

**Ronald McDonald House Charities
of Greater Houston/Galveston, Inc.**

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2018 and 2017

Ronald McDonald House Charities of Greater Houston/Galveston, Inc.

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Independent Auditors' Report

To the Board of Directors of
Ronald McDonald House Charities of Greater Houston/Galveston, Inc.:

We have audited the accompanying financial statements of Ronald McDonald House Charities of Greater Houston/Galveston, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017 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 financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of Greater Houston/Galveston, Inc. as of December 31, 2018 and 2017 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.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Ronald McDonald House Charities of Greater Houston/Galveston, Inc. adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended December 31, 2017, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

May 28, 2019

Ronald McDonald House Charities of Greater Houston/Galveston, Inc.

Statements of Financial Position as of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 481,711	\$ 600,227
Contributions receivable	110,741	154,514
Prepaid expenses	7,844	19,123
Investments designated for operating reserves (<i>Notes 4 and 5</i>)	350,957	365,721
Investments (<i>Note 4</i>)	<u>87,883</u>	<u>260,619</u>
TOTAL ASSETS	<u>\$ 1,039,136</u>	<u>\$ 1,400,204</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable to Global		\$ 18,020
Accounts payable to others	\$ 11,771	18,450
Deferred revenue for special events		800
Grants payable to Ronald McDonald Houses		40,971
Scholarships payable to others		<u>9,000</u>
Total liabilities	<u>11,771</u>	<u>87,241</u>
Net assets:		
Without donor restrictions (<i>Note 5</i>)	880,845	981,537
With donor restrictions (<i>Note 6</i>)	<u>146,520</u>	<u>331,426</u>
Total net assets	<u>1,027,365</u>	<u>1,312,963</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,039,136</u>	<u>\$ 1,400,204</u>

See accompanying notes to financial statements.

Ronald McDonald House Charities of Greater Houston/Galveston, Inc.

Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
McDonald's affiliates	\$ 222,409		\$ 222,409
Restaurant donation boxes	252,646		252,646
Other	71,680	\$ 60,312	131,992
Special events	120,486		120,486
Direct donor benefits	(29,702)		(29,702)
Net investment return	<u>(9,552)</u>	<u>3,657</u>	<u>(5,895)</u>
Total revenue	627,967	63,969	691,936
Net assets released from restrictions:			
Program expenditures	<u>248,875</u>	<u>(248,875)</u>	
Total	<u>876,842</u>	<u>(184,906)</u>	<u>691,936</u>
EXPENSES:			
Program services	674,765		674,765
Management and general	162,745		162,745
Fundraising	<u>140,024</u>		<u>140,024</u>
Total expenses	<u>977,534</u>		<u>977,534</u>
CHANGES IN NET ASSETS	(100,692)	(184,906)	(285,598)
Net assets, beginning of year	<u>981,537</u>	<u>331,426</u>	<u>1,312,963</u>
Net assets, end of year	<u>\$ 880,845</u>	<u>\$ 146,520</u>	<u>\$ 1,027,365</u>

See accompanying notes to financial statements.

Ronald McDonald House Charities of Greater Houston/Galveston, Inc.

Statement of Activities for the year ended December 31, 2017

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
McDonald's affiliates	\$ 170,073	\$ 265,777	\$ 435,850
Restaurant donation boxes	499,190		499,190
Other	96,309		96,309
Special events	127,492		127,492
Direct donor benefits	(31,294)		(31,294)
Net investment return	<u>19,991</u>	<u>17,308</u>	<u>37,299</u>
Total revenue	881,761	283,085	1,164,846
Net assets released from restrictions:			
Program expenditures	<u>288,552</u>	<u>(288,552)</u>	<u> </u>
Total	<u>1,170,313</u>	<u>(5,467)</u>	<u>1,164,846</u>
EXPENSES:			
Program services	727,706		727,706
Management and general	185,247		185,247
Fundraising	81,134		81,134
Global's share of certain contributions	<u>103,004</u>		<u>103,004</u>
Total expenses	<u>1,097,091</u>		<u>1,097,091</u>
CHANGES IN NET ASSETS	73,222	(5,467)	67,755
Net assets, beginning of year (<i>Note 2</i>)	<u>908,315</u>	<u>336,893</u>	<u>1,245,208</u>
Net assets, end of year	<u>\$ 981,537</u>	<u>\$ 331,426</u>	<u>\$ 1,312,963</u>

See accompanying notes to financial statements.

Ronald McDonald House Charities of Greater Houston/Galveston, Inc.

