Retirement Benefits	40,519	6,769	47,287	6,901	13,688	67,876
Payroll Taxes	23,682	3,956	27,638	4,033	8,001	39,672
Total Salaries and Related Expenses	388,877	64,961	453,838	66,232	131,374	651,445
Automobile Expenses	10,041	-	10,041	-	-	10,041
Cleaning Service and Supplies	6,664	-	6,664	-	-	6,664
Depreciation	179,610	25,363	204,973	-	-	204,973
Direct Mail	-	-	-	-	49,482	49,482
House/Program Supplies	95,389	19,429	114,818	-	-	114,818
Insurance	24,456	332	24,788	338	671	25,797
Interest Expense	633	-	633	-	-	633
Linens and Laundry	14,154	-	14,154	-	-	14,154
Maintenance and Repair	34,136	-	34,136	-	-	34,136
Meetings, Training, and Seminars	13,446	921	14,367	2,987	3,754	21,107
Office Supplies	2,190	147	2,337	312	3,499	6,148
Other Expenses	3,761	628	4,389	1,389	5,372	11,150
Postage	2,475	406	2,881	51	3,089	6,021
Printing and Publishing	6,652	2,056	8,708	72	16,099	24,879
Professional Fees	13,123	1,307	14,430	7,956	3,750	26,136
Technology	24,709	-	24,709	-	-	24,709
Telephone	16,038	71	16,109	261	468	16,838
Travel, Meals, and Entertainment	1,207	108	1,315	554	861	2,730
Utilities	40,757	-	40,757	-	-	40,757
Volunteer Recognition	15,901	242	16,143	247	489	16,879
Total Expenses	\$ 894,220	\$ 115,970	\$ 1,010,190	\$ 80,399	\$ 218,908	\$ 1,309,497

See Accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services			Supporting Services		
	Ronald McDonald House	Ronald McDonald Family Room	Total	Management and General	Fundraising	Total
Salaries	\$ 320,420	\$ 43,001	\$ 363,421	\$ 52,046	\$ 95,330	\$ 510,797
Employee Health and Retirement Benefits	41,126	5,519	46,645	6,680	12,236	65,561
Payroll Taxes	23,966	3,216	27,182	3,893	7,130	38,205
Total Salaries and Related Expenses	<u>385,512</u>	<u>51,736</u>	<u>437,248</u>	<u>62,619</u>	<u>114,696</u>	<u>614,563</u>
Automobile Expenses	10,100	-	10,100	-	-	10,100
Cleaning Service and Supplies	7,013	-	7,013	-	-	7,013
Depreciation	169,038	22,425	191,463	-	-	191,463
House/Program Supplies	87,401	11,051	98,452	-	-	98,452
Insurance	25,403	252	25,655	305	560	26,520
Linens and Laundry	16,104	-	16,104	-	-	16,104
Maintenance and Repair	27,945	-	27,945	-	-	27,945
Meetings, Training, and Seminars	11,778	1,122	12,900	3,501	6,963	23,364
Office Supplies	2,592	174	2,766	365	3,864	6,995
Other Expenses	2,899	375	3,274	1,570	4,957	9,801
Postage	2,429	355	2,784	121	4,662	7,567
Printing and Publishing	18,451	2,100	20,551	545	5,688	26,784
Professional Fees	13,301	1,348	14,649	8,480	3,823	26,952
Technology	25,091	-	25,091	-	-	25,091
Telephone	14,143	38	14,181	235	363	14,779
Travel, Meals, and Entertainment	646	91	737	529	685	1,951
Utilities	40,065	-	40,065	-	-	40,065
Volunteer Recognition	10,445	24	10,469	30	55	10,554
Total Expenses	<u>\$ 870,356</u>	<u>\$ 91,091</u>	<u>\$ 961,447</u>	<u>\$ 78,300</u>	<u>\$ 146,316</u>	<u>\$ 1,186,063</u>

See Accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 505,315	\$ (207,781)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	204,973	191,463
Donated Furniture	(7,505)	(11,581)
(Gain) Loss on Disposal of Property and Equipment	1,318	(1,818)
Net Realized and Unrealized (Gains) Losses on Investments	(212,227)	62,323
(Increase) Decrease in Assets:		
Accounts Receivable	66	(14,584)
Contributions Receivable	(10,615)	(2,000)
Prepaid Expenses	6,469	(40,786)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	19,599	3,341
Net Cash Provided (Used) by Operating Activities	507,393	(21,423)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(898,130)	(1,389,782)
Proceeds from Sale of Investments	974,363	1,464,640
Changes in beneficial interest	318,658	(7,556)
Purchases of Property and Equipment	(629,182)	(123,204)
Proceeds from Sale of Property and Equipment	-	1,818
Net Cash Used by Investing Activities	(234,291)	(54,084)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of capital lease obligation	24,947	-
Debt reduction		
Capital lease obligation	(4,298)	-
Net Cash Provided by Financing Activities	20,649	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	293,751	(75,507)
Cash and Cash Equivalents - Beginning of Year	466,825	542,332
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 760,576	\$ 466,825
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Acquisition of property and equipment	\$ 636,687	\$ 134,785
Less donated furniture	(7,505)	(11,581)
	\$ 629,182	\$ 123,204
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 633	\$ -

See Accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ronald McDonald House of Winston-Salem, Inc. (the Organization) is a North Carolina, nonprofit charitable corporation formed in January 1981. The mission of Ronald McDonald House Charities (RMHC) is to create, find and support programs that directly improve the health and well-being of children. Collectively, RMHC and the network of local Chapters, of which the Organization is a member, ascribe to five core values: we are focused on the critical needs of children, we lead with compassion, we celebrate the diversity of our people and our programs, we value our heritage and we operate with accountability and transparency.

We fulfill our mission through operation of sustainable programs that enable family-centered care, bridge access to quality health care, are a vital part of the health care continuum and strengthen families during difficult times. The following programs, operated by the Organization, represent the core functions of the Ronald McDonald House of Winston-Salem, Inc.:

Ronald McDonald House

When children must travel long distances to access top medical care, accommodations and support for families can be expensive or not readily available. The Organization helps families stay close to their ill or injured child through the Ronald McDonald House program(s) located in Winston-Salem, which provide temporary lodging, meals and other support to children and their families. The program provides families with emotional and physical comfort and increases the caregivers' ability to spend more time with their child, to interact with their clinical care team and to participate in critical medical care decisions.

Ronald McDonald Family Room

When a child is critically ill, parents may be reluctant to leave the hospital. To provide comfort and support to their child, it is important that parents have an opportunity to rest, have a meal or have a moment of quiet. Located inside medical care facilities, the Ronald McDonald Family Room programs in Wake Forest Baptist Health Brenner Children's Hospital and Novant Health Forsyth Medical Center serve as a place of respite, relaxation and privacy for family members, often just steps away from where their child is being treated. The Ronald McDonald Family Room program provides parents with an opportunity to remain close to their hospitalized child and to be an active member of their child's health care team.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. 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. All other net assets, including board designated or appropriated amounts, are unrestricted and are reported as part of the unrestricted class.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Organization to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents include money market funds and all highly liquid investments with a maturity date of less than three months from the date of purchase. The Organization's cash balances that are maintained in bank accounts may exceed Federal Deposit Insurance Corporation limits from time to time. The Organization has not experienced any losses in such accounts and management believes that it is not exposed to any significant credit risk on cash.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Organization considers all accounts to be fully collectible and no allowance account for uncollectible amounts has been established for them. If amounts become uncollectible, they are charged to bad debts when that determination is made.

Contributions Receivable

Contributions receivable are unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Contributions receivable are written off when deemed uncollectible.

The Organization is the beneficiary under various wills and trust agreements of which the total realizable amount is not presently determinable. Such amounts are recorded when a will is declared valid by probate court and the proceeds are measurable.

Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Realized and unrealized gains and losses and income are included in the statements of activities.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost, if purchased, or estimated fair value, if donated, at the date of donation. Additions of \$500 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred. Depreciation is calculated using the straight-line and accelerated methods over the estimated useful lives of the assets as follows:

Building and Improvements	15 - 39 Years
Land Improvements	15 Years
Furniture and Fixtures	3 - 7 Years

Impairment of Long-Lived Assets

The Organization evaluates its long-lived assets for any events or changes in circumstances which indicate that the carrying amount of such assets may not be fully recoverable. The Organization evaluates the recoverability of long-lived assets by measuring the carrying amount of such assets against the estimated undiscounted future cash flows associated with them. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. As of December 31, 2016 and 2015, there were no impairment losses recognized for long-lived assets.

