

**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
(A NONPROFIT ORGANIZATION)
FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

Ronald McDonald House Charities of Alabama, Inc.
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December 31, 2018 and 2017

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Ronald McDonald House Charities of Alabama, Inc. (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2018, and the related statements 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.

Auditor's 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 and appropriate 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 Ronald McDonald House Charities of Alabama, Inc. as of December 31, 2018, and the changes in its net assets 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 Ronald McDonald House Charities of Alabama, Inc. as of December 31, 2017, were audited by other auditors whose report dated June 6, 2018, expressed an unmodified opinion on those statements.

KASSOUF & CO., P. C.

A handwritten signature in black ink that reads "Kassouf & Co." in a cursive script.

Certified Public Accountants

July 10, 2019

STATEMENTS OF FINANCIAL POSITION
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 439,435	\$ 1,436,033
Pledges receivable, net	1,429,264	2,524,774
Investments	3,320,749	4,439,272
Prepaid expenses	29,758	47,849
Contribution receivable, net	2,596,071	2,708,723
Cash surrender value of life insurance	36,730	36,932
Property and equipment, net	12,407,652	12,897,736
Total Assets	\$ 20,259,659	\$ 24,091,319
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	\$ 26,176	\$ 1,470,668
Deferred revenue	38,720	50,457
Accrued vacation	60,556	50,321
Note payable	1,330,700	2,687,000
Total Liabilities	1,456,152	4,258,446
Net Assets		
Without donor restrictions:		
Undesignated	13,895,903	14,597,132
Board Designated	1,518,672	1,676,271
With donor restrictions	3,388,932	3,559,470
Total Net Assets	18,803,507	19,832,873
Total Liabilities and Net Assets	\$ 20,259,659	\$ 24,091,319

See independent auditors' report.

STATEMENT OF ACTIVITIES
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Special events	\$ 595,382	\$ -	\$ 595,382
Less: costs of direct benefits to donors	(169,198)	-	(169,198)
Special events, net	426,184	-	426,184
Contributions	1,500,278	50,136	1,550,414
Investment (loss)	(202,434)	(47,357)	(249,791)
House guest fees	34,671	-	34,671
Canister donations, net	130,457	-	130,457
Pop tab recycling income, net	16,276	-	16,276
Other income	984	-	984
	1,906,416	2,779	1,909,195
Net assets released from restrictions	173,317	(173,317)	-
Total revenues and other support	2,079,733	(170,538)	1,909,195
Expenses			
Program	2,173,011	-	2,173,011
Management and general	313,592	-	313,592
Fundraising	451,958	-	451,958
Unallocated payments to RMHC Global	-	-	-
Total expenses	2,938,561	-	2,938,561
Change in Net Assets	(858,828)	(170,538)	(1,029,366)
Net assets, beginning of year	16,273,403	3,559,470	19,832,873
Net assets, end of year	<u>\$ 15,414,575</u>	<u>\$ 3,388,932</u>	<u>\$ 18,803,507</u>

See independent auditors' report.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</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	<u>443,380</u>	<u>-</u>	<u>443,380</u>
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	<u>5,809</u>	<u>-</u>	<u>5,809</u>
	2,267,327	1,854,185	4,121,512
Net assets released from restrictions	<u>5,500,434</u>	<u>(5,500,434)</u>	<u>-</u>
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	<u>51,651</u>	<u>-</u>	<u>51,651</u>
Total expenses	<u>2,369,956</u>	<u>-</u>	<u>2,369,956</u>
Change in Net Assets	5,397,805	(3,646,249)	1,751,556
Net assets, beginning of year	<u>10,875,598</u>	<u>7,205,719</u>	<u>18,081,317</u>
Net assets, end of year	<u>\$ 16,273,403</u>	<u>\$ 3,559,470</u>	<u>\$ 19,832,873</u>

See independent auditors' report.

