



Consolidated Financial Statements
and
Supplemental Schedules
with
Independent Auditors' Report

Years Ended December 31, 2012 and 2011

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ronald McDonald House of Dallas, Inc. and Affiliates

We have audited the accompanying consolidated statements of financial position of Ronald McDonald House of Dallas, Inc. and Affiliates (the Organization) as of December 31, 2012 and 2011, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ronald McDonald House of Dallas, Inc. and Affiliates as of December 31, 2012 and 2011, and the consolidated changes in its net assets and cash flows for the years ended December 31, 2012 and 2011 in conformity with accounting principles generally accepted in the United States of America.

Travis Woeff, LLP

Certified Public Accountants

May 7, 2013

Dallas, Texas

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Consolidated Statements of Financial Position December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,420,250	\$ 4,782,178
Pledges receivable, net	221,047	807,892
Investments, at fair value	9,789,229	8,473,219
Prepaid expenses and other assets	47,611	43,298
	<u>15,478,137</u>	<u>14,106,587</u>
Total current assets	15,478,137	14,106,587
Beneficial interest held in trust	465,338	516,416
Property and equipment, net	18,257,346	19,139,574
	<u>18,722,684</u>	<u>19,655,990</u>
Total assets	\$ <u>34,200,821</u>	\$ <u>33,762,577</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 56,594	\$ 48,530
Accrued liabilities	41,445	27,317
Deferred revenue	53,200	28,890
	<u>151,239</u>	<u>104,737</u>
Total current liabilities	151,239	104,737
Commitments and contingencies (Note 11)		
Net assets:		
Unrestricted	32,900,470	31,922,930
Temporarily restricted	657,237	1,243,035
Permanently restricted	491,875	491,875
	<u>34,049,582</u>	<u>33,657,840</u>
Total net assets	34,049,582	33,657,840
Total liabilities and net assets	\$ <u>34,200,821</u>	\$ <u>33,762,577</u>

See accompanying notes to consolidated financial statements.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Consolidated Statements of Activities
Years Ended December 31, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and support:								
Public support:								
Contributions	\$ 1,216,010	21,728	\$ -	\$ 1,237,738	\$ 1,108,625	97,777	\$ -	\$ 1,206,402
Special events	1,322,536	-	-	1,322,536	1,296,704	-	-	1,296,704
	<u>2,538,546</u>	<u>21,728</u>	<u>-</u>	<u>2,560,274</u>	<u>2,405,329</u>	<u>97,777</u>	<u>-</u>	<u>2,503,106</u>
Other revenue:								
Program service fees	295,320	-	-	295,320	314,725	-	-	314,725
Interest and dividends	430,748	-	-	430,748	358,076	-	-	358,076
Change in fair value of beneficial interest held in trust	-	(51,078)	-	(51,078)	-	110,250	-	110,250
Net realized and unrealized gain (loss) on investments	691,612	-	-	691,612	(914,732)	-	-	(914,732)
Net assets released from restrictions	556,448	(556,448)	-	-	900,265	(900,265)	-	-
	<u>1,974,128</u>	<u>(607,526)</u>	<u>-</u>	<u>1,366,602</u>	<u>658,334</u>	<u>(790,015)</u>	<u>-</u>	<u>(131,681)</u>
Total revenue and support	<u>4,512,674</u>	<u>(585,798)</u>	<u>-</u>	<u>3,926,876</u>	<u>3,063,663</u>	<u>(692,238)</u>	<u>-</u>	<u>2,371,425</u>
Expenses:								
Program services	2,562,321	-	-	2,562,321	2,557,403	-	-	2,557,403
Management and general	125,887	-	-	125,887	128,045	-	-	128,045
Fundraising	846,926	-	-	846,926	889,999	-	-	889,999
Total expenses	<u>3,535,134</u>	<u>-</u>	<u>-</u>	<u>3,535,134</u>	<u>3,575,447</u>	<u>-</u>	<u>-</u>	<u>3,575,447</u>
Change in net assets	<u>977,540</u>	<u>(585,798)</u>	<u>-</u>	<u>391,742</u>	<u>(511,784)</u>	<u>(692,238)</u>	<u>-</u>	<u>(1,204,022)</u>
Net assets, beginning of the year	<u>31,922,930</u>	<u>1,243,035</u>	<u>491,875</u>	<u>33,657,840</u>	<u>32,434,714</u>	<u>1,935,273</u>	<u>491,875</u>	<u>34,861,862</u>
Net assets, end of year	<u>\$ 32,900,470</u>	<u>\$ 657,237</u>	<u>\$ 491,875</u>	<u>\$ 34,049,582</u>	<u>\$ 31,922,930</u>	<u>\$ 1,243,035</u>	<u>\$ 491,875</u>	<u>\$ 33,657,840</u>

