

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

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

Cannon & Company, L.L.P.

Winston-Salem, North Carolina

April 12, 2018

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and Cash Equivalents	\$ 279,436	\$ 266,145	\$ -	\$ 545,581
Accounts Receivable, Net	58,108	-	-	58,108
Contributions Receivable, Net	9,562	-	-	9,562
Prepaid Expenses	196,778	-	-	196,778
Investments	4,636,047	-	490,000	5,126,047
Property and Equipment, Net	4,517,304	-	-	4,517,304
Beneficial Interest in Assets Held by Others	2,796,278	223,500	-	3,019,778
Total Assets	\$ 12,493,513	\$ 489,645	\$ 490,000	\$ 13,473,158
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 68,760	\$ -	\$ -	\$ 68,760
Capital Lease Obligation	15,823	-	-	15,823
Total Liabilities	84,583	-	-	84,583
NET ASSETS				
Unrestricted				
Undesignated	6,491,626	-	-	6,491,626
Board designated maintenance reserves	1,400,000	-	-	1,400,000
Land, building & equipment - non-spendable funds	4,517,304	-	-	4,517,304
Temporarily Restricted	-	489,645	-	489,645
Permanently Restricted	-	-	490,000	490,000
Total Net Assets	12,408,930	489,645	490,000	13,388,575
Total Liabilities and Net Assets	\$ 12,493,513	\$ 489,645	\$ 490,000	\$ 13,473,158

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

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>
Total Assets				
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 64,059	\$ -	\$ -	\$ 64,059
Capital Lease Obligation	20,649	-	-	20,649
Total Liabilities	<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
Total Net Assets	<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>

**RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Contributions	\$ 844,883	\$ 57,000	\$ -	\$ 901,883
Special Events Revenue	413,030	-	-	413,030
Less Direct Benefit Costs	<u>(78,906)</u>	<u>-</u>	<u>-</u>	<u>(78,906)</u>
Net Revenue from Special Events	334,124	-	-	334,124
Membership dues	16,490	-	-	16,490
RMH Room Donation/Fees	11,035	-	-	11,035
Gain (loss) on disposal of property	(12,023)	-	-	(12,023)
Net Assets Released from Restrictions	209,558	(209,558)	-	-
Total Revenues and Other Support	<u>1,404,067</u>	<u>(152,558)</u>	<u>-</u>	<u>1,251,509</u>
EXPENSES				
Program Services	1,084,819	-	-	1,084,819
Supporting Services:				
Management and General Administration	88,065	-	-	88,065
Fundraising	<u>260,677</u>	<u>-</u>	<u>-</u>	<u>260,677</u>
Total Expenses	<u>1,433,561</u>	<u>-</u>	<u>-</u>	<u>1,433,561</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(29,494)	(152,558)	-	(182,052)
INVESTMENT (LOSS) INCOME, NET	<u>787,583</u>	<u>68,370</u>	<u>-</u>	<u>855,953</u>
CHANGE IN NET ASSETS	758,089	(84,188)	-	673,901
Net Assets - Beginning of Year	<u>11,650,841</u>	<u>573,833</u>	<u>490,000</u>	<u>12,714,674</u>
NET ASSETS - END OF YEAR	<u>\$ 12,408,930</u>	<u>\$ 489,645</u>	<u>\$ 490,000</u>	<u>\$ 13,388,575</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**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	(80,291)	-	-	(80,291)
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
Gain (loss) on disposal of property	(1,318)	-	-	(1,318)
Net Assets Released from Restrictions	345,162	(345,162)	-	-
Total Revenues and Other Support	1,914,247	(311,662)	-	1,602,585
EXPENSES				
Program Services	1,010,190	-	-	1,010,190
Supporting Services:				
Management and General Administration	80,399	-	-	80,399
Fundraising	218,908	-	-	218,908
Total Expenses	1,309,497	-	-	1,309,497
CHANGE IN NET ASSETS FROM OPERATIONS				
	604,750	(311,662)	-	293,088
INVESTMENT (LOSS) INCOME, NET				
	194,565	17,662	-	212,227
CHANGE IN NET ASSETS				
	799,315	(294,000)	-	505,315
Net Assets - Beginning of Year	10,851,526	867,833	490,000	12,209,359
NET ASSETS - END OF YEAR	\$ 11,650,841	\$ 573,833	\$ 490,000	\$ 12,714,674

