

RONALD McDONALD HOUSE CHARITIES OF  
CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS

DECEMBER 31, 2018

RONALD McDONALD HOUSE CHARITIES OF  
CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS

DECEMBER 31, 2018

INDEX TO FINANCIAL STATEMENTS

Independent Auditors' Report.....	1
Statement of Financial Position.....	2
Statement of Activities.....	3
Statement of Functional Expenses.....	4
Statement of Cash Flows.....	5
Notes to Financial Statements.....	6

# Allman & Associates, Inc.

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Ronald McDonald House Charities of Central Texas, Inc., which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Central Texas, Inc. as of December 31, 2018, and the changes in its net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

*Allman & Associates, Inc.*

Austin, Texas  
August 26, 2019

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

**Assets**

Current Assets

Cash and cash equivalents	\$ 569,543
Promises to give, net - current portion	64,835
Other receivables	3,990
Note receivables, net - current portion	1,200
Prepaid expenses	64,439
Total Current Assets	<u>704,007</u>

Promises to give, net of discount and current portion	1,850
Note receivables, net of current portion	25,512
Beneficial interest in ACF Endowments	123,909
Land lease, net	347,150
Investments, at fair value	3,626,619
Property and equipment, net	<u>8,457,115</u>
Total Assets	<u><u>\$ 13,286,162</u></u>

**Liabilities and Net Assets**

Current Liabilities

Accounts payable	\$ 49,665
Deferred liabilities	26,177
Other liabilities	35,156

Total Current Liabilities	<u>110,998</u>
Total Liabilities	<u>110,998</u>

Net Assets

Without donor restrictions	10,440,147
With donor restrictions	2,735,017

Total Net Assets	<u>13,175,164</u>
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Total Liabilities and Net Assets	<u><u>\$ 13,286,162</u></u>
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See accompanying notes and independent auditors' report.

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Other Support			
Fundraising events	\$ 1,324,934	\$ 43,800	\$ 1,368,734
Contributions - General	518,933	228,995	747,928
Grant income	101,737	23,679	125,416
Contributions - McDonald's related fundraising	216,602	-	216,602
Client donations	101,412	-	101,412
Investment loss, net	(10,082)	(197,346)	(207,428)
Other income	395,092	3,215	398,307
	<u>2,648,628</u>	<u>102,343</u>	<u>2,750,971</u>
Net assets released from restrictions	<u>591,366</u>	<u>(591,366)</u>	<u>-</u>
Total revenue and other support	<u>3,239,994</u>	<u>(489,023)</u>	<u>2,750,971</u>
Expenses			
Program services:			
House operations	1,872,063	-	1,872,063
Bereavement and family assistance	488,321	-	488,321
Total program services	<u>2,360,384</u>	<u>-</u>	<u>2,360,384</u>
Supporting services:			
Management and general	228,255	-	228,255
Fundraising and special events	576,050	-	576,050
Cost of direct benefits to donors	175,171	-	175,171
Total supporting services	<u>979,476</u>	<u>-</u>	<u>979,476</u>
Total Expenses	<u>3,339,860</u>	<u>-</u>	<u>3,339,860</u>
Change in net assets	(99,866)	(489,023)	(588,889)
Net assets, beginning of year	<u>10,540,013</u>	<u>3,224,040</u>	<u>13,764,053</u>
Net assets, end of year	<u>\$ 10,440,147</u>	<u>\$ 2,735,017</u>	<u>\$ 13,175,164</u>

See accompanying notes and independent auditors' report.