See accompanying notes to consolidated financial statements.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Consolidated Statements of Cash Flows Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 391,742	\$ (1,204,022)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	1,034,019	1,001,590
Change in fair value of beneficial interest held in trust	51,078	(110,250)
Net realized and unrealized (gain) loss on investments	(691,612)	914,732
Investments received as contributions	-	(50,396)
Changes in operating assets and liabilities:		
Pledges receivable, net	586,845	920,715
Prepaid expenses and other assets	(4,313)	(11,397)
Accounts payable	8,064	(171,835)
Accrued liabilities	14,128	1,546
Deferred revenue	24,310	23,025
	1,414,261	1,313,708
Net cash provided by operating activities	1,414,261	1,313,708
Cash flows from investing activities:		
Purchases of property and equipment	(151,791)	(97,263)
Purchase of investments	(1,986,792)	(10,514,558)
Proceeds from sale of investments	1,362,394	10,057,836
	(776,189)	(553,985)
Net cash used in investing activities	(776,189)	(553,985)
Increase in cash and cash equivalents	638,072	759,723
Cash and cash equivalents, beginning of year	4,782,178	4,022,455
Cash and cash equivalents, end of year	\$ 5,420,250	\$ 4,782,178

See accompanying notes to consolidated financial statements.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Consolidated Statements of Functional Expenses
Years Ended December 31, 2012 and 2011

	2012				2011			
	Program services	Management and general	Fundraising	Total	Program services	Management and general	Fundraising	Total
Salaries	\$ 731,977	\$ 71,200	\$ 162,157	\$ 965,334	\$ 736,168	\$ 55,508	\$ 190,585	\$ 982,261
Employee health and retirement benefits	118,596	7,939	27,710	154,245	93,056	6,229	27,930	127,215
Payroll taxes	57,485	3,848	13,733	75,066	59,325	3,971	15,988	79,284
Total employee compensation	908,058	82,987	203,600	1,194,645	888,549	65,708	234,503	1,188,760
Professional fees and services	157,928	16,781	15,667	190,376	152,285	28,449	33,706	214,440
Transportation	4,944	65	2,082	7,091	7,910	165	208	8,283
Bad debts	5,399	-	-	5,399	-	-	-	-
Family programs	19,102	-	-	19,102	1,410	-	-	1,410
Conferences, conventions and continuing education								
continuing education	2,842	399	7,702	10,943	10,645	701	801	12,147
Events and programs	39,878	1,850	372,319	414,047	54,787	5,024	454,195	514,006
Household supplies	147,955	-	-	147,955	130,025	-	-	130,025
Insurance	56,745	1,278	4,167	62,190	56,956	405	2,910	60,271
Repairs and maintenance	63,781	-	301	64,082	58,132	-	-	58,132
Office supplies	11,997	1,129	4,959	18,085	16,050	1,412	2,869	20,331
Janitorial	72,358	-	200	72,558	73,413	-	-	73,413
Printing	5,191	294	55,002	60,487	12,250	893	33,729	46,872
Equipment rental and storage	3,431	404	13,296	17,131	2,980	351	13,446	16,777
Postage	6,170	644	12,060	18,874	14,741	1,712	5,886	22,339
Travel expense	2,145	525	1,073	3,743	3,386	1,415	1,362	6,163
Utilities	136,653	171	9,933	146,757	169,489	845	2,554	172,888
Miscellaneous	2,945	18,613	26,093	47,651	3,597	20,264	3,739	27,600
Total operating expenses	1,647,522	125,140	728,454	2,501,116	1,656,605	127,344	789,908	2,573,857
Depreciation	914,799	747	118,472	1,034,018	900,798	701	100,091	1,001,590
Total	\$ 2,562,321	125,887	846,926	3,535,134	\$ 2,557,403	128,045	889,999	3,575,447

See accompanying notes to consolidated financial statements.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Ronald McDonald House of Dallas, Inc. (RMHD) was incorporated in the state of Texas on June 5, 1978, as a nonprofit organization. RMHD provides a home-away-from-home for families of seriously ill children through the age of 21 who are undergoing treatment at area hospitals. RMHD is primarily supported by contributions from the general public.

Ronald McDonald House of Dallas Endowment Foundation (EF) is a nonprofit organization established on December 9, 1998, to support and benefit RMHD by investing and managing gifts, grants, contributions, and bequests intended to benefit the long-term goals of RMHD, and by holding, managing, and investing an endowment fund for RMHD. Under EF's Articles of Incorporation and Bylaws, RMHD's Board of Directors has the authority to elect a simple majority of EF's trustees. Notwithstanding this relationship, EF is not required by its Articles or Bylaws to make annual grants or distributions to RMHD.