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services			Supporting Services		Total
	Ronald McDonald House	Ronald McDonald Family Room	Total	Management and General	Fundraising	
Salaries	\$ 348,101	\$ 62,810	\$ 410,911	\$ 57,507	\$ 115,725	\$ 584,143
Employee Health and Retirement Benefits	45,642	8,235	53,877	7,540	15,174	76,591
Payroll Taxes	24,320	4,388	28,708	4,018	8,085	40,811
Total Salaries and Related Expenses	418,063	75,433	493,496	69,065	138,984	701,545
Automobile Expenses	10,255	-	10,255	-	-	10,255
Cleaning Service and Supplies	3,087	-	3,087	-	-	3,087
Credit Card and Stock Sales Fees on Donations	-	-	-	-	8,939	8,939
Depreciation	189,599	19,660	209,259	-	-	209,259
Direct Mail	-	-	-	-	64,942	64,942
House/Program Supplies	94,854	26,366	121,220	-	-	121,220
Insurance	21,626	238	21,864	218	438	22,520
Interest expense	553	-	553	-	-	553
Linens and Laundry	13,194	-	13,194	-	-	13,194
Maintenance and Repair	36,120	-	36,120	-	-	36,120
Meetings, Training, and Seminars	14,857	3,753	18,610	3,882	5,130	27,622
Office Supplies	2,945	198	3,143	412	6,089	9,644
Other Expenses	2,441	441	2,882	403	812	4,097
Postage	4,760	825	5,585	25	5,852	11,462
Printing and Publishing	22,833	2,640	25,473	433	23,267	49,173
Professional Fees	12,965	1,321	14,286	8,431	3,701	26,418
Security Services	15,883	-	15,883	-	-	15,883
Taxes, Licenses and Fees	-	-	-	4,082	-	4,082
Technology	28,007	-	28,007	-	-	28,007
Telephone	14,218	87	14,305	269	664	15,238
Travel, Meals, and Entertainment	1,188	118	1,306	446	1,055	2,807
Utilities	39,382	-	39,382	-	-	39,382
Volunteer Recognition	6,473	436	6,909	399	804	8,112
Total Expenses	<u>\$ 953,303</u>	<u>\$ 131,516</u>	<u>\$ 1,084,819</u>	<u>\$ 88,065</u>	<u>\$ 260,677</u>	<u>\$ 1,433,561</u>

See accompanying Notes to Financial Statements.

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

	Program Services			Supporting Services		Total
	Ronald McDonald House	Ronald McDonald Family Room	Total	Management and General	Fundraising	
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
Credit Card and Stock Sales Fees on Donations	-	-	-	-	4,102	4,102
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	641	1,270	6,300
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
Taxes, Licenses and Fees	-	-	-	748	-	748
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	<u>\$ 894,220</u>	<u>\$ 115,970</u>	<u>\$ 1,010,190</u>	<u>\$ 80,399</u>	<u>\$ 218,907</u>	<u>\$ 1,309,496</u>

See accompanying Notes to Financial Statements.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 673,901	\$ 505,315
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	209,259	204,973
Donated Furniture	(10,916)	(7,505)
(Gain) Loss on Disposal of Property and Equipment	12,023	1,318
Net Realized and Unrealized (Gains) Losses on Investments	(855,953)	(212,227)
(Increase) Decrease in Assets:		
Accounts Receivable	(26,409)	66
Contributions Receivable	9,553	(10,615)
Prepaid Expenses	(39,924)	6,469
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	4,701	19,599
Net Cash Provided (Used) by Operating Activities	(23,765)	507,393
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(2,086,425)	(898,130)
Proceeds from Sale of Investments	2,086,690	974,363
Changes in beneficial interest	101,534	318,658
Purchases of Property and Equipment	(288,653)	(629,182)
Proceeds from Sale of Property and Equipment	450	-
Net Cash Used by Investing Activities	(186,404)	(234,291)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of capital lease obligation	-	24,947
Debt reduction		
Capital lease obligation	(4,826)	(4,298)
Net Cash Provided (Used) by Investing Activities	(4,826)	20,649
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(214,995)	293,751
Cash and Cash Equivalents - Beginning of Year	760,576	466,825
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 545,581	\$ 760,576
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Acquisition of property and equipment	\$ 299,569	\$ 636,687
Less donated furniture	(10,916)	(7,505)
	\$ 288,653	\$ 629,182
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 553	\$ 633

