

**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

Ronald McDonald House Charities of Alabama, Inc.
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December 31, 2016 and 2015

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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 statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform 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 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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Carr, Riggs & Ingram, L.L.C.

Birmingham, Alabama
May 5, 2017

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

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 3,400,902	\$ 1,320,965
Pledges receivable, net	3,774,772	2,916,824
Investments	4,108,818	4,553,576
Prepaid expenses	48,975	57,289
Land and parking lot lease, net	1,198,189	1,215,006
Cash surrender value of life insurance	34,621	33,829
Property and equipment, net	5,602,760	5,477,629
Total Assets	\$ 18,169,037	\$ 15,575,118
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	\$ 28,597	\$ 34,859
Deferred revenue	59,123	69,523
Total Liabilities	87,720	104,382
Net Assets		
Unrestricted		
Undesignated	7,976,878	7,755,328
Board Designated	2,898,720	2,868,281
Temporarily restricted	6,674,319	4,315,727
Permanently restricted	531,400	531,400
Total Net Assets	18,081,317	15,470,736
Total Liabilities and Net Assets	\$ 18,169,037	\$ 15,575,118

See independent auditors' report.

STATEMENT OF ACTIVITIES
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Other Support				
Special events	\$ 519,942	\$ -	\$ -	\$ 519,942
Less: Costs of direct benefits to donors	(149,689)	-	-	(149,689)
Special events, net	370,253	-	-	370,253
Contributions	1,182,625	2,793,628	-	3,976,253
Investment income	237,477	45,740	-	283,217
House guest fees	53,961	-	-	53,961
Canister donations, net	150,772	-	-	150,772
Pop tab recycling income, net	10,981	-	-	10,981
Other income	2,758	-	-	2,758
	2,008,827	2,839,368	-	4,848,195
Net assets released from restrictions	480,776	(480,776)	-	-
Total revenues and other support	2,489,603	2,358,592	-	4,848,195
Expenses				
Program	1,340,607	-	-	1,340,607
Management and general	222,223	-	-	222,223
Fundraising	637,316	-	-	637,316
Unallocated payments to RMHC Global	37,468	-	-	37,468
Total expenses	2,237,614	-	-	2,237,614
Change in Net Assets	251,989	2,358,592	-	2,610,581
Net assets, beginning of year	10,623,609	4,315,727	531,400	15,470,736
Net assets, end of year	<u>\$ 10,875,598</u>	<u>\$ 6,674,319</u>	<u>\$ 531,400</u>	<u>\$ 18,081,317</u>

See independent auditors' report.

STATEMENT OF ACTIVITIES
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Other Support				
Special events	\$ 420,918	\$ -	\$ -	\$ 420,918
Less: Costs of direct benefits to donors	(115,042)	-	-	(115,042)
Special events, net	305,876	-	-	305,876
Contributions	1,104,717	3,298,352	-	4,403,069
Investment income	(84,308)	(14,165)	-	(98,473)
House guest fees	42,878	-	-	42,878
Canister donations, net	150,191	-	-	150,191
Pop tab recycling income, net	14,366	-	-	14,366
Other income	3,252	-	-	3,252
	1,536,972	3,284,187	-	4,821,159
Net assets released from restrictions	510,737	(510,737)	-	-
Total revenues and other support	2,047,709	2,773,450	-	4,821,159
Expenses				
Program	1,265,414	-	-	1,265,414
Management and general	197,949	-	-	197,949
Fundraising	615,563	-	-	615,563
Unallocated payments to RMHC Global	37,840	-	-	37,840
Total expenses	2,116,766	-	-	2,116,766
Change in Net Assets	(69,057)	2,773,450	-	2,704,393
Net assets, beginning of year	10,692,666	1,542,277	531,400	12,766,343
Net assets, end of year	<u>\$ 10,623,609</u>	<u>\$ 4,315,727</u>	<u>\$ 531,400</u>	<u>\$ 15,470,736</u>

See independent auditors' report.

