

**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.  
(A NONPROFIT ORGANIZATION)  
FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

Ronald McDonald House Charities of Alabama, Inc.  
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December 31, 2019 and 2018

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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, 2019 and 2018, 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.

### **Auditor's 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 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, 2019 and 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.

KASSOUF & CO., P. C.

*Kassouf & Co.*

Certified Public Accountants

September 10, 2020

**STATEMENTS OF FINANCIAL POSITION**  
**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.**  
**DECEMBER 31, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 496,573	\$ 439,435
Pledges receivable, net	966,417	1,429,264
Investments	3,772,585	3,320,749
Prepaid expenses	59,495	29,758
Contribution receivable, net	2,482,341	2,596,071
Cash surrender value of life insurance	37,773	36,730
Property and equipment, net	11,921,695	12,407,652
<b>Total Assets</b>	<b>\$ 19,736,879</b>	<b>\$ 20,259,659</b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued liabilities	41,975	\$ 26,176
Deferred revenue	40,993	38,720
Accrued vacation	66,469	60,556
Note payable	640,000	1,330,700
<b>Total Liabilities</b>	789,437	1,456,152
<b>Net Assets</b>		
Without donor restrictions:		
Undesignated	13,849,186	13,895,903
Board Designated	1,705,511	1,518,672
With donor restrictions	3,392,745	3,388,932
<b>Total Net Assets</b>	<b>18,947,442</b>	<b>18,803,507</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 19,736,879</b>	<b>\$ 20,259,659</b>

See independent auditor's report.

**STATEMENT OF ACTIVITIES**  
**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Special events	\$ 688,519	\$ -	\$ 688,519
Less: costs of direct benefits to donors	(207,694)	-	(207,694)
Special events, net	<u>480,825</u>	<u>-</u>	<u>480,825</u>
Contributions	1,832,110	46,501	1,878,611
Investment income	442,836	133,099	575,935
House guest fees	31,287	-	31,287
Canister donations, net	98,623	-	98,623
Pop tab recycling income, net	11,824	-	11,824
Other income	<u>6,652</u>	<u>-</u>	<u>6,652</u>
	2,904,157	179,600	3,083,757
Net assets released from restrictions	<u>175,787</u>	<u>(175,787)</u>	<u>-</u>
Total revenues and other support	3,079,944	3,813	3,083,757
<b>Expenses</b>			
Program	2,127,653	-	2,127,653
Management and general	316,387	-	316,387
Fundraising	<u>495,782</u>	<u>-</u>	<u>495,782</u>
Total expenses	<u>2,939,822</u>	<u>-</u>	<u>2,939,822</u>
<b>Change in Net Assets</b>	140,122	3,813	143,935
Net assets, beginning of year	<u>15,414,575</u>	<u>3,388,932</u>	<u>18,803,507</u>
Net assets, end of year	<u>\$ 15,554,697</u>	<u>\$ 3,392,745</u>	<u>\$ 18,947,442</u>

See independent auditor's report.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Special events	\$ 595,382	\$ -	\$ 595,382
Less: costs of direct benefits to donors	(169,198)	-	(169,198)
Special events, net	<u>426,184</u>	<u>-</u>	<u>426,184</u>
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	<u>984</u>	<u>-</u>	<u>984</u>
	1,906,416	2,779	1,909,195
Net assets released from restrictions	<u>173,317</u>	<u>(173,317)</u>	<u>-</u>
Total revenues and other support	2,079,733	(170,538)	1,909,195
<b>Expenses</b>			
Program	2,173,011	-	2,173,011
Management and general	313,592	-	313,592
Fundraising	<u>451,958</u>	<u>-</u>	<u>451,958</u>
Total expenses	<u>2,938,561</u>	<u>-</u>	<u>2,938,561</u>
<b>Change in Net Assets</b>	(858,828)	(170,538)	(1,029,366)
Net assets, beginning of year	<u>16,273,403</u>	<u>3,559,470</u>	<u>19,832,873</u>
Net assets, end of year	<u>\$ 15,414,575</u>	<u>\$ 3,388,932</u>	<u>\$ 18,803,507</u>

See independent auditor's report.

**STATEMENTS OF CASH FLOWS**  
**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 143,935	\$ (1,029,366)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	491,089	498,111
Contributed rent	125,909	124,181
Amortization of discount - rent receivable	(12,178)	(11,530)
(Decrease) in unamortized discount - pledges receivable	(34,323)	(30,659)
(Decrease) in allowance for doubtful accounts - pledges receivable	(7,500)	-
Net realized and unrealized (gain) loss on investments	(493,098)	335,322
Decrease (increase) in cash surrender value of life insurance	(1,043)	202
Changes in assets and liabilities that provided (used) cash:		
Pledges receivable	504,670	1,126,169
Prepaid expenses	(29,737)	18,091
Accounts payable	15,799	(1,444,492)
Deferred revenue	2,273	(11,737)
Accrued vacation	5,913	10,235
	711,709	(415,473)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(5,132)	(8,027)
Purchase of investments	(111,946)	(210,113)
Proceeds from sale of investments	153,207	993,315
	36,129	775,175
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings - note payable	-	1,214,000
Repayments - note payable	(690,700)	(2,570,300)
	(690,700)	(1,356,300)
<b>Net Change in Cash and Cash Equivalents</b>	57,138	(996,598)
Cash and cash equivalents, beginning of year	439,435	1,436,033
Cash and cash equivalents, end of year	\$ 496,573	\$ 439,435
<b>Supplemental Disclosure of Cash Flows Information</b>		
Cash paid during the year for interest	\$ 52,686	\$ 121,751

See independent auditor's report.



