



Ronald McDonald House Charities of Austin and Central Texas, Inc.

Financial Statements
(With Independent Auditors' Report Thereon)

December 31, 2013 and 2012

 **PMB Helin Donovan**
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ronald McDonald House Charities of Austin and Central Texas, Inc.:

We have audited the accompanying financial statements of Ronald McDonald House Charities of Austin and Central Texas, Inc., which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities 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.

Auditors' 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 Charities of Austin and Central Texas, Inc. as of December 31, 2013 and 2012, 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.

PMB Helin Donovan, LLP

PMB Helin Donovan, LLP

Austin, Texas
September 16, 2014

**RONALD McDONALD HOUSE CHARITIES
OF AUSTIN AND CENTRAL TEXAS, INC.**

Statements of Financial Position
December 31, 2013 and 2012

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 527,448	\$ 341,449
Pledges receivable, net - current portion	90,294	17,384
Prepaid expenses	26,577	17,249
Total current assets	644,319	376,082
Pledges receivable, net of discount and current portion	170,035	176,483
Land lease, net	394,065	403,448
Investments, at fair value	2,861,745	2,393,981
Property and equipment, net	9,556,449	9,921,441
Total assets	\$ 13,626,613	\$ 13,271,435
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 52,424	\$ 39,438
Other liabilities	56,992	75,090
Total current liabilities	109,416	114,528
Net assets		
Unrestricted	11,364,030	11,051,902
Temporarily restricted	1,497,973	1,474,811
Permanently restricted	655,194	630,194
Total net assets	13,517,197	13,156,907
Total liabilities and net assets	\$ 13,626,613	\$ 13,271,435

See accompanying notes and independent auditors' report.

**RONALD McDONALD HOUSE CHARITIES
OF AUSTIN AND CENTRAL TEXAS, INC.**

Statement of Activities
Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Other Support				
Fundraising events	\$ 834,351	\$ -	\$ -	\$ 834,351
Contributions	438,838	-	-	438,838
Grant income	150,976	-	-	150,976
McDonald's co-op income	267,663	27,000	-	294,663
Client fees	142,264	-	-	142,264
Investment income	427,555	48,162	-	475,717
Other income	9,565	-	-	9,565
Net assets released from restrictions due to satisfaction of requirements	27,000	(52,000)	25,000	-
Total revenues and other support	<u>2,298,212</u>	<u>23,162</u>	<u>25,000</u>	<u>2,346,374</u>
Expenses				
Program services:				
Home operations	1,316,768	-	-	1,316,768
Bereavement and family assistance	67,058	-	-	67,058
Other programs	46,855	-	-	46,855
Total program services	<u>1,430,681</u>	<u>-</u>	<u>-</u>	<u>1,430,681</u>
Supporting services:				
Management and general	215,444	-	-	215,444
Fundraising - special events	339,959	-	-	339,959
Total supporting services	<u>555,403</u>	<u>-</u>	<u>-</u>	<u>555,403</u>
Total expenses	<u>1,986,084</u>	<u>-</u>	<u>-</u>	<u>1,986,084</u>
Changes in net assets	312,128	23,162	25,000	360,290
Net assets at beginning of year	<u>11,051,902</u>	<u>1,474,811</u>	<u>630,194</u>	<u>13,156,907</u>
Net assets at end of year	<u>\$ 11,364,030</u>	<u>\$ 1,497,973</u>	<u>\$ 655,194</u>	<u>\$ 13,517,197</u>

See accompanying notes and independent auditors' report.

