

RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Ronald McDonald House Charities of Alabama, Inc.
Table of Contents
December 31, 2013 and 2012

	Page
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statements of financial position	3
Statements of activities	4-5
Statements of cash flows	6
Statements of functional expenses	7-8
Notes to financial statements	9-22

Independent Auditors' Report

To the Board of Directors
Ronald McDonald House Charities of Alabama, Inc.
Birmingham, Alabama

We have audited the accompanying financial statements of the Ronald McDonald House Charities of Alabama, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statement of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 to provide a basis for our audit opinion.

Opinion

In our opinion, the 2013 financial statements referred to above present fairly, in all material respects, the financial position of the Ronald McDonald House Charities of Alabama, Inc. as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Ronald McDonald House Charities of Alabama, Inc. as of December 31, 2012, were audited by other auditors whose report dated April 24, 2013, expressed an unmodified opinion on those statements.

Car, Riggs & Ingram, L.L.C.

Birmingham, Alabama

April 21, 2014

STATEMENTS OF FINANCIAL POSITION
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 650,170	\$ 369,988
Pledges receivable, net	58,000	17,000
Investments	4,864,214	3,975,144
Prepaid expenses	64,190	73,641
Land and parking lot lease, net	1,246,222	1,260,701
Cash surrender value of life insurance	27,046	27,046
Property and equipment, net	5,717,698	5,903,708
Total Assets	<u>\$ 12,627,540</u>	<u>\$ 11,627,228</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	\$ 34,282	\$ 45,520
Deferred revenue	21,267	49,640
Total Liabilities	55,549	95,160
Net Assets		
Unrestricted		
Undesignated	8,417,220	7,996,329
Board Designated	2,021,680	1,497,397
Temporarily restricted	1,601,691	1,506,942
Permanently restricted	531,400	531,400
Total Net Assets	<u>12,571,991</u>	<u>11,532,068</u>
Total Liabilities and Net Assets	<u>\$ 12,627,540</u>	<u>\$ 11,627,228</u>

See independent auditors' report.

STATEMENT OF ACTIVITIES
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Other Support				
Special events	\$ 388,052	\$ -	\$ -	\$ 388,052
Less: Costs of direct benefits to donors	(104,272)	-	-	(104,272)
Special events, net	283,780	-	-	283,780
Contributions	1,141,141	120,035	-	1,261,176
Investment income (loss)	642,627	127,281	-	769,908
House guest fees	82,569	-	-	82,569
Canister donations, net	98,692	-	-	98,692
Merchant collaborations	18,587	-	-	18,587
Pop tab recycling income, net	16,383	-	-	16,383
Other income	1,137	-	-	1,137
	2,284,916	247,316	-	2,532,232
Net assets released from restrictions	152,567	(152,567)	-	-
Total revenues and other support	2,437,483	94,749	-	2,532,232
Expenses				
Program	978,744	-	-	978,744
Management and general	201,006	-	-	201,006
Fundraising	312,559	-	-	312,559
Total expenses	1,492,309	-	-	1,492,309
Change in Net Assets	945,174	94,749	-	1,039,923
Net assets, beginning of year	9,493,726	1,506,942	531,400	11,532,068
Net assets, end of year	<u>\$ 10,438,900</u>	<u>\$ 1,601,691</u>	<u>\$ 531,400</u>	<u>\$ 12,571,991</u>

See independent auditors' report.

STATEMENT OF ACTIVITIES
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Other Support				
Special events	\$ 366,082	\$ -	\$ -	\$ 366,082
Less: Costs of direct benefits to donors	(113,249)	-	-	(113,249)
Special events, net	252,833	-	-	252,833
Contributions	734,956	77,029	-	811,985
Investment income	312,924	69,343	-	382,267
House guest fees	81,533	-	-	81,533
Canister donations, net	105,949	-	-	105,949
Merchant collaborations	37,054	-	-	37,054
Pop tab recycling income, net	17,521	-	-	17,521
Other income	5,521	-	-	5,521
	1,548,291	146,372	-	1,694,663
Net assets released from restrictions	163,109	(163,109)	-	-
Total revenues and other support	1,711,400	(16,737)	-	1,694,663
Expenses				
Program	989,858	-	-	989,858
Management and general	196,323	-	-	196,323
Fundraising	311,405	-	-	311,405
Total expenses	1,497,586	-	-	1,497,586
Change in Net Assets	213,814	(16,737)	-	197,077
Net assets, beginning of year	9,279,912	1,523,679	531,400	11,334,991
Net assets, end of year	<u>\$ 9,493,726</u>	<u>\$ 1,506,942</u>	<u>\$ 531,400</u>	<u>\$ 11,532,068</u>