Donated Assets, Property and Equipment, and Services

Donated marketable securities, property and equipment, and other noncash donations are recorded as contributions at their fair values at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization also receives donated services from other contributors and volunteers that are not measurable, and therefore, are excluded from the financial statements.

Deferred Revenue

Income from sponsorships received in advance of future special events is deferred and recognized over the periods to which the sponsorships relate.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

The Organization's net assets and changes therein are classified and reported as follows:

Unrestricted

Net assets that are not subject to donor-imposed restrictions or law.

Temporarily Restricted

Net assets subject to restrictions imposed by donor or law that may be met either by actions of the Organization or the passage of time.

Permanently Restricted

Net assets subject to donor-imposed restrictions that the principal be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for unrestricted purposes.

Revenue Recognition

Unconditional promises to give are recognized as revenue in the period the promise was made. Conditional promises are recorded as revenue when the conditions are substantially met. Contributions, grants, and bequests are recognized as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. When restrictions are met in the same period as the contribution is received, the Organization records the contribution revenue as unrestricted.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising (Printing and Publishing) costs are expensed as incurred. Advertising expense totaled \$24,879 and \$26,784 for 2016 and 2015, respectively.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income, if any, from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

**RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (continued)

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's Forms 990, Return of Organization Exempt from Income Tax, for 2016, 2015, and 2014 are subject to examination by the IRS, generally for three years after they are filed.

Reclassifications

Certain amounts have been reclassified for the year ended December 31, 2015 to conform with the presentation for the year ended December 31, 2016.

Friends of the Ronald McDonald House

The Friends of the Ronald McDonald House, which promotes fundraising events for the Organization such as luminary sales and the Character Breakfast fundraiser, merged with the Organization effective June 1, 1997. The Friends also organize volunteers to provide meals and other services for the Organization.

NOTE 2 CONTRIBUTIONS RECEIVABLE

Contributions receivable consist primarily of pledges, to the Home Away from Home Annual Campaign (HAFHAC), pledges for the naming of the Michael B. Halverson Community Room and past due pledges from the 2007 House expansion campaign to raise funds for an addition to existing facility and the Forsyth Ronald McDonald Family Room, as of the years ended December 31:

	2016	2015
Amounts due in less than one year:		
Home Away from Home Annual Campaign	\$ 5,850	\$ 4,000
HAFHAC via United Way of Forsyth County	2,465	-
Naming of Michael B. Halverson Community Room	10,800	-
2007 Expansion Campaign	-	4,500
Total	19,115	8,500
Unamortized Discount	-	-
Allowance for Uncollectibles	-	-
Net Contributions Receivable	\$ 19,115	\$ 8,500

All 2007 Expansion Campaign pledges at December 31, 2015 are past due.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 FAIR VALUE MEASUREMENTS

In determining fair value, the Organization uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. A hierarchy for inputs is 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. Levels within the hierarchy are based on the reliability of inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 - Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

The fair values of assets and liabilities measured on a recurring basis as of December 31, 2016 and 2015 are as follows:

	Cost	Fair Value	Fair Value Measurements at December 31, 2016 Using		
			Level 1	Level 2	Level 3
Assets:					
Investments by Market Sector:					
Money Market Funds	\$ 197,929	\$ 197,929	\$ 197,929	\$ -	\$ -
Certificates of Deposit	303,194	303,194	303,194	-	-
Mutual Funds	1,844,787	1,843,388	1,843,388	-	-
Energy	118,052	87,870	87,870	-	-
Materials	57,342	60,306	60,306	-	-
Industrials	64,368	99,532	99,532	-	-
Consumer Discretionary	248,274	398,832	398,832	-	-
Consumer Staples	157,919	173,631	173,631	-	-
Health Care	502,777	695,236	695,236	-	-
Information Technology	513,721	709,059	709,059	-	-
Total Investments	4,008,363	4,568,977	4,568,977	-	-
Beneficial Interests in Assets					
Held by Others	1,649,993	2,822,694	2,822,694	-	-
Total	<u>\$5,658,356</u>	<u>\$7,391,671</u>	<u>\$7,391,671</u>	<u>\$ -</u>	<u>\$ -</u>

