

**THE RONALD MCDONALD HOUSE OF GALVESTON**

**FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT  
As of and for the Years Ended December 31, 2023 and 2022**

**THE RONALD MCDONALD HOUSE OF GALVESTON**  
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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
The Ronald McDonald House of Galveston  
Galveston, Texas

### **Opinion**

We have audited the accompanying financial statements of the Ronald McDonald House of Galveston ("RMHG"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RMHG as of December 31, 2023 and 2022, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of RMHG and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about RMHG's ability to continue as a going concern within one year after the date that the financial statements are issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

**INDEPENDENT AUDITOR'S REPORT, CONTINUED**

- Obtain an understanding of internal control relevant to the audit 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 RMHG's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about RMHG's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Hans Lajsta & Bregina LLP*

Houston, Texas  
May 3, 2024

**THE RONALD MCDONALD HOUSE OF GALVESTON**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,128,234	\$ 986,699
Restricted cash and cash equivalents	298,996	262,437
Pledges receivable	-	10,000
Prepaid and other assets	<u>19,199</u>	<u>26,715</u>
Total current assets	<u>1,446,429</u>	<u>1,285,851</u>
Investments - endowment funds	8,940,142	7,430,362
Limited partnership investment	115,257	114,670
Property and equipment, net	<u>1,790,173</u>	<u>1,885,031</u>
Total assets	<u>\$ 12,292,001</u>	<u>\$ 10,715,914</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued liabilities	<u>\$ 45,718</u>	<u>\$ 75,124</u>
Total liabilities	<u>45,718</u>	<u>75,124</u>
Net assets:		
Without donor restrictions	10,650,082	9,291,390
With donor restrictions	<u>1,596,201</u>	<u>1,349,400</u>
Total net assets	<u>12,246,283</u>	<u>10,640,790</u>
Total liabilities and net assets	<u>\$ 12,292,001</u>	<u>\$ 10,715,914</u>

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, 2023**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and investment losses:			
Contributions and grants	\$ 380,943	\$ 61,215	\$ 442,158
In-kind contributions	145,164	-	145,164
Room revenue	78,820	-	78,820
Special events, net of direct expenses of \$80,914	288,577	-	288,577
Investment income, net	1,472,528	255,816	1,728,344
Limited partnership investment income	44,587	-	44,587
Other income, net	3,678	-	3,678
	<hr/>	<hr/>	<hr/>
Net revenue and investment losses before release of restrictions on net assets	2,414,297	317,031	2,731,328
Net assets released from restrictions for program expenses	70,230	(70,230)	-
	<hr/>	<hr/>	<hr/>
Total revenue and investment losses	2,484,527	246,801	2,731,328
	<hr/>	<hr/>	<hr/>
Expenses:			
Program expenses:			
House operations	912,043	-	912,043
Supporting services:			
Management and general	193,677	-	193,677
Fundraising	20,115	-	20,115
	<hr/>	<hr/>	<hr/>
Total expenses	1,125,835	-	1,125,835
	<hr/>	<hr/>	<hr/>
Change in net assets	1,358,692	246,801	1,605,493
Net assets at beginning of year	9,291,390	1,349,400	10,640,790
	<hr/>	<hr/>	<hr/>
Net assets at end of year	\$ 10,650,082	\$ 1,596,201	\$ 12,246,283
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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, 2022**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenue:			
Contributions and grants	\$ 329,552	\$ 17,488	\$ 347,040
In-kind contributions	94,637	-	94,637
Room revenue	37,931	-	37,931
Special events, net of direct expenses of \$72,131	232,864	-	232,864
Investment gain, net	(1,402,490)	(258,210)	(1,660,700)
Limited partnership investment income	35,442	-	35,442
Other income, net	1,497	-	1,497
Revenue before release of restrictions on net assets	(670,567)	(240,722)	(911,289)
Net assets released from restrictions for program expenses	1,039,425	(1,039,425)	-
Total revenue	368,858	(1,280,147)	(911,289)
Expenses:			
Program expenses:			
House operations	746,558	-	746,558
Supporting services:			
Management and general	166,262	-	166,262
Fundraising	8,618	-	8,618
Total expenses	921,438	-	921,438
Change in net assets	(552,580)	(1,280,147)	(1,832,727)
Net assets at beginning of year	9,843,970	2,629,547	12,473,517
Net assets at end of year	\$ 9,291,390	\$ 1,349,400	\$ 10,640,790