See independent auditors' report.

STATEMENTS OF CASH FLOWS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,039,923	\$ 197,077
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	252,503	260,383
Contributed rent	78,979	78,979
Amortization of discount - long term contribution of rent	(64,500)	(65,205)
Amortization of discount - capital campaign	-	(513)
Change in allowance for doubtful accounts	-	(28,900)
Write off of uncollectible pledges	500	25,000
Net realized and unrealized (gain) loss on investments	(699,104)	(314,278)
Changes in assets and liabilities that provided (used) cash:		
Pledges receivable	(41,500)	(1,715)
Prepaid expenses	9,451	(4,704)
Accounts payable	(11,238)	22,646
Deferred revenue	<u>(28,373)</u>	<u>20,219</u>
Net cash provided by operating activities	536,641	188,989
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(66,493)	(76,115)
Purchase of investments	(969,117)	(1,491,567)
Proceeds from sale of investments	<u>779,151</u>	<u>1,326,345</u>
Net cash used in investing activities	<u>(256,459)</u>	<u>(241,337)</u>
Net Change in Cash and Cash Equivalents	280,182	(52,348)
Cash and cash equivalents, beginning of year	<u>369,988</u>	<u>422,336</u>
Cash and cash equivalents, end of year	<u><u>\$ 650,170</u></u>	<u><u>\$ 369,988</u></u>

See independent auditors' report.

STATEMENT OF FUNCTIONAL EXPENSES
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 341,318	\$ 133,056	\$ 104,131	\$ 578,505
Depreciation	227,253	20,200	5,050	252,503
Repairs and maintenance	50,052	4,449	1,112	55,613
House supplies	79,717	-	-	79,717
Rent	71,081	6,318	1,580	78,979
Utilities	68,846	6,121	1,529	76,496
Professional fees	-	10,268	112,190	122,458
Janitorial services	52,205	4,640	1,160	58,005
Insurance	32,446	2,884	722	36,052
Special events	-	-	48,989	48,989
Postage and delivery	771	6,544	31,178	38,493
Fundraising expense	-	-	770	770
Supplies	22,464	1,998	500	24,962
Security expense	6,442	573	143	7,158
Donor, volunteer and staff recognition	8,129	723	181	9,033
Conferences and meetings	5,218	462	116	5,796
Dues and subscriptions	2,209	-	-	2,209
Telephone	3,209	-	3,208	6,417
Printing and publications	-	-	-	-
Bank service charges	-	2,770	-	2,770
Ronald McDonald Family Room expenses	958	-	-	958
Miscellaneous	6,426	-	-	6,426
	<u>\$ 978,744</u>	<u>\$ 201,006</u>	<u>\$ 312,559</u>	<u>\$ 1,492,309</u>

See independent auditors' report.

