

RONALD MCDONALD HOUSE CHARITIES  
OF SAN ANTONIO, TEXAS, INC.

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

RONALD MCDONALD HOUSE CHARITIES  
OF SAN ANTONIO, TEXAS, INC.  
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YEARS ENDED DECEMBER 31, 2016 AND 2015

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## INDEPENDENT AUDITOR'S REPORT

To The Board of Directors  
Ronald McDonald House Charities  
Of San Antonio, Texas, Inc.

I have audited the accompanying financial statements of Ronald McDonald House Charities of San Antonio, Texas, Inc. (a non-profit organization) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities 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**

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

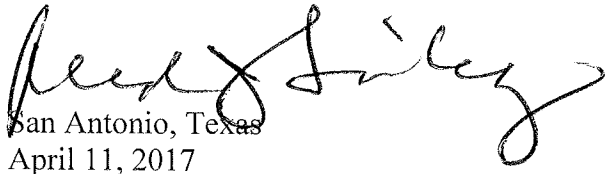
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ronald McDonald House Charities of San Antonio, Texas, Inc. as of December 31, 2016 and 2015, 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.

### **Other Matter**

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of functional expenses on page 6 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



San Antonio, Texas  
April 11, 2017

RONALD MCDONALD HOUSE CHARITIES OF SAN ANTONIO, TEXAS, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and Cash Equivalents	\$ 178,161	\$ 954,029
Current Portion of Contributions Receivable	265,000	148,880
Prepaid Expenses	20,773	15,881
Total Current Assets	<u>463,934</u>	<u>1,118,790</u>
Investments at Fair Value	2,316,244	3,405,484
Plant, Property, and Equipment:		
Plant, Property, and Equipment - Net of Depreciation	3,855,265	2,010,486
Construction in Progress	293,372	721,746
Total Plant, Property, and Equipment	<u>4,148,637</u>	<u>2,732,232</u>
Contributions Receivable, Less Current Portion	<u>284,660</u>	<u>240,000</u>
<b>TOTAL ASSETS</b>	<b><u><u>7,213,475</u></u></b>	<b><u><u>7,496,506</u></u></b>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Current Liabilities:		
Accounts Payable	102,889	199,992
Retainage Payable	-	34,518
Accrued Expenses	23,930	19,618
Scholarships Payable	90,423	68,084
Deferred Revenue	-	12,500
Total Current Liabilities	<u>217,242</u>	<u>334,712</u>
<b>TOTAL LIABILITIES</b>	<b><u>217,242</u></b>	<b><u>334,712</u></b>
 <u>NET ASSETS</u>		
Unrestricted	5,937,867	5,562,516
Temporarily Restricted	529,366	1,070,278
Permanently Restricted	529,000	529,000
<b>TOTAL NET ASSETS</b>	<b><u>6,996,233</u></b>	<b><u>7,161,794</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u><u>\$ 7,213,475</u></u></b>	<b><u><u>\$ 7,496,506</u></u></b>