STATEMENTS OF CASH FLOWS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,029,366)	\$ 1,751,556
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	498,111	239,871
Contributed rent	124,181	116,190
Amortization of discount - rent receivable	(11,530)	(9,535)
Contribution of rent receivable	-	(1,617,189)
Provisions for bad debts	-	50,000
(Decrease) in unamortized discount - pledges receivable	(30,659)	(102,167)
Net realized and unrealized loss (gain) on investments	335,322	(367,225)
Decrease (increase) in cash surrender value of life insurance	202	(2,311)
Changes in assets and liabilities that provided (used) cash:		
Pledges receivable	1,126,169	1,302,165
Prepaid expenses	18,091	1,126
Accounts payable	(1,444,492)	1,442,071
Deferred revenue	(11,737)	(8,666)
Accrued vacation	10,235	50,321
	(415,473)	2,846,207
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(8,027)	(7,534,847)
Purchase of investments	(210,113)	(151,043)
Proceeds from sale of investments	993,315	187,814
	775,175	(7,498,076)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings - note payable	1,214,000	2,687,000
Repayments - note payable	(2,570,300)	-
	(1,356,300)	2,687,000
Net Change in Cash and Cash Equivalents	(996,598)	(1,964,869)
Cash and cash equivalents, beginning of year	1,436,033	3,400,902
Cash and cash equivalents, end of year	\$ 439,435	\$ 1,436,033
Supplemental Disclosure of Cash Flows Information		
Cash paid during the year for interest	\$ 121,751	\$ 7,340

See independent auditors' report.

STATEMENT OF FUNCTIONAL EXPENSES
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 714,766	\$ 207,513	\$ 202,451	\$ 1,124,730
Depreciation	448,298	39,854	9,959	498,111
Professional fees	44,462	14,698	122,252	181,412
House supplies	165,326	-	-	165,326
Utilities	130,925	11,638	2,909	145,472
Rent	111,758	9,934	2,484	124,176
Interest expense	119,384	-	-	119,384
Repairs and maintenance	104,126	9,255	2,314	115,695
Janitorial services	93,086	8,274	2,069	103,429
Marketing	60,420	-	-	60,420
Insurance	51,342	4,563	1,141	57,046
Special events	-	-	46,759	46,759
Postage and delivery	-	301	46,052	46,353
Security expense	43,501	-	-	43,501
Supplies	31,629	2,811	703	35,143
Miscellaneous	23,177	2,060	515	25,752
Bank service charges	11,280	1,002	250	12,532
Fundraising expense	-	-	11,678	11,678
Donor, volunteer and staff recognition	8,033	714	178	8,925
Telephone	5,615	499	125	6,239
Conferences and meetings	3,437	305	76	3,818
Dues and subscriptions	1,931	171	43	2,145
Grants	500	-	-	500
Ronald McDonald Family Room expenses	15	-	-	15
	<u>\$ 2,173,011</u>	<u>\$ 313,592</u>	<u>\$ 451,958</u>	<u>\$ 2,938,561</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
Professional fees	21,091	19,224	146,523	186,838
Rent	104,571	9,295	2,324	116,190
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
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
Postage and delivery	-	3,513	43,273	46,786
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	-	-	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.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2018 AND 2017

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 and Financial Statement Presentation

The financial statements of RMHCA have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In August 2016, the FASB issued ASU No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*.

This amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions: requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for the Organization for the year ending December 31, 2018. Descriptions of the two net assets categories and the types of transaction affecting each category follow:

Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of gifts without restrictions, previously restricted gifts whose donor-imposed restrictions were met during the year, investment income, and the expenses associated with the core activities of RMHCA: operation of the House and other programs, management and general, and fundraising expenses.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2018 AND 2017

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Accounting and Financial Statement Presentation - Continued

With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of RMHCA or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions.

RMHCA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

All other net assets, including Board designated or appropriated amounts are legally unrestricted and are reported as net assets without donor restrictions.

Revenue Sources

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, RMHCA considers all highly liquid investments with a maturity of three months or less when purchased 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 as of December 31, 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2018 AND 2017

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

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 support with donor restrictions. In absence of such stipulations, contributions of supplies and services are recorded as support without donor restrictions. 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 \$141,050 and \$75,800 for the years ended December 31, 2018 and 2017, respectively, as contribution revenue and program expense in the accompanying statement of activities. Donated fundraising items totaling \$98,250 and \$90,400 for the years ended December 31, 2018 and 2017, 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, 2018 AND 2017

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred Revenue

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

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.

Functional Classification of Expenses

RMHCA's primary service is the operation of the House. Amounts reported as program expenses are in support of this primary activity. Natural expenses attributable to more than one functional expense category are allocated primarily based upon time estimates.