STATEMENT OF FUNCTIONAL EXPENSES
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEAR ENDED DECEMBER 31, 2012

	Program	Management and General	Fundraising	Total
Salaries and related expenses	\$ 332,037	\$ 129,438	\$ 101,299	\$ 562,774
Depreciation	234,345	20,830	5,208	260,383
Repairs and maintenance	59,862	5,321	1,330	66,513
House supplies	85,871	-	-	85,871
Rent	71,081	6,318	1,580	78,979
Utilities	63,745	5,667	1,416	70,828
Professional fees	-	10,000	109,261	119,261
Janitorial services	50,350	4,475	1,119	55,944
Insurance	30,845	2,742	686	34,273
Special events	-	-	41,852	41,852
Postage and delivery	598	5,077	24,190	29,865
Fundraising expense	-	-	6,846	6,846
Supplies	18,599	1,654	414	20,667
Security expense	7,212	641	160	8,013
Donor, volunteer and staff recognition	5,355	476	119	5,950
Conferences and meetings	7,087	630	157	7,874
Dues and subscriptions	2,393	-	-	2,393
Telephone	3,266	-	3,266	6,532
Printing and publications	12,502	-	12,502	25,004
Bank service charges	-	3,054	-	3,054
Ronald McDonald Family Room expenses	604	-	-	604
Miscellaneous	4,106	-	-	4,106
	<u>\$ 989,858</u>	<u>\$ 196,323</u>	<u>\$ 311,405</u>	<u>\$ 1,497,586</u>

See independent auditors' report.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Ronald McDonald House Charities of Alabama, Inc. ("RMHCA") is a publicly supported not-for-profit corporation. The purpose of RMHCA is to own and operate the Ronald McDonald House of Birmingham, Alabama (the "House") for use by children and their immediate families needing low-cost lodging during testing and treatment at any Birmingham area medical facility. RMHCA also operates the Ronald McDonald Family Room at DCH Regional Hospital in Tuscaloosa, Alabama, which opened on March 23, 2010. The bylaws of RMHCA allow for solicitation of contributions from the general public and for contributions to those tax-exempt organizations which, in the opinion of RMHCA's Board of Directors, are the most appropriate recipients, considering RMHCA's primary goal of helping children reach their fullest potential, by making grants in the areas of health care and medical research, civic and social services and education and the arts.

Basis of Accounting

The accounting and reporting policies of RMHCA and the methods of applying those policies that materially affect the accompanying financial statements conform with accounting principles generally accepted in the United States ("GAAP"). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the statement of financial position date and revenues and expenses for the period shown. Actual results could differ from the estimates used in the financial statements.

Basis of Presentation

The RMHCA reports information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets represent revenues and expenses related to the operation and management of RMHCA's primary programs and supporting services.
- Temporarily restricted net assets represent resources available for use, but expendable only for the purposes specifically stated by the donor.
- Permanently restricted net assets must be maintained in perpetuity. In accordance with donor instructions, RMHCA may use the investment income earned on permanently restricted net assets for specified purposes.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue and Recognition of Donor Restrictions

RMHCA receives support from direct contributions from the public and public support through McDonald's restaurants, grants from Ronald McDonald House Charities, Inc., foundations and other organizations, fundraising activities, recycling pop tabs, merchant collaborations, support from owners and operators of McDonald's restaurants, investment earnings and house guest fees. Periodically, RMHCA also conducts capital and other special-purpose campaigns for the improvement and maintenance of the House. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. Amounts received that are restricted by a donor for specific purposes are reported as an increase in temporarily restricted net assets. 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 legally unrestricted and are reported as part of the unrestricted class.

Cash and Cash Equivalents

For purposes of the statement of cash flows, RMHCA considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Pledges Receivable

Pledges receivable are recognized as revenues in the period received and are recorded at present value, net of an allowance for uncollectible pledges ("allowance"). The allowance is maintained at the level believed adequate by management to absorb probable losses. Management's determination of the adequacy of the allowance is based on an evaluation of the outstanding pledges, historical loss experience, current economic conditions, and other relevant factors. Management has not recorded an allowance as of December 31, 2013.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair market value. Realized and unrealized gains or losses are included in the change in net assets in the accompanying statements of activities.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. All acquisitions of property and equipment in excess of \$500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Furniture, equipment and software are generally depreciated over 3-7 years. The building is being depreciated over 39 years.

Deferred Revenue

Deferred revenue consists of amounts received in advance for special events to be held after the end of the year.

