

Ronald McDonald House of Houston, Inc.
(Parent-Only)

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2013 and 2012

Ronald McDonald House of Houston, Inc. (Parent-Only)

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Independent Auditors' Report

To the Board of Directors of
Ronald McDonald House of Houston, Inc.:

We have audited the accompanying parent-only financial statements of Ronald McDonald House of Houston, Inc. (RMH Houston), which comprise the statements of financial position as of December 31, 2013 and 2012 and the related statements of activities, of functional expenses, and of 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 our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion – In our opinion, the parent-only financial statements referred to above present fairly, in all material respects, the financial position of RMH Houston 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.

Blazek & Vetterling

April 17, 2014

Ronald McDonald House of Houston, Inc. (Parent-Only)

Statements of Financial Position as of December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents (<i>Notes 2 and 3</i>)	\$ 561,632	\$ 662,981
Prepaid expenses and other assets	130,400	110,942
Pledges receivable	271,820	293,934
Investments (<i>Note 3</i>)	2,322,936	2,614,751
Property, net (<i>Note 4</i>)	<u>7,194,342</u>	<u>7,520,458</u>
TOTAL ASSETS	<u>\$ 10,481,130</u>	<u>\$ 11,203,066</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 71,375	\$ 92,094
Accrued payroll expenses	39,064	102,568
Due to Houston House Foundation		6,909
Deferred special event revenue	<u>167,848</u>	<u>31,050</u>
Total liabilities	<u>278,287</u>	<u>232,621</u>
Net assets:		
Unrestricted (<i>Note 5</i>)	9,804,376	10,475,254
Temporarily restricted (<i>Note 6</i>)	<u>398,467</u>	<u>495,191</u>
Total net assets	<u>10,202,843</u>	<u>10,970,445</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,481,130</u>	<u>\$ 11,203,066</u>

See accompanying notes to financial statements.

Ronald McDonald House of Houston, Inc. (Parent-Only)

Statement of Activities for the year ended December 31, 2013

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 1,752,166	\$ 259,554	\$ 2,011,720
Special events	765,768		765,768
Direct donor benefit costs	(138,798)		(138,798)
In-kind contributions (<i>Note 8</i>)	146,998		146,998
House occupancy fees	429,831		429,831
Investment return (<i>Note 3</i>)	<u>(6,483)</u>		<u>(6,483)</u>
Total revenue	2,949,482	259,554	3,209,036
Net assets released from restrictions:			
Capital expenditures	35,972	(35,972)	
Program expenditures	<u>320,306</u>	<u>(320,306)</u>	
Total	<u>3,305,760</u>	<u>(96,724)</u>	<u>3,209,036</u>
EXPENSES:			
Program	3,005,639		3,005,639
Management and general	388,895		388,895
Fundraising	<u>582,104</u>		<u>582,104</u>
Total expenses	<u>3,976,638</u>		<u>3,976,638</u>
CHANGES IN NET ASSETS	(670,878)	(96,724)	(767,602)
Net assets, beginning of year	<u>10,475,254</u>	<u>495,191</u>	<u>10,970,445</u>
Net assets, end of year	<u>\$ 9,804,376</u>	<u>\$ 398,467</u>	<u>\$ 10,202,843</u>

See accompanying notes to financial statements.

Ronald McDonald House of Houston, Inc. (Parent-Only)

Statement of Activities for the year ended December 31, 2012

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 1,346,742	\$ 387,277	\$ 1,734,019
Special events	1,979,127		1,979,127
Direct donor benefit costs	(508,797)		(508,797)
In-kind contributions <i>(Note 8)</i>	94,350		94,350
House occupancy fees	438,246		438,246
Investment return <i>(Note 3)</i>	<u>39,556</u>		<u>39,556</u>
Total revenue	3,389,224	387,277	3,776,501
Net assets released from restrictions:			
Capital expenditures	15,636	(15,636)	
Expiration of time restrictions	119,657	(119,657)	
Program expenditures	<u>205,607</u>	<u>(205,607)</u>	
Total	<u>3,730,124</u>	<u>46,377</u>	<u>3,776,501</u>
EXPENSES:			
Program	2,899,807		2,899,807
Management and general	377,047		377,047
Fundraising	<u>604,152</u>		<u>604,152</u>
Total expenses	<u>3,881,006</u>		<u>3,881,006</u>
CHANGES IN NET ASSETS	(150,882)	46,377	(104,505)
Net assets, beginning of year	<u>10,626,136</u>	<u>448,814</u>	<u>11,074,950</u>
Net assets, end of year	<u>\$ 10,475,254</u>	<u>\$ 495,191</u>	<u>\$ 10,970,445</u>

