

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

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

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

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Independent Auditors' Report

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

We have audited the accompanying parent-only financial statements of Ronald McDonald House of Houston, Inc. (RMH Houston), which comprise the statements of financial position as of December 31, 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.

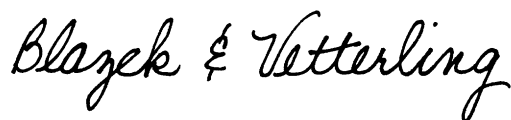
Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain 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 parent-only financial statements referred to above present fairly, in all material respects, the financial position of RMH Houston 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, RMH Houston 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.



May 3, 2019

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

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

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash (<i>Note 4</i>)	\$ 2,107,780	\$ 316,550
Prepaid expenses and other assets	97,579	65,782
Contributions receivable (<i>Note 5</i>)	2,873,617	4,966,570
Investments (<i>Note 6</i>)	486,705	1,146,234
Cash restricted for capital campaign projects (<i>Note 4</i>)		6,202,986
Commitment receivable from Foundation for capital campaign projects	2,200,000	2,500,000
Property, net (<i>Note 7</i>)	<u>26,181,517</u>	<u>13,764,017</u>
TOTAL ASSETS	<u>\$ 33,947,198</u>	<u>\$ 28,962,139</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 297,690	\$ 106,258
Accrued payroll expenses	139,909	124,319
Construction payable	2,580,751	2,113,335
Due to Foundation	500,000	
Deferred special event revenue	<u>28,000</u>	<u>31,673</u>
Total liabilities	<u>3,546,350</u>	<u>2,375,585</u>
Commitments (<i>Notes 7, 8, and 13</i>)		
Net assets:		
Without donor restrictions (<i>Note 9</i>)	29,699,115	9,115,192
With donor restrictions (<i>Note 10</i>)	<u>701,733</u>	<u>17,471,362</u>
Total net assets	<u>30,400,848</u>	<u>26,586,554</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 33,947,198</u>	<u>\$ 28,962,139</u>

See accompanying notes to financial statements.

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

Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions	\$ 1,789,938	\$ 160,212	\$ 1,950,150
Special events	1,795,522		1,795,522
Direct donor benefit costs	(306,896)		(306,896)
In-kind contributions	14,360		14,360
House occupancy fees	166,983		166,983
Net investment return	18,525		18,525
Other income	<u>5,660</u>		<u>5,660</u>
Total operating revenue	3,484,092	160,212	3,644,304
Net assets released from restrictions:			
Program expenditures	<u>259,725</u>	<u>(259,725)</u>	
Total	<u>3,743,817</u>	<u>(99,513)</u>	<u>3,644,304</u>
OPERATING EXPENSES:			
Program	3,887,440		3,887,440
Management and general	656,081		656,081
Fundraising	<u>823,723</u>		<u>823,723</u>
Total operating expenses	<u>5,367,244</u>		<u>5,367,244</u>
OPERATING CHANGES IN NET ASSETS	(1,623,427)	(99,513)	(1,722,940)
OTHER CHANGES IN NET ASSETS:			
Capital campaign project contributions		5,037,234	5,037,234
Support from Houston House Foundation:			
Operating support	500,000		500,000
Net assets released from restrictions:			
Capital campaign expenses and assets placed in service	<u>21,707,350</u>	<u>(21,707,350)</u>	
CHANGES IN NET ASSETS	20,583,923	(16,769,629)	3,814,294
Net assets, beginning of year	<u>9,115,192</u>	<u>17,471,362</u>	<u>26,586,554</u>
Net assets, end of year	<u>\$ 29,699,115</u>	<u>\$ 701,733</u>	<u>\$ 30,400,848</u>

See accompanying notes to financial statements.

