

THE RONALD MCDONALD HOUSE OF GALVESTON

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
As of and for the Years Ended December 31, 2019 and 2018**

**THE RONALD MCDONALD HOUSE OF GALVESTON
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position As of December 31, 2019 and 2018	2
Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2019	3
Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2018	4
Statement of Functional Expenses For the Year Ended December 31, 2019	5
Statement of Functional Expenses For the Year Ended December 31, 2018	6
Statements of Cash Flows For the Years Ended December 31, 2019 and 2018	7
Notes to Financial Statements	8



11550 Fuqua St., Ste. 475
Houston, Texas 77034
281-481-1040 Main
hlb-cpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Ronald McDonald House of Galveston:

We have audited the accompanying financial statements of the Ronald McDonald House of Galveston (the "RMHG"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the RMHG as of December 31, 2019 and 2018, 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.

Ham, Langston & Brezina, L.L.P.

Galveston, TX
September 25, 2020

THE RONALD MCDONALD HOUSE OF GALVESTON
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 1,022,863	\$ 939,959
Accounts receivable	4,152	6,942
Pledges receivable, net of discounts	77,020	-
Grant receivable	62,500	125,000
Current note receivable, related party	667	667
	1,167,202	1,072,568
Total current assets	1,167,202	1,072,568
Investments - endowment funds	7,068,268	5,757,533
Limited partnership investment	78,097	77,616
Pledges receivable, net of discounts	174,083	-
Note receivable, related party	1,722	3,055
Property and equipment, net	1,137,158	1,209,738
	1,137,158	1,209,738
Total assets	\$ 9,626,530	\$ 8,120,510
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 38,453	\$ 37,826
	38,453	37,826
Total liabilities	38,453	37,826
Net assets:		
Without donor restrictions	7,307,807	6,343,895
With donor restrictions	2,280,270	1,738,789
	9,588,077	8,082,684
Total net assets	9,588,077	8,082,684
Total liabilities and net assets	\$ 9,626,530	\$ 8,120,510

The accompanying notes are an integral part of these financial statements

THE RONALD MCDONALD HOUSE OF GALVESTON
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue:			
Contributions and grants	\$ 326,156	\$ 396,983	\$ 723,139
Room revenue	53,030	-	53,030
Special events, net	160,391	-	160,391
Investment income, net	1,233,675	215,620	1,449,295
Limited partnership investment income	47,452	-	47,452
Sales and other income	18,956	-	18,956
	<hr/>	<hr/>	<hr/>
Revenue before release of restrictions on net assets	1,839,660	612,603	2,452,263
Net assets released from restrictions for program expenses	71,122	(71,122)	-
	<hr/>	<hr/>	<hr/>
Total revenue	1,910,782	541,481	2,452,263
	<hr/>	<hr/>	<hr/>
Expenses:			
Program expenses:			
House operations	782,137	-	782,137
Supporting services:			
Costs of direct benefits to donors	29,360	-	29,360
Management and general	110,179	-	110,179
Fundraising	25,194	-	25,194
	<hr/>	<hr/>	<hr/>
Total expenses	946,870	-	946,870
	<hr/>	<hr/>	<hr/>
Change in net assets	963,912	541,481	1,505,393
Net assets at beginning of year	6,343,895	1,738,789	8,082,684
	<hr/>	<hr/>	<hr/>
Net assets at end of year	\$ 7,307,807	\$ 2,280,270	\$ 9,588,077
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements

THE RONALD MCDONALD HOUSE OF GALVESTON
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue:			
Contributions and grants	\$ 351,641	\$ 875,379	\$ 1,227,020
Room revenue	89,900	-	89,900
Special events, net	138,232	-	138,232
Investment income, net	(212,717)	(44,584)	(257,301)
Limited partnership investment income	48,550	-	48,550
Sales and other income	29,593	-	29,593
	<hr/>	<hr/>	<hr/>
Revenue before release of restrictions on net assets	445,199	830,795	1,275,994
	<hr/>	<hr/>	<hr/>
Net assets released from restrictions for program expenses	69,326	(69,326)	-
	<hr/>	<hr/>	<hr/>
Total revenue	514,525	761,469	1,275,994
	<hr/>	<hr/>	<hr/>
Expenses:			
Program expenses:			
House operations	792,984	-	792,984
Supporting services:			
Costs of direct benefits to donors	15,127	-	15,127
Management and general	109,626	-	109,626
Fundraising	28,174	-	28,174
	<hr/>	<hr/>	<hr/>
Total expenses	945,911	-	945,911
	<hr/>	<hr/>	<hr/>
Change in net assets	(431,386)	761,469	330,083
	<hr/>	<hr/>	<hr/>
Net assets at beginning of year	6,775,281	977,320	7,752,601
	<hr/>	<hr/>	<hr/>
Net assets at end of year	<u>\$ 6,343,895</u>	<u>\$ 1,738,789</u>	<u>\$ 8,082,684</u>