Ronald McDonald House of Dallas Family Assistance Foundation (FAF) is a nonprofit organization established on December 9, 1998, to support and benefit RMHD and its families by owning, maintaining, repairing, and improving the house facility, as well as maintaining an assistance fund to benefit the needs of these families. Under FAF's Articles of Incorporation and Bylaws, RMHD's Board of Directors has the authority to elect a simple majority of FAF's trustees. Notwithstanding this relationship, FAF is not required by its Articles or Bylaws to make annual grants or distributions to RMHD.

Subsequent events

Management has evaluated subsequent events through May 7, 2013, the date the consolidated financial statements were available to be issued.

Basis of presentation and consolidation

The accompanying consolidated financial statements include the accounts of RMHD, EF, and FAF (collectively, the Organization) and have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). All significant intercompany transactions and balances have been eliminated in consolidation.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 1 - Organization and Summary of Significant Accounting Policies - (Continued)

Basis of presentation and consolidation - continued

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes in net assets of the Organization are classified and reported as follows:

- *Unrestricted net assets* - net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors (the Board).
- *Temporarily restricted net assets* - net assets subject to donor-imposed stipulations that may be, or will be, met by the occurrence of a specific event or the passage of time. 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. Contributions, investment gains and losses, and other assets limited to specific uses by donor-imposed restrictions are reported as temporarily restricted net assets even if the restrictions are met in the same period the contributions, investment gains and losses, and other assets are recognized.
- *Permanently restricted net assets* - net assets subject to donor-imposed stipulations to be maintained in perpetuity by the Organization.

Cash equivalents

The Organization considers all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents. There were no cash equivalents as of December 31, 2012. Cash equivalents at December 31, 2011 consisted of investments in certificates of deposit.

Pledges receivable/allowance for doubtful accounts

The Organization maintains receivables due from various contributors. The allowance for doubtful accounts is established through a provision for bad debts charged to expense and represents management's best estimate of possible losses that may occur within the pledges receivable portfolio; however, its establishment involves an element of uncertainty and future events may cause significant fluctuations. Allocations of the allowance may be made for specific pledges receivable, but the entire allowance is available for any receivable that, in management's judgment, should be written off.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 1 - Organization and Summary of Significant Accounting Policies - (Continued)

Pledges receivable/allowance for doubtful accounts - continued

There were no estimated losses charged to bad debt expense for the years ended December 31, 2012 and 2011. The Organization wrote off approximately \$5,400 pledges receivable during the year ended December 31, 2012. There were no write-offs or recoveries during the year ended December 31, 2011.

Endowment funds

The Organization follows the guidance under Financial Accounting Standards Board (FASB) Codification ASC Topic 958-205, *Not-For-Profit Entities*, for net asset classification of endowment funds, subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and enhanced disclosures for all endowment funds. A not-for-profit organization that is subject to an enacted version of UPMIFA shall classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets. The amount classified as permanently restricted shall be the amount of the fund that must be retained permanently in accordance with explicit donor stipulations, or that in the absence of such stipulations, the organization's governing board determines must be retained (preserved) permanently consistent with the relevant law. The Organization is subject to the version of UPMIFA enacted by the state of Texas (See Note 8).

Investments and income recognition

Investments in marketable equity securities and debt securities are reported at their fair values in the consolidated statements of financial position. Unrealized gains and losses and investment income are included in the consolidated statements of activities as changes in unrestricted net assets. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date.

Split interest agreements

The Organization accepts gifts subject to split interest agreements. These gifts are generally in the form of externally managed charitable remainder annuity trusts (CRATs) and charitable remainder unitrusts (CRUTs). At the time the trust is determined to be irrevocable, the beneficial interest held in trust is recorded at fair value which constitutes the present value of estimated future cash receipts to be received from the assets of the trust.

These trusts are revalued annually and the beneficial interest adjusted accordingly. Funds subject to split interest agreements are classified as temporarily restricted based upon donor designations and the passage of time.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 1 - Organization and Summary of Significant Accounting Policies - (Continued)

Contributions

Unconditional promises to give by donors are recorded as pledges receivable and contribution revenue when received or when promises are made, and are immediately available for unrestricted use unless specifically restricted by the donor. Unconditional promises expected to be collected within one year are recorded at net realizable value. Unconditional promises expected to be collected in future years are recorded at their fair values, as determined by management's expectations on the timing of future cash flows and using a discount rate of 5%, which management believes is commensurate with the risk involved. The amortization of the discount is reported as a contribution in the statements of activities.