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

	Cost	Fair Value	Fair Value Measurements at December 31, 2015 Using		
			Level 1	Level 2	Level 3
Assets:					
Investments by Market Sector:					
Money Market Funds	\$ 223,863	\$ 223,863	\$ 223,863	\$ -	\$ -
Certificates of Deposit	402,882	402,882	402,882	-	-
Mutual Funds	1,810,357	1,723,011	1,723,011	-	-
Energy	94,377	63,067	63,067	-	-
Materials	46,013	27,315	27,315	-	-
Industrials	67,475	86,651	86,651	-	-
Consumer Discretionary	281,775	442,944	442,944	-	-
Consumer Staples	125,032	200,034	200,034	-	-
Health Care	320,492	613,589	613,589	-	-
Information Technology	588,470	723,167	723,167	-	-
Unclassified	29,450	57,211	57,211	-	-
Total Investments	3,990,186	4,563,734	4,563,734	-	-
Beneficial Interests in Assets					
Held by Others	1,968,651	3,010,601	3,010,601	-	-
Total	<u>\$5,958,837</u>	<u>\$ 7,574,335</u>	<u>\$ 7,574,335</u>	<u>\$ -</u>	<u>-</u>

Fair values for Level 1 investments are based on quoted net asset values of the shares held by the Organization at year-end for mutual funds and the fair value of common stock, corporate bonds, and U.S. Government securities are based on quoted market prices. Fair value of Level 2 investments are determined by reference to quoted prices for similar assets in less active markets. Fair value of Level 3 investments are determined from valuation techniques in which one or more inputs are unobservable. The carrying amounts of all other assets and liabilities reflected in the statements of financial position for the Organization's financial instruments approximates their respective fair value due to the short-term maturities of those instruments. There have been no changes in valuation techniques and related inputs.

The composition of investment (loss) income on the Organization's investment portfolio for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Interest and Dividend Income	\$ 111,456	\$ 99,628
Realized Gain	58,076	199,883
Unrealized Gain (Loss)	116,519	(286,815)
Less Investment Expenses	(73,824)	(75,019)
Investment (Loss) Income, Net	<u>\$ 212,227</u>	<u>\$ (62,323)</u>

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	2016	2015
Artwork	\$ 7,000	\$ 7,000
Building and Improvements	4,948,207	4,619,966
Family Rooms	191,220	190,041
Furniture and Fixtures	772,748	768,556
Land and Improvements	853,224	582,046
Total, at Cost	6,772,399	6,167,609
Less Accumulated Depreciation	2,332,932	2,158,538
Total Property and Equipment, Net	\$ 4,439,467	\$ 4,009,071

NOTE 5 BOARD DESIGNATED MAINTENANCE RESERVES

The Board of Directors designated \$1,400,000 in 2016 and 2015 for maintenance reserves. Capital maintenance expenditures will be deducted from the interest generated by the designated funds.

NOTE 6 BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

The Organization is beneficiary of several trusts which are administered by The Winston-Salem Foundation under irrevocable trust agreements. The Foundation annually distributes the earnings on the funds to the Organization. In addition, a portion of the principal may be distributed as requested by the Board of Directors, subject to approval by The Winston-Salem Foundation Committee. The market value of the trusts administered by The Winston-Salem Foundation for the Organization at December 31, 2016 and 2015 are as follows:

	2016	2015
Endowment fund principal account	\$ 1,427,609	\$ 1,395,464
Endowment fund income account	1,159,668	1,391,952
M.W. Parker endowment fund	235,417	223,185
Total Beneficial Interest	\$ 2,822,694	\$ 3,010,601

Under the Organization's irrevocable trust agreement with the Foundation, the Organization cannot reduce the Endowment Fund Principal Account balance below \$35,000 through withdrawals of earnings and principal. Income and principal from the M.W. Parker Endowment Fund is considered unrestricted and Board designated, and distributions from principal may equal twenty-five percent of the principal value each year. Income from the Elizabeth T. Williams Charitable Annuity Lead Trust are included in the Endowment Fund Principal Account and are temporarily restricted for maintenance and future expansion of facilities. See Note 8.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 **ENDOWMENT FUNDS**