The accompanying notes are an integral part of these financial statements

THE RONALD MCDONALD HOUSE OF GALVESTON
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Description	Program Services	Supportive Services		Total Expenses
	Instructional	Management and General	Fundraising	
Compensation and related expenses:				
Salaries	\$ 443,600	\$ 35,524	\$ 6,549	\$ 485,673
Employee benefits	159,189	9,544	2,386	171,119
Payroll taxes	34,085	2,731	504	37,320
Total compensation and related expenses	<u>636,874</u>	<u>47,799</u>	<u>9,439</u>	<u>694,112</u>
Other expenses:				
Depreciation	68,644	17,161	-	85,805
General	6,645	4,698	6,997	18,340
Insurance	25,961	11,081	-	37,042
Newsletter	-	-	8,758	8,758
Security	1,210	303	-	1,513
Utilities	28,124	7,022	-	35,146
Repairs and maintenance	3,705	1,566	-	5,271
Office	1,929	179	-	2,108
Postage	150	138	-	288
Printing	1,528	640	-	2,168
Professional fees	-	18,648	-	18,648
Supplies	1,994	-	-	1,994
Telephone	3,898	944	-	4,842
Transportation	1,475	-	-	1,475
Total other expenses	<u>145,263</u>	<u>62,380</u>	<u>15,755</u>	<u>223,398</u>
Costs of direct benefits to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,360</u>
Total expenses	<u>\$ 782,137</u>	<u>\$ 110,179</u>	<u>\$ 25,194</u>	<u>\$ 946,870</u>

The accompanying notes are an integral part of these financial statements.

THE RONALD MCDONALD HOUSE OF GALVESTON
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Description	Program Services	Supportive Services		Total Expenses
	Instructional	Management and General	Fundraising	
Compensation and related expenses:				
Salaries	\$ 427,146	\$ 39,031	\$ 6,457	\$ 472,634
Employee benefits	153,389	9,333	2,333	165,055
Payroll taxes	33,091	3,024	500	36,615
Total compensation and related expenses	<u>613,626</u>	<u>51,388</u>	<u>9,290</u>	<u>674,304</u>
Other expenses:				
Depreciation	68,544	17,136	-	85,680
General	16,784	1,647	7,501	25,932
Insurance	29,435	8,900	-	38,335
Newsletter	-	-	11,383	11,383
Security	1,884	488	-	2,372
Utilities	31,159	8,743	-	39,902
Repairs and maintenance	3,727	1,068	-	4,795
Postage	623	54	-	677
Printing	1,684	792	-	2,476
Professional fees	-	18,180	-	18,180
Supplies	4,039	242	-	4,281
Telephone	4,040	988	-	5,028
Transportation	17,439	-	-	17,439
Total other expenses	<u>179,358</u>	<u>58,238</u>	<u>18,884</u>	<u>256,480</u>
Costs of direct benefits to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,127</u>
Total expenses	<u>\$ 792,984</u>	<u>\$ 109,626</u>	<u>\$ 28,174</u>	<u>\$ 945,911</u>

The accompanying notes are an integral part of these financial statements.