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, 2023**

Description	Supportive Services			Total Expenses
	Program Services	Management and General	Fundraising	
Compensation and related expenses:				
Salaries	\$ 472,154	\$ 92,384	\$ -	\$ 564,538
Employee benefits	72,568	14,199	-	86,767
Payroll taxes	36,662	7,174	-	43,836
Total compensation and related expenses	581,384	113,757	-	695,141
Other expenses:				
Depreciation	75,886	18,972	-	94,858
General	4,328	1,532	13,474	19,334
Insurance	39,906	13,832	-	53,738
Newsletter			5,616	5,616
Security	2,560	2,635	-	5,195
Utilities	27,877	9,630	-	37,507
Repairs and maintenance	2,233		-	2,233
Office	5,694	4,542	1,025	11,261
Postage	-	177	-	177
Printing	-	981	-	981
Professional fees		25,770	-	25,770
Supplies	168,695	-	-	168,695
Telephone	2,814	1,849	-	4,663
Transportation	666		-	666
Total expenses	\$ 912,043	\$ 193,677	\$ 20,115	\$ 1,125,835

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, 2022**

Description	Supportive Services			Total Expenses
	Program Services	Management and General	Fundraising	
Compensation and related expenses:				
Salaries	\$ 392,873	\$ 67,727	\$ -	\$ 460,600
Employee benefits	61,542	10,609	-	72,151
Payroll taxes	27,874	4,805	-	32,679
Total compensation and related expenses	482,289	83,141	-	565,430
Other expenses:				
Depreciation	66,514	16,628	-	83,142
General	55	6,346	-	6,401
Insurance	31,689	7,164	-	38,853
Newsletter	-	-	8,618	8,618
Security	11,111	1,081	-	12,192
Utilities	23,863	12,230	-	36,093
Repairs and maintenance	9,417	-	-	9,417
Office	5,823	11,483	-	17,306
Postage	-	285	-	285
Printing	700	1,040	-	1,740
Professional fees	-	26,288	-	26,288
Supplies	112,093	-	-	112,093
Telephone	1,852	576	-	2,428
Transportation	1,152	-	-	1,152
Total expenses	\$ 746,558	\$ 166,262	\$ 8,618	\$ 921,438

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, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
Cash flows from operating activities:		
Change in net assets	\$ 1,605,493	\$ (1,832,727)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	94,858	83,142
Unrealized (gains) losses on investments	(1,556,960)	1,797,667
Realized gain on sale of investments	-	(434)
Limited partnership investment income	(44,587)	(35,442)
Changes in operating assets and liabilities:		
Accounts receivable	-	25,438
Pledges receivable	10,000	10,000
Prepaid and other assets	7,516	(18,686)
Accounts payable and accrued liabilities	(29,406)	(7,130)
	<u>86,914</u>	<u>21,828</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of investments	(221,413)	(192,879)
Proceeds from the sale of investments	268,593	196,016
Limited partnership distributions	44,000	44,000
Capital expenditures	-	(1,003,329)
	<u>91,180</u>	<u>(956,192)</u>
Net cash provided by (used in) investing activities		
Net increase (decrease) in cash, restricted cash and equivalents	178,094	(934,364)
Cash, restricted cash and equivalents at beginning of year	<u>1,249,136</u>	<u>2,183,500</u>
Cash, restricted cash and equivalents at end of year	<u>\$ 1,427,230</u>	<u>\$ 1,249,136</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 \$10,650,082 and \$9,291,390 as of December 31, 2023 and 2022, 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 \$1,596,201 and \$1,349,400 as of December 31, 2023 and 2022, 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, Restricted Cash and 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 and money market funds.

Amounts included in restricted cash and cash equivalents represent cash contributions received designated for construction of a new playground, facility maintenance and furnishings, and other house expenses and balances permanently restricted for use. See Notes 5, 6 and 8.

**THE RONALD MCDONALD HOUSE OF GALVESTON**  
**NOTES TO FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies, continued**

**Cash, Restricted Cash and Equivalents, continued**

The following table provides a reconciliation of cash, restricted cash and equivalents reported within the statements of financial position to that shown in the statements of cash flows as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,128,234	\$ 986,699
Restricted cash and equivalents	<u>298,996</u>	<u>262,437</u>
Total cash, restricted cash and equivalents in cash flows	<u>\$ 1,427,230</u>	<u>\$ 1,249,136</u>

RMHG places its cash and restricted cash in creditworthy, high-quality financial institutions. At December 31, 2023 and 2022, 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, 2023 and 2022, cash balances periodically 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.

**Accounts Receivable and Allowance for Credit Losses**

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 credit losses is regularly evaluated by management and is based on management's past experience with donors and vendors adjusted for an additional economic risks. Receivables are considered impaired if payments are not received in accordance with contractual terms. Account balances are charged against the allowance for credit losses after all means for collection have been exhausted and the potential for recovery is considered remote. As of both December 31, 2023 and 2022, an allowance for credit losses was not deemed necessary. No bad debt expense was recorded during the years ending December 31, 2023 and 2022.

**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.

Investments in limited partnerships are accounted for using the equity method of accounting. Under the equity method, our initial investment is recorded at cost and is subsequently adjusted based on our proportionate share of distributions and net income or loss of the partnership.

