

**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Ronald McDonald House Charities of Alabama, Inc.
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December 31, 2017 and 2016

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Carr, Riggs & Ingram, LLC
3700 Colonnade Parkway
Suite 300
Birmingham, AL 35243

(205) 933-7822
(205) 933-7944 (fax)
www.cricpa.com

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, 2017 and 2016, and the related statements of activities, cash flows, and functional expenses 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, 2017 and 2016, 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
June 6, 2018

STATEMENTS OF FINANCIAL POSITION
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 1,436,033	\$ 3,400,902
Pledges receivable, net	2,524,774	3,774,772
Investments	4,439,272	4,108,818
Prepaid expenses	47,849	48,975
Contribution receivable, net	2,708,723	1,198,189
Cash surrender value of life insurance	36,932	34,621
Property and equipment, net	12,897,736	5,602,760
Total Assets	\$ 24,091,319	\$ 18,169,037
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	\$ 1,470,668	\$ 28,597
Deferred revenue	50,457	59,123
Accrued vacation	50,321	-
Construction loan	2,687,000	-
Total Liabilities	4,258,446	87,720
Net Assets		
Unrestricted		
Undesignated	14,597,132	7,976,898
Board Designated	1,676,271	2,898,700
Temporarily restricted	3,028,070	6,674,319
Permanently restricted	531,400	531,400
Total Net Assets	19,832,873	18,081,317
Total Liabilities and Net Assets	\$ 24,091,319	\$ 18,169,037

See independent auditors' report.

STATEMENT OF ACTIVITIES
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and Other Support				
Special events	\$ 629,178	\$ -	\$ -	\$ 629,178
Less: Costs of direct benefits to donors	(185,798)	-	-	(185,798)
Special events, net	443,380	-	-	443,380
Contributions	1,239,676	1,770,979	-	3,010,655
Investment income	360,012	83,206	-	443,218
House guest fees	36,270	-	-	36,270
Canister donations, net	175,546	-	-	175,546
Pop tab recycling income, net	6,634	-	-	6,634
Other income	5,809	-	-	5,809
	2,267,327	1,854,185	-	4,121,512
Net assets released from restrictions	5,500,434	(5,500,434)	-	-
Total revenues and other support	7,767,761	(3,646,249)	-	4,121,512
Expenses				
Program	1,592,231	-	-	1,592,231
Management and general	267,210	-	-	267,210
Fundraising	458,864	-	-	458,864
Unallocated payments to RMHC Global	51,651	-	-	51,651
Total expenses	2,369,956	-	-	2,369,956
Change in Net Assets	5,397,805	(3,646,249)	-	1,751,556
Net assets, beginning of year	10,875,598	6,674,319	531,400	18,081,317
Net assets, end of year	<u>\$ 16,273,403</u>	<u>\$ 3,028,070</u>	<u>\$ 531,400</u>	<u>\$ 19,832,873</u>

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.

STATEMENTS OF CASH FLOWS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,751,556	\$ 2,610,581
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	239,871	244,455
Contributed rent	116,190	78,979
Amortization of discount - rent receivable	(9,535)	(62,162)
Contribution of rent receivable	(1,617,189)	-
Provisions for bad debts	50,000	-
(Decrease) increase in unamortized discount - pledges receivable	(102,167)	43,921
Net realized and unrealized (gain) loss on investments	(367,225)	(190,390)
Increase in cash surrender value of life insurance	(2,311)	(792)
Changes in assets and liabilities that provided (used) cash:		
Pledges receivable	1,302,165	(901,869)
Prepaid expenses	1,126	8,314
Accounts payable	1,442,071	(6,262)
Deferred revenue	(8,666)	(10,400)
Accrued vacation	50,321	-
	<u>2,846,207</u>	<u>1,814,375</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(7,534,847)	(369,586)
Purchase of investments	(151,043)	(1,750,037)
Proceeds from sale of investments	187,814	2,385,185
	<u>(7,498,076)</u>	<u>265,562</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under construction loan	2,687,000	-
	<u>2,687,000</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	(1,964,869)	2,079,937
Cash and cash equivalents, beginning of year	3,400,902	1,320,965
Cash and cash equivalents, end of year	<u>\$ 1,436,033</u>	<u>\$ 3,400,902</u>

See independent auditors' report.