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

RONALD MCDONALD HOUSE CHARITIES OF SAN ANTONIO, TEXAS, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			2015				
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTALS	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTALS
<b>REVENUE AND SUPPORT</b>								
Room Donations, Net of Refunds of \$85 and \$230	\$ 140,977	\$ -	\$ -	\$ 140,977	\$ 183,673	\$ -	\$ -	\$ 183,673
Contributions	348,107	-	-	348,107	528,138	-	-	528,138
Grant Revenue	62,300	-	-	62,300	143,093	-	-	143,093
Capital Campaign Revenues	-	440,395	-	440,395	-	380,860	-	380,860
Memorials and Tributes	23,382	-	-	23,382	14,900	-	-	14,900
Special Events, Net of Direct Expenses, of \$55,990 and \$64,320	198,990	-	-	198,990	196,543	-	-	196,543
Investment and Interest Income	143,734	-	-	143,734	10,945	-	-	10,945
Miscellaneous Revenue	11,614	-	-	11,614	15,042	-	-	15,042
In-Kind Contributions	467,130	-	-	467,130	477,895	-	-	477,895
Loss on Disposal of Assets	(2,425)	-	-	(2,425)	(19,194)	-	-	(19,194)
Net Assets Released from Restrictions	981,307	(981,307)	-	-	696,589	(696,589)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>2,375,116</b>	<b>(540,912)</b>	<b>-</b>	<b>1,834,204</b>	<b>2,247,624</b>	<b>(315,729)</b>	<b>-</b>	<b>\$ 1,931,895</b>
<b>EXPENSES</b>								
Program Service	1,746,784	-	-	1,746,784	1,319,704	-	-	1,319,704
Supporting Services:								
Administrative	141,500	-	-	141,500	144,701	-	-	144,701
Fundraising	89,721	-	-	89,721	70,301	-	-	70,301
Unallocated payments to RMHC, Inc.	21,760	-	-	21,760	32,483	-	-	32,483
<b>TOTAL EXPENSES</b>	<b>1,999,765</b>	<b>-</b>	<b>-</b>	<b>1,999,765</b>	<b>1,567,189</b>	<b>-</b>	<b>-</b>	<b>1,567,189</b>
<b>CHANGE IN NET ASSETS</b>	<b>375,351</b>	<b>(540,912)</b>	<b>-</b>	<b>(165,561)</b>	<b>680,435</b>	<b>(315,729)</b>	<b>-</b>	<b>364,706</b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<b>5,562,516</b>	<b>1,070,278</b>	<b>529,000</b>	<b>7,161,794</b>	<b>4,882,081</b>	<b>1,386,007</b>	<b>529,000</b>	<b>6,797,088</b>
<b>NET ASSETS END OF YEAR</b>	<b>\$ 5,937,867</b>	<b>\$ 529,366</b>	<b>\$ 529,000</b>	<b>\$ 6,996,233</b>	<b>\$ 5,562,516</b>	<b>\$ 1,070,278</b>	<b>\$ 529,000</b>	<b>\$ 7,161,794</b>

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

RONALD MCDONALD HOUSE CHARITIES OF SAN ANTONIO, TEXAS, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (165,561)	\$ 364,706
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used In) Operating Activities:		
Depreciation	218,699	193,864
(Gain) Loss on Disposal of Fixed Assets	2,425	19,194
In-Kind Donations - Fixed Assets	-	(269,294)
Net Realized and Unrealized (Gain) Loss on Investments	(79,950)	69,327
(Increase) Decrease in Current Assets:		
Contributions Receivable	(160,780)	128,000
Prepaid Expenses	(4,892)	4,963
Increase (Decrease) in Liabilities:		
Accounts Payable	(97,103)	199,992
Retainage Payable	(34,518)	34,518
Accrued Expenses	4,312	2,319
Scholarships Payable	22,339	(35,507)
Deferred Revenue	(12,500)	2,500
	(307,529)	714,582
Net Cash Provided by (Used In) Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the Sale of Investment Securities	2,801,930	1,363,730
Purchase of Investment Securities	(1,632,740)	(1,840,577)
Acquisition of Plant, Property, and Equipment	(1,359,236)	(39,180)
Construction in Progress	(278,293)	(696,589)
	(468,339)	(1,212,616)
Net Cash Used In Investing Activities		
NET DECREASE IN CASH	(775,868)	(498,034)
CASH AT BEGINNING OF YEAR	954,029	1,452,063
CASH AT END OF YEAR	\$ 178,161	\$ 954,029

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

RONALD MCDONALD HOUSE CHARITIES OF SAN ANTONIO, TEXAS, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015  
(Supplemental Schedule)