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

Statement of Activities for the year ended December 31, 2017

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions	\$ 1,252,718	\$ 308,884	\$ 1,561,602
Special events	1,265,123		1,265,123
Direct donor benefit costs	(140,327)		(140,327)
In-kind contributions	94,677		94,677
House occupancy fees	448,212		448,212
Net investment return	40,517		40,517
Other income	<u>3,440</u>		<u>3,440</u>
Total operating revenue	2,964,360	308,884	3,273,244
Net assets released from restrictions:			
Program expenditures	<u>173,550</u>	<u>(173,550)</u>	
Total	<u>3,137,910</u>	<u>135,334</u>	<u>3,273,244</u>
OPERATING EXPENSES:			
Program	3,481,130		3,481,130
Management and general	486,742		486,742
Fundraising	<u>699,132</u>		<u>699,132</u>
Total operating expenses	<u>4,667,004</u>		<u>4,667,004</u>
OPERATING CHANGES IN NET ASSETS	(1,529,094)	135,334	(1,393,760)
OTHER CHANGES IN NET ASSETS:			
Capital campaign project contributions		6,122,742	6,122,742
Impairment loss on Holcombe House (<i>Note 7</i>)	(518,682)		(518,682)
Support from Houston House Foundation:			
Commitment to fund capital campaign projects	2,500,000		2,500,000
Operating support	500,000		500,000
Net assets released from restrictions:			
Capital campaign expenses	<u>122,749</u>	<u>(122,749)</u>	
CHANGES IN NET ASSETS	1,074,973	6,135,327	7,210,300
Net assets, beginning of year (<i>Note 2</i>)	<u>8,040,219</u>	<u>11,336,035</u>	<u>19,376,254</u>
Net assets, end of year	<u>\$ 9,115,192</u>	<u>\$ 17,471,362</u>	<u>\$ 26,586,554</u>

See accompanying notes to financial statements.

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

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

	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2018 TOTAL</u>
Salaries	\$ 1,502,813	\$ 287,746	\$ 411,860	\$ 2,202,419
Employee benefits and payroll taxes	391,502	74,961	107,294	573,757
Depreciation and amortization	886,651	6,751	6,751	900,153
Supplies and equipment	569,270	3,564	55,321	628,155
Professional fees	49,191	155,625	134,372	339,188
Building and equipment maintenance	129,069	22,841	9,333	161,243
Utilities	146,232			146,232
Rent	42,195	42,195	36,167	120,557
Insurance	93,164	7,138		100,302
Printing and postage	20,010	6,157	47,206	73,373
Communications	35,819	9,323	3,709	48,851
Other	<u>21,524</u>	<u>39,780</u>	<u>11,710</u>	<u>73,014</u>
Total expenses	<u>\$ 3,887,440</u>	<u>\$ 656,081</u>	<u>\$ 823,723</u>	5,367,244
Direct donor benefit costs				<u>306,896</u>
Total				<u>\$ 5,674,140</u>

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

See accompanying notes to financial statements.

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

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	\$ 3,814,294	\$ 7,210,300
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Contributions restricted for capital campaign projects	(5,037,234)	(6,122,742)
Support from Foundation to fund capital campaign projects		(2,500,000)
Net realized and unrealized loss on investments	11,684	4,494
Depreciation and amortization	900,153	550,981
Impairment loss		518,682
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(31,797)	(124)
Operating contributions receivable	(400,951)	(237,930)
Accounts payable and accrued payroll expenses	707,032	71,915
Deferred special event revenue	<u>(3,673)</u>	<u>23,124</u>
Net cash used by operating activities	<u>(40,492)</u>	<u>(481,300)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital campaign construction costs	(12,357,615)	(5,150,907)
Purchases of property	(263,699)	(57,109)
Purchases of investments	(216,955)	(515,109)
Proceeds from sales and maturities of investments	<u>864,800</u>	<u>550,000</u>
Net cash used by investing activities	<u>(11,973,469)</u>	<u>(5,173,125)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital campaign projects	<u>7,602,205</u>	<u>6,261,568</u>
NET CHANGE IN CASH	(4,411,756)	607,143
Cash, beginning of year (Note 4)	<u>6,519,536</u>	<u>5,912,393</u>
Cash, end of year (Note 4)	<u>\$ 2,107,780</u>	<u>\$ 6,519,536</u>
 <i>Supplemental disclosure of cash flow information:</i>		
In-kind capital addition	\$228,933	

See accompanying notes to financial statements.