**STATEMENT OF FUNCTIONAL EXPENSES**  
**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$ 771,208	\$ 223,899	\$ 218,438	\$ 1,213,545
Depreciation	441,980	39,287	9,822	491,089
Professional fees	48,006	4,267	168,092	220,365
House supplies	157,713	-	-	157,713
Utilities	123,664	10,992	2,748	137,404
Rent	113,318	10,073	2,518	125,909
Interest expense	52,686	-	-	52,686
Repairs and maintenance	88,357	7,854	1,963	98,174
Janitorial services	95,345	8,475	2,119	105,939
Marketing	63,521	-	-	63,521
Insurance	48,438	4,306	1,076	53,820
Special events	-	-	61,557	61,557
Postage and delivery	-	354	3,189	3,543
Security expense	45,846	-	-	45,846
Supplies	28,822	2,562	640	32,024
Miscellaneous	17,220	1,531	383	19,134
Bank service charges	11,027	980	245	12,252
Fundraising expense	-	-	22,541	22,541
Donor, volunteer and staff recognition	10,264	912	228	11,404
Telephone	5,615	499	125	6,239
Conferences and meetings	3,065	272	68	3,405
Dues and subscriptions	1,391	124	30	1,545
Ronald McDonald Family Room expenses	167	-	-	167
	<u>\$ 2,127,653</u>	<u>\$ 316,387</u>	<u>\$ 495,782</u>	<u>\$ 2,939,822</u>

See independent auditor's 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	164,601	223,761
Rent	111,758	9,934	2,484	124,176
Interest expense	119,384	-	-	119,384
Utilities	130,925	11,638	2,909	145,472
House supplies	165,326	-	-	165,326
Repairs and maintenance	104,126	9,255	2,314	115,695
Special events	-	-	46,759	46,759
Marketing	60,420	-	-	60,420
Janitorial services	93,086	8,274	2,069	103,429
Postage and delivery	-	301	3,703	4,004
Insurance	51,342	4,563	1,141	57,046
Security expense	43,501	-	-	43,501
Supplies	31,629	2,811	703	35,143
Conferences and meetings	3,437	305	76	3,818
Miscellaneous	23,177	2,060	515	25,752
Fundraising	-	-	11,678	11,678
Bank service charges	11,280	1,002	250	12,532
Grants	500	-	-	500
Donor, volunteer and staff recognition	8,033	714	178	8,925
Telephone	5,615	499	125	6,239
Dues and subscriptions	1,931	171	43	2,145
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 auditor's report.

**NOTES TO FINANCIAL STATEMENTS**  
**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.**  
**DECEMBER 31, 2019 AND 2018**

**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 became effective for the Organization during the year ended 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, 2019 AND 2018**

**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 \$42,500 and \$50,000 as of December 31, 2019 and 2018, respectively.

**NOTES TO FINANCIAL STATEMENTS**  
**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.**  
**DECEMBER 31, 2019 AND 2018**

**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 \$137,550 and \$141,050 for the years ended December 31, 2019 and 2018, respectively, as contribution revenue and program expense in the accompanying statements of activities. Donated fundraising items totaling \$151,850 and \$98,250 for the years ended December 31, 2019 and 2018, respectively, are recorded as special events revenue and costs of direct benefits to donors in the accompanying statements of activities.

**NOTES TO FINANCIAL STATEMENTS**  
**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.**  
**DECEMBER 31, 2019 AND 2018**

**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, 2019, 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 2017.

**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, 2019 AND 2018**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Recent Accounting Pronouncements**

On January 1, 2019, RMHCA adopted ASU 2018-08, "*Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*". This ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance on accounting for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contribution or as exchange transaction. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities.

This change in accounting principle was adopted on a modified prospective basis. As a result, there was no cumulative effect adjustment to beginning net assets as of January 1, 2019.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "*Revenue from Contracts with Customers*" (Topic 606), which supersedes existing revenue recognition guidance under accounting principles generally accepted in the United States of America. Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue. It is possible more judgement and estimates may be required by management than currently required under accounting principles generally accepted in the United States of America. Topic 606 is effective for annual reporting periods beginning after December 15, 2019. RMHCA is currently evaluating the impact of adopting this new guidance on its financial statements.

**Subsequent Events**

RMHCA evaluated subsequent events through September 10, 2020, 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 2019 and 2018. RMHCA received room donations of \$31,287 and \$34,671 for the years ended December 31, 2019 and 2018, respectively.