The Organization's endowment consists of two individual funds established for specific purposes. Its endowment includes both donor-restricted funds and funds designated by the board of trustees to function as an endowment. As required by U.S. GAAP net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Absent explicit donor stipulations to the contrary, the board of directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by that standard. In accordance with that standard, 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 various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies, approved by the board of directors, for endowment assets. Those policies attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. The Organization expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to prevent exposing the fund to unacceptable levels of risk.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7 ENDOWMENT FUNDS (CONTINUED)

Spending Policy. The Organization has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior 12 quarters through June 30th of the preceding calendar year preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at an average rate of 5% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7 ENDOWMENT FUNDS (CONTINUED)

Endowment net asset composition by type of fund as of December 31, 2016 and 2015 is as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 314,000	\$ 490,000	\$ 804,000
Board-Designated Endowment Funds	2,508,694	-	-	2,508,694
Total Funds	<u>\$ 2,508,694</u>	<u>\$ 314,000</u>	<u>\$ 490,000</u>	<u>\$ 3,312,694</u>

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 608,000	\$ 490,000	\$ 1,098,000
Board-Designated Endowment Funds	2,402,601	-	-	2,402,601
Total Funds	<u>\$ 2,402,601</u>	<u>\$ 608,000</u>	<u>\$ 490,000</u>	<u>\$ 3,500,601</u>

Changes in endowment net assets as of December 31, 2016 and 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, December 31, 2014	\$ 2,343,969	\$ 576,000	\$ 490,000	\$ 3,409,969
Investment Return:				
Investment Income, Net	551	-	-	551
Net Appreciation (Realized and Unrealized)	54,507	-	-	54,507
Total Investment Return	<u>2,399,027</u>	<u>576,000</u>	<u>490,000</u>	<u>3,465,027</u>
Contributions	3,574	32,000	-	35,574
Reclassification to Endowment Asset	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-	-
Other Changes:				
Transfers to Remove Board-Designated Endowment Funds	-	-	-	-
Endowment Net Assets, December 31, 2015	2,402,601	608,000	490,000	3,500,601
Investment Return:				
Investment Income, Net	143	-	-	143
Net Appreciation (Realized and Unrealized)	102,567	-	-	102,567
Total Investment Return	<u>2,505,311</u>	<u>608,000</u>	<u>490,000</u>	<u>3,603,311</u>
Contributions	3,383	32,000	-	35,383
Reclassification to Endowment Asset	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	(326,000)	-	(326,000)
Other Changes:				
Transfers to Remove Board-Designated Endowment Funds	-	-	-	-
Endowment Net Assets, December 31, 2016	<u>\$ 2,508,694</u>	<u>\$ 314,000</u>	<u>\$ 490,000</u>	<u>\$ 3,312,694</u>

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7 ENDOWMENT FUNDS (CONTINUED)

Fund 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 UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature reported in unrestricted net assets were \$-0- as of December 31, 2016 and 2015, respectively. Deficiencies, if any, may result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that may be deemed prudent by the board of directors.

NOTE 8 RESTRICTIONS ON NET ASSETS

Contributions with temporary restrictions for the following purposes were received in 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Maintenance and future expansion of facilities	\$ 32,000	\$ 32,000
Golf tournament	1,500	1,500
Total Temporarily Restricted Net Assets	<u>\$ 33,500</u>	<u>\$ 33,500</u>

Temporarily restricted net assets are available for the following programs and purposes as directed by donors as of December 31:

	<u>2016</u>	<u>2015</u>
Annual operating expenses including capital improvement and expansion expenditures	\$ 258,333	\$ 258,333
Maintenance and future expansion of facilities	314,000	608,000
Golf tournament	1,500	1,500
Total Temporarily Restricted Net Assets	<u>\$ 573,833</u>	<u>\$ 867,833</u>

Net assets were released from restrictions as follows:

	<u>2016</u>	<u>2015</u>
Character breakfast	\$ -	\$ 2,500
Summer camp	-	2,500
Landscaping funds	-	306
Golf tournament	1,500	-
HVAC funds	326,000	-
Total Released from Restriction	<u>\$ 327,500</u>	<u>\$ 5,306</u>

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 RESTRICTIONS ON NET ASSETS (CONTINUED)

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be spent on Ronald McDonald House operations.