Conditional promises to give are recognized when the conditions on which such promises depend are substantially met.

Donated materials and contributed services

Donated materials are recorded in the accompanying consolidated financial statements as contribution revenue with offsetting expenses or capitalized expenditures at their estimated fair value at the date of receipt.

Contributed services are reflected in the consolidated financial statements at the estimated fair value of the services received if they (a) create or enhance nonfinancial assets or (b) require and are provided by individuals with specialized skills and, if not provided by donation, would typically need to be purchased.

The Organization received donated materials, investments, equipment, and services for the following purposes for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Train exhibit	\$ 178,449	\$ 156,500
Other	<u>63,480</u>	<u>139,800</u>
	<u>\$ 241,929</u>	<u>\$ 296,300</u>

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 1 - Organization and Summary of Significant Accounting Policies - (Continued)

Property and equipment

Property and equipment are carried at cost, if purchased, or fair value at the date of gift, if donated. The Organization capitalizes all donations of and expenditures for property and equipment in excess of \$500. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. Repairs and maintenance costs are expensed as incurred. Depreciation of property and equipment is provided on the straight-line method over the following estimated useful lives:

Building	25 years
Furniture and fixtures, playground equipment, and train exhibit	3 - 10 years
Transportation equipment	3 - 5 years

Deferred revenue

Receipts and direct expenditures relating to certain events are reported as revenues and expenses in the fiscal year in which the events occur. Cash receipts and billings made in the current fiscal year relating to the next year's events are reported as deferred revenue. At December 31, 2012 and 2011, approximately \$53,000 and \$29,000, respectively, were received and recorded by the Organization as deferred revenue related to the annual Gala and Young Friends event proceeds. Likewise, expenses directly related to those events which are paid in the current fiscal year are recorded as deferred expenses and are included in prepaid expenses and other assets on the consolidated statements of financial position.

Federal income taxes

RMHD, EF, and FAF are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent the entities have unrelated business income. None of these entities had taxable unrelated business income during the years ended December 31, 2012 and 2011.

The Organization follows the provisions of *Accounting for Uncertainty in Income Taxes* (FASB Codification ASC Section 740-10). The amount of income taxes the Organization pays is subject to ongoing audits by federal and state tax authorities. At December 31, 2012, the Organization is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2008.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 1 - Organization and Summary of Significant Accounting Policies - (Continued)

Federal income taxes - continued

The Organization's estimate of the potential outcome of any uncertain tax issues is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. The Organization uses a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. To the extent that the Organization's assessment of such tax position changes, the change in estimate is recorded in the period in which the determination is made. The Organization reports tax-related interest and penalties, if applicable, as a component of income tax expense. As of December 31, 2012 and 2011, no uncertain tax positions have been identified and, therefore, no amounts have been recognized in the accompanying consolidated financial statements.

Functional allocation of expenses

The costs of providing the various programs and supporting services have been summarized in the consolidated statements of activities and functional expenses. Accordingly, certain functional costs have been allocated among the programs and supporting services benefited.

Management estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, support, and expenses during the reporting periods. Significant estimates made in preparing the financial statements include the fair value of investments, allocation of functional expenses, fair value of contributions to be received over a period in excess of one year, valuation allowances for pledges receivable, and fair value of beneficial interest held in trust. Accordingly, actual results may vary from management's estimates.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 1 - Organization and Summary of Significant Accounting Policies - (Continued)

Concentrations of credit risk

Financial instruments exposed to concentrations of credit risk consisted primarily of cash, cash equivalents, pledges receivable, and investments. The Organization maintains cash in excess of federally insured limits in financial institutions which management considers to be of high credit quality. The Organization did not incur and does not anticipate incurring losses related to these balances.

Pledges receivable at December 31, 2012, include two individual pledges which approximate 20% and 16% of the outstanding balance. Pledges receivable at December 31, 2011, include three individual pledges which approximate 24%, 18% and 10% of the outstanding balance.

The Organization has a formal investment policy of placing investments in high-quality financial institutions and limiting the size of any investment with any single entity or type of investment. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term which could materially affect the Organization's investment balances.

Reclassifications

Certain reclassifications have been made to the 2011 consolidated financial statements to conform to the current year presentation.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 2 - Fair Value Measurements

FASB Codification ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a common definition for fair value, provides a framework for measuring fair value under US GAAP and expands disclosures about fair value measurements. This guidance defines fair value as the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. It establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value.

The following are the levels of hierarchy and a brief description of the types of valuation information (inputs) that qualify a financial asset for each level:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are based on observable market data. These include: quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc.) and inputs that are derived from or corroborated by observable markets.
- Level 3 - Developed from unobservable data, reflecting the Organization's best information available under the circumstances.