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 2017 AND 2016

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, 2017 AND 2016

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, 2017 and 2016, 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, 2017 AND 2016

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 \$49,173 and \$24,879 for 2017 and 2016, 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, 2017 AND 2016**

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 2017, 2016, 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, 2016 to conform with the presentation for the year ended December 31, 2017.

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), and pledges for the naming of the Michael B. Halverson Community Room, as of the years ended December 31:

	2017	2016
Amounts due in less than one year:		
Home Away from Home Annual Campaign	\$ 8,166	\$ 5,850
HAFHAC via United Way of Forsyth County	1,396	2,465
Naming of Michael B. Halverson Community Room	-	10,800
Total	9,562	19,115
Unamortized Discount	-	-
Allowance for Uncollectibles	-	-
Net Contributions Receivable	\$ 9,562	\$ 19,115

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 2017 and 2016 are as follows:

	Cost	Fair Value	Fair Value Measurements at December 31, 2017 Using		
			Level 1	Level 2	Level 3
Assets:					
Investments by Market Sector:					
Money Market Funds	\$ 800,679	\$ 800,679	\$ 800,679	\$ -	\$ -
Certificates of Deposit	404,355	404,355	404,355	-	-
Mutual Funds	2,035,615	2,105,872	2,105,872	-	-
Energy	118,052	70,898	70,898	-	-
Materials	34,555	56,766	56,766	-	-
Industrials	59,802	100,150	100,150	-	-
Consumer Discretionary	166,245	278,367	278,367	-	-
Consumer Staples	115,041	104,091	104,091	-	-
Health Care	389,237	539,038	539,038	-	-
Financials	126,257	145,146	145,146	-	-
Information Technology	289,506	520,685	520,685	-	-
Total Investments	4,539,344	5,126,047	5,126,047	-	-
Beneficial Interests in Assets					
Held by Others	1,548,459	3,019,778	3,019,778	-	-
Total	<u>\$6,087,803</u>	<u>\$8,145,825</u>	<u>\$8,145,825</u>	<u>\$ -</u>	<u>\$ -</u>

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

	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>

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, 2017 and 2016 is as follows:

	2017	2016
Interest and Dividend Income	\$ 119,764	\$ 111,456
Realized Gain	487,836	58,076
Unrealized Gain (Loss)	324,688	116,519
Less Investment Expenses	(76,335)	(73,824)
Investment (Loss) Income, Net	<u>\$ 855,953</u>	<u>\$ 212,227</u>

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 4 PROPERTY AND EQUIPMENT

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

	2017	2016
Artwork	\$ 7,000	\$ 7,000
Building and Improvements	5,151,862	4,948,207
Family Rooms	195,849	191,220
Furniture and Fixtures	740,705	772,748
Land and Improvements	856,227	853,224
Total, at Cost	6,951,643	6,772,399
Less Accumulated Depreciation	2,434,339	2,332,932
Total Property and Equipment, Net	\$ 4,517,304	\$ 4,439,467

NOTE 5 BOARD DESIGNATED MAINTENANCE RESERVES

The Board of Directors designated \$1,400,000 in 2017 and 2016 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, 2017 and 2016 are as follows:

	2017	2016
Endowment fund principal account	\$ 1,560,146	\$ 1,427,609
Endowment fund income account	1,199,428	1,159,668
M.W. Parker endowment fund	260,204	235,417
Total Beneficial Interest	\$ 3,019,778	\$ 2,822,694