**RONALD McDONALD HOUSE CHARITIES
OF AUSTIN AND CENTRAL TEXAS, INC.**

Statement of Activities
Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Other Support				
Fundraising events	\$ 741,737	\$ -	\$ -	\$ 741,737
Contributions	457,220	25,000	27,694	509,914
Grant income	81,045	-	-	81,045
McDonald's co-op income	233,360	29,500	-	262,860
Client fees	117,108	-	-	117,108
Investment income	193,917	52,723	-	246,640
Other income	38,002	-	-	38,002
Net assets released from restrictions due to satisfaction of requirements	29,000	(29,000)	-	-
Total revenues and other support	<u>1,891,389</u>	<u>78,223</u>	<u>27,694</u>	<u>1,997,306</u>
Expenses				
Program services:				
Home operations	1,302,233	-	-	1,302,233
Bereavement and family assistance	82,130	-	-	82,130
Other programs	58,237	-	-	58,237
Total program services	<u>1,442,600</u>	<u>-</u>	<u>-</u>	<u>1,442,600</u>
Supporting services:				
Management and general	141,428	-	-	141,428
Fundraising - special events	462,334	-	-	462,334
Total supporting services	<u>603,762</u>	<u>-</u>	<u>-</u>	<u>603,762</u>
Total expenses	<u>2,046,362</u>	<u>-</u>	<u>-</u>	<u>2,046,362</u>
Changes in net assets	(154,973)	78,223	27,694	(49,056)
Net assets at beginning of year	11,206,875	1,396,588	602,500	13,205,963
Net assets at end of year	<u>\$ 11,051,902</u>	<u>\$ 1,474,811</u>	<u>\$ 630,194</u>	<u>\$ 13,156,907</u>

See accompanying notes and independent auditors' report.

**RONALD McDONALD HOUSE CHARITIES
OF AUSTIN AND CENTRAL TEXAS, INC.**

Statement of Functional Expenses
Year Ended December 31, 2013

	Program Services			Supporting Services				Total
	Home Operations	Bereavement and Family Assistance	Other Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 458,723	\$ -	\$ -	\$ 458,723	\$ 81,561	\$ 149,579	\$ 231,140	\$ 689,863
Employee benefits	52,368	-	-	52,368	9,311	17,076	26,387	78,755
Payroll taxes	35,649	-	-	35,649	6,338	11,625	17,963	53,612
Total salaries and benefits	<u>546,740</u>	<u>-</u>	<u>-</u>	<u>546,740</u>	<u>97,210</u>	<u>178,280</u>	<u>275,490</u>	<u>822,230</u>
Conferences/Training	3,212	-	-	3,212	3,212	3,212	6,424	9,636
Bereavement/Burial	-	57,451	-	57,451	-	-	-	57,451
Family Assistance	-	9,607	-	9,607	-	-	-	9,607
Program Volunteers	8,766	-	-	8,766	-	-	-	8,766
Program Support	63,048	-	-	63,048	-	-	-	63,048
Maintenance/Repairs	126,797	-	-	126,797	-	-	-	126,797
Communication services	16,779	-	-	16,779	-	-	-	16,779
Computer Services	35,160	-	-	35,160	2,197	6,592	8,789	43,949
Depreciation	364,992	-	-	364,992	-	-	-	364,992
Development	-	-	-	-	-	35,411	35,411	35,411
Dues & Subscriptions	2,998	-	-	2,998	-	-	-	2,998
House Supplies	31,966	-	-	31,966	-	-	-	31,966
Grants/Scholarships	-	-	46,855	46,855	-	-	-	46,855
Insurance	10,499	-	-	10,499	7,226	-	7,226	17,725
Bank/Invest Service Fees	-	-	-	-	63,411	-	63,411	63,411
Special Event Cost	-	-	-	-	-	112,461	112,461	112,461
Postage	2,197	-	-	2,197	2,197	-	2,197	4,394
In-kind expense - rent	9,383	-	-	9,383	-	-	-	9,383
Copier	3,293	-	-	3,293	3,293	3,293	6,586	9,879
Supplies	710	-	-	710	710	710	1,420	2,130
Utilities	79,891	-	-	79,891	-	-	-	79,891
Recruitment	-	-	-	-	35,988	-	35,988	35,988
Other	10,337	-	-	10,337	-	-	-	10,337
Total other expenses	<u>770,028</u>	<u>67,058</u>	<u>46,855</u>	<u>883,941</u>	<u>118,234</u>	<u>161,679</u>	<u>279,913</u>	<u>1,163,854</u>
Total expenses	<u>\$ 1,316,768</u>	<u>\$ 67,058</u>	<u>\$ 46,855</u>	<u>\$ 1,430,681</u>	<u>\$ 215,444</u>	<u>\$ 339,959</u>	<u>\$ 555,403</u>	<u>\$ 1,986,084</u>

See accompanying notes and independent auditors' report.