THE RONALD MCDONALD HOUSE OF GALVESTON
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 1,505,393	\$ 330,083
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	85,805	85,680
Loss (gain) on sale of fixed assets	638	(4,000)
Unrealized (gain) loss on investments	(1,256,347)	385,468
Realized gain on sale of investments	47,144	263
Limited partnership investment (income) loss	(481)	3,538
Changes in operating assets and liabilities:		
Accounts receivable	2,790	(3,842)
Pledges receivable	(251,103)	-
Grant receivable	62,500	(125,000)
Accrued liabilities	627	(3,081)
	<u>196,966</u>	<u>669,109</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of investments	(382,114)	(516,287)
Proceeds from the sale of investments	280,582	472,792
Payments received on note receivable	1,333	278
Capital expenditures	(13,863)	(49,525)
	<u>(114,062)</u>	<u>(92,742)</u>
Net cash used in investing activities		
Net increase in cash and cash equivalents	82,904	576,367
Cash and cash equivalents at beginning of year	<u>939,959</u>	<u>363,592</u>
Cash and cash equivalents at end of year	<u>\$ 1,022,863</u>	<u>\$ 939,959</u>
Non-cash investing activities		
Issuance of note receivable to related party through payroll deductions	<u>\$ -</u>	<u>\$ 4,000</u>

The accompanying notes are an integral part of these financial statements

THE RONALD MCDONALD HOUSE OF GALVESTON

NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Operations

The Ronald McDonald House of Galveston (“RMHG”) was established as a not-for-profit, voluntary health and welfare agency for the purpose of planning, building, maintaining, and operating a home-away-from-home for the families of children who come to the medical facilities in Galveston for diagnosis and treatment of serious and long-term illnesses. RMHG offers parents and their children emotional support, cheerful surroundings, and inexpensive, safe residential accommodations.

In 1987, the Sealy Smith Foundation (the “Foundation”) granted \$1,600,000 for the purpose of constructing the Ronald McDonald House (the “House”). At such time, RMHG transferred the land and total capitalized costs to date to the Foundation, in exchange for the construction of the House by the Foundation. Upon completion of construction, RMHG began operating the facility. The cost of constructing the House and the transfer transaction have not been reflected in these financial statements, as management believes it is not possible to estimate the fair market value of this transaction.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of RMHG have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and follows the guidance of the Financial Accounting Standards Board (“FASB”) related to financial statements of not-for-profit organizations. Accordingly, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of RMHG and changes therein are classified and reported as follows:

- ***Net assets without donor restrictions*** – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. RMHG had net assets without donor restrictions of \$7,307,807 and \$6,343,895 as of December 31, 2019 and 2018, respectively.
- ***Net assets with donor restrictions*** – Net assets subject to donor-imposed stipulations. Net assets with donor-imposed restrictions include net assets that are either (i) restricted until the donor-imposed stipulation has been met through the passage of time and/or by actions of the Board of Directors, or (ii) expected to be maintained in perpetuity. When a purpose restriction is accomplished or a time restriction ends, net assets with donor restrictions are released to net assets without donor restrictions. RMHG had net assets with donor restrictions of \$2,280,270 and \$1,738,789 as of December 31, 2019 and 2018, respectively.

Use of Estimates

The preparation of RMHG’s financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and the allocation of expenses among various functions. Actual results could differ from those estimates.

Cash and Cash Equivalents

RMHG considers all cash and highly-liquid investments with a maturity of three months or less, when purchased, to be cash and cash equivalents. Cash and cash equivalents consist of cash held in demand deposit accounts.

RMHG places its cash and cash equivalents in creditworthy, high-quality financial institutions. At December 31, 2019 and 2018, the majority of the cash balance was held in accounts at financial institutions insured by the Federal Depository Insurance Corporation (“FDIC”) up to \$250,000. During the years ended December 31, 2019 and 2018, cash balances exceeded the Federal Depository Insurance Corporation limit; however, RMHG has not experienced any losses from these deposits and believes risk of loss is minimal in these accounts due to the strength of the financial institutions in which funds are held.

THE RONALD MCDONALD HOUSE OF GALVESTON

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist primarily of obligations due to RMHG from Medicaid and the Shriners Hospital for room donations. RMHG uses the allowance method to determine uncollectable receivables. The allowance for doubtful accounts is regularly evaluated by management and is based on management's past experience with donors and vendors. Receivables are considered impaired if payments are not received in accordance with contractual terms. Account balances are charged against the allowance for doubtful accounts after all means for collection have been exhausted and the potential for recovery is considered remote. As of both December 31, 2019 and 2018, an allowance for doubtful accounts was not deemed necessary.

Pledges Receivable

Pledges receivable are recognized when the donor makes a pledge to give to RMHG that is, in substance, unconditional. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts expected to be collected in more than one year are discounted to estimate the present value of future cash flows.

Grants Receivable

Grants receivable are recorded as revenue at fair value when an unconditional commitment is received from a donor.