	2016				2015			
	PROGRAM SERVICES	ADMINISTRATIVE	FUND RAISING	TOTAL	PROGRAM SERVICES	ADMINISTRATIVE	FUND RAISING	TOTAL
Depreciation	\$ 207,765	\$ 5,467	\$ 5,467	\$ 218,699	\$ 184,171	\$ -	\$ 9,693	\$ 193,864
Employee Benefits	83,038	3,645	2,355	89,038	73,864	10,306	1,718	85,888
Employee Wages	649,968	75,123	54,440	779,531	554,184	74,080	45,192	673,456
Home Furnishings	19,697	-	-	19,697	-	-	-	-
House Supplies	12,847	-	-	12,847	12,030	-	-	12,030
Insurance	28,964	1,524	-	30,488	26,296	1,384	-	27,680
In-Kind	467,130	-	-	467,130	208,600	-	-	208,600
Investment Expenses	-	26,179	-	26,179	-	27,464	-	27,464
Laredo Family Rooms	687	-	-	687	957	-	-	957
Maintenance and Repairs	67,056	-	-	67,056	71,470	-	-	71,470
Meetings Training, and Seminars	-	1,752	-	1,752	-	6,016	-	6,016
Miscellaneous	1,915	-	-	1,915	1,472	-	-	1,472
Newsletter	-	-	18,830	18,830	-	-	5,342	5,342
Occupancy	23,261	-	-	23,261	23,000	-	-	23,000
Office Supplies	6,745	6,745	1,499	14,989	4,965	5,556	1,300	11,821
Patient Aid	1,000	-	-	1,000	6,500	-	-	6,500
Payroll Taxes	47,224	5,680	3,980	56,884	39,506	5,299	3,372	48,177
Postage	-	1,117	1,118	2,235	-	996	996	1,992
Professional Fees	-	8,650	-	8,650	-	8,050	-	8,050
Security	8,964	-	-	8,964	-	-	-	-
Telephone	28,619	1,205	301	30,125	26,867	1,000	414	28,281
Travel	1,585	150	780	2,515	1,850	150	765	2,765
Utilities	90,319	3,803	951	95,073	83,972	4,000	420	88,392
Volunteer Recognition	-	460	-	460	-	400	1,089	1,489
	\$ 1,746,784	\$ 141,500	\$ 89,721	\$ 1,978,005	\$ 1,319,704	\$ 144,701	\$ 70,301	\$ 1,534,706
Unallocated Payments to RMHC Global				<u>21,760</u>				<u>32,483</u>
Total Expenses	\$ 1,746,784	\$ 141,500	\$ 89,721	\$ 1,999,765	\$ 1,319,704	\$ 144,701	\$ 70,301	\$ 1,567,189

See Accompanying Independent Auditor's Report



RONALD MCDONALD HOUSE CHARITIES OF SAN ANTONIO, TEXAS, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Ronald McDonald House Charities (RMHC) of San Antonio, Texas, Inc. (the Organization) is a Texas nonprofit charitable corporation formed in 1985. The mission of Ronald McDonald House Charities is to create, fund and support programs that directly improve the health and well-being of children. Collectively, RMHC and the network of local Chapters ascribe to five core values: “we are focused on the critical needs of children, we lead with compassion, we celebrate the diversity of our people and our programs, we value our heritage, and we operate with accountability and transparency.”

RMHC fulfills its mission through the operation of sustainable programs that enable family-centered care, bridge access to quality health care, are a vital part of the health care continuum and strengthen families during difficult times. The following programs, operated by the Organization, represent the core functions of Ronald McDonald House Charities of San Antonio, Texas, Inc.

Ronald McDonald House

When children must travel long distances to access top medical care, accommodations and support for families can be expensive or not readily available. The Organization helps families stay close to their ill or injured child through the Ronald McDonald House program(s) located in San Antonio, which provide temporary lodging, meals and other support to children and their families. The program provides families with emotional and physical comfort and increases the caregivers’ ability to spend more time with their child, to interact with their clinical care team and to participate in critical medical care decisions.

Ronald McDonald Family Rooms

When a child is critically ill, parents may be reluctant to leave the hospital. In order to provide comfort and support to their child, it is important that parents have an opportunity to rest, have a meal or have a moment of quiet. Located inside medical care facilities, the Ronald McDonald Family Room programs in two hospitals located in Laredo, Texas serve as a place of respite, relaxation, and privacy for family members, often just steps away from where their child is being treated. The Ronald McDonald Family Room program provides parents with an opportunity to remain close to their hospitalized child and to be an active member of the child’s health care team.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) and are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. Net assets of the two restricted classes are created by donor-implied restrictions on their use or time restricted. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. All other net assets, including board designated or appropriated amounts, are unrestricted and are reported as part of the unrestricted class.