See accompanying notes to financial statements.

Ronald McDonald House of Houston, Inc. (Parent-Only)

Statements of Functional Expenses for the years ended December 31, 2013 and 2012

	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2013 TOTAL</u>
Salaries	\$ 1,210,265	\$ 201,810	\$ 317,907	\$ 1,729,982
Employee benefits and payroll taxes	371,651	51,258	78,063	500,972
Supplies and equipment	458,794	1,613	94,500	554,907
Depreciation and amortization	389,410	10,247	10,248	409,905
Utilities	197,723	5,203	5,203	208,129
Building and equipment maintenance	161,729	11,786	20,359	193,874
Professional fees	17,496	72,145	8,157	97,798
Insurance	84,979	5,800		90,779
Communications	58,426	1,538	1,538	61,502
Printing and postage	23,443	4,585	31,247	59,275
Other	<u>31,723</u>	<u>22,910</u>	<u>14,882</u>	<u>69,515</u>
Total expenses	<u>\$ 3,005,639</u>	<u>\$ 388,895</u>	<u>\$ 582,104</u>	3,976,638
Direct donor benefit costs				<u>138,798</u>
Total				<u>\$ 4,115,436</u>

	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2012 TOTAL</u>
Salaries	\$ 1,123,288	\$ 183,902	\$ 292,386	\$ 1,599,576
Employee benefits and payroll taxes	316,788	51,864	82,458	451,110
Supplies and equipment	436,985	1,101	115,582	553,668
Depreciation and amortization	421,123	13,505	4,153	438,781
Utilities	222,491	5,855	5,855	234,201
Building and equipment maintenance	163,804	15,811	17,867	197,482
Professional fees	29,042	54,445	17,124	100,611
Insurance	87,121	5,196		92,317
Communications	53,234	1,401	1,401	56,036
Printing and postage	25,966	5,844	51,076	82,886
Other	<u>19,965</u>	<u>38,123</u>	<u>16,250</u>	<u>74,338</u>
Total expenses	<u>\$ 2,899,807</u>	<u>\$ 377,047</u>	<u>\$ 604,152</u>	3,881,006
Direct donor benefit costs				<u>508,797</u>
Total				<u>\$ 4,389,803</u>

See accompanying notes to financial statements.

Ronald McDonald House of Houston, Inc. (Parent-Only)

Statements of Cash Flows for the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (767,602)	\$ (104,505)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized loss on investments	23,317	9,614
Depreciation and amortization	409,905	438,781
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(19,458)	37,678
Pledges receivable	22,114	(174,277)
Accounts payable and accrued payroll expenses	(91,132)	51,775
Deferred special event revenue	<u>136,798</u>	<u>(145,889)</u>
Net cash provided (used) by operating activities	<u>(286,058)</u>	<u>113,177</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(83,789)	(39,595)
Proceeds from sales and maturities of investments	300,000	
Purchases of investments	<u>(31,502)</u>	<u>(49,155)</u>
Net cash provided (used) by investing activities	<u>184,709</u>	<u>(88,750)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(101,349)	24,427
Cash and cash equivalents, beginning of year	<u>662,981</u>	<u>638,554</u>
Cash and cash equivalents, end of year	<u>\$ 561,632</u>	<u>\$ 662,981</u>

See accompanying notes to financial statements.