When quoted prices in active markets for identical assets are available, these quoted market prices are used to determine the fair value of financial assets and classify these assets as Level 1. In other cases where a quoted market price for identical assets in an active market is either not available or not observable, fair value is estimated using valuation methodologies based on available and observable market information or a matrix pricing model. These financial assets would then be classified as Level 2. If quoted market prices are not available, fair value is determined using broker quotes or an internal analysis of each investment's financial performance and cash flow projections. In these instances, financial assets will be classified based upon the lowest level of input that is significant to the valuation. Thus, financial assets may be classified as Level 3 even though there may be some significant inputs that are readily available.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 2 - Fair Value Measurements - (Continued)

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. The disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

The following schedule summarizes the fair values of assets measured on a recurring basis as of December 31, 2012:

	Fair Value	Level 1	Level 2	Level 3
Pledges receivable, net	\$ <u>221,047</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>221,047</u>
Beneficial interest held in trust	\$ <u>465,338</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>465,338</u>
Class of Investments:				
Large cap	\$ 700,180	\$ 700,180	\$ -	\$ -
Balanced	1,015,581	1,015,581	-	-
Small Cap	31,296	31,296	-	-
Commodities	482,346	482,346	-	-
Global fixed income	1,015,266	1,015,266	-	-
Domestic fixed income	2,481,634	2,481,634	-	-
International equity	1,211,325	1,211,325	-	-
Domestic common stocks	1,830,382	1,830,382	-	-
Emerging markets	518,887	518,887	-	-
Real estate investment trusts	<u>502,332</u>	<u>502,332</u>	<u>-</u>	<u>-</u>
Total Investments	\$ <u>9,789,229</u>	\$ <u>9,789,229</u>	\$ <u>-</u>	\$ <u>-</u>

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 2 - Fair Value Measurements - (Continued)

The following schedule summarizes the fair values of assets measured on a recurring basis as of December 31, 2011:

	Fair Value	Level 1	Level 2	Level 3
Pledges receivable, net	\$ 807,892	\$ -	\$ -	\$ 807,892
Beneficial interest held in trust	\$ 516,416	\$ -	\$ -	\$ 516,416
Class of Investments:				
Large cap	\$ 757,852	\$ 757,852	\$ -	\$ -
Small cap	35,537	35,537	-	-
Commodities	427,026	427,026	-	-
Domestic fixed income	2,282,092	2,282,092	-	-
Global fixed income	882,992	882,992	-	-
International equity	1,320,561	1,320,561	-	-
Emerging markets equity	443,430	443,430	-	-
Domestic common stocks	1,902,024	1,902,024	-	-
Real estate investment trusts	421,705	421,705	-	-
Total Investments	\$ 8,473,219	\$ 8,473,219	\$ -	\$ -

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for Level 3 pledges receivable is determined by calculating the present value of future cash in-flows as expected to be received using a 5% risk adjusted discount rate. Fair value for Level 3 beneficial interest held in trust is determined by calculating the present value of future distributions expected to be received using published IRS life expectancy tables and a 1.78% discount rate, adjusted annually.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 2 - Fair Value Measurements - (Continued)

The changes in the balances of Level 3 financial assets were as follows for the years ended December 31:

	2012	2011
Pledges receivable:		
Beginning balance	\$ 807,892	\$ 1,728,607
New pledges received	60,525	150,000
Collections on pledges	(666,375)	(1,157,747)
Pledges written off	(5,399)	-
Change in present value of discount	4,806	39,495
Change in allowance for uncollectibles	19,598	47,537
Ending balance	\$ 221,047	\$ 807,892

The change in the fair value of Level 3 beneficial interest held in trust was as follows for the year ended December 31:

	2012	2011
Beneficial interest held in trust:		
Beginning balance	\$ 516,416	\$ 406,166
Change in fair value	(51,078)	110,250
Ending balance	\$ 465,338	\$ 516,416

Note 3 - Pledges Receivable

The pledges receivable at December 31, 2012 and 2011, are expected to be realized in the following periods:

	2012	2011
In one year or less	\$ 216,859	\$ 728,107
Between one year and five years	23,500	123,500
	240,359	851,607
Less:		
Allowance for uncollectible pledges	(17,983)	(37,581)
Discount, at 5%	(1,329)	(6,134)
	\$ 221,047	\$ 807,892

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 4 - Investments

The following schedule summarizes the investment returns and classifications in the consolidated statements of activities for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 430,748	\$ 358,076
Net realized and unrealized gains (losses)	691,612	(914,732)
Investment fees (shown within professional fees on the statements of functional expenses)	<u>(66,547)</u>	<u>(47,815)</u>
Total net investment income (loss)	<u>\$ 1,055,813</u>	<u>\$ (604,471)</u>