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, 2018, 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 2016.

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, 2018 AND 2017

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued

Subsequent Events

RMHCA evaluated subsequent events through July 10, 2019, 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 2018 and 2017. RMHCA received room donations of \$34,671 and \$36,270 for the years ended December 31, 2018 and 2017, respectively.

NOTE 3. PLEDGE RECEIVABLES

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	\$ 669,530
To be received in one to five years	891,275
	<u>1,560,805</u>
Less: allowance for uncollectible pledges	(50,000)
Less: unamortized discounts	<u>(81,541)</u>
Pledges receivable, net	<u>\$ 1,429,264</u>

Pledge receivables have been discounted utilizing an effective interest rate of 5%.

NOTE 4. 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.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2018 AND 2017

NOTE 4. FAIR VALUE MEASUREMENTS – Continued

Required disclosures include stratification of statement of financial position amounts measured at fair value based on inputs RMHCA 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.

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.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2018 AND 2017

NOTE 4. 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:

	2018	
	Level 1	Total
Common stocks and mutual funds	\$ 2,284,348	\$ 2,284,348
Fixed income securities	1,036,401	1,036,401
Investments	\$ 3,320,749	\$ 3,320,749
	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

There were no Level 2 or Level 3 measurements as of December 31, 2018 and 2017.

The composition of investment income for the years ended December 31, is as follows:

	2018	2017
Net realized and unrealized (losses) gains	\$ (346,284)	\$ 367,225
Interest and dividend income	133,817	105,321
Investment management fees	(37,324)	(29,328)
	\$ (249,791)	\$ 443,218

Investments are held and managed by Regions.

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2018 AND 2017

NOTE 5. PROPERTY AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Building	\$ 14,346,722	\$ 6,832,723
Furniture and fixtures	1,102,542	747,688
Equipment	278,610	278,610
Leasehold improvements	98,894	98,894
Computer software	79,470	79,470
Construction in progress	-	7,860,827
Accumulated depreciation	<u>(3,498,586)</u>	<u>(3,000,476)</u>
Property and equipment, net	<u>\$ 12,407,652</u>	<u>\$ 12,897,736</u>

NOTE 6. BENEFICIAL USE OF LAND

During 2006, RMHCA entered a lease agreement with Children's Hospital Foundation for land on which the 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>2018</u>	<u>2017</u>
Total rental contribution receivable	\$ 5,065,189	\$ 5,189,370
Less: discount to present value	<u>(2,469,118)</u>	<u>(2,480,647)</u>
Contribution receivable, net	<u>\$ 2,596,071</u>	<u>\$ 2,708,723</u>

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
DECEMBER 31, 2018 AND 2017

NOTE 7. PREPAID EXPENSES

Prepaid expenses consist of the following as of December 31:

	2018	2017
Prepaid expenses	\$ 17,277	\$ 29,129
Prepaid telephone/computer service, net	12,481	18,720
Total prepaid expenses	\$ 29,758	\$ 47,849

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 each of the years ended December 31, 2018 and 2017 was \$6,239, respectively, and is included as telephone expense in the accompanying statements of functional expenses.

NOTE 8. NOTE PAYABLE

RMHCA entered a note payable agreement with a local bank to fund improvements to the House. The interest rate on the note is 4.89% with a scheduled maturity date of May 1, 2023. The note is secured by the pledge receivables.

The following is a schedule of principal maturities based upon the amount outstanding as of December 31, 2018:

Years ending December 31:

2019	\$ -
2020	460,700
2021	495,000
2022	85,000
2023	290,000
	\$ 1,330,700

NOTES TO FINANCIAL STATEMENTS
RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.
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NOTE 9. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Net assets without donor restrictions:		
Undesignated	\$ 13,866,844	\$ 14,597,132
Board designated - endowment	<u>1,518,672</u>	<u>1,676,271</u>
Total net assets without donor restrictions	<u>\$ 15,385,516</u>	<u>\$ 16,273,403</u>

NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Subject to time or purpose restrictions:		
Future periods - rental contribution, net	\$ 2,596,071	\$ 2,708,723
DCH Family Room	9,101	9,115
Accumulated earnings on endowment	<u>252,360</u>	<u>310,232</u>
	2,857,532	3,028,070
Not subject to appropriation or expenditure:		
Endowment	<u>531,400</u>	<u>531,400</u>
Total net assets with donor restrictions	<u>\$ 3,388,932</u>	<u>\$ 3,559,470</u>