RONALD MCDONALD HOUSE CHARITIES OF SAN ANTONIO, TEXAS, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Organization's management to make estimates and assumptions that affect the amounts reported in its financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents include money market funds and all highly liquid investments with a maturity date of less than three months from the date of purchase. The Organization's cash balances that are maintained in bank accounts may exceed Federal Deposit Insurance Corporation limits from time to time. The Organization has not experienced any losses in such accounts and management believes that it is not exposed to any significant credit risk on cash.

Contributions Receivable

Contributions receivable are unconditional promises to give. The Organization received several promises to give in conjunction with its current capital campaign to build an additional house in the Medical Center and the rebuilding of the new Children's Hospital (Santa Rosa) house that are payable over multiple years. No discount to present value has been recorded on the pledges due to the insignificance of the discount involved. An allowance for uncollectible accounts against pledges receivable has not been recorded because the receivables are considered to be 100% collectible.

Investments

The Organization carries investments in marketable securities with readily determinable fair values in the statements of financial position. Realized and unrealized gains and losses and income are included in the statements of activities. The Organization maintains investments for its donor-restricted endowments. Realized and unrealized gains and losses from securities transactions in the investment account are allocated regularly to the endowment account based on the relationship of the fair value of the endowment fund, as adjusted for additions and deductions from the endowment investment account.

Plant, Property, and Equipment

Plant, property and equipment are stated at cost, if purchased, or estimated fair value at the date of donation, if donated. Additions of \$1,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expenses as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Building and Improvements	15-39 Years
Office Furniture, Fixtures, and Equipment	5-7 Years
Vehicles	5 Years

RONALD MCDONALD HOUSE CHARITIES OF SAN ANTONIO, TEXAS, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Organization evaluates its long-lived assets for any events or changes in circumstances which indicate that the carrying amount of such assets may not be fully recoverable. The Organization evaluates the recoverability of long-lived assets by measuring the carrying amount of such assets against the estimated undiscounted future cash flows associated with them. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

Donated Assets, Materials, Facilities, and Services

Donated marketable securities, property and equipment, and other noncash donations are recorded as contributions at their fair values at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated services and materials are recorded as contributions if the services and/or materials (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization also receives donated services from other contributors and volunteers that are not measurable, and therefore, are excluded from the financial statements.

Deferred Revenue

Income from sponsorships received in advance of future special events is deferred and recognized over the periods to which the sponsorships relate.

Net Assets

The Organization's net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions or law.

Temporarily Restricted Net Assets – Net assets subject to restrictions imposed by donor or law that may be met either by actions of the Organization or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that the principal be maintained in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for unrestricted purposes.

RONALD MCDONALD HOUSE CHARITIES OF SAN ANTONIO, TEXAS, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Unconditional promises to give are recognized as revenue in the period the promise was made. Conditional promises are recorded as revenue when the conditions are substantially met. Contributions, grants, and bequests are recognized as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services benefitted.

Income Tax Status

The organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income, if any, from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 (b)(1)(A) and has been classified as an organization other than a private foundation as defined by Section 509(a)(2).

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization has filed all of its required Forms 990, however the tax years 2013 through 2015 remain open by the taxing jurisdictions to which the Organization is subject, and these periods have not been extended beyond the applicable statute of limitations.

Reclassifications

Certain amounts in the financial statements for the year ended December 31, 2015 have been reclassified to conform to the presentation for the year ended December 31, 2016. These reclassifications had no effect on the change in net assets.

NOTE 2 – CASH DEPOSITS IN EXCESS OF FEDERALLY INSURED LIMITS

At various times during the calendar year, the organization's cash balances exceeded the federally insured limits of the Federal Deposit Insurance Corporation (FDIC). At December 31, 2015, the Organization had uninsured cash balances in the amount of \$564,885. As of December 31, 2016, the Organization was adequately covered within the insured limits of the FDIC.