	<u>2016</u>	<u>2015</u>
House operating endowment	<u>\$ 490,000</u>	<u>\$ 490,000</u>

NOTE 9 DONATED GOODS AND SERVICES

The fair value of donated goods and services included as contributions in the financial statements and the corresponding expense categories for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Property and equipment	\$ 7,505	\$ 11,581
Family support services supplies expense	92,914	62,892
Family support services food expense	26,931	32,432
Family support services transportation	1,065	17,289
House landscaping, cleaning and storage expenses	23,585	7,000
Marketing and promotion expenses	11,571	-
Volunteer program expenses	2,836	-
Total	<u>\$ 166,407</u>	<u>\$ 131,194</u>

In May 2011, the Organization obtained a two-year lease for a vehicle donated by a car dealer. The car was wrapped to advertise the Organization and is used to support families. The lease was renewed for two additional years each time in May of 2013 and 2015 through May 2017. When the lease renewed for a two-year period, the lease was recorded as contribution income with a total value of \$17,289. The prepaid lease value was \$3,239 and \$11,884 at December 31, 2016 and 2015, respectively. In 2016 and 2015, lease expense was \$8,645.

NOTE 10 TAX-DEFERRED ANNUITY PLAN

The Organization, in 1998, implemented a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code for all eligible employees of the Organization. The Organization contributes up to a maximum of 6% of gross salaries to the plan for qualified employees. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. Employer contributions to the plan were \$21,780 and \$21,078 for the years ended December 31, 2016 and 2015, respectively.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
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NOTE 11 CAPITAL LEASE

The Organization entered into a lease in April 2011, for copier equipment under an operating lease. The terms of the lease required a monthly payment of \$135 for 60 months through March 2016. The lease required the Organization to pay all executory costs such as taxes, maintenance, and insurance. Rental expense was \$637 and \$5,248 for each of the years ended December 31, 2016 and 2015, respectively. In February 2016, the Organization entered into a capital lease for a new copier for 60 months requiring a monthly payment of \$448 through January 2021.

The following is an analysis of the leased assets included in fixed assets at December 31, 2016:

Equipment	\$	24,947
Less accumulated depreciation		8,732
		\$ 16,215

The following is a schedule of future minimum lease payments under the capital lease together with their present value as of December 31, 2016:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 5,379
2018	5,379
2019	5,379
2020	5,379
2021	448
Total minimum lease payments	21,964
Less amount representing interest	1,315
Present value of minimum lease payments	\$ 20,649

Interest expense incurred on capital leases for 2016 was \$633.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 12 TRANSACTIONS WITH RELATED ENTITIES

Ronald McDonald House Charities (RMHC) is a system of independent, separately registered public benefit organizations, referred to as "Chapters" within the global organization. The Organization is an independent operating Chapter within the RMHC system. The Organization is also one of five Ronald McDonald Houses in North Carolina that is affiliated with Ronald McDonald House Charities of North Carolina, Inc. (RMHC NC). Each Chapter is licensed by McDonald's Corporation and Ronald McDonald House Charities, Inc. to use RMHC related trademarks in conjunction with fundraising activities and the operation of its programs; the License Agreement also sets standards of operations for programs, governance, finance, branding and reporting.

Ronald McDonald House Charities, Inc. (RMHC Global), a separately registered nonprofit organization, ensures delivery of the mission across the globe. As a center of excellence, RMHC Global builds and sustains a robust infrastructure of support to the network of Chapters, including operations, licensing and compliance, finance, risk management, communications, marketing and development. RMHC NC remits to RMHC Global 25% of its revenues from all national fundraising efforts facilitated by RMHC Global, as defined by the license agreement. During the years ended December 31, 2016 and 2015, the Organization received from RMHC NC \$72,651 and \$70,907, respectively, from these revenue streams.

NOTE 13 SUBSEQUENT EVENTS

Management evaluated subsequent events through April 18, 2017, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the financial statements.