Statements of Functional Expenses for the years ended December 31, 2018 and 2017

<u>2018 EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2018 TOTAL</u>
Program support:				
Ronald McDonald mobile units	\$ 204,379			\$ 204,379
Ronald McDonald C.H.E.E.R! Room	26,670			26,670
Salaries	118,878	\$ 74,850	\$ 108,126	301,854
Scholarships	201,786			201,786
Professional services	30,838	34,217	1,800	66,855
Occupancy	15,917	16,550	11,134	43,601
Grants to Ronald McDonald Houses	40,000			40,000
Office supplies	11,208	2,188	11,240	24,636
Continuing education fees	10,965	1,926	1,926	14,817
Internet and software	2,292	9,487	768	12,547
Insurance		7,293		7,293
Other	<u>11,832</u>	<u>16,234</u>	<u>5,030</u>	<u>33,096</u>
Total functional expenses	<u>\$ 674,765</u>	<u>\$ 162,745</u>	<u>\$ 140,024</u>	977,534
Direct donor benefits				<u>29,702</u>
Total expenses				<u>\$ 1,007,236</u>

<u>2017 EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2017 TOTAL</u>
Program support:				
Ronald McDonald mobile units	\$ 210,640			\$ 210,640
Ronald McDonald C.H.E.E.R! Room	25,000			25,000
Salaries	21,973	\$ 37,195	\$ 60,683	119,851
Scholarships	170,000			170,000
Professional services		47,441	12,916	60,357
Occupancy	25,893	3,320	2,887	32,100
Grants to Ronald McDonald Houses	226,690			226,690
Office supplies	4,273	5,000	491	9,764
Continuing education fees	11,383	1,405	1,265	14,053
Internet and software	10,295	1,271	1,144	12,710
Insurance	6,035	745	670	7,450
Donation box collection processing fees		87,174		87,174
Other	<u>15,524</u>	<u>1,696</u>	<u>1,078</u>	<u>18,298</u>
Total functional expenses	<u>\$ 727,706</u>	<u>\$ 185,247</u>	<u>\$ 81,134</u>	994,087
Global's share of certain contributions				103,004
Direct donor benefits				<u>31,294</u>
Total expenses				<u>\$ 1,128,385</u>

See accompanying notes to financial statements.

Ronald McDonald House Charities of Greater Houston/Galveston, Inc.

Statements of Cash Flows for the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (285,598)	\$ 67,755
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized (gain) loss on investments	31,087	(13,793)
Changes in operating assets and liabilities:		
Contributions receivable	43,773	(37,552)
Prepaid expenses	11,279	873
Accounts payable to Global	(18,020)	(8,628)
Accounts payable to others	(6,679)	9,329
Deferred revenue for special events	(800)	(24,200)
Grants and scholarships payable	<u>(49,971)</u>	<u>34,000</u>
Net cash provided (used) by operating activities	<u>(274,929)</u>	<u>27,784</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in cash designated for operating reserves		(16,126)
Change in money market mutual funds	(45,447)	131,365
Purchases of investments	(200,321)	(428,156)
Sales of investments	<u>402,181</u>	<u>343,905</u>
Net cash provided by investing activities	<u>156,413</u>	<u>30,988</u>
NET CHANGE IN CASH	(118,516)	58,772
Cash, beginning of year	<u>600,227</u>	<u>541,455</u>
Cash, end of year	<u>\$ 481,711</u>	<u>\$ 600,227</u>

See accompanying notes to financial statements.

Ronald McDonald House Charities of Greater Houston/Galveston, Inc.

Notes to Financial Statements for the years ended December 31, 2018 and 2017

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Ronald McDonald House Charities of Greater Houston/Galveston, Inc. (RMHC) is a Texas nonprofit organization created in 1990. RMHC is a local chapter of the Ronald McDonald House Charities system (Global) and under a licensing agreement shares a percentage of certain contributions with Global. RMHC is governed by its own board of directors. Members of the McDonald's family serve as volunteers on the board and committees of RMHC, working along with other members of their community.

RMHC's mission is to create, find and support programs that directly improve the health and well-being of children. Program support includes:

- *Ronald McDonald Care Mobile* is a two-room mobile medical unit that provides quality healthcare completely free of charge in the most medically under-served areas of our community. Operated by Texas Children's Hospital, *Ronald McDonald Care Mobile* has a full-time doctor and nurse available throughout the week. An additional three-room mobile unit, operated by University of Texas Health School of Dentistry, allows future dentists and dental hygienists to gain educational experience through providing much needed dental care to under-served children throughout Houston.
- *Ronald McDonald C.H.E.E.R! (Children's Health Education Enrichment Resource) Room* provides a fun, colorful, welcoming environment and an educational place for children to wait while their mothers receive prenatal care at UTMB Regional Maternal and Child Health Program Clinics. The non-clinical staff keep children occupied with age-appropriate mini-lessons in health and wellness allowing mothers to turn their attention to the healthcare providers giving them critical information about their own health and the health of their unborn baby.
- RMHC provided 85 college scholarships to deserving high school seniors in both 2018 and 2017.
- RMHC provides grants to Ronald McDonald House of Houston and Ronald McDonald House of Galveston. These Houses offer a *home away from home* providing care, compassion and hope to families with seriously ill children undergoing treatment in area medical institutions.