Investments

Investment securities, primarily consisting of fixed income funds and equity funds, are measured at 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. Unrealized and realized gains and losses on investments, dividends and interest income are reported in the Statements of Activities and Changes in Net Assets as increases or decreases in net assets without donor restrictions unless the use of the income is limited by donor-imposed restrictions or by law.

Fair Value of Financial Instruments

Fair value estimates of financial instruments are based on relevant market information and may be subjective in nature and involve uncertainties and matters of significant judgment. RMHG believes that the carrying value of its assets and liabilities approximates the fair value of such items. RMHG does not hold or issue financial instruments for trading purposes.

Property and Equipment

Property and equipment are recorded at cost, estimated cost, or in the case of donated assets, at estimated fair value at the date of the donation. Purchases greater than \$1,500 are capitalized, whereas expenditures for maintenance and repairs are charged to expense as incurred. The cost and related accumulated depreciation of assets retired or sold are removed from the appropriate asset and depreciation accounts, and the resulting gain or loss is reflected in income. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives which is between three and thirty-one and a half years.

Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, management first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent the carrying value exceeds its fair value. No impairment on long-lived assets was recognized for the years ended December 31, 2019 and 2018.

THE RONALD MCDONALD HOUSE OF GALVESTON

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Donated Materials, Use of Facilities and Services

Donated materials and use of facilities are recorded at fair value as contributions without donor restrictions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. RMHG does not imply time restrictions for donations of long-lived assets. In the absence of donor-imposed restrictions, donations of long-lived assets are reported as revenue without donor restrictions.

In accordance with FASB Accounting Standards Codification ("ASC") Topic 958-605, *Not-for-Profit Entities – Accounting for Contributions Received and Contributions Made*, RMHG recognizes contributed services at their estimated fair value if the services received (i) create or enhance nonfinancial assets or (ii) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. RMHG receives a substantial amount of donated services from volunteers who assist with RMHG functions. No amounts for contributed services have been reflected in the accompanying financial statements as they did not meet the criteria for recognition required by U.S. GAAP.

Revenue Recognition

Contributions, including grants, are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence or nature of any donor restrictions. Unconditional contributions are recorded at their fair market value in the period in which RMHG is notified of the intent of the contribution. Conditional contributions are not included in contributions until such time as the conditions are substantially met. Expirations of restrictions on net assets (i.e., the donor-restricted purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions in the Statement of Activities and Changes in Net Assets.

Room revenue is recognized at the time of each occupant's stay. Special events revenue is recognized in the period the event occurs and is considered to be without donor restrictions.

Compensated Absences

Employees may accrue up to 60 days of sick leave; however, there is no compensation for unused sick leave. Unused vacation is not available for carryover to the following year.

Functional Expense Allocation

The costs of providing programs and performing other activities are summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain expenses have been allocated among the program and supporting services benefited on the basis of level of effort of employees and other methods determined by management.

Federal Income Taxes

RMHG is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity under Section 509(a)(1) and Section 170(b)(1)(A)(ii). However, RMHG is subject to taxes on unrelated business income. For the years ended December 31, 2019 and 2018, there were no unrelated business activities; thus, no provision has been made for income taxes.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate risk, market risk and credit risk. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the amounts reported in the Statements of Financial Position and the Statements of Activities and Changes in Net Assets. However, the diversification of the investment securities among various asset classes mitigates the impact of any dramatic change on any one asset class.

THE RONALD MCDONALD HOUSE OF GALVESTON
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, which creates Topic 606, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled to those goods or services. Additionally, ASU No. 2014-09 requires enhanced financial statement disclosures over the nature, amount, timing and uncertainty of revenue recognition as part of the new accounting guidance. Initially, the amendments for ASU No. 2014-09 were effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period, and early application was not permitted. In August 2015, the FASB issued ASU No. 2015-14 and agreed to give companies an extra year to comply with the new standard. In June 2020, the FASB issued ASU No. 2020-05, which provides private companies that have not yet applied the new revenue recognition provisions an additional year to comply with the new standard due to unique challenges resulting from the COVID-19 pandemic; thus, ASU 2014-09 will be effective for RMHG for the annual reporting period beginning January 1, 2020. ASU No. 2014-09 may be applied retrospectively to each prior period presented, or retrospectively with the cumulative effect recognized as of the date of adoption. Management does not expect the adoption of ASU No. 2014-09 to have a significant impact on the financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which is part of the FASB disclosure framework project to improve the effectiveness of disclosures in the notes to the financial statements. The amendments in the new guidance remove, modify and add certain disclosure requirements related to fair value measurements covered in FASB ASC Topic 820, *Fair Value Measurements and Disclosures*. The new standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for either the entire standard or only the requirements that modify or eliminate the disclosure requirements, with certain requirements applied prospectively, and all other requirements applied retrospectively to all periods presented. Management does not expect the adoption of ASU No. 2018-13 to have a significant impact on RMHG’s financial statements.

