

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

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2017 and 2016

## **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, 2017 and 2016 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.

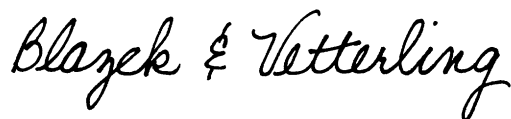
**Management's Responsibility for the Financial Statements** – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



May 8, 2018

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

Statements of Financial Position as of December 31, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents <i>(Note 2)</i>	\$ 316,550	\$ 639,904
Prepaid expenses and other assets	65,782	65,658
Operating pledges receivable <i>(Note 3)</i>	606,949	369,019
Investments <i>(Note 4)</i>	1,146,234	1,185,619
Cash restricted for capital campaign projects <i>(Note 2)</i>	6,202,986	5,272,489
Pledges receivable restricted for capital campaign projects, net <i>(Note 3)</i>	4,359,621	4,498,447
Commitment receivable from Foundation for capital campaign projects	2,500,000	
Property, net <i>(Note 5)</i>	<u>13,764,017</u>	<u>7,563,952</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 28,962,139</u></b>	<b><u>\$ 19,595,088</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 106,258	\$ 83,551
Accrued payroll expenses	124,319	75,111
Construction payable	2,113,335	51,623
Deferred special event revenue	<u>31,673</u>	<u>8,549</u>
Total liabilities	<u>2,375,585</u>	<u>218,834</u>
Commitments <i>(Note 5)</i>		
Net assets:		
Unrestricted <i>(Note 7)</i>	9,115,192	8,040,219
Temporarily restricted <i>(Note 8)</i>	<u>17,471,362</u>	<u>11,336,035</u>
Total net assets	<u>26,586,554</u>	<u>19,376,254</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 28,962,139</u></b>	<b><u>\$ 19,595,088</u></b>

*See accompanying notes to financial statements.*

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

Statement of Activities for the year ended December 31, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUE:			
Contributions	\$ 1,252,718	\$ 308,884	\$ 1,561,602
Special events	1,265,123		1,265,123
Direct donor benefit costs	(140,327)		(140,327)
In-kind contributions <i>(Note 9)</i>	94,677		94,677
House occupancy fees	448,212		448,212
Investment return <i>(Note 4)</i>	40,517		40,517
Other income	<u>3,440</u>		<u>3,440</u>
Total operating revenue	2,964,360	308,884	3,273,244
Net assets released from restrictions:			
Program expenditures	<u>173,550</u>	<u>(173,550)</u>	
Total	<u>3,137,910</u>	<u>135,334</u>	<u>3,273,244</u>
OPERATING EXPENSES:			
Program	3,481,130		3,481,130
Management and general	486,742		486,742
Fundraising	<u>699,132</u>		<u>699,132</u>
Total operating expenses	<u>4,667,004</u>		<u>4,667,004</u>
OPERATING CHANGES IN NET ASSETS	(1,529,094)	135,334	(1,393,760)
OTHER CHANGES IN NET ASSETS:			
Capital campaign project contributions		6,122,742	6,122,742
Impairment loss on Holcombe House <i>(Note 5)</i>	(518,682)		(518,682)
Support from Houston House Foundation:			
Commitment to fund capital campaign projects	2,500,000		2,500,000
Operating support	500,000		500,000
Net assets released from restrictions:			
Capital campaign project expenses	<u>122,749</u>	<u>(122,749)</u>	
CHANGES IN NET ASSETS	1,074,973	6,135,327	7,210,300
Net assets, beginning of year	<u>8,040,219</u>	<u>11,336,035</u>	<u>19,376,254</u>
Net assets, end of year	<u>\$ 9,115,192</u>	<u>\$ 17,471,362</u>	<u>\$ 26,586,554</u>