McDonald's restaurants are strong supporters of RMHC. McDonald's restaurants host in-store fundraisers throughout the year which include donation boxes on the counter and in the drive-thru and conducting annual world-wide fundraisers which invite customers to donate to RMHC. A portion of proceeds from every Happy Meal® and Mighty Kids Meal® sold in the Houston region have been graciously donated by McDonald's Owner/Operators. The RMHC scholarship program has been funded by a portion of the proceeds from french fry sales.

Federal income tax status – RMHC 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) and §170(b)(1)(A)(vi).

Contributions receivable due 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, 2018, all contributions are due within one year.

Investments are reported at fair value. Net investment return consists of interest and dividends, and realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property is reported at cost if purchased and at fair value at the date of gift if donated. Property with a cost in excess of \$3,000 and a life in excess of three years is capitalized. Depreciation is computed using the straight-line method over the estimated useful life of five years for donation boxes. At December 31, 2018 and 2017, all property is fully depreciated.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

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.

In-kind contributions – Contributed materials and use of facilities are recognized at fair value as unrestricted contributions when a commitment is received from the donor. The related expense is recognized as the item is used.

Donated services – 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. Many RMHC activities are conducted by volunteers. These volunteers have contributed significant amounts of time in connection with programs, administration and fundraising for which no amount has been recognized in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Special events revenue is recognized when the event occurs. Amounts received in advance of the event 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.

Program support grants are recognized as expense when RMHC approves an unconditional commitment to a grant recipient. Conditional grants are recognized in the same manner when the conditions are substantially met by the recipient or when the possibility that the conditions will not be met is deemed remote. Commitments made but not yet funded are reported as grants payable. Grants payable are expected to be paid within one year.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to one or more program or supporting activities are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Occupancy

costs are allocated based on square footage. Information technology costs are allocated based on estimates of time and costs of specific technology utilized.

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 of reported 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 February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2019. RMHC is required to adopt this ASU for fiscal year 2020. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

RMHC adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements for the year ended December 31, 2017, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2018 presentation but had no impact on total net assets or total changes in net assets for 2017.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 comprise the following:

Financial assets at December 31, 2018:	
Cash	\$ 481,711
Contributions receivable	110,741
Investments	<u>438,840</u>
Total financial assets	1,031,292
Less financial assets not available for general expenditure:	
Board-designated for operating reserves	<u>(350,957)</u>
Total financial assets available for general expenditure	<u>\$ 680,335</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, RMHC considers all expenditures related to its ongoing activities to be general expenditures. RMHC regularly monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of available funds. RMHC operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. A board-designated operating reserve may be made available if determined necessary.

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, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Mutual funds:				
Bond	\$ 324,342			\$ 324,342
Money market	92,821			92,821
Equity	<u>21,677</u>			<u>21,677</u>
Total assets measured at fair value	<u>\$ 438,840</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 438,840</u>

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:				
Mutual funds:				
Bond	\$ 247,301			\$ 247,301
Money market	47,374			47,374
Equity	<u>331,665</u>			<u>331,665</u>
Total assets measured at fair value	<u>\$ 626,340</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 626,340</u>

Mutual funds are valued at the published net asset value of shares held. 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 RMHC 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.

NOTE 5 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 529,888	\$ 615,816
Board-designated for operating reserves	<u>350,957</u>	<u>365,721</u>
Total net assets without donor restrictions	<u>\$ 880,845</u>	<u>\$ 981,537</u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2018</u>	<u>2017</u>
Scholarships and grants	\$ 87,883	\$ 304,254
Salvation Army C.H.E.E.R! Room	25,000	
Care Mobile	30,312	10,000
Book program for C.H.E.E.R! Room	3,325	6,225
Board and professional development	<u> </u>	<u>10,947</u>
Total net assets with donor restrictions	<u>\$ 146,520</u>	<u>\$ 331,426</u>

NOTE 7 – LEASE COMMITMENT

RMHC signed a two-year lease commitment beginning October 1, 2018. Payments due in future periods are \$31,500 for 2019 and \$23,625 for 2020.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 28, 2019, 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.