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

Expenses	Program Services			Supporting Services			Total Supporting Services	Totals
	House Operations	Bereavement and Family Assistance	Total Program Services	Management and General	Fundraising and Special Events	Cost of Direct Benefits to Donors		
Salaries	\$ 398,391	\$ 268,955	\$ 667,346	\$ 121,120	\$ 320,138	\$ -	\$ 441,258	\$ 1,108,604
Employee benefits	60,331	41,119	101,450	22,095	51,006	-	73,101	174,551
Payroll taxes	30,170	20,370	50,540	9,173	24,246	-	33,419	83,959
Total salaries and benefits	<u>488,892</u>	<u>330,444</u>	<u>819,336</u>	<u>152,388</u>	<u>395,390</u>	<u>-</u>	<u>547,778</u>	<u>1,367,114</u>
Conferences/Training	6,603	6,184	12,787	3,663	7,796	-	11,459	24,246
Contract Labor	83,461	1,287	84,748	1,013	22,643	-	23,656	108,404
Bereavement/Burial	-	75,943	75,943	-	-	-	-	75,943
Family Assistance	14,408	5,510	19,918	-	-	-	-	19,918
Volunteers	-	3,355	3,355	4,322	-	-	4,322	7,677
Program Support	-	-	-	-	6,505	-	6,505	6,505
Maintenance/Repairs	154,763	-	154,763	-	-	-	-	154,763
Communication Services	5,908	3,335	9,243	1,868	4,344	-	6,212	15,455
Computer Services	22,249	18,419	40,668	5,954	15,781	-	21,735	62,403
Depreciation	551,134	3,369	554,503	-	1,123	-	1,123	555,626
Development	-	-	-	-	6,355	-	6,355	6,355
House Supplies	36,126	1,690	37,816	793	2,016	-	2,809	40,625
Insurance	12,864	6,452	19,316	3,447	10,546	-	13,993	33,309
Service Fees	-	-	-	47,759	-	-	47,759	47,759
Special Event Expenses	20,502	4,290	24,792	567	80,508	-	81,075	105,867
Postage	2,070	1,411	3,481	714	1,669	-	2,383	5,864
In-Kind Expense	368,149	-	368,149	-	-	-	-	368,149
Copier	4,194	1,601	5,795	805	2,343	-	3,148	8,943
Printing	21,784	6,231	28,015	45	9,278	-	9,323	37,338
Licenses and Permits	20	-	20	-	-	-	-	20
Office Supplies	418	-	418	3,714	99	-	3,813	4,231
Utilities	74,130	-	74,130	-	-	-	-	74,130
Other	4,388	732	5,120	602	1,876	-	2,478	7,598
Expansion Expense	-	18,068	18,068	601	7,778	-	8,379	26,447
Conducting Special Fundraising Events	-	-	-	-	-	175,171	175,171	175,171
Total other expenses	<u>1,383,171</u>	<u>157,877</u>	<u>1,541,048</u>	<u>75,867</u>	<u>180,660</u>	<u>175,171</u>	<u>431,698</u>	<u>1,972,746</u>
Total expenses	<u>\$ 1,872,063</u>	<u>\$ 488,321</u>	<u>\$ 2,360,384</u>	<u>\$ 228,255</u>	<u>\$ 576,050</u>	<u>\$ 175,171</u>	<u>\$ 979,476</u>	<u>\$ 3,339,860</u>

See accompanying notes and independent auditors' report.

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

Cash Flows From Operating Activities:	
Change in net assets	\$ (588,889)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	555,626
Donated fixed assets	(17,335)
Investments loss, net	207,428
Change in assets and liabilities:	
Promises to give	47,311
Prepaid expenses	12,356
Land lease	9,383
Accounts payable	(20,496)
Deferred revenue	(35,935)
Other liabilities	<u>(33,566)</u>
Net Cash Flows From Operating Activities	<u>135,883</u>
Cash Flows From Investing Activities:	
Proceeds from sales of investments	225,000
Purchases of investments	(625,720)
Purchases of property and equipment	<u>(50,163)</u>
Net Cash Flows Used By Investing Activities	<u>(450,883)</u>
Net Change in Cash and Cash Equivalents	(315,000)
Cash and Cash Equivalents, beginning of year	<u>884,543</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 569,543</u></u>
Supplemental disclosure of cash flow information:	
Cash paid for interest expense	<u>\$ -</u>
Cash paid for income taxes	<u><u>\$ -</u></u>

See accompanying notes and independent auditors' report.

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**1. Organization**

Ronald McDonald House Charities of Central Texas, Inc. (RMHC CTX or Organization) is a nonprofit charitable corporation. It is licensed by McDonald's Corporation and Ronald McDonald House Charities to use RMHC related trademarks in conjunction with fundraising activities and the operation of its programs. RMHC CTX creates, finds and supports programs that directly improve the health and well-being of children and their families. This is accomplished through four programs: the Ronald McDonald House®, six Ronald McDonald Family Rooms®, the Healing Hearts burial assistance and bereavement program, and the Happy Wheels Hospitality Cart program. RMHC CTX's primary goal is to provide temporary, emergency lodging and support services to families with critically ill or injured children.