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,610,581	\$ 2,704,393
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	244,455	279,973
Contributed rent	78,979	78,979
Amortization of discount - long term contribution of rent	(62,162)	(62,980)
Increase in unamortized discount - pledges receivable	43,921	170,446
Net realized and unrealized (gain) loss on investments	(190,390)	182,832
Increase in cash surrender value of life insurance	(792)	(1,330)
Changes in assets and liabilities that provided (used) cash:		
Pledges receivable	(901,869)	(2,998,645)
Prepaid expenses	8,314	6,136
Accounts payable	(6,262)	12,777
Deferred revenue	(10,400)	30,048
	<u>1,814,375</u>	<u>402,629</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(369,586)	(193,118)
Purchase of investments	(1,750,037)	(1,613,113)
Proceeds from sale of investments	2,385,185	2,148,316
	<u>265,562</u>	<u>342,085</u>
Net cash provided by investing activities	<u>265,562</u>	<u>342,085</u>
Net Change in Cash and Cash Equivalents	2,079,937	744,714
Cash and cash equivalents, beginning of year	<u>1,320,965</u>	<u>576,251</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,400,902</u></u>	<u><u>\$ 1,320,965</u></u>

See independent auditors' report.

STATEMENT OF FUNCTIONAL EXPENSES
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 535,904	\$ 155,585	\$ 151,790	\$ 843,279
Depreciation	220,010	19,557	4,888	244,455
Professional fees	1,945	5,836	204,572	212,353
Postage and delivery	-	10,555	140,157	150,712
House supplies	104,697	-	-	104,697
Utilities	82,888	7,368	1,842	92,098
Rent	71,081	6,318	1,580	78,979
Repairs and maintenance	77,238	-	-	77,238
Special events	-	-	63,815	63,815
Janitorial services	51,560	4,583	1,146	57,289
Fundraising expense	-	-	54,849	54,849
Security expense	45,167	-	-	45,167
Insurance	38,528	3,425	856	42,809
Marketing	38,332	-	-	38,332
Supplies	31,864	2,832	709	35,405
Bank service charges	-	3,480	10,440	13,920
Conferences and meetings	12,473	1,108	278	13,859
Donor, volunteer and staff recognition	10,938	973	243	12,154
Miscellaneous	7,757	-	-	7,757
Telephone	6,788	603	151	7,542
Dues and subscriptions	1,910	-	-	1,910
Ronald McDonald Family Room expenses	1,027	-	-	1,027
Grants	500	-	-	500
	<u>\$ 1,340,607</u>	<u>\$ 222,223</u>	<u>\$ 637,316</u>	<u>\$ 2,200,146</u>

See independent auditors' report.

STATEMENT OF FUNCTIONAL EXPENSES
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 457,639	\$ 132,863	\$ 129,622	\$ 720,124
Professional fees	2,904	8,714	305,450	317,068
Depreciation	251,976	22,398	5,599	279,973
Utilities	85,157	7,570	1,892	94,619
Rent	71,081	6,318	1,580	78,979
House supplies	76,801	-	-	76,801
Repairs and maintenance	73,514	-	-	73,514
Postage and delivery	-	4,273	56,740	61,013
Janitorial services	51,785	4,603	1,151	57,539
Special events	-	-	54,514	54,514
Fundraising expense	-	-	47,287	47,287
Security expense	44,385	-	-	44,385
Insurance	32,614	2,899	725	36,238
Marketing	32,925	-	-	32,925
Supplies	19,285	1,714	429	21,428
Grants	20,000	-	-	20,000
Telephone	17,745	1,577	394	19,716
Conferences and meetings	12,042	1,070	268	13,380
Bank service charges	-	3,245	9,736	12,981
Donor, volunteer and staff recognition	7,925	705	176	8,806
Miscellaneous	4,935	-	-	4,935
Dues and subscriptions	2,177	-	-	2,177
Ronald McDonald Family Room expenses	524	-	-	524
	<u>\$ 1,265,414</u>	<u>\$ 197,949</u>	<u>\$ 615,563</u>	<u>\$ 2,078,926</u>

See independent auditors' report.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2016 AND 2015

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, 2016 AND 2015

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, 2016.

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, 2016 AND 2015

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.

RMHCA reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset is less than the carrying value.

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 \$85,490 and \$69,025 for the years ended December 31, 2016 and 2015, respectively, as contribution revenue and program expense in the accompanying statement of activities. Donated fundraising items totaling \$55,950 and \$38,700 for the years ended December 31, 2016 and 2015, respectively, are recorded as special events revenue and costs of direct benefits to donors in the accompanying statement of activities.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2016 AND 2015

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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, 2016, RMHCA has no uncertain tax positions that qualify for recognition or disclosure in the financial statements. With few exceptions, RMHCA is no longer subject to income tax examinations by federal or state tax authorities for tax years before 2013.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2016 AND 2015

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, which revises the not-for-profit financial reporting model. Among other provisions, ASU 2016-14 requires enhanced disclosures around the nature and amount of net asset restrictions (both donor-imposed and board designated), as well as enhanced disclosures regarding how entities manage their liquidity. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the effect of adoption to the financial statements.