# THE RONALD MCDONALD HOUSE OF GALVESTON

## NOTES TO FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies, continued

#### 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.

The estimated useful lives of significant assets are as follows:

House improvements	31 and ½ years
Playground	31 and ½ years
Household furnishings	3 - 10 years
Kitchen remodeling	7 - 30 years
Office equipment	3 - 10 years
Vehicles	6 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. As of both December 31, 2023 and 2022, no impairment on long-lived assets were recognized.

#### Revenue Recognition

FASB Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers: Topic 606*, requires revenue recognized to represent the transfer of promised goods or services to customers at an amount that reflects the consideration that a company expects to receive in exchange for those goods or services. RMHG generates revenue through a variety of sources including donor contributions, room revenue and special events.

Revenue from donor contributions, including in-kind contributions, does not fall under the scope of Accounting Standards Codification (“ASC”) Topic 606, as such revenue follows the accounting guidance of ASC 958-605, *Not-for-Profit Entities-Revenue Recognition*. Revenue from special events follows the guidance of ASC Topic 606.

RMHG accounts for a contract with a customer under ASC Topic 606 and determines its revenue recognition through the following steps: (i) identification of the contract or contracts with a customer; (ii) identification of the performance obligations within the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligation(s) within the contract; and (v) recognition of revenue when, or as the performance obligation has been satisfied.

Room revenue and revenues from RMHG’s special events are generally recognized at the point in time services or goods are provided and represent a single performance obligation with a fixed transaction price.

# THE RONALD MCDONALD HOUSE OF GALVESTON

## NOTES TO FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies, continued

#### Contributions

Contributions are reported as contributions without donor-imposed restrictions or contributions with donor-imposed restrictions. Unconditional contributions, if any, are recorded at their fair market value in the period in which RMHG was 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 statements of activities and changes in net assets. Donor restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions.

Unconditional promises to give are recorded at their net realizable value. Unconditional promises to give that are expected to be collected after one year or more are discounted to the present value of estimated future cash flows using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue in the accompanying statements of activities and changes in net assets.

Contributions of furniture, equipment, and objects of art are recorded at fair value, as determined by management, at the date of donation. RMHG reports such gifts as contributions without donor restrictions 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 reported as contributions with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the RMHG reports expirations of donor restrictions when the donated or acquired long lived assets are placed in service.

Contributed marketable securities are recorded at quoted market prices at the date of donation.

#### Contributed Services

In accordance with 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.

#### 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, 2023 and 2022, there were no unrelated business activities; thus, no provision has been made for income taxes.

# THE RONALD MCDONALD HOUSE OF GALVESTON

## NOTES TO FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies, continued

#### Risks and Uncertainties

##### *Market Risks*

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..

### 3. Fair Value Measurements

FASB ASC 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.

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, 2023 and 2022.

*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.

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**

**3. 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, 2023 and 2022:

	<b>Investments at Fair Value at December 31, 2023</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$ 8,940,142	\$ -	\$ -	\$ 8,940,142
Total investments	\$ 8,940,142	\$ -	\$ -	\$ 8,940,142

	<b>Investments at Fair Value at December 31, 2022</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$ 7,430,362	\$ -	\$ -	\$ 7,430,362
Total investments	\$ 7,430,362	\$ -	\$ -	\$ 7,430,362

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

Net investment income (losses) recognized during the years ended December 31, 2023 and 2022 consists of the following:

	<b>2023</b>	<b>2022</b>
Interest and dividend income	\$ 171,384	\$ 136,533
Net realized gains	-	434
Net unrealized gains (losses)	1,556,960	(1,797,667)
Total	\$ 1,728,344	\$ (1,660,700)

**4. Investments in Limited Partnerships**

In December 2005, RMHG was assigned a twenty-two percent (22%) interest in Gulf Properties Partnership ("GPP"). The partnership interest produces income that is distributed to RMHG based on their proportionate ownership, less related expenses. At December 31, 2023 and 2022, RMHG's investment in GPP is \$115,257 and \$114,670, respectively.

During the years ended December 31, 2023 and 2022, RMHG reported net investment income from its investment in GPP of \$44,587 and \$35,442, respectively. During both years ended December 31, 2023 and 2022, RMHG received distributions of \$44,000, respectively.

In 2007, RMHG was assigned a twenty-two and one half percent (22.5%) interest in Grove Park Villas, Ltd. The partnership interest produces income that is distributed to RMHG based on their proportionate ownership, less related expenses. At December 31, 2023 and 2022, losses in the partnership account exceeded RMHG's capital investment and therefore this investment is excluded from these financial statements. Accumulated earnings of \$120,513 are required to recognize this investment in the financial statements.