**2. Summary of Significant Accounting Policies**

**Net Assets**

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

*Net Assets Without Donor Restrictions*

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. At December 31, 2018, the net assets without donor restrictions were undesignated.

*Net Assets With Donor Restrictions*

Net assets with donor restrictions are subject to donor-imposed stipulations. Some donor restrictions are temporary in nature, such as those that require the passage of time or the occurrence of a specific event. Other donor-imposed restrictions are perpetual in nature and require that the assets be maintained permanently. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. When the donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**Basis of Accounting**

The financial statements of RMHC CTX have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Cash and Cash Equivalents**

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



RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**2. Summary of Significant Accounting Policies (continued)**

**Deferred Income**

Deferred income is a payment that has been received but not yet earned and therefore holds the potential of being returned to the donor. Deferred income, such as special event underwriting, is presented as a liability on the balance sheet in the year it is received. In the fiscal year the criteria is met and therefore earned, the income is no longer recognized as a liability but as revenue. During the year ended December 31, 2018, RMHC CTX recognized \$26,177 as a liability and recognized \$59,885 of deferred income as earned revenue.

**Special Event Revenue and Cost of Direct Benefit to Donors**

Under the new standards from the Financial Accounting Standards Board beginning in fiscal year 2018 RMHC Global elected to show the direct costs of benefits to donors related to special events as expenses. Previously, special event revenue was shown net of the costs of direct benefits to donors. Cost of direct benefits to donors includes items of value that donors received at special event fundraising events such as meals, entertainments and venue. RMHC Global guidelines for financial reporting require presenting cost of benefits to donors as an expense but separate from other fundraising expense. Even though there isn't a substantial change in our costs of direct benefits to donors from the previous year, this accounting change has reduced our program services expenses percent of total expenses to 71%. If this calculation was performed under the prior year's method of reporting, our program expenses would have been 75%.

**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. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

**Promises to Give**

RMHC CTX records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designated to reflect the assumptions market participants would use in pricing the assets. In subsequent years, interest income is included in contribution revenue in the statement of activities. The allowance for uncollectable promises to give is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2018, RMHC CTX did not have an allowance.

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**2. Summary of Significant Accounting Policies (continued)**

**Beneficial Interest in Assets Held by the Austin Community Foundation**

RMHC CTX established two endowment funds (the Funds) under the Austin Community Foundation (ACF), the RMHC of Austin and Central Texas Endowment Fund and the Raymond and Vivian Todd Endowment Fund. Both funds are perpetual in nature. These funds are managed to accomplish the designated charitable purpose – to provide general support for RMHC CTX. The amount available to grant from the Funds is determined by the ACF Board of Governors' spending policy, which currently allows for 5% of the Fund's value at December 31<sup>st</sup> to be available to grant in the following year. RMHC CTX has granted variance power to the Austin Community Foundation. Both endowment funds are subject to the provision of the articles of incorporation and bylaws of the Austin Community Foundation, including the power reserved by their Board of Governors to modify any condition or restriction on the distribution of funds if in its sole judgment (without the approval of any trustee, custodian, or agent), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area served the ACF. The funds are reported at fair value in the statement of financial position, with distributions and changes in fair value recognized in the statement of activities.

**Property and Equipment**

Property and equipment in excess of \$7,500 is capitalized and recorded at cost, or if donated, at fair value on the date of donation. Repairs and maintenance are charged to expense. Betterments and renewals, which add significantly to the utility or useful lives of the assets, are capitalized. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any gain or loss is included in the statement of activities. 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

During the year ended December 31, 2018, RMHC CTX received donated assets in the amount of \$17,335.

**Revenue Recognition**

Revenue is recognized when earned. Client donations received in advance are deferred to the applicable period in which the related services are performed. Contributions are recognized when cash, securities or other assets, an unconditional contribution, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**2. Summary of Significant Accounting Policies (continued)**

**Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to the program services, administration and fundraising; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. During the year ended December 31, 2018, RMHC CTX received contributed use of facilities and donated professional services in the amount of \$370,574.

**Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Federal Income Taxes**

RMHC CTX is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, but is subject to federal income tax on earnings from any unrelated business activities. Accordingly, there is no provision or liability for federal income taxes in the accompanying financial statements.