NOTE 11. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

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

	<u>2018</u>	<u>2017</u>
Contributed rent	\$ 124,181	\$ 116,190
DCH Family Room	15	1,002
Capital projects/Capital campaign	38,606	5,370,316
Appropriation - spending policy	<u>10,515</u>	<u>12,926</u>
Net assets released from restrictions	<u>\$ 173,317</u>	<u>\$ 5,500,434</u>

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

RMHCA's endowment consists of two individual funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Trustees.

Absent explicit donor stipulations to the contrary, the Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with the standard of prudence prescribed by UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the various funds
- (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 OF ALABAMA, INC.
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NOTE 12. ENDOWMENT FUNDS - Continued

Investment 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.

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, 2018 or 2017.

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

Endowment net asset composition and changes for the years ended December 31, are as follows:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	\$ 1,676,271	\$ 841,632	\$ 2,517,903
Contributions	-	-	-
Investment (loss)	(94,321)	(47,357)	(141,678)
Appropriation - spending policy	(63,278)	(10,515)	(73,793)
End of year balance	<u>\$ 1,518,672</u>	<u>\$ 783,760</u>	<u>\$ 2,302,432</u>
Original donor-restricted endowment gift amount and amounts required to be retained by donor	\$ -	\$ 531,400	\$ 531,400
Board designated amounts functioning as endowment	1,518,672	-	1,518,672
Accumulated earnings	-	252,360	252,360
Total - as above	<u>\$ 1,518,672</u>	<u>\$ 783,760</u>	<u>\$ 2,302,432</u>
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	\$ 1,576,102	\$ 771,352	\$ 2,347,454
Contributions	-	-	-
Investment income	170,014	83,206	253,220
Appropriation - spending policy	(69,845)	(12,926)	(82,771)
End of year balance	<u>\$ 1,676,271</u>	<u>\$ 841,632</u>	<u>\$ 2,517,903</u>
Original donor-restricted endowment gift amount and amounts required to be retained by donor	\$ -	\$ 531,400	\$ 531,400
Board designated amounts functioning as endowment	1,676,271	-	1,676,271
Accumulated earnings	-	310,232	310,232
Total - as above	<u>\$ 1,676,271</u>	<u>\$ 841,632</u>	<u>\$ 2,517,903</u>

NOTES TO FINANCIAL STATEMENTS
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NOTE 13. LIQUIDITY AND AVAILABILITY

As a part of RMHCA’s liquidity management, it has a policy to structure financial assets to be available as it’s general expenditures, such as operating expenses, scheduled principal debt payments, and other obligations come due.

RMHCA’s financial assets as of the financial statement reporting date, reduced by amounts that are not available for general use due to contractual or donor-imposed restrictions within one year of the statement of financial position date are as follows:

Financial assets at December 31, 2018:	
Cash and cash equivalents	\$ 439,435
Pledges and receivable - to be collected within one year	669,530
Investments	<u>3,320,749</u>
	4,429,714
Less those unavailable for general expenditures within one year:	
Investments - donor restricted	<u>(783,760)</u>
Financial assets available to meet cash needs within one year	<u>\$ 3,645,954</u>

NOTE 14. CONCENTRATION OF CREDIT RISK

Financial instruments that are potentially subject RMHCA to concentrations of credit risk consist primarily of cash and cash equivalents. RMHCA maintains cash balances in financial institutions in Alabama. At times, RMHCA may have cash deposits in a financial institution in excess of the amounts insured by the Federal Depository Insurance Corporation. At December 31, 2018 RMHCA had approximately \$9,588 of cash balances in excess of the federally insured limits.

NOTE 15. DEFINED CONTRIBUTION PLAN

A SIMPLE IRA plan is available to the employees of RMHCA. Under the plan, the Organization contributes an amount equal to 3% of salary to the accounts of all employees who are at least twenty-one years old, have one year service, and work at least one thousand hours a year. Employer matching contributions under the plan totaled \$19,591 and \$17,083 for the years ended December 31, 2018 and 2017, and are included in salaries and related expenses on the statement of functional expenses.