**RONALD McDONALD HOUSE CHARITIES
OF AUSTIN AND CENTRAL TEXAS, INC.**

Statement of Functional Expenses
Year Ended December 31, 2012

	Program Services			Supporting Services				Total
	Home Operations	Bereavement and Family Assistance	Other Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 485,345	\$ -	\$ -	\$ 485,345	\$ 69,190	\$ 142,981	\$ 212,171	\$ 697,516
Employee benefits	60,638	-	-	60,638	10,848	18,984	29,832	90,470
Payroll taxes	35,237	-	-	35,237	6,311	11,045	17,356	52,593
Total salaries and benefits	<u>581,220</u>	<u>-</u>	<u>-</u>	<u>581,220</u>	<u>86,349</u>	<u>173,010</u>	<u>259,359</u>	<u>840,579</u>
Conferences/Training	523	-	-	523	523	523	1,046	1,569
Bereavement/Burial	-	54,909	-	54,909	-	-	-	54,909
Family Assistance	-	27,221	-	27,221	-	-	-	27,221
Program Volunteers	5,576	-	-	5,576	-	-	-	5,576
Program Support	38,938	-	-	38,938	-	-	-	38,938
Maintenance/Repairs	113,995	-	-	113,995	-	-	-	113,995
Communication services	15,202	-	-	15,202	-	-	-	15,202
Computer Services	32,678	-	-	32,678	2,042	6,127	8,169	40,847
Depreciation	351,862	-	-	351,862	-	-	-	351,862
Development	-	-	-	-	-	85,980	85,980	85,980
Dues & Subscriptions	1,025	-	-	1,025	-	-	-	1,025
House Supplies	45,301	-	-	45,301	-	-	-	45,301
Grants/Scholarships	-	-	58,237	58,237	-	-	-	58,237
Insurance	10,559	-	-	10,559	9,384	-	9,384	19,943
Bank/Invest Service Fees	-	-	-	-	36,660	-	36,660	36,660
Special Event Cost	-	-	-	-	-	191,703	191,703	191,703
Postage	1,479	-	-	1,479	1,479	-	1,479	2,958
In-kind expense - rent	12,405	-	-	12,405	-	-	-	12,405
Copier	3,356	-	-	3,356	3,356	3,356	6,712	10,068
Supplies	1,635	-	-	1,635	1,635	1,635	3,270	4,905
Utilities	78,188	-	-	78,188	-	-	-	78,188
Other	8,291	-	-	8,291	-	-	-	8,291
Total other expenses	<u>721,013</u>	<u>82,130</u>	<u>58,237</u>	<u>861,380</u>	<u>55,079</u>	<u>289,324</u>	<u>344,403</u>	<u>1,205,783</u>
Total expenses	<u>\$ 1,302,233</u>	<u>\$ 82,130</u>	<u>\$ 58,237</u>	<u>\$ 1,442,600</u>	<u>\$ 141,428</u>	<u>\$ 462,334</u>	<u>\$ 603,762</u>	<u>\$ 2,046,362</u>

See accompanying notes and independent auditors' report.

**RONALD McDONALD HOUSE CHARITIES
OF AUSTIN AND CENTRAL TEXAS, INC.**

Statements of Cash Flow

Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 360,290	\$ (49,056)
Adjustments to reconcile changes in net assets to net cash provided by operations		
In-kind donation of beds	-	(15,000)
Depreciation	364,992	351,862
Appreciation on investments	(467,764)	(221,855)
(Increase) decrease in		
Pledges receivable	(66,462)	(54,336)
Prepaid expenses	(9,328)	2,287
Other receivable - land lease	9,383	9,383
Accounts payable and other liabilities	(5,112)	21,850
Net cash provided by operating activities	185,999	45,135
Cash flows from investing activities		
Purchase of property and equipment	-	(259,410)
Net cash used in investing activities	-	(259,410)
Net increase (decrease) in cash and cash equivalents	185,999	(214,275)
Cash and cash equivalents at beginning of year	341,449	555,724
Cash and cash equivalents at end of year	\$ 527,448	\$ 341,449
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ -	\$ -
Interest expense paid	\$ -	\$ -
Supplemental disclosure of non-cash information:		
In-kind donation of beds	\$ -	\$ 15,000

See accompanying notes and independent auditors' report.