3. Pledges Receivable

Pledges receivable at December 31, 2019 and 2018 consist of the following:

	2019	2018
Total pledges receivable	\$ 257,020	\$ -
Less discount to net present value	(5,917)	-
Pledges receivable, net	\$ 251,103	\$ -

Pledges receivable as of December 31, 2019 are due as follows:

<u>Year Ending</u> <u>December 31,</u>			
2020	\$	77,020	
2021		60,000	
2022		60,000	
2023		60,000	
Total	\$	257,020	

THE RONALD MCDONALD HOUSE OF GALVESTON

NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements

FASB Accounting Standards Codification Topic 820 ("ASC 820"), *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

In determining fair value, RMHG uses the market approach, which uses quoted prices and other relevant data based on market transactions involving identical or comparable assets and liabilities.

Following is a description of the valuation methodology used for investment assets and liabilities measured at fair value. There were no changes in the methodology used at December 31, 2019 and 2018.

Money market funds: Valued at the closing price reported on the active market on which the individual securities are traded. (Market approach)

Mutual funds (equity and fixed income): Valued at the daily closing price as reported by the fund. Mutual funds held by RMHG are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by RMHG are deemed to be actively traded. (Market approach)

Limited partnership: Valued at the NAV, as reported by the manager of the private limited partnership, and includes the impact of the limited partners' contributions and withdrawals. The NAV is based on the fair value of the underlying investments held by the private limited partnership less liabilities. (Market approach)

The methods described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

THE RONALD MCDONALD HOUSE OF GALVESTON
NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements, continued

The following tables set forth by level, within the fair value hierarchy, RMHG's investment assets measured at fair value, on a recurring basis, as of December 31, 2019 and 2018:

Investments at Fair Value at December 31, 2019				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 414,539	\$ -	\$ -	\$ 414,539
Mutual funds	6,653,729	-	-	6,653,729
Limited partnership	-	78,097	-	78,097
Total investments	\$ 7,068,268	\$ 78,097	\$ -	\$ 7,146,365

Investments at Fair Value at December 31, 2018				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 412,373	\$ -	\$ -	\$ 412,373
Mutual funds	5,345,160	-	-	5,345,160
Limited partnership	-	77,616	-	77,616
Total investments	\$ 5,757,533	\$ 77,616	\$ -	\$ 5,835,149

The carrying value of cash and cash equivalents, accounts receivable, pledges receivable, grant receivable, note receivable, and accrued liabilities approximate their respective fair value due to their relative short nature.

5. Limited Partnership Investments

RMHG owns a twenty-two percent (22%) interest in Gulf Properties Partnership and a twenty-two and a half percent (22.5%) interest in Grove Park Villas, Ltd.

These partnership interests produce income that is distributed to RMHG. At December 31, 2019 and 2018, losses in the Grove Park Villas, Ltd. partnership account exceed RMHG's capital investment and therefore, this investment is excluded from these financial statements.

6. Property and Equipment

Property and equipment as of December 31, 2019 and 2018 consists of the following:

	2019	2018
House improvements	\$ 242,883	\$ 242,883
Playground	974,144	974,144
Household furnishings	189,176	192,758
Kitchen remodeling	441,218	441,218
Office equipment	36,425	36,425
Vehicles	42,094	42,094
Construction in progress	67,305	67,305
Total property and equipment, at cost	1,993,245	1,996,827
Accumulated depreciation	(856,087)	(787,089)
Property and equipment, net	\$ 1,137,158	\$ 1,209,738

THE RONALD MCDONALD HOUSE OF GALVESTON
NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment, continued

As of December 31, 2019 and 2018, construction in progress includes security system equipment awaiting installation, as well as costs related to a new playground expansion.