In-Kind Contributions

Donations of supplies and services are recorded at their fair value at the date of donation. If donors stipulate restrictions in the usage of donated supplies and services, the contributions are recorded as restricted support. In absence of such stipulation, contributions of supplies and services are recorded as unrestricted support. In addition, RMHCA received donated goods and services from other contributors and volunteers which are not measurable and, therefore, have been excluded from the financial statements. RMHCA recorded donated house and food supplies totaling \$65,200 and \$79,941 for the years ended December 31, 2013 and 2012, respectively, as contribution revenue and program expense in the accompanying statement of activities. Donated fundraising items totaling \$40,681 and \$31,132 for the years ended December 31, 2013 and 2012, respectively, are recorded as special events revenue and costs of direct benefits to donors in the accompanying statement of activities. In addition, RMHCA has recorded \$10,000 related to advertising donated during 2012 as contribution revenue and special event expense.

Functional Allocation of Expenses

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

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Donated Rent

RMHCA facilities are located on land donated for a period of 41 years. A receivable has been recorded for the gross amount of estimated rental contributions over that 41 year period, less a discount to present value. Rental expense is recorded annually through a reduction of the gross receivable in the amount of the annual rental contribution. Contribution revenue is recorded annually through the amortization of the discount.

Tax Status

RMHCA is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Uncertain Tax Positions

As of December 31, 2013, RMHCA has no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

Subsequent Events

RMHCA evaluated subsequent events through April 21, 2014, which is the date the financial statements were available to be issued.

NOTE 2. HOUSE GUEST FEES

RMHCA charges families \$10 per night for the first three weeks of their stay and \$5 per night thereafter. For families for whom these rates represent a hardship, RMHCA strives to identify other payment or sponsoring arrangements. As stated in RMHCA's licensing agreement, no one is turned away for inability to pay. Actual operating costs of each family's stay are approximately \$64 per night, for 2013 and 2012. RMHCA received room donations of \$82,569 and \$81,533 for the years ended December 31, 2013 and 2012, respectively.

NOTE 3. LAND AND PARKING LOT LEASE

During 2006, RMHCA entered a lease agreement with Children's Hospital Foundation for land on which the "New House" was constructed. The lease is for a term of 41 years, and RMHCA is not required to make rental payments. This long term contribution of land has been recorded at the present value of all future contributions of rent, and is shown as land and parking lot lease on the statement of financial position.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 3. LAND AND PARKING LOT LEASE - Continued

Land and parking lot lease, net is comprised of the following as of December 31,

	<u>2013</u>	<u>2012</u>
Total rental contribution receivable	\$ 2,606,307	\$ 2,685,286
Less: discount to present value	<u>(1,360,085)</u>	<u>(1,424,585)</u>
Land and parking lot lease, net	<u><u>\$ 1,246,222</u></u>	<u><u>\$ 1,260,701</u></u>

NOTE 4. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31 is as follows:

	<u>2013</u>	<u>2012</u>
Building	\$ 6,519,726	\$ 6,519,726
Furniture and fixtures	747,687	706,728
Equipment	256,008	256,008
Leasehold improvements	97,797	97,797
Computer software	79,470	53,937
Land improvements	8,941	8,941
Accumulated depreciation	<u>(1,991,931)</u>	<u>(1,739,429)</u>
Property and equipment, net	<u><u>\$ 5,717,698</u></u>	<u><u>\$ 5,903,708</u></u>

NOTE 5. INVESTMENTS

Investments at fair value consist of the following as of December 31:

	<u>2013</u>	<u>2012</u>
Common stocks	\$ 1,830,974	\$ 1,577,258
Mutual funds	1,756,815	1,213,098
Agency securities	540,833	412,505
Corporate bonds	344,548	459,314
U.S. Treasury securities	<u>391,044</u>	<u>312,969</u>
Total investments	<u><u>\$ 4,864,214</u></u>	<u><u>\$ 3,975,144</u></u>

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 5. INVESTMENTS - Continued

Investment income for the years ended December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Net realized and unrealized gains and (losses)	\$ 699,104	\$ 314,278
Interest and dividend income	104,135	97,284
Investment management fees	<u>(33,331)</u>	<u>(29,295)</u>
	<u><u>\$ 769,908</u></u>	<u><u>\$ 382,267</u></u>

Investments are held and managed by Regions Morgan Keegan Trust.