STATEMENT OF FUNCTIONAL EXPENSES
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 636,804	\$ 184,879	\$ 180,369	\$ 1,002,052
Depreciation	215,883	19,192	4,796	239,871
Postage and delivery	-	3,513	43,273	46,786
Professional fees	21,091	19,224	146,523	186,838
Utilities	85,914	7,637	1,909	95,460
House supplies	93,364	-	-	93,364
Repairs and maintenance	82,004	7,289	1,822	91,115
Rent	104,571	9,295	2,324	116,190
Special events	-	-	60,394	60,394
Marketing	58,510	-	-	58,510
Janitorial services	52,326	4,651	1,163	58,140
Bad debt expense	50,000	-	-	50,000
Insurance	37,971	3,375	844	42,190
Security expense	40,316	-	-	40,316
Supplies	32,762	2,912	728	36,402
Conferences and meetings	23,304	2,071	518	25,893
Miscellaneous	20,445	1,817	454	22,716
Fundraising expense	-	-	13,407	13,407
Bank service charges	10,721	-	-	10,721
Grants	10,000	-	-	10,000
Donor, volunteer and staff recognition	7,986	710	178	8,874
Telephone	5,615	499	125	6,239
Dues and subscriptions	1,642	146	37	1,825
Ronald McDonald Family Room expenses	1,002	-	-	1,002
	<u>\$ 1,592,231</u>	<u>\$ 267,210</u>	<u>\$ 458,864</u>	<u>\$ 2,318,305</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	320,518	328,299
Postage and delivery	-	10,555	24,211	34,766
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.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2017 AND 2016

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 OF ALABAMA, INC.
DECEMBER 31, 2017 AND 2016

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 recorded an allowance of \$50,000 and \$0 as of December 31, 2017 and 2016, respectively.

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 OF ALABAMA, INC.
DECEMBER 31, 2017 AND 2016

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 \$75,800 and \$85,490 for the years ended December 31, 2017 and 2016, respectively, as contribution revenue and program expense in the accompanying statement of activities. Donated fundraising items totaling \$90,400 and \$55,950 for the years ended December 31, 2017 and 2016, 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 OF ALABAMA, INC.
DECEMBER 31, 2017 AND 2016

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 initially donated for a period of 41 years. The rent free use of the property was extended for an additional 10 year period in late 2016. A receivable has been recorded for the gross amount of estimated rental contributions over that 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, 2017, 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 2014.

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 OF ALABAMA, INC.
DECEMBER 31, 2017 AND 2016

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 June 6, 2018, 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 2017 and 2016. RMHCA received room donations of \$36,270 and \$53,961 for the years ended December 31, 2017 and 2016, 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:

To be received within one year	\$ 1,380,065
To be received in one to five years	1,306,909
	2,686,974
Less: allowance for uncollectible pledges	(50,000)
Less: unamortized discounts	(112,200)
Pledges receivable, net	\$ 2,524,774

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2017 AND 2016

NOTE 4. CONTRIBUTION RECEIVABLE (RENT-FREE USE OF LAND AND FACILITIES)

During 2006, RMHCA entered a lease agreement with Children's Hospital Foundation for land on which the "New House" was constructed. The lease was for a term of 41 years, and RMHCA is not required to make rental payments. In late 2016, the lease period was extended for an additional ten years.

During 2017, RMHCA entered a lease agreement with UAB which provided approximately 2,000 square feet of space in the Women's and Infant's Center for the Ronald McDonald Family Room. The lease is for a period of five years and does not require rental payments.

A contribution has been recorded at the present value of the future contributions of rent.

The related contribution receivable is comprised of the following as of December 31,

	<u>2017</u>	<u>2016</u>
Total rental contribution receivable	\$ 5,189,370	\$ 2,369,370
Less: discount to present value	<u>(2,480,647)</u>	<u>(1,171,181)</u>
Contribution receivable, net	<u>\$ 2,708,723</u>	<u>\$ 1,198,189</u>

NOTE 5. PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Building	\$ 6,832,723	\$ 6,832,723
Furniture and fixtures	747,688	747,688
Equipment	278,610	275,785
Leasehold improvements	98,894	98,894
Computer software	79,470	79,470
Construction in progress	7,860,827	328,805
Accumulated depreciation	<u>(3,000,476)</u>	<u>(2,760,605)</u>
Property and equipment, net	<u>\$ 12,897,736</u>	<u>\$ 5,602,760</u>

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2017 AND 2016

NOTE 6. INVESTMENTS

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

	<u>2017</u>	<u>2016</u>
Common stocks and mutual funds	\$ 3,139,985	\$ 2,722,782
Fixed income securities	<u>1,299,287</u>	<u>1,386,036</u>
Total investments	<u>\$ 4,439,272</u>	<u>\$ 4,108,818</u>

Investment income for the years ended December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Net realized and unrealized gains	\$ 367,225	\$ 190,390
Interest and dividend income	105,321	129,812
Investment management fees	<u>(29,328)</u>	<u>(36,985)</u>
	<u>\$ 443,218</u>	<u>\$ 283,217</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>2017</u>	<u>2016</u>
Prepaid expenses	\$ 29,129	\$ 24,016
Prepaid telephone/computer service, net	<u>18,720</u>	<u>24,959</u>
Total prepaid expenses	<u>\$ 47,849</u>	<u>\$ 48,975</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 OF ALABAMA, INC.
DECEMBER 31, 2017 AND 2016

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, 2017 and 2016 was \$6,239, respectively, and is included as telephone expense in the accompanying statements of functional expenses.