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

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Ronald McDonald House of Houston, Inc. (RMH Houston) is a Texas nonprofit corporation. The mission of RMH Houston is to offer a comfortable, safe, and reliable *home away from home* providing care, compassion and hope to families with seriously ill children being treated in Texas Medical Center member institutions. RMH Houston owns and operates Holcombe House, a 70-bedroom house on Holcombe Boulevard in the Texas Medical Center in Houston, Texas. Holcombe House provided approximately 10,500 nights of lodging in 2018 and approximately 16,200 nights of lodging in 2017.

In 2014, RMH Houston launched *Behind Every Door*, a \$24.5 million capital campaign to improve Holcombe House. Capital improvements to Holcombe House included construction of a new two-story tower as well as renovation, reconfiguration, and upgrades of existing bedrooms, kitchens, and family areas to provide more private and functional space for families and to facilitate mobility throughout. Capital improvements were completed and in operation in the Fall 2018.

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

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

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

Federal income tax status – RMH Houston is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1).

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts due in more than one year are discounted, if material, to estimate the present value of future cash flows. An allowance for uncollectible contributions receivable is provided when it is believed balances may not be collected in full. Any loss on contributions receivable recognized and the resulting adequacy of the allowance is determined using a combination of historical loss experience and analysis of individual balances. RMH Houston’s policy is to write off balances against the allowance when management believes they will not be collected.

Investments are reported at fair value. Net investment return consists of interest, dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses. Net investment return is reported in the statement of activities as an increase or decrease in *net assets without donor restrictions* unless the use of the income is limited by donor-imposed restrictions.

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

Net asset classification – 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 of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Operating revenue and expenses – In the statement of activities, activities related to the capital campaign and support from the Foundation are reported separate from operating revenue and expenses.

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

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

In-kind contributions – Donated materials and use of facilities are recognized at fair value as contributions without donor restrictions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

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

Functional allocation of expenses – 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. Depreciation, interest expense, and 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 reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

RMH Houston 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 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	\$ 2,107,780
Other assets	17,316
Contributions receivable	2,873,617
Investments	486,705
Commitment receivable from Foundation	<u>2,200,000</u>
Total financial assets	7,685,418
Less financial assets not expected to be available for general expenditure:	
Board-designated net assets	(2,234,404)
Capital campaign assets	<u>(432,236)</u>
Total financial assets available for general expenditure	<u>\$ 5,018,778</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, RMH Houston considers all expenditures related to their ongoing mission of providing a comfortable, safe, and reliable *home away from home* to families with seriously ill children being treated in Texas Medical Center member institutions, as well as the activities undertaken to support this mission, to be general expenditures. Most capital campaign projects were completed and placed in service during 2018, releasing donor restrictions on related assets and net assets. Remaining capital campaign assets and net assets of \$432,236 are expected to be used during 2019 but are not included in financial assets available for general expenditure.

RMH Houston regularly monitors liquidity required to meet operating needs while striving to maximize the investment of available funds. As part of RMH Houston's liquidity management, financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due. The Board of Directors has designated resources without donor restrictions to be used for specific purposes. However, these funds remain available to be spent at the discretion of the Board of Directors.

NOTE 4 – CASH

Cash reported in the statement of financial position is reconciled to cash reported in the statement of cash flows as follows:

	<u>2018</u>	<u>2017</u>
Cash	\$ 2,107,780	\$ 316,550
Cash restricted for capital campaign projects	<u> </u>	<u>6,202,986</u>
Total cash reported in the statement of cash flows	<u>\$ 2,107,780</u>	<u>\$ 6,519,536</u>

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

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Contributions receivable	\$ 2,929,624	\$ 5,044,851
Discount to net present value at 0.89% to 2.46%	(30,341)	(78,281)
Allowance for uncollectible contributions receivable	<u>(25,666)</u>	<u> </u>
Contributions receivable, net	<u>\$ 2,873,617</u>	<u>\$ 4,966,570</u>

Contributions receivable at December 31, 2018 are expected to be collected as follows:

Within one year	\$ 1,972,789
In one to four years	<u>956,835</u>
Total contributions receivable	<u>\$ 2,929,624</u>

Concentration – At December 31, 2018, approximately 63% of contributions receivable were due from three donors. At December 31, 2017, approximately 51% of contributions receivable were due from three donors. During the year ended December 31, 2018, approximately 48% of contributions was from one donor. During the year ended December 31, 2017, approximately 32% of contributions were from two donors.