Subsequent Events

RMHCA evaluated subsequent events through May 5, 2017, which is the date the financial statements were available to be issued.

NOTE 2. HOUSE GUEST FEES

RMHCA suggests a donation from families of \$10 per night for the first three weeks of their stay and \$5 per night thereafter. Guests are not required to pay for accommodations. Actual operating costs of each family's stay are approximately \$64 per night, for 2016 and 2015. RMHCA received room donations of \$53,961 and \$42,878 for the years ended December 31, 2016 and 2015, respectively.

NOTE 3. PLEDGES RECEIVABLE

RMHCA expects to receive payments on pledges receivable through 2020. The timing of future receipts, the allowance for uncollectible pledges and the present value discount are as follows:

Pledges to be collected:	
To be received within one year	\$ 1,486,892
To be received in one to five years	2,502,247
	<u>3,989,139</u>
Less: allowance for uncollectible pledges	-
Less: unamortized discounts	<u>(214,367)</u>
Pledges receivable, net	<u><u>\$ 3,774,772</u></u>

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2016 AND 2015

NOTE 4. 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.

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

	<u>2016</u>	<u>2015</u>
Total rental contribution receivable	\$ 2,369,370	\$ 2,448,349
Less: discount to present value	<u>(1,171,181)</u>	<u>(1,233,343)</u>
Land and parking lot lease, net	<u>\$ 1,198,189</u>	<u>\$ 1,215,006</u>

NOTE 5. PROPERTY AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Building	\$ 6,832,723	\$ 6,734,439
Furniture and fixtures	747,688	747,688
Equipment	275,785	275,785
Leasehold improvements	98,894	98,894
Computer software	79,470	79,470
Construction in progress	328,805	57,503.00
Accumulated depreciation	<u>(2,760,605)</u>	<u>(2,516,150)</u>
Property and equipment, net	<u>\$ 5,602,760</u>	<u>\$ 5,477,629</u>

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2016 AND 2015

NOTE 6. INVESTMENTS

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

	<u>2016</u>	<u>2015</u>
Common stocks	\$ 1,273,267	\$ 1,589,167
Mutual funds	1,449,515	1,499,401
Corporate bonds	485,302	490,093
U.S. Treasury securities	502,382	613,970
Other bonds	<u>398,352</u>	<u>360,945</u>
Total investments	<u>\$ 4,108,818</u>	<u>\$ 4,553,576</u>

Investment income for the years ended December 31, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Net realized and unrealized gains	\$ 190,390	\$ (182,832)
Interest and dividend income	129,812	123,261
Investment management fees	<u>(36,985)</u>	<u>(38,902)</u>
	<u>\$ 283,217</u>	<u>\$ (98,473)</u>

Investments are held and managed by Regions Morgan Keegan Trust.

NOTE 7. PREPAID EXPENSES

Prepaid expenses consist of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Prepaid expenses	\$ 24,016	\$ 26,091
Prepaid telephone/computer service, net	<u>24,959</u>	<u>31,198</u>
Total prepaid expenses	<u>\$ 48,975</u>	<u>\$ 57,289</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.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2016 AND 2015

NOTE 7. PREPAID EXPENSES - Continued

RMHCA is recognizing the expense related to these services using the straight line method over the 15 year period. Expense recognized during each of the years ended December 31, 2016 and 2015 was \$6,239, respectively, and is included as telephone expense in the accompanying statements of functional expenses.

NOTE 8. BOARD DESIGNATED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Endowment	\$ 1,576,102	\$ 1,545,663
Renewal and replacement of facilities	<u>1,322,618</u>	<u>1,322,618</u>
	<u>\$ 2,898,720</u>	<u>\$ 2,868,281</u>

NOTE 9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Future periods - rental contribution, net	\$ 1,198,189	\$ 1,215,006
Family Room	100,000	-
Capital projects/Capital campaign	5,126,060	2,885,366
DCH Family Room	10,118	11,145
Accumulated earnings on permanently restricted net assets	<u>239,952</u>	<u>204,210</u>
Temporarily restricted net assets	<u>\$ 6,674,319</u>	<u>\$ 4,315,727</u>

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
DECEMBER 31, 2016 AND 2015

NOTE 9. TEMPORARILY RESTRICTED NET ASSETS - Continued

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

	2016	2015
Land and parking lot rent expense	\$ 78,979	\$ 78,979
DCH Family Room	1,027	1,621
Capital projects/Capital campaign	390,772	350,006
Satisfaction of time restrictions	-	71,622
Appropriation - spending policy	9,998	8,509
Net assets released from restrictions	\$ 480,776	\$ 510,737

NOTE 10. 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, 2016 and 2015 is \$531,400.