Note 5 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 2,547,147	\$ 2,547,147
Building	16,744,765	16,718,265
Furniture and fixtures	1,467,344	1,426,776
Train exhibit	581,673	496,950
Transportation equipment	<u>36,312</u>	<u>36,312</u>
	21,377,241	21,225,450
Less accumulated depreciation	<u>(3,119,895)</u>	<u>(2,085,876)</u>
	<u>\$ 18,257,346</u>	<u>\$ 19,139,574</u>

Note 6 - Retirement Plan

The Organization has a 401(k) defined contribution retirement plan covering all employees meeting specified eligibility requirements. Retirement plan expenses amounted to approximately \$46,000 and \$45,000 for the years ended December 31, 2012 and 2011, respectively.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 7 - Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2012</u>	<u>2011</u>
Time restricted:		
For use in 2013 through 2015	\$ 160,521	657,892
Beneficial interest held in trust	465,338	516,416
Purpose restricted:		
For equipment, meals, education and art	<u>31,378</u>	<u>68,727</u>
	\$ <u>657,237</u>	\$ <u>1,243,035</u>

Permanently restricted net assets at December 31, 2012 and 2011, totaled \$491,875 in endowments to be held in perpetuity with the investment income to be used for operating expenses. These investments are invested in a mix of stocks and mutual funds.

Note 8 - Endowment Funds

The Organization's endowment consists of individual endowment funds established for the exclusive purpose of operating for the benefit of the Organization. The endowment includes funds that are both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Unrestricted endowment funds represent those funds designated by the Board at the inception of the endowment plus earnings of the permanently restricted fund as designated by the donor.

The Organization interprets the State of Texas UPMIFA as allowing the Organization, absent donor stipulations to the contrary, to appropriate so much of a donor-restricted endowment fund as the Board determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 8 - Endowment Funds - (Continued)

The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- the duration and preservation of the fund,
- the purposes of the donor-restricted endowment fund,
- general economic conditions,
- the possible effect of inflation and deflation,
- the expected total return from income and appreciation (depreciation) of investments,
- other resources of the Organization

Return objective and risk parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a consistent stream of funding to programs supported by its endowment while seeking to preserve and enhance the purchasing and earning value of the assets. Endowments include those assets of donor-restricted funds that the Organization must hold in perpetuity as well as board-designated funds.

Strategies employed for achieving objectives

Endowment assets are held in an investment portfolio with an active strategic asset allocation strategy. Assets held are well diversified and highly liquid, with the intent to minimize the risk of large losses. Investments are managed in a style-defined manner that seeks to minimize principal fluctuations over the established time horizon and that is consistent with the portfolio's stated objectives.

Spending policy and how the investment objectives relate to spending policy

Currently, the spending policy is at the rate of 3.5% of the average value of the assets over the previous 16 rolling quarters. This allows time for the proposed distributions to be used in the budgeting process. The spending policy has been created to preserve the purchasing power of the endowment assets. Other funds may be appropriated as deemed necessary by the Organization's Board from time to time.

Funds with 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. Any deficiencies at December 31, 2012 or 2011 were insignificant.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 8 - Endowment Funds - (Continued)

Endowment net asset composition by type of fund consists of the following at December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ 298,125	\$ -	\$ 491,875	\$ 790,000
Board-designated	<u>8,104,851</u>	<u>-</u>	<u>-</u>	<u>8,104,851</u>
	<u>\$ 8,402,976</u>	<u>\$ -</u>	<u>\$ 491,875</u>	<u>\$ 8,894,851</u>

Changes in endowment net assets for the year ended December 31, 2012, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 7,613,982	\$ -	\$ 491,875	\$ 8,105,857
Investment income	424,623	-	-	424,623
Net realized and unrealized gain	691,612	-	-	691,612
Contributions	(320,435)	-	-	(320,435)
Other changes	<u>(6,806)</u>	<u>-</u>	<u>-</u>	<u>(6,806)</u>
Endowment net assets, end of year	<u>\$ 8,402,976</u>	<u>\$ -</u>	<u>\$ 491,875</u>	<u>\$ 8,894,851</u>

Endowment net asset composition by type of fund consists of the following at December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ 217,588	\$ -	\$ 491,875	\$ 709,463
Board-designated	<u>7,396,394</u>	<u>-</u>	<u>-</u>	<u>7,396,394</u>
	<u>\$ 7,613,982</u>	<u>\$ -</u>	<u>\$ 491,875</u>	<u>\$ 8,105,857</u>

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 8 - Endowment Funds - (Continued)