RONALD MCDONALD HOUSE CHARITIES OF SAN ANTONIO, TEXAS, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of pledges as of the years ended December 31:

	2016	2015
Amounts Due In:		
Less than One Year	\$ 265,000	\$ 148,880
One to Five Years	284,660	240,000
More than Five Years	-	-
Total Contributions Receivable	\$ 549,660	\$ 388,880

NOTE 4- FAIR VALUE OF FINANCIAL INSTRUMENTS

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or an amount paid to transfer a liability in an orderly transaction between market participants at the measurement date.

*Fair Value Measurements and Disclosures* establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity, such as discounted cash flow models or valuations. No level 3 input valuations were used by the Organization.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Organization's financial instruments carried at fair value consist of cash, contribution receivable, and investments. As of December 31, 2016 and 2015, the carrying value of the Organization's cash is considered to be representative of its respective fair value. The fair value of the Organization's contributions receivable is determined by its carrying value less any allowance for doubtful accounts. The fair value of the Organization's investments is determined by observable prices for identical or similar assets in active

RONALD MCDONALD HOUSE CHARITIES OF SAN ANTONIO, TEXAS, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 4- FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

markets. The following table shows the fair value classification of the Organization's investments that are required to be measured at fair value as of December 31, 2016 and 2015:

<b>Investments</b>	Fair Value Measurements at December 31, 2016				
	Cost	Fair Value	(Level 1)	(Level 2)	(Level 3)
Cash and Equivalents	\$ 161,978	\$ 161,978	\$ 161,978	\$ -	\$ -
Equities	974,763	1,315,260	1,315,260	-	-
Fixed Income Securities	825,447	839,006	-	839,006	-
	<u>\$ 1,962,188</u>	<u>\$ 2,316,244</u>	<u>\$ 1,477,238</u>	<u>\$ 839,006</u>	<u>\$ -</u>

<b>Investments</b>	Fair Value Measurements at December 31, 2015				
	Cost	Fair Value	(Level 1)	(Level 2)	(Level 3)
Cash and Equivalents	\$ 535,188	\$ 535,188	\$ 535,188	\$ -	\$ -
Equities	1,454,590	1,745,622	1,745,622	-	-
Fixed Income Securities	1,101,632	1,124,674	-	1,124,674	-
	<u>\$ 3,091,410</u>	<u>\$ 3,405,484</u>	<u>\$ 2,280,810</u>	<u>\$ 1,124,674</u>	<u>\$ -</u>

The composition of investment income on the Organization's investment portfolio for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Interest and Dividend Income	\$ 63,784	\$ 80,272
Realized and Unrealized Gains (Losses)	79,950	(69,327)
Total Investment Income	<u>\$ 143,734</u>	<u>\$ 10,945</u>

Investment expenses are reported on the statement of functional expenses for the years ended December 31, 2016 and 2015 in the amount of \$26,179 and \$27,464.

NOTE 5- PLANT, PROPERTY, AND EQUIPMENT

Plant, property and equipment consist of the following as of December 31:

RONALD MCDONALD HOUSE CHARITIES OF SAN ANTONIO, TEXAS, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 5- PLANT, PROPERTY, AND EQUIPMENT (CONTINUED)

	<u>2016</u>	<u>2015</u>
Land	\$ 164,272	\$ 164,272
Buildings and Improvements	6,516,296	4,506,016
Construction In Progress	293,372	721,746
Furniture and Fixtures	250,150	389,524
Donation Boxes	154,926	154,926
Automobiles	<u>51,357</u>	<u>51,357</u>
Total Cost	7,430,373	5,987,841
Less: Accumulated Depreciation	<u>(3,281,736)</u>	<u>(3,255,609)</u>
Total Plant, Property, and Equipment	<u>\$ 4,148,637</u>	<u>\$ 2,732,232</u>

NOTE 6 – ENDOWMENT INVESTMENTS

The Organization has a donor-restricted endowment fund. The endowment investments are embedded within the total investments (See Note 4) held by the Organization. As required by GAAP net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions. The donor-restricted endowment funds falls under the provisions of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the State of Texas with an effective date of September 1, 2007. This policy defines the Organization’s interpretation of the provisions of this law as they relate to the prudent management of its endowment funds.