NOTE 6 – 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:				
Federal short-term bond mutual fund	\$ 486,705	_____	_____	\$ 486,705
Total assets measured at fair value	<u>\$ 486,705</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 486,705</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:				
Federal short-term bond mutual fund	\$ 1,146,234	_____	_____	\$ 1,146,234
Total assets measured at fair value	<u>\$ 1,146,234</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,146,234</u>

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

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

NOTE 7 – PROPERTY

Property is comprised of the following:

	<u>2018</u>	<u>2017</u>
Use of Texas Medical Center land	\$ 1,100,000	\$ 1,100,000
Building	28,677,241	8,805,986
Building improvements	1,817,991	941,792
Furniture and equipment	1,775,383	1,138,157
Capital campaign projects in progress	<u> </u>	<u>8,554,802</u>
Total property, at cost	33,370,615	20,540,737
Accumulated depreciation and amortization	<u>(7,189,098)</u>	<u>(6,776,720)</u>
Property, net	<u>\$ 26,181,517</u>	<u>\$ 13,764,017</u>

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

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

Capital campaign commitments – At December 31, 2018, RMH Houston had outstanding commitments of approximately \$760,000 related to capital campaign projects.

NOTE 8 – LINE OF CREDIT

In October 2017, RMH Houston entered into a revolving line of credit with a bank with interest at LIBOR plus 1.75%. There were no amounts outstanding on this line of credit at December 31, 2018. The line is secured by contributions receivable and proceeds from the *Behind Every Door* capital campaign. Subsequent to December 31, 2018, net draws of approximately \$1.5 million were made on the line of credit to finance capital campaign project costs due to be paid before contributions receivable are collected.

NOTE 9 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 983,194	\$ 1,076,079
Invested in property, net	26,181,517	5,209,215
Board-designated for capital projects	2,200,000	2,500,000
Board-designated for future projects	<u>334,404</u>	<u>329,898</u>
Total net assets without donor restrictions	<u>\$ 29,699,115</u>	<u>\$ 9,115,192</u>

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

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Capital campaign projects	\$ 432,236	\$ 17,102,352
Other RMH Houston operations and supplies	139,480	130,524
Family activities and services	<u>130,017</u>	<u>238,486</u>
Total net assets with donor restrictions	<u>\$ 701,733</u>	<u>\$ 17,471,362</u>

NOTE 11 – VOLUNTEER SERVICES

Volunteers provide guest, maintenance, and administrative services that are integral to the operation of Holcombe House and in-hospital programs. During 2018, approximately 650 volunteers donated 13,900 hours for such services to in-hospital programs and 9,900 hours to Holcombe House. During 2017, approximately 630 volunteers donated 13,600 hours for such services to in-hospital programs and 12,300 hours to Holcombe House. No amount has been recognized in the financial statements for these volunteer services because they do not meet the criteria for recognition under generally accepted accounting principles.

NOTE 12 – RETIREMENT PLAN

RMH Houston has a §401(k) retirement plan which covers all employees. RMH Houston contributes an amount equal to 3% of each employee's salary. In addition, RMH Houston will match 100% for each percent the employee contributes up to 3%. RMH Houston contributed \$119,261 to the plan in 2018 and \$112,045 to the plan in 2017.

NOTE 13 – OPERATING LEASES

RMH Houston leases certain office space used in its operations. Operating lease payments for the year ended December 31, 2018 were approximately \$92,000. As of December 31, 2018, the future minimum annual lease payments under these noncancelable operating leases are as follows:

2019	\$ 100,602
2020	100,602
2021	<u>8,384</u>
Total	<u>\$ 209,588</u>

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 3, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, except for the subsequent advances on the line of credit discussed in Note 8, 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.