NOTE 8. CONSTRUCTION LOAN

RMHCA secured a \$4,100,000 construction loan during 2017 which requires interest only payments through April 1, 2018. Beginning April 1, 2018, annual principal payments as detailed in the schedule below will begin as well as monthly interest payments on the outstanding balance until the loan is repaid. The principal amount to be paid each year is based on the anticipated cash flows from the payments of pledge receivables. The interest rate on the loan is 4.76%.

The following is a schedule of principal maturities based upon the amount outstanding as of December 31, 2017:

Years ending December 31:

2018	\$ -
2019	1,082,000
2020	735,000
2021	495,000
2022	85,000
2023	290,000
	\$ 2,687,000

NOTE 9. BOARD DESIGNATED NET ASSETS

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

	2017	2016
Endowment	\$ 1,676,271	\$ 1,576,102
Renewal and replacement of facilities	-	1,322,598
	\$ 1,676,271	\$ 2,898,700

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2017 AND 2016

NOTE 10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Future periods - rental contribution, net	\$ 2,708,723	\$ 1,198,189
Family Room	-	100,000
Capital projects/Capital campaign	-	5,126,060
DCH Family Room	9,115	10,118
Accumulated earnings on permanently restricted net assets	<u>310,232</u>	<u>239,952</u>
Temporarily restricted net assets	<u>\$ 3,028,070</u>	<u>\$ 6,674,319</u>

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

	<u>2017</u>	<u>2016</u>
Contributed rent	\$ 116,190	\$ 78,979
DCH Family Room	1,002	1,027
Capital projects/Capital campaign	5,370,316	390,772
Appropriation - spending policy	<u>12,926</u>	<u>9,998</u>
Net assets released from restrictions	<u>\$ 5,500,434</u>	<u>\$ 480,776</u>

NOTE 11. 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, 2017 and 2016 is \$531,400.

NOTE 12. 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.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
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NOTE 12. ENDOWMENT - Continued

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

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.

NOTES TO FINANCIAL STATEMENTS
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NOTE 12. ENDOWMENT - Continued

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.

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

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ -	\$ 310,232	\$ 531,400	\$ 841,632
Board-restricted endowment	1,676,271	-	-	1,676,271
Total endowment	<u>\$ 1,676,271</u>	<u>\$ 310,232</u>	<u>\$ 531,400</u>	<u>\$ 2,517,903</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
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NOTE 12. ENDOWMENT - Continued

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

	2017			
	Board Restricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of the year balance	\$ 1,576,102	\$ 239,952	\$ 531,400	\$ 2,347,454
Contributions	-	-	-	-
Investment income	170,014	83,206	-	253,220
Appropriation - spending policy	<u>(69,845)</u>	<u>(12,926)</u>	<u>-</u>	<u>(82,771)</u>
End of the year balance	<u>\$ 1,676,271</u>	<u>\$ 310,232</u>	<u>\$ 531,400</u>	<u>\$ 2,517,903</u>
	2016			
	Board Restricted	Temporarily Restricted	Permanently Restricted	Total
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	<u>(65,671)</u>	<u>(9,998)</u>	<u>-</u>	<u>(75,669)</u>
End of the year balance	<u>\$ 1,576,102</u>	<u>\$ 239,952</u>	<u>\$ 531,400</u>	<u>\$ 2,347,454</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, 2017 or 2016.

NOTES TO FINANCIAL STATEMENTS
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NOTE 13. 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.

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 on a recurring basis:

Investments consist of U.S. Treasuries, asset backed securities (primarily agency securities), corporate bonds and equity securities.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
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NOTE 13. FAIR VALUE MEASUREMENTS - Continued

RMHCA uses quoted market prices of identical assets on active exchanges - Level 1 measurements.

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:

	2017	
	Level 1	Total
Common stocks and mutual funds	\$ 3,139,985	\$ 3,139,985
Fixed income securities	1,299,287	1,299,287
Investments	\$ 4,439,272	\$ 4,439,272
	2016	
	Level 1	Total
Common stocks and mutual funds	\$ 2,722,782	\$ 2,722,782
Fixed income securities	1,386,036	1,386,036
Investments	\$ 4,108,818	\$ 4,108,818

There were no Level 2 or Level 3 measurements as of December 31, 2017 and 2016.