NOTE 6. PREPAID EXPENSES

Prepaid expenses consist of the following as of December 31:

	<u>2013</u>	<u>2012</u>
Prepaid expenses	\$ 20,514	\$ 23,726
Prepaid telephone/computer service, net	<u>43,676</u>	<u>49,915</u>
Total prepaid expenses	<u><u>\$ 64,190</u></u>	<u><u>\$ 73,641</u></u>

During 2007, RMHCA paid \$80,000 to Children's Hospital for the provision of telephone and computer related services for a period of 15 years. As part of these services, Children's Hospital has provided the telephone and computer equipment. RMHCA is recognizing the expense related to these services using the straight line method over the 15 year period. Expense recognized during the years ended December 31, 2013 and 2012 was \$6,239, respectively, and is included as telephone expense in the accompanying statements of functional expenses.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 7. BOARD DESIGNATED NET ASSETS

The Board of Directors has designated a portion of unrestricted net assets for the following purposes:

	<u>2013</u>	<u>2012</u>
Endowment	\$ 1,521,680	\$ 997,397
Renewal and replacement of facilities	500,000	500,000
	<u>\$ 2,021,680</u>	<u>\$ 1,497,397</u>

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Future periods - rental contribution, net	\$ 1,246,222	\$ 1,260,701
Future periods	55,000	-
Capital improvements and maintenance	64,055	105,578
Ronald McDonald Family Room	14,469	14,892
Accumulated earnings on permanently restricted net assets	<u>221,945</u>	<u>125,771</u>
Temporarily restricted net assets	<u>\$ 1,601,691</u>	<u>\$ 1,506,942</u>

Net assets were released from restrictions during the years ended December 31 in satisfaction of the following purposes:

	<u>2013</u>	<u>2012</u>
Land and parking lot rent expense	\$ 78,979	\$ 78,979
Ronald McDonald Family Room	958	604
Capital improvements	41,523	54,412
Satisfaction of time restrictions	-	-
Appropriation - spending policy	<u>31,107</u>	<u>29,114</u>
Net assets released from restrictions	<u>\$ 152,567</u>	<u>\$ 163,109</u>

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 9. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are subject to donor-imposed restrictions to be held in perpetuity and the earnings from such assets are to be used for operations. The amount permanently restricted at December 31, 2013 and 2012 is \$531,400.

NOTE 10. ENDOWMENT

The RMHCA's endowment consists of donor restricted endowment funds and board-designated endowment funds. The endowment serves primarily to provide funds for the operation of the House. The 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.

The Board of Directors has interpreted the Alabama Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit stipulations to the contrary. As a result of this interpretation, RMHCA 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by RMHCA in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

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

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 10. ENDOWMENT - Continued

Endowment net asset composition as of December 31 is as follows:

2013				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ -	\$ 221,945	\$ 531,400	\$ 753,345
Board-restricted endowment	1,521,680	-	-	1,521,680
Total endowment	<u>\$ 1,521,680</u>	<u>\$ 221,945</u>	<u>\$ 531,400</u>	<u>\$ 2,275,025</u>

2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ -	\$ 125,771	\$ 531,400	\$ 657,171
Board-restricted endowment	997,397	-	-	997,397
Total endowment	<u>\$ 997,397</u>	<u>\$ 125,771</u>	<u>\$ 531,400</u>	<u>\$ 1,654,568</u>

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

2013				
	Board Restricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of the year balance	\$ 997,397	\$ 125,771	\$ 531,400	\$ 1,654,568
Contributions	300,000	-	-	300,000
Investment income	193,176	127,281	-	320,457
Appropriation - spending policy	31,107	(31,107)	-	-
End of the year balance	<u>\$ 1,521,680</u>	<u>\$ 221,945</u>	<u>\$ 531,400</u>	<u>\$ 2,275,025</u>

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 10. ENDOWMENT - Continued

	2012			
	Board Restricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of the year balance	\$ 870,447	\$ 85,542	\$ 531,400	\$ 1,487,389
Investment income	97,836	69,343	-	167,179
Appropriation - spending policy	29,114	(29,114)	-	-
End of the year balance	<u>\$ 997,397</u>	<u>\$ 125,771</u>	<u>\$ 531,400</u>	<u>\$ 1,654,568</u>

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 RMHCA to retain a fund of perpetual duration. There were no such deficiencies as of December 31, 2013.