Changes in endowment net assets for the year ended December 31, 2011, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 8,514,403	\$ -	\$ 491,875	\$ 9,006,278
Investment income	347,408	-	-	347,408
Net realized and unrealized gain	(914,732)	-	-	(914,732)
Contributions	(351,771)	-	-	(351,771)
Other changes	18,674	-	-	18,674
Endowment net assets, end of year	\$ 7,613,982	\$ -	\$ 491,875	\$ 8,105,857

Note 9 - Public Support Revenue

Public support revenue consisted of the following at December 31:

	2012	2011
Contributions:	\$ 1,237,738	\$ 1,206,402
Special events:		
Annual Gala	194,275	227,450
Young Friends' Gala	221,278	230,806
The Trains at Northpark	906,983	838,448
Total special events	1,322,536	1,296,704
Total public support	\$ 2,560,274	\$ 2,503,106

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 10 - Related Party Transactions

At December 31, 2012 and 2011, pledges receivable due from related parties for both the capital campaign and operations were approximately \$37,000 and \$187,000, respectively. These amounts are included in pledges receivable in the consolidated statements of financial position.

For the year ended December 31, 2011, the Organization received approximately \$21,000 in donated stock from members of the advisory board of the Organization. No donated stock was received from related parties during 2012.

Note 11 - Commitments and Contingencies

Leases

The Organization currently leases certain office equipment under a non-cancelable operating lease. Total lease expense was approximately \$2,700 for each of the years ended December 31, 2012 and 2011, respectively. Future minimum lease payments totaling approximately \$500 are due in 2013 under this lease agreement.

Note 12 - Relationships with Affiliates

The Board of Trustees of EF adopted a Total Return Policy (the Policy) to guide in the distribution of funds from EF to RMHD. Under the terms of the Policy, EF distributes annually up to, but not more than, 3.5% of the average value of its investment assets to RMHD. If the distribution to RMHD in any particular year is less than 3.5%, the difference will remain available for distribution in subsequent years.

RMHD maintains individual administrative agreements with FAF and EF, wherein RMHD agrees to provide personnel and office facilities for the management of the administrative and business affairs of FAF and EF. In exchange, FAF and EF agree to pay fees to RMHD to be determined by the parties in accordance with procedures set forth in the agreements. The agreements will continue year-to-year until terminated by mutual agreement or with 30-days written notice from any one of the three parties. During 2012 and 2011, no fees were allocated to FAF or EF by RMHD.

SUPPLEMENTAL SCHEDULES

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

To the Board of Directors
Ronald McDonald House of Dallas, Inc. and Affiliates

We have audited the accompanying consolidated statements of financial position of the Ronald McDonald House of Dallas, Inc. and Affiliates (the Organization) as of December 31, 2012 and 2011, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. Our audits of these consolidated financial statements were conducted for the purpose of forming an opinion of the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Travis Wolff, LLP

Certified Public Accountants
May 7, 2013
Dallas, Texas

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Consolidating Statements of Financial Position
December 31, 2012

	Ronald McDonald House of Dallas, Inc.	Ronald McDonald House of Dallas Endowment Foundation	Ronald McDonald House of Dallas Family Assistance Foundation	Consolidated balance
ASSETS				
Cash and cash equivalents	\$ 3,052,553	\$ 305,825	\$ 2,061,872	\$ 5,420,250
Pledges receivable, net	60,525	-	160,522	221,047
Investments, at fair value	772,302	9,016,927	-	9,789,229
Prepaid expenses and other assets	47,611	-	-	47,611
Total current assets	3,932,991	9,322,752	2,222,394	15,478,137
Intercompany receivable (payable)	921,132	(1,217,901)	296,769	-
Beneficial interest held in trust	465,338	-	-	465,338
Property and equipment, net	347,782	-	17,909,564	18,257,346
Total assets	\$ 5,667,243	\$ 8,104,851	\$ 20,428,727	\$ 34,200,821
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 56,531	\$ -	\$ 63	\$ 56,594
Accrued liabilities	41,445	-	-	41,445
Deferred revenue	53,200	-	-	53,200
Total current liabilities	151,176	-	63	151,239
Net assets:				
Unrestricted	4,527,478	8,104,851	20,268,141	32,900,470
Temporarily restricted	496,716	-	160,521	657,237
Permanently restricted	491,875	-	-	491,875
Total net assets	5,516,069	8,104,851	20,428,662	34,049,582
Total liabilities and net assets	\$ 5,667,245	\$ 8,104,851	\$ 20,428,725	\$ 34,200,821

See independent auditors' report.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Consolidating Statements of Financial Position - (Continued)