NOTE 11. 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.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
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NOTE 11. ENDOWMENT - Continued

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

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. 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

RMHCA has a policy of appropriating for distribution each year up to 4% of the market value of the endowment funds at the time the distribution is made. This policy is based on the expectation that the endowment will grow by 5-6% annually.

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NOTE 11. ENDOWMENT - Continued

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

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment	\$ -	\$ 239,952	\$ 531,400	\$ 771,352
Board-restricted endowment	1,576,102	-	-	1,576,102
Total endowment	<u>\$ 1,576,102</u>	<u>\$ 239,952</u>	<u>\$ 531,400</u>	<u>\$ 2,347,454</u>

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment	\$ -	\$ 204,210	\$ 531,400	\$ 735,610
Board-restricted endowment	1,545,663	-	-	1,545,663
Total endowment	<u>\$ 1,545,663</u>	<u>\$ 204,210</u>	<u>\$ 531,400</u>	<u>\$ 2,281,273</u>

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

	2016			Total
	Board Restricted	Temporarily Restricted	Permanently Restricted	
Beginning of the year balance	\$ 1,545,663	\$ 204,210	\$ 531,400	\$ 2,281,273
Contributions	-	-	-	-
Investment income	96,110	45,740	-	141,850
Appropriation - spending policy	(65,671)	(9,998)	-	(75,669)
End of the year balance	<u>\$ 1,576,102</u>	<u>\$ 239,952</u>	<u>\$ 531,400</u>	<u>\$ 2,347,454</u>

NOTES TO FINANCIAL STATEMENTS
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NOTE 11. ENDOWMENT - Continued

	2015			Total
	Board Restricted	Temporarily Restricted	Permanently Restricted	
Beginning of the year balance	\$ 1,640,714	\$ 226,884	\$ 531,400	\$ 2,398,998
Contributions	-	-	-	-
Investment income	(30,648)	(14,165)	-	(44,813)
Appropriation - spending policy	(64,403)	(8,509)	-	(72,912)
End of the year balance	\$ 1,545,663	\$ 204,210	\$ 531,400	\$ 2,281,273

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, 2016 or 2015.

NOTE 12. 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),

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NOTE 12. FAIR VALUE MEASUREMENTS - Continued

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.

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.

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.

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:

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RONALD MCDONALD HOUSE CHARITIES FOR ALABAMA, INC.
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NOTE 12. FAIR VALUE MEASUREMENTS - Continued

	2016			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 1,273,267	\$ -	\$ -	\$ 1,273,267
Mutual funds	1,449,515	-	-	1,449,515
Corporate bonds	485,302	-	-	485,302
U.S. Treasuries	502,382	-	-	502,382
Other bonds	398,352	-	-	398,352
	<u>\$ 4,108,818</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,108,818</u>
Investments				
Land and parking lot lease, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,198,189</u>	<u>\$ 1,198,189</u>

	2015			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 1,589,167	\$ -	\$ -	\$ 1,589,167
Mutual funds	1,499,401	-	-	1,499,401
Corporate bonds	490,093	-	-	490,093
U.S. Treasuries	613,970	-	-	613,970
Other bonds	360,945	-	-	360,945
	<u>\$ 4,553,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,553,576</u>
Investments				
Land and parking lot lease, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,215,006</u>	<u>\$ 1,215,006</u>

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NOTE 12. 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:

	Land and parking lot lease	
	2016	2015
Beginning balance, January 1	\$ 1,215,006	\$ 1,231,005
Rental expense	(78,979)	(78,979)
Amortization of discount	62,162	62,980
Ending balance, December 31	\$ 1,198,189	\$ 1,215,006

NOTE 13. SUBSEQUENT EVENTS

During March 2017, RMHCA entered into a line of credit agreement with a local bank to facilitate the addition of certain improvements to the existing facility. The line of credit provides for borrowings of up to \$4,100,000. Interest will be at a variable rate of LIBOR plus 158 basis points during the construction phase and a fixed rate during the repayment period based upon an index of five year U.S. Treasury notes, determined by the lender up to two days before the repayment period begins, plus 214 basis points. The repayment period begins on April 1, 2018.