*See accompanying notes to financial statements.*

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

Statement of Activities for the year ended December 31, 2016

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUE:			
Contributions	\$ 1,456,976	\$ 117,238	\$ 1,574,214
Special events	1,950,966		1,950,966
Direct donor benefit costs	(397,096)		(397,096)
In-kind contributions (Note 9)	80,979		80,979
House occupancy fees	514,333		514,333
Investment return (Note 4)	31,842		31,842
Other income	<u>2,878</u>		<u>2,878</u>
Total operating revenue	3,640,878	117,238	3,758,116
Net assets released from restrictions:			
Program expenditures	<u>101,870</u>	<u>(101,870)</u>	
Total	<u>3,742,748</u>	<u>15,368</u>	<u>3,758,116</u>
OPERATING EXPENSES:			
Program	3,338,070		3,338,070
Management and general	410,344		410,344
Fundraising	<u>803,815</u>		<u>803,815</u>
Total operating expenses	<u>4,552,229</u>		<u>4,552,229</u>
OPERATING CHANGES IN NET ASSETS	(809,481)	15,368	(794,113)
OTHER CHANGES IN NET ASSETS:			
Capital campaign project contributions		5,576,513	5,576,513
Net assets released from restrictions:			
Capital campaign project expenses	<u>199,580</u>	<u>(199,580)</u>	
CHANGES IN NET ASSETS	(609,901)	5,392,301	4,782,400
Net assets, beginning of year	<u>8,650,120</u>	<u>5,943,734</u>	<u>14,593,854</u>
Net assets, end of year	<u>\$ 8,040,219</u>	<u>\$ 11,336,035</u>	<u>\$ 19,376,254</u>

*See accompanying notes to financial statements.*

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

Statements of Functional Expenses for the years ended December 31, 2017 and 2016

	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2017 TOTAL</u>
Salaries	\$ 1,526,849	\$ 219,452	\$ 351,798	\$ 2,098,099
Employee benefits and payroll taxes	395,798	56,887	91,195	543,880
Depreciation and amortization	523,433	13,774	13,774	550,981
Supplies and equipment	450,752	2,837	44,043	497,632
Professional fees	42,408	135,145	99,017	276,570
Building and equipment maintenance	193,492	13,435	12,424	219,351
Utilities	177,042	4,659	4,659	186,360
Insurance	83,954	7,138		91,092
Printing and postage	16,416	3,486	46,537	66,439
Communications	45,062	1,186	13,943	60,191
Other	<u>25,924</u>	<u>28,743</u>	<u>21,742</u>	<u>76,409</u>
Total expenses	<u>\$ 3,481,130</u>	<u>\$ 486,742</u>	<u>\$ 699,132</u>	4,667,004
Direct donor benefit costs				<u>140,327</u>
Total				<u>\$ 4,807,331</u>

	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2016 TOTAL</u>
Salaries	\$ 1,472,022	\$ 206,831	\$ 416,526	\$ 2,095,379
Employee benefits and payroll taxes	423,398	59,491	119,805	602,694
Depreciation and amortization	370,506	9,750	9,750	390,006
Supplies and equipment	458,202	2,029	58,538	518,769
Professional fees	36,898	84,063	104,819	225,780
Building and equipment maintenance	200,501	8,939	13,855	223,295
Utilities	198,003	5,211	5,211	208,425
Insurance	86,445	6,865		93,310
Printing and postage	17,213	2,113	48,768	68,094
Communications	55,653	1,465	10,770	67,888
Other	<u>19,229</u>	<u>23,587</u>	<u>15,773</u>	<u>58,589</u>
Total expenses	<u>\$ 3,338,070</u>	<u>\$ 410,344</u>	<u>\$ 803,815</u>	4,552,229
Direct donor benefit costs				<u>397,096</u>
Total				<u>\$ 4,949,325</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, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 7,210,300	\$ 4,782,400
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Contributions restricted for capital campaign projects	(6,122,742)	(5,576,513)
Support from Foundation to fund capital campaign projects	(2,500,000)	
Net realized and unrealized loss on investments	4,494	166
Depreciation and amortization	550,981	390,006
Impairment loss	518,682	
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(124)	80,803
Operating pledges receivable	(237,930)	(19,940)
Accounts payable and accrued payroll expenses	71,915	(30,656)
Deferred special event revenue	<u>23,124</u>	<u>(14,807)</u>
Net cash used by operating activities	<u>(481,300)</u>	<u>(388,541)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital campaign construction costs	(5,150,907)	(101,660)
Purchases of property	(57,109)	(64,005)
Purchases of investments	(515,109)	(14,668)
Proceeds from sales and maturities of investments	<u>550,000</u>	<u>          </u>
Net cash used by investing activities	<u>(5,173,125)</u>	<u>(180,333)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital campaign projects	<u>6,261,568</u>	<u>3,407,459</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	607,143	2,838,585
Cash and cash equivalents, beginning of year <i>(Note 2)</i>	<u>5,912,393</u>	<u>3,073,808</u>
Cash and cash equivalents, end of year <i>(Note 2)</i>	<u>\$ 6,519,536</u>	<u>\$ 5,912,393</u>

*See accompanying notes to financial statements.*

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

Notes to Financial Statements for the years ended December 31, 2017 and 2016

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### 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 comfortable, safe, and reliable *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 Holcombe House, a 50-bedroom house on Holcombe Boulevard in the Texas Medical Center in Houston, Texas. Holcombe House provided approximately 16,200 nights of lodging in 2017 and approximately 17,170 nights of lodging in 2016.