**RONALD McDONALD HOUSE CHARITIES
OF AUSTIN AND CENTRAL TEXAS INC.**

Notes to the Financial Statements
December 31, 2013 and 2012

Note 1 - Organization

Ronald McDonald House Charities® of Austin and Central Texas (RMHC) creates, finds and supports programs that directly improve the health and well-being of children and their families. This is accomplished through three programs: the Ronald McDonald House®, three Ronald McDonald Family Rooms® and the Healing Hearts burial assistance and bereavement program. RMHC's primary goal is to provide temporary, emergency lodging and support services to hospitalized children and their families.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

Basis of Accounting

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include collectability of pledges receivable, accrued expenses, accumulated depreciation and allocation of functional expenses. Actual results could differ from these estimates.

Contributions

RMHC reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, RMHC reports the support as unrestricted. Donated assets are recorded at their estimated fair values at the date of receipt.

Contributed Services

RMHC recognizes contributed services if the services create or enhance nonfinancial assets, or require skills that would need to be purchased if not donated. During the years ended December 31, 2013 and 2012, RMHC has not recorded any material contributed services.

Cash and Cash Equivalents

RMHC considers all highly liquid investments with a purchased maturity of three months or less and purchased for use primarily in operations to be cash equivalents.

	<u>2013</u>	<u>2012</u>
Operations	\$ 527,448	\$ 341,449
Total cash and cash equivalents	\$ <u>527,448</u>	\$ <u>341,449</u>

**RONALD McDONALD HOUSE CHARITIES
OF AUSTIN AND CENTRAL TEXAS INC.**

Notes to the Financial Statements

December 31, 2013 and 2012

(Continued)

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position, and gains and losses on investments are reported in the statement of activities as increases or decreases in the unrestricted fund balance, unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Allowance for Doubtful Pledges

The allowance for doubtful pledges reflects RMHC's best estimate of probable losses inherent in RMHC's pledge receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts, and other data. RMHC did not have an allowance for doubtful pledges as of December 31, 2013 and 2012.

Property and Equipment

Property and equipment in excess of \$7,500 is capitalized and recorded at cost. Repairs and maintenance are charged to expense. Betterments and renewals, which add significantly to the utility or useful lives of the assets, are capitalized. Gains and losses from normal retirements or dispositions are credited or charged to revenue.

Depreciation of property and equipment is provided at rates intended to distribute the cost of the assets over their estimated useful lives using the straight-line method. Major categories of depreciable assets and their estimated useful lives are:

<u>Asset Category</u>	<u>Estimated Useful Lives</u>
Building and improvements	37 years
Furniture and fixtures	3 - 7 years

Income Taxes

RMHC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision or liability for federal income taxes in the accompanying financial statements.

RMHC regularly assesses uncertain tax positions in each of the tax jurisdictions in which it has operations and accounts for the related financial statement implications. Unrecognized tax benefits are reported using the two-step approach under which tax effects of a position are recognized only if it is "more-likely-than-not" to be sustained and the amount of the tax benefit recognized is equal to the largest tax benefit that is greater than fifty percent likely to be realized upon ultimate settlement of the tax position. Determining the appropriate level of unrecognized tax benefits requires RMHC to exercise judgment regarding the uncertain application of tax law. The amount of unrecognized tax benefits is adjusted when information becomes available or when an event occurs indicating a change is appropriate. Future changes in unrecognized tax benefits requirements could have a material impact on the results of operations.

RMHC is generally no longer subject to tax examinations relating to US federal tax returns except for the past three years.

**RONALD McDONALD HOUSE CHARITIES
OF AUSTIN AND CENTRAL TEXAS INC.**

Notes to the Financial Statements

December 31, 2013 and 2012

(Continued)

Fair Value of Financial Instruments

The carrying value of the financial instruments classified as current assets or liabilities, including cash and cash equivalents, pledges receivable, prepaid expenses, accounts payable and accrued expenses, approximate their fair values due to their short maturities.

The fair value of the RMHC's financial instruments reflects the amounts that RMHC estimates to receive in connection with the sale of an asset or paid in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). RMHC established a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1 – quoted prices in active markets for identical assets and liabilities.

Level 2 – observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 – unobservable inputs.

Much of the disclosure is focused on the inputs used to measure fair value, particularly in instances where the measurement uses significant unobservable (Level 3) inputs. As of December 31, 2013 and 2012, RMHC evaluated the fair value of its investments on a recurring basis. RMHC's investments are recorded at fair value at December 31, 2013 and 2012.