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**NOTES TO FINANCIAL STATEMENTS**

**5. Property and Equipment**

Property and equipment as of December 31, 2023 and 2022 consists of the following:

	<u>2023</u>	<u>2022</u>
House improvements	\$ 242,883	\$ 242,883
Playground	1,993,481	1,993,481
Household furnishings	164,213	164,213
Kitchen remodeling	377,577	377,577
Office equipment	4,400	4,400
Vehicles	<u>42,094</u>	<u>42,094</u>
Total property and equipment, at cost	2,824,648	2,824,648
Accumulated depreciation	<u>(1,034,475)</u>	<u>(939,617)</u>
Property and equipment, net	<u>\$ 1,790,173</u>	<u>\$ 1,885,031</u>

Depreciation expense was \$94,858 and \$83,142 for the years ended December 31, 2023 and 2022, respectively.

**6. Net Assets With Donor Restrictions**

Net assets with donor restrictions at December 31, 2023 and 2022 are available for the following purposes:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for a specified purpose:		
Playground	\$ 119,149	\$ 119,149
House facility and furnishings	-	22,390
School room teacher salaries	<u>79,371</u>	<u>25,488</u>
	<u>198,520</u>	<u>167,027</u>
Subject to Foundation spending policy and appropriation:		
Investment in perpetuity which, once appropriated, is expendable to support:		
House operations	<u>1,397,681</u>	<u>1,182,373</u>
Total net assets with donor restrictions	<u>\$ 1,596,201</u>	<u>\$ 1,349,400</u>

**7. Liquidity**

The following reflects RMHG's financial assets as of December 31, 2023 and 2022, 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.

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**NOTES TO FINANCIAL STATEMENTS**

**7. Liquidity, continued**

	<b>2023</b>	<b>2022</b>
Financial assets, at year-end	\$ 10,482,629	\$ 8,804,168
Less those unavailable for general expenditure within one year, due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(198,520)	(167,027)
Subject to appropriation and satisfaction of donor restrictions	(1,397,681)	(1,182,373)
Financial assets available to meet cash needs for general expenditures within one year	\$ 8,886,428	\$ 7,454,768

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.

**8. 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 U.S. 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 the 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.

# THE RONALD MCDONALD HOUSE OF GALVESTON

## NOTES TO FINANCIAL STATEMENTS

### 8. Endowment Funds, continued

#### Interpretation of Relevant Law, continued

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.

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, including mutual funds investing primarily in 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.

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**NOTES TO FINANCIAL STATEMENTS**

**8. Endowment Funds, continued**

As of and for the years ended December 31, 2023 and 2022, the composition of endowment net assets and the changes in endowment net assets are as follows:

	<b>Without Donor Restrictions Board Designated</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, December 31, 2021	8,182,413	1,463,295	9,645,708
Contributions	50,000	-	50,000
Interest and dividend income	119,725	23,177	142,902
Net realized and unrealized loss	(1,523,235)	(280,442)	(1,803,677)
Management fees	(4,554)	(946)	(5,500)
Net transfers out of the endowments	<u>(162,521)</u>	<u>(22,711)</u>	<u>(185,232)</u>
Endowment net assets, December 31, 2022	6,661,828	1,182,373	7,844,201
Contributions	50,000	-	50,000
Interest and dividend income	144,593	27,082	171,675
Net realized and unrealized gain	1,341,526	215,434	1,556,960
Management fees	(7,274)	(1,276)	(8,550)
Net transfers out of the endowments	<u>(185,907)</u>	<u>(25,932)</u>	<u>(211,839)</u>
Endowment net assets, December 31, 2023	<u>\$ 8,004,766</u>	<u>\$ 1,397,681</u>	<u>\$ 9,402,447</u>

The following table provides a reconciliation of endowment net assets reported above to that shown in the statements of financial position as of December 31, 2023 and 2022:

	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 431,660	\$ 383,068
Restricted cash and cash equivalents	30,645	30,771
Investments	<u>8,940,142</u>	<u>7,430,362</u>
Endowment net assets	<u>\$ 9,402,447</u>	<u>\$ 7,844,201</u>

**9. Related Party Transactions**

During the years ended December 31, 2023 and 2022, included in contributions and grants in the statement of activities and changes in net assets are \$107,652 and \$94,449, respectively, of donations received from members of the board.

During the years ended December 31, 2023 and 2022, RMHG received grants and contributions of \$109,371 and \$76,250, respectively, from related parties.

**10. 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, 2023 and 2022 of \$755 and \$4,355, respectively.

**THE RONALD MCDONALD HOUSE OF GALVESTON  
NOTES TO FINANCIAL STATEMENTS**

**11. Subsequent Events**

Management has evaluated all subsequent events through May 3, 2024, which is the date the financial statements were available to be issued, and has concluded that there are no significant events to be reported.