In 2014, RMH Houston launched *Behind Every Door*, a \$24.5 million capital campaign to improve Holcombe House. Through December 31, 2017, cumulative contributions of approximately \$17.7 million have been recognized. An additional \$2.5 million has been committed by the Foundation to be paid to RMH Houston from 2018 through 2027.

During 2017, capital improvements to Holcombe House began which include construction of a new two-story tower that will add 20 bedrooms as well as renovation, reconfiguration, and upgrades of existing bedrooms, kitchens, and family areas to provide more private and functional space for families and to facilitate mobility throughout. Capital improvements are expected to be completed and operational by Fall 2018.

RMH Houston also operates a 20-bedroom house inside Texas Children’s Hospital (TCH), a 14-bedroom house inside Children’s Memorial Hermann Hospital, four Family Rooms inside TCH, a Family Room inside M.D. Anderson Children’s Cancer hospital and a Cookie Corner inside TCH’s campus in West Houston.

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 RMH Houston and its affiliate, the 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 RMH Houston 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).

Cash and cash equivalents include demand deposits and highly liquid investments with original maturities of three months or less, except that cash and cash equivalents held for long-term investment purposes are grouped with investments and are excluded from cash and cash equivalents in the statement of cash flows. Demand deposits exceed the federally insured limit per depositor per financial institution.

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. An allowance for uncollectible pledges receivable is provided when it is believed balances may not be collected in full. RMH Houston’s policy is to write off receivables against the allowance when management determines the receivable will not be collected. The loss on pledges recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and analysis of individual pledge balances. It is possible that management’s estimate regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of these receivables.

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

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.

Operating revenue and expenses – The Organizations report activities related to the capital campaign and to the endowment, except for endowment investment return approved by the Foundation for distribution to RMH Houston for operating purposes, separate from operating revenue and expenses.

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. RMH Houston recognizes gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are classified as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, RMH Houston reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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.

Functional allocation of expenses – The costs of providing the program and support services are reported on a functional basis in the statements of activities. Indirect costs have been allocated between program, management and general, and fundraising based on estimates determined by management. While RMH Houston believes its allocation methods are appropriate, the use of different methods or assumptions could result in different allocated amounts.

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.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments, if any, will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and

investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. Adoption of this ASU will impact the presentation and disclosures of the financial statements. RMH Houston plans to adopt this ASU in 2018.

## NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2017 consist of demand deposits of \$6,519,536. Cash and cash equivalents at December 31, 2016 consist of demand deposits of \$5,912,393 and money market mutual funds of \$24,975.

Cash and cash equivalents reported in the statement of financial position are reconciled to cash and cash equivalents reported in the statement of cash flows as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 316,550	\$ 639,904
Cash restricted for capital campaign projects	<u>6,202,986</u>	<u>5,272,489</u>
Total cash and cash equivalents reported in the statement of cash flows	<u>\$ 6,519,536</u>	<u>\$ 5,912,393</u>

## NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2017</u>	<u>2016</u>
Total pledges receivable	\$ 5,044,851	\$ 4,900,779
Discount to net present value at 0.89% to 1.98%	<u>(78,281)</u>	<u>(33,313)</u>
Pledges receivable, net	4,966,570	4,867,466
Pledges receivable restricted for capital campaign projects, net	<u>(4,359,621)</u>	<u>(4,498,447)</u>
Operating pledges receivable	<u>\$ 606,949</u>	<u>\$ 369,019</u>

Pledges receivable at December 31, 2017 are expected to be collected as follows:

Within one year	\$ 2,413,821
In one to five years	<u>2,631,030</u>
Total pledges receivable	<u>\$ 5,044,851</u>

*Concentration* – At December 31, 2017, approximately 51% of pledges are due from three donors. At December 31, 2016, approximately 44% of pledges are due from three donors. During the year ended December 31, 2017, approximately 32% of contributions were from three donors. During the year ended December 31, 2016, approximately 28% of contributions were from two donors.