Subsequent Events

RMHC has evaluated subsequent events through August 26, 2014, the date the financial statements were available to be issued.

Note 3 - Pledges Receivable

Pledges to be paid off in two to five years have been recorded at present value. In calculating the present value of the long-term pledges, RMHC used the applicable federal rate of 3.4% for December 2013 and 2012.

The rate applied to the pledges is based on the year in which the pledge was made. The unamortized discount is \$0 and \$816 at December 31, 2013 and 2012, respectively. At December 31, 2013, the gross amounts expected to be received within one year are \$90,294; and over one year are \$170,035. At December 31, 2012, the gross amounts expected to be received within one year are \$17,834; and over one year are \$176,483.

Note 4 - Property and Equipment

Balances of major categories of property and equipment are as follows:

	2013		2012
Buildings and improvements	\$ 11,033,087	\$	11,033,087
Furniture and fixtures	461,768		461,738
Less: accumulated depreciation	(1,938,406)		(1,573,384)
Net property and equipment	\$ 9,556,449	\$	9,921,441

Depreciation expense was \$364,992 and \$351,862 for the years ended December 31, 2013 and 2012, respectively.

**RONALD McDONALD HOUSE CHARITIES
OF AUSTIN AND CENTRAL TEXAS INC.**

Notes to the Financial Statements

December 31, 2013 and 2012

(Continued)

Note 5 - Investments

Investments are stated at fair value and consist of the following as of December 31, 2013 and 2012:

	2013	2012
DFA U.S. Large Company Portfolio	\$ 425,648	\$ 549,650
DFA U.S. Large Cap Value	211,554	248,806
DFA U.S. Micro Cap Portfolio	124,497	237,889
DFA U.S. Small Cap Value	119,654	84,316
DFA International Value Portfolio	114,959	129,293
DFA Real Estate	84,009	110,538
DFA International Small Company	122,337	134,818
DFA Five Year Government Portfolio	1,344,281	682,151
DFA Five Year Global	314,806	216,520
	<u>\$ 2,861,745</u>	<u>\$ 2,393,981</u>

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended December 31, 2013 and 2012:

	2013	2012
Interest, dividends and other income	\$ 7,953	\$ 24,785
Appreciation on investments	467,764	221,855
	<u>\$ 475,717</u>	<u>\$ 246,640</u>

Note 6 - Temporarily Restricted Net Assets

The part of the net assets of a not-for-profit organization resulting from contributions use of which is limited by donor-imposed restrictions that either expire by passage of time, or the purpose of which is fulfilled, are considered temporarily restricted net assets.

Temporarily restricted net assets consisted of the following at December 31, 2013 and 2012:

Type of Restriction	2013	2012
RMH Endowment Fund Trust accumulated earnings	\$ 1,470,973	\$ 1,445,311
RMH Co-op Income	27,000	29,500
	<u>\$ 1,497,973</u>	<u>\$ 1,474,811</u>

Funds released from temporarily restricted nets assets by incurring expenses in accordance with the donors' stipulations or transferred to permanently restricted net assets were \$52,000 and \$29,000, for the years ended December 31, 2013 and 2012, respectively.

**RONALD McDONALD HOUSE CHARITIES
OF AUSTIN AND CENTRAL TEXAS INC.**

Notes to the Financial Statements

December 31, 2013 and 2012

(Continued)

Note 7 - Permanently Restricted Net Assets

The part of the net assets of a not-for-profit organization resulting from contributions whose use is limited by donor-imposed restrictions that are not expected to expire are considered permanently restricted net assets.

Permanently restricted net asset balances as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Ronald McDonald House Charity Endowment Fund Trust	\$ 527,500	\$ 502,500
Ronald McDonald House Charity of Austin and Central Texas Endowment Fund (ACF)	27,694	27,694
Raymond and Vivian Todd Endowment Fund (ACF)	100,000	100,000
Total permanently restricted net assets	<u>\$ 655,194</u>	<u>\$ 630,194</u>

Funds transferred from temporarily restricted net assets to permanently restricted net assets in accordance with the donors' stipulations was \$25,000 for the year ended December 31, 2013.