Return Objectives and Risk Parameters

RMHCA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that RMHCA must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of comparable recognized measures of performance, while assuming a moderate level of investment risk. RMHCA expects its endowment funds, over time, to provide an average rate of return of approximately 6 percentage points higher than the rate of inflation as measured by the Consumer Price Index over the same period of time. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, RMHCA relies on a total strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). RMHCA targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 10. ENDOWMENT - Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

RMHCA has a policy of appropriating for distribution each year up to 2% of the average market value of the endowment funds at the end of the three previous calendar year-ends proceeding the fiscal year in which the distribution was made. This policy is based on the expectation that the endowment will grow by 5-6% annually.

NOTE 11. FAIR VALUE MEASUREMENTS

Authoritative accounting literature establishes a framework for using fair value to measure assets and liabilities and defines fair value as a price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance.

Required disclosures include stratification of statement of financial position amounts measured at fair value based on inputs the Company uses to derive fair value based on inputs the Company uses to derive fair value measurements. These strata include:

Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume),

Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market, and

Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in market, but observable based on Company-specific data. These unobservable assumptions reflect the Company's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 11. FAIR VALUE MEASUREMENTS - Continued

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

Following is a description of the valuation methodologies used for assets measured at fair value:

Investments consist of U.S. Treasuries, asset backed securities (primarily agency securities), corporate bonds and equity securities (primarily common stock and mutual funds). RMHCA uses quoted market prices of identical assets on active exchanges - Level 1 measurements.

Pledges receivable consist of amounts due over multiple years from both individual and corporate donors. Pledges receivable were valued by projecting and discounting future cash flows. Various assumptions including future cash flows, market discount rates, as well as other factors are used in the valuation of pledges receivable - Level 3 measurement.

Land and parking lot lease, net consists of a long term receivable recorded to recognize the value of rent-free use of land and parking spaces. Various assumptions including estimates of the rental value, market discount rates and other factors are used in the valuation of the land and parking lot lease - Level 3 measurement.

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

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 11. FAIR VALUE MEASUREMENTS - Continued

The following tables present financial assets measured at fair value on a recurring basis as of December 31, by caption on the statement of financial position and by the valuation hierarchy defined above:

	2013		
	Level 1	Level 2	Level 3
Investments	<u>\$ 4,864,214</u>	<u>\$ -</u>	<u>\$ -</u>
Land and parking lot lease, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,246,222</u>
Pledges receivable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,000</u>
	2012		
	Level 1	Level 2	Level 3
Investments	<u>\$ 3,975,144</u>	<u>\$ -</u>	<u>\$ -</u>
Land and parking lot lease, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,260,701</u>
Pledges receivable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,000</u>

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2013 AND 2012

NOTE 11. FAIR VALUE MEASUREMENTS - Continued

The following table illustrates a roll forward for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31:

	2013	
	Land and parking lot lease	Pledges receivable
Beginning balance, January 1, 2013	\$ 1,260,701	\$ 17,000
Rental expense	(78,979)	-
Amortization of discount	64,500	-
New pledges		55,000
Write off of uncollectible pledges	-	(500)
Decrease in allowance for doubtful accounts	-	-
Collections	-	(13,500)
	<u>\$ 1,246,222</u>	<u>\$ 58,000</u>
Ending balance, December 31, 2013	<u>\$ 1,246,222</u>	<u>\$ 58,000</u>
	2012	
	Land and parking lot lease	Pledges receivable
Beginning balance, January 1, 2012	\$ 1,274,475	\$ 10,872
Rental expense	(78,979)	-
Amortization of discount	65,205	513
New pledges		170,127
Write off of uncollectible pledge	-	(25,000)
Decrease in allowance for doubtful accounts	-	28,900
Collections	-	(168,412)
	<u>\$ 1,260,701</u>	<u>\$ 17,000</u>
Ending balance, December 31, 2012	<u>\$ 1,260,701</u>	<u>\$ 17,000</u>