December 31, 2011

	Ronald McDonald House of Dallas, Inc.	Ronald McDonald House of Dallas Endowment Foundation	Ronald McDonald House of Dallas Family Assistance Foundation	Consolidated balance
ASSETS				
Cash and cash equivalents	\$ 2,402,694	\$ 556,114	\$ 1,823,371	\$ 4,782,179
Pledges receivable, net	150,000	-	657,892	807,892
Investments, at fair value	672,656	7,800,562	-	8,473,218
Prepaid expenses and other assets	43,298	-	-	43,298
Total current assets	3,268,648	8,356,676	2,481,263	14,106,587
Intercompany receivable (payable)	918,105	(960,282)	42,177	-
Beneficial interest held in trust	516,416	-	-	516,416
Property and equipment, net	369,966	-	18,769,608	19,139,574
Total assets	\$ 5,073,135	\$ 7,396,394	\$ 21,293,048	\$ 33,762,577
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 48,344	\$ -	\$ 186	\$ 48,530
Accrued liabilities	27,317	-	-	27,317
Deferred revenue	28,890	-	-	28,890
Total current liabilities	104,551	-	186	104,737
Net assets:				
Unrestricted	3,891,566	7,396,394	20,634,970	31,922,930
Temporarily restricted	585,143	-	657,892	1,243,035
Permanently restricted	491,875	-	-	491,875
Total net assets	4,968,584	7,396,394	21,292,862	33,657,840
Total liabilities and net assets	\$ 5,073,135	\$ 7,396,394	\$ 21,293,048	\$ 33,762,577

See independent auditors' report.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Consolidating Statements of Activities Year Ended December 31, 2012

	Ronald McDonald House of Dallas, Inc.	Ronald McDonald House of Dallas Endowment Foundation	Ronald McDonald House of Dallas Family Assistance Foundation	Consolidated balance
Revenue and support:				
Public support:				
Contributions	\$ 1,213,337	\$ -	\$ 24,401	\$ 1,237,738
Special events	1,322,536	-	-	1,322,536
	2,535,873	-	24,401	2,560,274
Other revenue:				
Program service fees	295,320	-	-	295,320
Interest and dividends	39,410	390,770	568	430,748
Change in fair value of beneficial interest held in trust	(51,078)			(51,078)
Intercompany contributions (distributions)	163,600	(232,000)	68,400	-
Net realized and unrealized loss on investments	53,489	638,123	-	691,612
	500,741	796,893	68,968	1,366,602
Total revenue and support	3,036,614	796,893	93,369	3,926,876
Expenses:				
Program services	1,532,803	71,948	957,570	2,562,321
Management and general	121,810	4,077	-	125,887
Fundraising	834,515	12,411	-	846,926
Total expenses	2,489,128	88,436	957,570	3,535,134
Change in net assets	547,486	708,457	(864,201)	391,742
Net assets, beginning of year	4,968,584	7,396,394	21,292,862	33,657,840
Net assets, end of year	\$ 5,516,070	\$ 8,104,851	\$ 20,428,661	\$ 34,049,582

See independent auditors' report.

RONALD MCDONALD HOUSE OF DALLAS, INC. AND AFFILIATES

Consolidating Statements of Activities - (Continued)
Year Ended December 31, 2011

	Ronald McDonald House of Dallas, Inc.	Ronald McDonald House of Dallas Endowment Foundation	Ronald McDonald House of Dallas Family Assistance Foundation	Consolidated balance
Revenue and support:				
Public support:				
Contributions	\$ 1,039,872	\$ -	\$ 166,530	\$ 1,206,402
Special events	1,296,704	-	-	1,296,704
	2,336,576	-	166,530	2,503,106
Other revenue:				
Program service fees	314,725	-	-	314,725
Interest and dividends	36,991	320,239	846	358,076
Change in fair value of beneficial interest held in trust	110,250	-	-	110,250
Intercompany contributions (distributions)	238,000	(238,000)	-	-
Net realized and unrealized gain on investments	(64,849)	(849,883)	-	(914,732)
	635,117	(767,644)	846	(131,681)
Total revenue and support	2,971,693	(767,644)	167,376	2,371,425
Expenses:				
Program services	1,563,275	54,564	939,564	2,557,403
Management and general	122,815	5,230	-	128,045
Fundraising	836,017	53,982	-	889,999
Total expenses	2,522,107	113,772	939,568	3,575,447
Change in net assets	449,586	(881,416)	(772,192)	(1,204,022)
Net assets, beginning of year	4,518,998	8,277,810	22,065,054	34,861,862
Net assets, end of year	\$ 4,968,584	\$ 7,396,394	\$ 21,292,862	\$ 33,657,840

See independent auditors' report.