RMHC CTX 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 CTX 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 CTX 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 CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**2. Summary of Significant Accounting Policies (continued)**

**Functional Allocation of Expenses**

The costs of providing the various program services and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on employee time study and compensation. Relevant expense items include but may not be limited to postage, dues and subscriptions, communication services, insurance, computer services, copier, leased vehicle, employee compensation and staff development.

RMHC CTX recognizes a portion of its public relations and events incorporates education on the program utilization and impact. RMHC CTX allocates 25% of its public relations and event expense to program expense. Relevant expense items include but may not be limited to newsletter, printing, appeal, event expense, donor relations and travel.

**Change in Not-for-Profit Accounting Standards**

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information about expenses and investment return. ASU 2016-14 has been implemented and the presentation in these financial statements has been adjusted accordingly.

**3. Promises to Give**

Unconditional promises to give are estimated to be collected as follows at December 31, 2018:

Within one year	\$	64,835
In one to five years		1,875
Over five years		-
		<hr/>
		66,710
Less discount to net present value at 2.4%		(25)
Less allowance for doubtful accounts		-
		<hr/>
Promises to give, net	\$	<u>66,685</u>

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**4. Property and Equipment**

Balances of major categories of property and equipment are as follows at December 31, 2018:

Buildings and improvements	\$ 11,182,036
Family rooms	1,437,859
Furniture and fixtures	142,148
Less: Accumulated depreciation	<u>(4,304,928)</u>
Net property and equipment	<u>\$ 8,457,115</u>

Depreciation expense was \$555,626 for the year ended December 31, 2018.

**5. Concentrations of Credit Risks**

Certain financial instruments potentially subject RMHC CTX to concentrations of credit risk. These financial instruments consist primarily of cash deposits and investments. The cash policy of RMHC CTX 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 investments portfolios to assure adherence to policy, and makes periodic reports to the Board of Directors. At December 31, 2018, RMHC CTX's deposits exceeded the federal depository insurance limits by \$247,950.

**6. Investments**

Investments are stated at fair value and consist of the following as of December 31, 2018:

<u>Description</u>	
Schwab Government Money	\$ 396,906
DFA U.S. Large Company Portfolio	656,469
DFA U.S. Large Cap Value	258,737
DFA U.S. Micro Cap Portfolio	207,242
DFA U.S. Small Cap Value	177,436
DFA International Value Portfolio	172,999
DFA Real Estate	115,190
DFA International Small Cap Value	177,828
DFA Five Year Gbl Fixed Income	553,920
DFA Short Term Government Portfolio	<u>909,892</u>
Total investments	<u>\$ 3,626,619</u>

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**6. Investments (continued)**

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2018:

Interest, dividends, and other income	\$ 83,344
Appreciation(depreciation) on investments	(271,560)
Investment service fees	<u>(19,212)</u>
 Investment loss, net	 <u><u>\$ (207,428)</u></u>

**7. Retirement Plan**

RMHC CTX has a 403(b) retirement plan. 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. During the year ended December 31, 2018, RMHC CTX contributed \$51,128 to the Plan.

**8. Net Assets With Donor Restrictions**

Net assets with donor restrictions consisted of the following at December 31, 2018:

Subject to expenditure for specified purpose:	
Family Room Program	\$ 1,765
House Program	59,647
Other programs	<u>11,515</u>
	72,927
Subject to the passage of time:	
Time restrictions	<u>66,685</u>
Endowments:	
Subject to appropriation and expenditure when a specified event occurs:	
Restricted by donors for programs	<u>1,945,130</u>
Permanently restricted to general endowment:	
RMHC Endowment Fund Trust	527,500
RMHC of Austin and Central Texas Endowment Fund (ACF)	25,000

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OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**8. Net Assets With Donor Restrictions (continued)**

Raymond and Vivian Todd Endowment Fund (ACF)	100,000
Underwater endowments	<u>(2,225)</u>
	650,275
 Total Net Assets With Donor Restrictions	 <u><u>\$ 2,735,017</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2018:

Satisfaction of purpose restrictions:	
Healing Hearts Program	\$ 32,405
Family Room Program	16,645
House Program	73,665
Happy Wheels Hospitality Cart Program	20,269
College Station Medical Center Family Room	251,750
Miscellaneous	<u>33,766</u>
	428,500
 Expiration of time restrictions	 <u>102,772</u>
Endowments:	
Restricted-purpose spending-rate distributions and appropriations	
General use	<u>60,094</u>
	<u><u>\$ 591,366</u></u>

**9. Endowments**

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

RMHC CTX 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 CTX retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**9. Endowments (continued)**

The remaining portion of the endowment fund that is not retained in perpetuity is subject to appropriation for expenditure by RMHC CTX in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, RMHC CTX 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.