## NOTE 4 – 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, 2017 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	\$ 1,146,234	_____	_____	\$ 1,146,234
Total assets measured at fair value	<u>\$ 1,146,234</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,146,234</u>

Assets measured at fair value at December 31, 2016 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	\$ 1,185,619	_____	_____	\$ 1,185,619
Total assets measured at fair value	<u>\$ 1,185,619</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,185,619</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 that 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>2017</u>	<u>2016</u>
Interest and dividends	\$ 44,311	\$ 29,024
Capital gain distributions	700	2,984
Net realized and unrealized loss	<u>(4,494)</u>	<u>(166)</u>
Total investment return	<u>\$ 40,517</u>	<u>\$ 31,842</u>

## NOTE 5 – PROPERTY

Property is comprised of the following:

	<u>2017</u>	<u>2016</u>
Use of Texas Medical Center land	\$ 1,100,000	\$ 1,100,000
Building	8,805,986	9,420,388
Building improvements	941,792	1,746,285
Furniture and equipment	1,138,157	1,218,611
Capital campaign projects in progress	<u>8,554,802</u>	<u>1,342,183</u>
Total property, at cost	20,540,737	14,827,467
Accumulated depreciation and amortization	<u>(6,776,720)</u>	<u>(7,263,515)</u>
Property, net	<u>\$ 13,764,017</u>	<u>\$ 7,563,952</u>

*Use of land* – 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 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.

*Impairment loss* – In connection with the capital improvements of Holcombe House, RMH Houston evaluated the recoverability of the net book value of the building and building improvements. During 2017, RMH Houston recognized an impairment loss of \$518,682 for assets which will be replaced by the capital improvements in process.

*Commitments* – RMH Houston entered into contracts with a construction contractor, architect and project manager totaling approximately \$20,400,000 for the expansion and renovation of Holcombe House. At December 31, 2017, outstanding commitments under these contracts is approximately \$12,400,000.

**NOTE 6 – LINE OF CREDIT**

In October 2017, RMH Houston entered into a revolving line of credit with a bank with interest at LIBOR plus 1.75%. There were no amounts outstanding on this line of credit at December 31, 2017. The loan is secured by all pledges and proceeds from the *Behind Every Door* capital campaign.

**NOTE 7 – UNRESTRICTED NET ASSETS**

Unrestricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Undesignated	\$ 1,076,079	\$ 1,491,160
Invested in property, net	5,209,215	6,221,769
Board-designated for capital campaign projects	2,500,000	
Board-designated for future projects	<u>329,898</u>	<u>327,290</u>
Total unrestricted net assets	<u>\$ 9,115,192</u>	<u>\$ 8,040,219</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. The assets of this fund are included in investments.

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Capital campaign projects	\$ 17,102,352	\$ 11,102,359
Family activities and services	238,486	93,398
Other RMH Houston operations and supplies	<u>130,524</u>	<u>140,278</u>
Total temporarily restricted net assets	<u>\$ 17,471,362</u>	<u>\$ 11,336,035</u>

**NOTE 9 – IN-KIND CONTRIBUTIONS**

RMH Houston recognized in-kind contributions as follows:

	<u>2017</u>	<u>2016</u>
Compensation study	\$ 31,000	
Food and paper goods	20,469	\$ 18,225
Repair and maintenance services	12,723	15,589
Legal and accounting services	5,500	26,795
Other professional services	<u>24,985</u>	<u>20,370</u>
Total in-kind contributions	<u>\$ 94,677</u>	<u>\$ 80,979</u>

Volunteers provide guest, maintenance, and administrative services that are integral to the operation of Holcombe House and in-hospital programs. During 2017, approximately 630 volunteers donated 13,600 hours for such

services to in-hospital programs and 12,300 hours to Holcombe House. During 2016, approximately 660 volunteers donated 15,600 hours for such services to in-hospital programs and 11,000 hours to Holcombe House. During 2017, over 1,300 volunteers served meals and conducted activities and fieldtrips for families staying at Holcombe House. During 2016, over 1,500 volunteers served meals and conducted activities and fieldtrips for families staying at 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 10 – 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 \$112,045 to the plan in 2017 and \$111,840 to the plan in 2016.

#### **NOTE 11 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through May 8, 2018, which is the date that the financial statements were available for issuance. In February 2018, RMH Houston entered into an agreement with Texas Medical Center to lease space for its administrative offices for a period of three years at a cost of approximately \$100,000 per year. No other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

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