Depreciation expense was \$85,805 and \$85,680 for the years ended December 31, 2019 and 2018, respectively.

7. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2019 and 2018 are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for a specified purpose:		
Playground	\$ 1,117,662	\$ 792,679
House facility and furnishings	54,500	32,500
School room teacher salaries	<u>4,863</u>	<u>2,610</u>
	<u>1,177,025</u>	<u>827,789</u>
Subject to Foundation spending policy and appropriation:		
Investment in perpetuity which, once appropriated, is expendable to support:		
House operations	<u>1,103,245</u>	<u>911,000</u>
Total net assets with donor restrictions	<u>\$ 2,280,270</u>	<u>\$ 1,738,789</u>

8. Liquidity

The following reflects RMHG's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general use due to contractual or donor-imposed restrictions within one year of the financial position date. Amounts not available include amounts set aside for long-term investing of donor-restricted endowment funds.

	<u>2019</u>	<u>2018</u>
Financial assets, at year-end	\$ 8,331,885	\$ 6,907,717
Less those unavailable for general expenditure within one year, due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	1,177,025	827,789
Subject to appropriation and satisfaction of donor restrictions	<u>1,103,245</u>	<u>911,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,051,615</u>	<u>\$ 5,168,928</u>

RMHG is substantially supported by contributions, special event revenue, and certain investment income that do not contain donor-imposed restrictions; thus, the majority of RMHG's financial assets are available as their general expenditures, liabilities, and other obligations come due.

THE RONALD MCDONALD HOUSE OF GALVESTON

NOTES TO FINANCIAL STATEMENTS

9. Endowment Funds

FASB ASC No. 958-205-50, *Disclosure*, provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). ASC 958-205-50 also requires additional disclosure about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

RMHG holds endowment funds in three separate accounts (Funds “A”, “B”, and “C”) at a local bank under an investment management agency agreement in which the endowment funds are both actively and passively managed. These endowment funds include two board-designated endowment funds (Funds “A” and “B”) and one donor-restricted endowment fund (Fund “C”). As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Funds A and B have been designated by its board of directors as endowment funds to be used for the operation and maintenance of RMHG’s facility. Funds A and B and undistributed income earned thereon are classified as net assets without donor restrictions.

Fund C was established as a donor-restricted endowment fund that must be held in perpetuity in a separate endowment fund account. Donor-restricted endowment funds that must be held in perpetuity are recorded at the original value of the gift and are classified as net assets with donor restrictions. Per the terms of the gift instrument, earnings on these net assets are used to support house operations and accordingly, such earnings are classified as net assets with donor restrictions.

Interpretation of Relevant Law

RMHG is subject to the UPMIFA and accordingly, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets must be held in perpetuity in accordance with the terms of the gift instrument or are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. RMHG has interpreted the State of Texas enacted version of the UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, RMHG considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. RMHG has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, in accordance with the UPMIFA, RMHG considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of RMHG and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of RMHG
- (7) The investment policies of RMHG

Return Objectives and Risk Parameters

RMHG has adopted investment and spending policies for endowment assets that attempt to maximize the total investment return of such funds within the terms pertaining to the use of any portion of the endowments and in consideration of the level of risk appropriate for charitable foundation endowments. The investment objectives, guidelines and performance standards for the assets of the endowment funds are formulated to address (1) anticipated financial needs of RMHG, (2) maintenance of the purchasing power of endowment corpus, (3) consideration of risk tolerance, (4) need to document and communicate objectives, guidelines and standards to the endowment agent, and (5) standards for agent performance and reporting.

THE RONALD MCDONALD HOUSE OF GALVESTON
NOTES TO FINANCIAL STATEMENTS

9. Endowment Funds, continued

Return Objectives and Risk Parameters, continued

Under this policy, as approved by the Board of Directors, RMHG's return objectives for endowment assets are as follows:

- Provide medium to long term growth of the endowment while maintaining a reasonably steady income stream.
- For the actively managed equity portion of the endowment portfolio, RMHG seeks total return in excess of the total return of the S&P 500 Index.
- For the actively managed fixed income portion of the endowment, RMHG seeks total return in excess of the Bank of America 1-10 Years U.S. Government and Corporate Index or such other index as agreed upon by RMHG's Board of Directors and the managing agent.
- For the passively managed equity and fixed income portions of the endowment portfolio, RMHG seeks to match the performance of any indexed mutual fund or exchange traded fund which may be used, less expenses which are internal to the mutual fund or exchange traded fund.