The endowment investments include permanently restricted endowment funds in the amount of \$529,000 resulting from a gift of common stock from the McDonald’s Corporation several years ago. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions. The Organization’s Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net earnings (realized and unrealized) on the investment of endowment assets are classified as temporarily restricted until those payments are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA and until expended in a

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NOTE 6 – ENDOWMENT INVESTMENTS (CONTINUED)

manner consistent with the purpose, imposed by the donor. The Organization considers restrictions that are satisfied in the same period that the restricted revenue is received to be unrestricted.

For this reason, the Organization records accumulated earnings, as well as, gains and losses related to endowment assets as unrestricted funds because (1) the donor had specified that endowment investment revenues be made available for use in current operations and (2) the conditions of the restriction were met within the current year.

In accordance with UPMIFA, the organization 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 purpose of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation or deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the investment policies of the Organization.

*Investment Return Objectives, Risk Parameters and Strategies* The organization has adopted investment objectives and spending policies, approved by the board of trustees, for endowment assets that attempt to provide consistent total rates of return with an emphasis on preservation of capital. The organization accomplishes its objectives through both asset allocation and selection of appropriate professional managed investment vehicles. Investments are made according to the “Prudent Man” rule and provide a total rate of return, net of expenses, in the fixed income portion of the endowment portfolio that is at least equal to an acceptable Government/Credit Intermediate Index, calculated over a rolling three year period of time. In the equity portion of the portfolio, the objective is to provide a total return, net of expenses, equal to the total return of the cap weighted S&P 500 plus 100 basis points calculated on a rolling three year period of time.

To satisfy its long-term rate-of-return objectives, the organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

*Spending Practice* A portion of the total investment return derived from investments is available to support current operating activities. Monthly distributions are made from the endowment fund.

Changes in endowment net assets as of December 31, 2016 and 2015 are as follows:



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NOTE 6 – ENDOWMENT INVESTMENTS (CONTINUED)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Investments as of 12/31/15	\$ -	\$ -	\$ 529,000	\$ 529,000
Investment Income	-	14,657	-	14,657
Net Realized and Unrealized Income	-	18,316	-	18,316
Less: Investment Fees	-	(5,998)	-	(5,998)
Appropriation of Endowment Income for Expenditure	-	(26,975)	-	(26,975)
Endowment Investments as of 12/31/16	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 529,000</u>	<u>\$ 529,000</u>
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Investments as of 12/31/14	\$ -	\$ -	\$ 529,000	\$ 529,000
Investment Income	-	13,585	-	13,585
Net Realized and Unrealized Income	-	(12,652)	-	(12,652)
Appropriation of Endowment Income for Expenditure	-	(933)	-	(933)
Endowment Investments as of 12/31/15	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 529,000</u>	<u>\$ 529,000</u>

*Funds Deficiencies* From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no deficiencies of this nature for December 31, 2016 and 2015.

NOTE 7 – RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets are available for the following programs and purposes as directed by donors as of At December 31, 2016 and 2015:

	2016	2015
Capital Campaign - Medical Center House # 4	\$ 514,176	\$ 352,074
Capital Campaign - Executive Director Room	15,190	15,190
Capital Campaign - Undesignated	-	703,014
Total Temporarily Restricted Net Assets	<u>\$ 529,366</u>	<u>\$ 1,070,278</u>

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NOTE 7 –RESTRICTIONS OF NET ASSETS (CONTINUED)

Permanently restricted net assets consist of endowment fund assets to be held in perpetuity. Total permanently restricted net assets as of December 31, 2016 and 2015 were \$529,000. The income from permanently restricted net assets can be spent by the Organization for house operations during the current year and are therefore considered to be unrestricted net assets.

Net assets were released from donor restrictions in 2016 and 2015 in the amount of \$981,307 and \$696,589 by incurring expenses for the capital campaign for the rebuilding of the Children’s Hospital and preliminary work on the new medical center house #4.