As of December 31, 2018, endowment net asset composition by type of fund was as follows:

	<u>With Donor Restrictions</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 650,275
Accumulated investment gains	1,945,130
	<u>\$ 2,595,405</u>

*Funds with Deficiencies*

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires RMHC CTX to retain as a fund of perpetual duration. At December 31, 2018, funds with original gift values of \$100,000, fair values of \$97,775, and deficiencies of \$2,225 were reported in net assets with donor restrictions. These amounts were fully recovered during 2019 due to favorable market fluctuations.

*Return Objectives and Risk Parameters*

RMHC CTX 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 CTX expects its endowment funds, over time, to provide an average rate of return of approximately 4 to 5% annually based on historical performance. Actual returns in any given year may vary from this amount.



RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**9. Endowments (continued)**

*Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, RMHC CTX 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). RMHC CTX's Investment Policy targets a diversified asset allocation that places greater emphasis on fixed-income based investments to achieve its long-term return objectives with prudent risk constraints.

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

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

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

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 2,852,845
Contributions	-
Investment income (loss)	(197,346)
Appropriated for expense	<u>(60,094)</u>
Endowment net assets, end of year	<u>\$ 2,595,405</u>

**10. Leases**

RMHC CTX 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 CTX 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 CTX recognized the fair value of the lease of \$450,363. The value of the lease as of December 31, 2018 was \$347,150.

RMHC CTX entered into a 36-month lease for office space in Bryan, Texas which commenced in January 2017 and expires December 31, 2019. The monthly rental amount is \$1,600. Total rental expense under this lease was \$19,200 at December 31, 2018. The future minimum lease payments under this lease are \$19,200 in 2019.

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**10. Leases (continued)**

RMHC CTX also leases office equipment under operating lease agreements. Future minimum lease payments for the next five years as of December 31, 2018, are as follows:

2019	\$	9,586
2020		9,318
2021		9,050
2022		8,244
2023		4,122
	\$	<u>40,320</u>

**11. Fair Value of Financial Instruments**

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement is the same in both cases – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price). *Fair Value Measurements and Disclosures* also establish a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included with Level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3 Inputs – Unobservable inputs for the asset or liability.

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**11. Fair Value of Financial Instruments (continued)**

The following table sets forth RMHC CTX's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2018:

Description	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	\$ 3,626,619	\$ 3,626,619	\$ -	\$ -
Total Investments	<u>\$ 3,626,619</u>	<u>\$ 3,626,619</u>	<u>\$ -</u>	<u>\$ -</u>

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

**12. Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 569,543
Promises to give	66,685
Other receivables	3,990
Note receivable	<u>1,200</u>
Financial assets at year-end	641,418

Less those unavailable for general expenditures within one year due to :

Donor-imposed restrictions:

Restricted by donor with time or purpose restrictions	<u>(139,612)</u>
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Liquid financial assets available within one year to meet cash need for general expenditures within one year

\$ 501,806

RMHC CTX manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The organization has a liquidity policy to maintain current financial assets, less current liabilities, at a minimum of 30 days operating expenses. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually.

RONALD McDONALD HOUSE CHARITIES  
OF CENTRAL TEXAS, INC.  
(Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**12. Liquidity and Availability (continued)**

In addition, RMHC CTX has the following unrestricted funds included in the investment account that can be available if needed:

Investments, at fair value	3,626,619
Less permanently restricted to general endowment	(650,275)
Less endowment restricted by donor for programs	<u>(1,945,130)</u>
Total investments available for general expenditures	<u><u>1,031,214</u></u>

During the year ended December 31, 2018, the level of liquidity and reserves was managed within the policy requirements.

**13. Subsequent Events**

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. Management evaluated subsequent events through the date the audited financial statements were available for issuance, August 26, 2019, and there were no subsequent events to be disclosed.