Strategies Employed for Achieving Objectives

In order to achieve the stated return objectives within RMHG's risk parameters, the Board of Directors has implemented a strategy of maintaining a mix of certain equity securities, fixed-income securities, and cash equivalents. RMHG has directed the agents managing its endowment portfolio to maintain the following asset allocation:

	<u>Minimum</u>	<u>Maximum</u>	<u>Target</u>
Equity securities	40%	75%	70%
Fixed income securities	10%	50%	28%
Cash equivalents	0%	10%	2%

Spending Policy and How the Investment Objectives Relate to Spending Policy

The bank, as agent, distributes the income from these endowment funds to RMHG at least annually. The corpus of Funds A and B can be used at the discretion of RMHG's Board of Directors with a 75% vote in favor of the action.

As of and for the years ended December 31, 2019 and 2018, the composition of endowment net assets and the changes in endowment net assets are as follows:

	<u>Without Donor Restrictions Board Designated</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, December 31, 2017	\$ 5,122,449	\$ 977,320	\$ 6,099,769
Interest and dividend income	106,994	21,887	128,881
Net realized and unrealized loss	(319,064)	(66,160)	(385,224)
Management fees	(1,660)	(311)	(1,971)
Net transfers out of the endowments	(62,186)	(21,736)	(83,922)
Endowment net assets, December 31, 2018	4,846,533	911,000	5,757,533
Contributions	5,573	-	5,573
Interest and dividend income	122,162	24,163	146,325
Net realized and unrealized gain	1,111,706	191,785	1,303,491
Management fees	(1,761)	(328)	(2,089)
Net transfers out of the endowments	(119,190)	(23,375)	(142,565)
Endowment net assets, December 31, 2019	\$ 5,965,023	\$ 1,103,245	\$ 7,068,268

THE RONALD MCDONALD HOUSE OF GALVESTON

NOTES TO FINANCIAL STATEMENTS

10. Concentrations of Credit Risk

RMHG depends on contributions and grants from various organizations and individuals for a significant portion of its support. During the years ended December 31, 2019 and 2018, RMHG received contributions totaling \$98,622 from one donor and contributions totaling \$667,680 from two donors, which represents 14% and 53%, respectively, of contributions and grants revenue reported in the accompanying Statements of Activities and Changes in Net Assets.

11. Related Party Transactions

During the year ended December 31, 2019, included in contributions and grants on the Statement of Activities and Changes in Net Assets are the following: 1) a donation of stock from a board member with a fair value of \$48,297, 2) a pledge in the amount of \$250,000 from a related party, and 3) a contribution in the amount of \$20,000 from a related party.

12. Retirement Plan

RMHG sponsors a salary reduction simple retirement account (SRA/IRA) in which certain eligible employees may participate after the completion of one year of service. Eligible employees may elect to defer up to 10% of their compensation per year to their account up to the maximum amount allowed by law. RMHG makes matching contributions up to 3% of each employee's compensation. RMHG made matching contributions for the years ended December 31, 2019 and 2018 of \$5,673 and \$5,682, respectively.

13. Subsequent Events

Economic Developments

RMHG is monitoring the recent global health emergency driven by the potential impact of the COVID-19 virus, along with global supply and demand dynamics. The extent to which these events may impact the House will depend on future developments, which are highly uncertain and cannot be predicted at this time. The duration and intensity of these impacts and resulting disruption to RMHG's operations is uncertain and continues to evolve as of the date of this report. Accordingly, management will continue to monitor the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

On March 27, 2020, the President of the United States signed into law the CARES Act which, among other things, includes the Paycheck Protection Program (the "PPP"), provisions relating to refundable payroll tax credits, deferment of the employer portion of social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improved property.

RMHG ceased operations on March 31, 2020 due to reduced occupancy in the House. In May 2020, RMHG received proceeds from an unsecured loan in the amount of \$130,500 pursuant to the PPP. Management is continuing to evaluate the other impacts that the CARES Act and other stimulus measures will have on its financial position, results of activities, or liquidity.

Management has evaluated all subsequent events through September 25, 2020, which is the date the financial statements were available for issuance, and has concluded that there are no significant events to be reported