Ronald McDonald House of Houston, Inc. (Parent-Only)

Notes to Financial Statements for the years ended December 31, 2013 and 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Ronald McDonald House of Houston, Inc. (RMH Houston) is a Texas nonprofit corporation. The mission of RMH Houston is to offer a *home away from home* providing care, compassion and hope to families with seriously ill children being treated in Texas Medical Center member institutions. RMH Houston owns and operates a 50-bedroom residential house on Holcombe Boulevard in the Texas Medical Center in Houston, Texas (the Holcombe House), which provided over 16,500 nights of lodging in 2013. RMH Houston also operates a 20-bedroom house inside Texas Children’s Hospital (TCH), serving thousands of families with children in intensive care units (ICU) and a 14-bedroom house inside Children’s Memorial Hermann Hospital. In addition, RMH Houston operates three Ronald McDonald Family Rooms inside TCH to serve the hematology/oncology inpatient floor, outpatient clinic and cardiovascular ICU. In 2012, RMH Houston opened a Family Room inside Texas Children’s Pavilion for Women, and in June 2013, RMH Houston opened a Family Room inside MD Anderson Children’s Cancer Hospital with 2 rooms.

Affiliated organization – Houston House Foundation (the Foundation) was created in November 1989 with a transfer of \$3.2 million from RMH Houston. The Foundation was established as a supporting organization and is maintained for the purpose of providing financial assistance and benefit to RMH Houston.

Basis of presentation – The consolidated financial statements of Ronald McDonald House of Houston, Inc. and its affiliate, Houston House Foundation, which are not presented here, are the general-purpose financial statements of RMH Houston. These parent-only financial statements include only the assets, liabilities, net assets, and activities of Ronald McDonald House of Houston, Inc. and are not a substitute for the consolidated financial statements.

Federal income tax status – RMH Houston is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1). RMH Houston files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. RMH Houston believes it is no longer subject to examinations of returns for tax years ended before December 31, 2010.

Cash and cash equivalents include bank deposits and highly liquid financial instruments with original maturities of three months or less that are maintained for use in operations.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts due in more than one year are discounted, if material, to estimate the present value of future cash flows. At December 31, 2013, \$249,145 is due in 2014 and \$22,675 is due in 2015.

Investments are reported at fair value. Investment return is reported as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions.

Property is reported at cost if purchased and at fair value at the date of gift if donated. Depreciation is computed on a straight-line basis over estimated useful lives of 3 to 35 years. RMH Houston capitalizes additions and improvements that have a tangible future economic life and a cost of more than \$1,000.

Net asset classification – Revenue and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- *Temporarily restricted net assets* include revenue restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Special events revenue is recognized when the event occurs. Amounts received in advance of the event, represent conditional contributions and are reported in the statement of financial position as deferred revenue. Direct donor benefit costs represent the cost of goods and services provided to attendees of special events.

In-kind contributions – Donated materials and use of facilities are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

House occupancy fees are recognized at the time services are provided, net of estimated uncollectible amounts and discounts based on a family’s ability to pay.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2013</u>	<u>2012</u>
Bank deposits	\$ 336,488	\$ 312,885
Money market mutual funds	<u>225,144</u>	<u>350,096</u>
Total cash and cash equivalents	<u>\$ 561,632</u>	<u>\$ 662,981</u>

Bank deposits exceed the federally insured limit per depositor per institution.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2013 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Federal short-term bond mutual fund	\$ 2,322,936			\$ 2,322,936
Cash equivalents:				
Money market mutual funds	<u>225,144</u>			<u>225,144</u>
Total assets measured at fair value	<u>\$ 2,548,080</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,548,080</u>

Assets measured at fair value at December 31, 2012 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Federal short-term bond mutual fund	\$ 2,614,751			\$ 2,614,751
Cash equivalents:				
Money market mutual funds	<u>350,096</u>			<u>350,096</u>
Total assets measured at fair value	<u>\$ 2,964,847</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,964,847</u>

Mutual funds are valued at the reported net asset value. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while RMH Houston believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return consists of the following:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 15,408	\$ 17,581
Capital gain distributions	1,426	31,589
Net realized and unrealized loss	<u>(23,317)</u>	<u>(9,614)</u>
Total investment return	<u>\$ (6,483)</u>	<u>\$ 39,556</u>