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
DECEMBER 31, 2017 AND 2016

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, 2017 AND 2016

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
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NOTE 7 ENDOWMENT FUNDS (CONTINUED)

Endowment net asset composition by type of fund as of December 31, 2017 and 2016 is as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 223,500	\$ 490,000	\$ 713,500
Board-Designated Endowment Funds	2,796,278	-	-	2,796,278
Total Funds	<u>\$ 2,796,278</u>	<u>\$ 223,500</u>	<u>\$ 490,000</u>	<u>\$ 3,509,778</u>

	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>

Changes in endowment net assets as of December 31, 2017 and 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	2,505,311	608,000	490,000	3,603,311
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	2,508,694	314,000	490,000	3,312,694
Investment Return:				
Investment Income, Net	353	-	-	353
Net Appreciation (Realized and Unrealized)	270,883	-	-	270,883
Total Investment Return	2,779,930	314,000	490,000	3,583,930
Contributions	16,348	32,000	-	48,348
Reclassification to Endowment Asset	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	(122,500)	-	(122,500)
Other Changes:				
Transfers to Remove Board-Designated Endowment Funds	-	-	-	-
Endowment Net Assets, December 31, 2017	<u>\$ 2,796,278</u>	<u>\$ 223,500</u>	<u>\$ 490,000</u>	<u>\$ 3,509,778</u>

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, 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 2017 and 2016:

	2017	2016
Maintenance and future expansion of facilities	\$ 32,000	\$ 32,000
Grant for excellence	25,000	-
Golf tournament	-	1,500
Total Temporarily Restricted Net Assets	\$ 57,000	\$ 33,500

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

	2017	2016
Annual operating expenses including capital improvement and expansion expenditures	\$ 258,333	\$ 258,333
Maintenance and future expansion of facilities	223,500	314,000
Grant for excellence	7,812	-
Golf tournament	-	1,500
Total Temporarily Restricted Net Assets	\$ 489,645	\$ 573,833

Net assets were released from restrictions as follows:

	2017	2016
Golf Tournament	\$ 1,500	\$ 1,500
Grant for excellence	17,188	-
HVAC funds	-	326,000
Renovation and remodeling funds	122,500	-
Total Released from Restriction	\$ 141,188	\$ 327,500

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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>2017</u>	<u>2016</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, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Property and equipment	\$ 10,916	\$ 7,505
Family support services supplies expense	42,176	92,914
Family support services food expense	33,205	26,931
Family support services transportation	18,289	1,065
House landscaping, cleaning and storage expenses	22,061	23,585
Marketing and promotion expenses	10,500	11,571
Volunteer program expenses	524	2,836
Total	<u>\$ 137,671</u>	<u>\$ 166,407</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, 2015 and 2017 through May 2019. 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 \$11,884 and \$3,239 at December 31, 2017 and 2016, respectively. In 2017 and 2016, 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 \$22,564 and \$21,780 for the years ended December 31, 2017 and 2016, respectively.

RONALD MCDONALD HOUSE OF WINSTON-SALEM, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 require a monthly payment of \$135 for 60 months through March 2016. The lease requires the Organization to pay all executory costs such as taxes, maintenance, and insurance. Rental expense was \$637 the year ended December 31, 2016. 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, 2017:

Equipment	\$	24,947
Less accumulated depreciation		<u>15,218</u>
	\$	<u>9,729</u>

The following is a schedule of future minimum lease payments under the capital lease together with their present value as of December 31, 2017:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 5,379
2019	5,379
2020	5,379
2021	<u>448</u>
Total minimum lease payments	16,585
Less amount representing interest	<u>762</u>
Present value of minimum lease payments	<u>\$ 15,823</u>

Interest expense incurred on capital leases for 2017 and 2016 was \$553 and \$633, respectively.

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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, 2017 and 2016, the Organization received from RMHC NC \$105,325 and \$72,651, and from RMHC Global \$25,000 and \$27,500, respectively, from these revenue streams.

NOTE 13 SUBSEQUENT EVENTS

Management evaluated subsequent events through April 12, 2018, 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.