Note 8 - Endowments

Net assets associated with endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

RMHC 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 donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, RMHC 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by RMHC in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, RMHC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund
- Purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- Possible effect of inflation and deflation
- Expected total return from income and the appreciation of investments
- Other resources of the organization
- Investment policies of the organization.

**RONALD McDONALD HOUSE CHARITIES
OF AUSTIN AND CENTRAL TEXAS INC.**

Notes to the Financial Statements

December 31, 2013 and 2012

(Continued)

As of December 31, 2013, endowment net asset composition by type of fund was as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 655,194	\$ 655,194
Total endowment funds	\$ -	\$ 655,194	\$ 655,194

As of December 31, 2012, endowment net asset composition by type of fund was as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 630,194	\$ 630,194
Total endowment funds	\$ -	\$ 630,194	\$ 630,194

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires RMHC to retain as a fund of perpetual duration. RMHC did not have any net deficiencies of this nature as of December 31, 2013 or 2012.

Return Objectives and Risk Parameters

RMHC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. RMHC expects its endowment funds, over time, to provide an average rate of return of approximately 9% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, RMHC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). In December 31, 2013, RMHC updated the Investment Policy to target a diversified asset allocation that places a greater emphasis on fixed-income based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The account is swept annually and any realized or unrealized gains in excess of the corpus are used to offset program costs.

The following tables represent a rollforward of the endowment fund at December 31, 2013 and 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	December 31, 2013
Endowment, net assets, beginning of year	\$ -	\$ 1,416,811	\$ 630,194	\$ 2,047,005
Contributions	-	6,000	25,000	31,000
Investment income	-	48,162	-	48,162
Appropriation of endowment assets for expenditures	-	-	-	-
Total endowment funds	\$ -	\$ 1,470,973	\$ 655,194	\$ 2,126,167

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>December 31, 2012</u>
Endowment, net assets, beginning of year	\$ -	\$ 1,368,088	\$ 602,500	\$ 1,970,588
Contributions	-	-	27,694	27,694
Investment income	-	52,723	-	52,723
Appropriation of endowment assets for expenditures	-	(4,000)	-	(4,000)
Total endowment funds	<u>\$ -</u>	<u>\$ 1,416,811</u>	<u>\$ 630,194</u>	<u>\$ 2,047,005</u>

Note 9 - Leases

RMHC entered into a ground lease agreement with the Daughters of Charity Health Services of Austin to build a new house in 2004. The term of the ground lease is approximately fifty years and began on October 20, 2004. RMHC intends to renegotiate the lease at the end of the term. The rent for the entire term of the ground lease is \$10, which was paid in full in 2005. RMHC recognized the fair value of the lease of \$450,363. The value of the lease as of December 31, 2013 and 2012 was \$394,065 and \$403,448, respectively.

RMHC also leases office equipment under operating lease agreements. Future minimum lease payments for the next five years as of December 31, 2013 are as follows:

2014	\$ <u>6,335</u>
	\$ <u>6,335</u>

Note 10 - Fair Value of Financial Instruments

The following table sets forth RMHC's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2013:

Description	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds	<u>\$ 2,861,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,861,745</u>
Total	<u>\$ 2,861,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,861,745</u>

The following table sets forth RMHC's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2012:

Description	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds	<u>\$ 2,393,981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,393,981</u>
Total	<u>\$ 2,393,981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,393,981</u>

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Note 11 - Concentrations of Credit Risk

Certain financial instruments potentially subject RMHC to concentrations of credit risk. These financial instruments consist primarily of cash deposits and investments. The cash policy of RMHC limits the amount of credit exposure, and requires that cash be placed with high credit quality financial institutions. Credit risk on investments is limited due to wide diversification of the investment portfolio. The Finance Committee of the Board of Directors conducts regular reviews of the cash and investment portfolios to assure adherence to policy, and makes periodic reports to the Board of Directors. At December 31, 2013, RMHC bank balance exceeded the FDIC insured limits by approximately \$149,000.

Note 12 - Retirement Plan

RHMC has a 403(b) Plan (the "Plan") for employees. The Plan allows all eligible employees to defer a portion of their income on a pretax basis through contributions to the Plan. See Plan document for description of eligible employees. During the years ended December 31, 2013 and 2012, RHMC contributed approximately \$19,000 and \$18,000 respectively, to the Plan.