NOTE 4 – PROPERTY

Property is comprised of the following:

	<u>2013</u>	<u>2012</u>
Use of Texas Medical Center land	\$ 1,100,000	\$ 1,100,000
Building	9,420,388	9,420,388
Building improvements	1,662,051	1,662,051
Furniture and equipment	<u>1,475,636</u>	<u>1,406,355</u>
Total property, at cost	13,658,075	13,588,794
Accumulated depreciation and amortization	<u>(6,463,733)</u>	<u>(6,068,336)</u>
Property, net	<u>\$ 7,194,342</u>	<u>\$ 7,520,458</u>

RMH Houston entered into a 99-year lease agreement for \$1 per year with the Texas Medical Center on September 1, 1995 for the use of the land on which the Holcombe House is located. The estimated fair value of this agreement of approximately \$1.1 million is reported as property and is being amortized over the life of the lease.

NOTE 5 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Undesignated	\$ 2,293,431	\$ 2,652,189
Invested in property, net	7,194,342	7,520,458
Board-designated for future projects	<u>316,603</u>	<u>302,607</u>
Total unrestricted net assets	<u>\$ 9,804,376</u>	<u>\$ 10,475,254</u>

In 2010, the Board of Directors of RMH Houston designated a fund for future projects to ensure the stability of the mission, programs, staffing and on-going operations of the organization. The fund is intended to provide an internal source of funds for such matters as major capital expenditures, investment in new facilities, unanticipated losses in funding, uninsured losses, non-recurring unbudgeted expenses, and start-up costs for new program opportunities.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Family activities and services	\$ 165,235	\$ 102,004
In-hospital house and family rooms	151,349	289,028
Other RMH Houston operations and supplies	<u>81,883</u>	<u>104,159</u>
Total temporarily restricted net assets	<u>\$ 398,467</u>	<u>\$ 495,191</u>

NOTE 7 – HOUSTON HOUSE FOUNDATION

Summarized financial information for the Foundation as of December 31, 2013 is as follows:

Assets	\$15,933,734
Liabilities	\$10,000
Net assets	\$15,923,734
Revenue	\$1,769,545
Expenses	\$11,356

Summarized financial information for the Foundation as of December 31, 2012 is as follows:

Assets	\$14,175,545
Liabilities	\$10,000
Net assets	\$14,165,545
Revenue	\$1,501,783
Expenses	\$13,310

NOTE 8 – IN-KIND CONTRIBUTIONS

RMH Houston recognized in-kind contributions as follows:

	<u>2013</u>	<u>2012</u>
Legal and accounting services	\$ 47,550	\$ 34,750
Food and paper goods	45,619	34,390
Repair and maintenance services	22,073	12,177
Audio visual equipment	13,083	
Telephone system	10,013	10,013
Other professional services	<u>8,660</u>	<u>3,020</u>
Total in-kind contributions	<u>\$ 146,998</u>	<u>\$ 94,350</u>

Volunteers provide guest, maintenance, and administrative services that are integral to the operation of the Holcombe House and in-hospital programs. During 2013, approximately 590 volunteers donated 16,000 hours for such services to in-hospital programs and 10,500 hours to the Holcombe House. During 2012, approximately 640 volunteers donated 17,500 hours for such services to in-hospital programs and 10,300 hours to the Holcombe House. Each year, over 700 volunteers served meals and conducted activities and fieldtrips for families staying at the

Holcombe House. No amount has been recognized in the financial statements for these volunteer services because they do not meet the criteria for recognition under generally accepted accounting principles.

NOTE 9 – RETIREMENT PLAN

RMH Houston has a §401(k) retirement plan which covers all employees. RMH Houston contributes an amount equal to 3% of each employee's salary. In addition, RMH Houston will match 100% for each percent the employee contributes up to 3%. RMH Houston contributed \$97,418 to the plan in 2013 and \$83,628 to the plan in 2012.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 17, 2014, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