NOTE 8 - DONATED SERVICES, MATERIALS, AND FACILITIES

Donated materials, equipment, and services are received by the Ronald McDonald House Charities of San Antonio, Texas, Inc. in substantial quantities. Management estimates the fair market value of these donated items to be \$60,320, and \$74,181 for the calendar years ended December 31, 2016 and 2015, respectively.

On June 1, 1996, the San Antonio Medical Foundation agreed to lease the surface estate of a three (3) acre parcel of land located in the vicinity of the South Texas Medical Center to the Ronald McDonald House Charities of San Antonio, Texas, Inc. The organization located its second local residential facility for the temporary housing of seriously ill children and their families on the leased property. The term of the lease is for forty years and contains two (2) five (5) year extension periods. The annual rental under the terms of the lease is one dollar (\$1.00), payable in January of each year. Management estimates that the fair market value of this gift to be \$190,000 and \$112,000 for the calendar years ended December 31, 2016 and 2015.

Ronald McDonald House Charities of San Antonio, Texas, Inc. entered into another ground lease with the San Antonio Medical Foundation for a three acre parcel of land located on the same street as the house detailed above. Although construction on House # 4 has not started, the commencement date of the lease was September 15, 2015. The term of the lease is for forty years and contains two (2) five (5) year extension periods. The annual rental under the terms of the lease is \$23,000 per year. Management estimates that the fair market value of this ground lease to be \$167,000 for the calendar year ended December 31, 2016.

During 2016, the Children’s Hospital of San Antonio (CHOSA) agreed to provide approximately 10,700 square feet to the Ronald McDonald House Family Center. This facility provides respite rooms for the comfort and mutual support of families with seriously ill children. The initial term of the lease is for a period of twenty-five years, commencing on the date construction of the House began. Rent will be paid by Ronald McDonald House Charities of San Antonio, Texas, Inc. in the amount of one dollar (\$1.00) per year. Upon expiration of the initial term of twenty-five years, the lease will automatically renew for successive periods of ten years each. Management estimates the fair market value of this gift to be \$27,390 for the calendar year ended December 31, 2016.

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NOTE 8 - DONATED SERVICES, MATERIALS, AND FACILITIES (CONTINUED)

Two hospitals in Laredo provide family rooms that serve as respite spaces for families who have children that are patients in those hospitals. The hospitals have agreed to provide the space free of maintenance and utility costs for an indefinite period. The fair market value of this gift is estimated to be \$22,420 for the years ended December 31, 2016 and 2015.

In 2015, Ronald McDonald House Charities National donated all new flooring for the Lewis Street House. The national chapter estimated that the fair market value for the donated flooring to be \$269,294.

The monetary benefits of in-kind donations are reported by the Organization in the accompanying statements of activities as revenues and other support. A like amount is charged to program expenses in the statements of activities or, if appropriate, to property and equipment in the Organization's statements of financial position.

Total In-Kind Contributions received by the Organization are \$467,130 and \$477,895 for the years ended December 31, 2016 and 2015, respectively.

NOTE 9 – PENSION PLAN

The Ronald McDonald House Charities Of San Antonio, Texas, Inc. has established a defined contribution pension plan, commonly referred to as a 403(b) plan, which is available to all full time employees with over three years of service. A formula has been established whereby employee contributions are matched by the organization up to a maximum of 8% of the employee's compensation. Employer contributions are reported as an expense of the organization in the financial statements and amounted to \$31,405 and \$29,393 for the calendar years ended December 31, 2016 and 2015, respectively.

NOTE 10 – CONDITIONAL PLEDGES

The Organization has a conditional pledge in the amount of \$150,000 for the year ending December 31, 2016 and 2015. The pledge is conditional upon receiving a licensing agreement for the new house from Ronald McDonald House Charities National Chapter. The new license will not be issued from National until at least half of the funds for the completion of the new house have been received. The conditional promise had not been met as of December 31, 2016, consequently the pledge has not been recognized as an asset or as contribution revenue in the accompanying financial statements in accordance with United States generally accepted accounting principles.

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NOTE 11 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events between the statement of financial position date December 31, 2016, through April 11, 2017, which was the date the financial statements were available to be issued, and determined that there are no subsequent events or transactions that need to be recognized or disclosed in the accompanying financial statements.