**NOTES TO FINANCIAL STATEMENTS**  
**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.**  
**DECEMBER 31, 2019 AND 2018**

**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	\$ 530,614
To be received in one to five years	525,521
	<u>1,056,135</u>
Less: allowance for uncollectible pledges	(42,500)
Less: unamortized discounts	<u>(47,218)</u>
 Pledges receivable, net	 <u>\$ 966,417</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.

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



**NOTES TO FINANCIAL STATEMENTS**  
**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 4. FAIR VALUE MEASUREMENTS – Continued**

- 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.

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:

	<b>2019</b>	
	<b>Level 1</b>	<b>Total</b>
Common stocks and mutual funds	\$ 2,199,256	\$ 2,199,256
Fixed income securities	1,573,329	1,573,329
Investments	<u>\$ 3,772,585</u>	<u>\$ 3,772,585</u>

**NOTES TO FINANCIAL STATEMENTS**  
**RONALD MCDONALD HOUSE CHARITIES OF ALABAMA, INC.**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 4. FAIR VALUE MEASUREMENTS - Continued**

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

There were no Level 2 or Level 3 measurements as of December 31, 2019 and 2018.

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

	<b>2019</b>	<b>2018</b>
Net realized and unrealized gains (losses)	\$ 495,069	\$ (346,284)
Interest and dividend income	110,547	133,817
Investment management fees	(29,681)	(37,324)
	<u>\$ 575,935</u>	<u>\$ (249,791)</u>
	<u>\$ 575,935</u>	<u>\$ (249,791)</u>

Investments are held and managed by Regions.

**NOTE 5. PROPERTY AND EQUIPMENT**

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

	<b>2019</b>	<b>2018</b>
Building	\$ 14,339,258	\$ 14,346,722
Furniture and fixtures	1,102,542	1,102,542
Equipment	291,206	278,610
Leasehold improvements	98,894	98,894
Computer software	79,470	79,470
Accumulated depreciation	(3,989,675)	(3,498,586)
	<u>\$ 11,921,695</u>	<u>\$ 12,407,652</u>
Property and equipment, net	<u>\$ 11,921,695</u>	<u>\$ 12,407,652</u>

**NOTES TO FINANCIAL STATEMENTS**  
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**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,

	<b>2019</b>	<b>2018</b>
Total rental contribution receivable	\$ 4,939,280	\$ 5,065,189
Less: discount to present value	(2,456,939)	(2,469,118)
Contribution receivable, net	<u>\$ 2,482,341</u>	<u>\$ 2,596,071</u>

**NOTE 7. PREPAID TELEPHONE AND COMPUTER SERVICES**

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, 2019 and 2018 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, 2019:

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**NOTE 8. NOTE PAYABLE- Continued**

Years ending December 31:

2020		\$ -
2021		265,000
2022		85,000
2023		<u>290,000</u>
		<u><u>\$ 640,000</u></u>

**NOTE 9. NET ASSETS WITHOUT DONOR RESTRICTIONS**

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

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions:		
Undesignated	\$ 13,849,186	\$ 13,866,844
Board designated - endowment	<u>1,705,511</u>	<u>1,518,672</u>
Total net assets without donor restrictions	<u><u>\$ 15,554,697</u></u>	<u><u>\$ 15,385,516</u></u>

**NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS**

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

	<u>2019</u>	<u>2018</u>
<b>Subject to time or purpose restrictions:</b>		
Future periods - rental contribution, net	\$ 2,482,370	\$ 2,596,071
DCH Family Room	8,934	9,101
Accumulated earnings on endowment	<u>370,041</u>	<u>252,360</u>
	2,861,345	2,857,532
<b>Not subject to appropriation or expenditure:</b>		
Endowment	<u>531,400</u>	<u>531,400</u>
Total net assets with donor restrictions	<u><u>\$ 3,392,745</u></u>	<u><u>\$ 3,388,932</u></u>

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**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:

	<b>2019</b>	<b>2018</b>
Contributed rent	\$ 125,879	\$ 124,181
DCH Family Room	167	15
Capital projects/Capital campaign	34,323	38,606
Appropriation - spending policy	15,418	10,515
Net assets released from restrictions	\$ 175,787	\$ 173,317

**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

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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, 2019 or 2018.

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**NOTE 12. ENDOWMENT FUNDS - Continued**

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

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Beginning of year	\$ 1,518,672	\$ 783,760	\$ 2,302,432
Contributions	-	-	-
Investment income	257,902	133,099	391,001
Appropriation - spending policy	(71,063)	(15,418)	(86,481)
End of year balance	<u>\$ 1,705,511</u>	<u>\$ 901,441</u>	<u>\$ 2,606,952</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	1,705,511	-	1,705,511
Accumulated earnings	-	370,041	370,041
Total - as above	<u>\$ 1,705,511</u>	<u>\$ 901,441</u>	<u>\$ 2,606,952</u>
	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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>

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**NOTE 13. 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 \$20,326 and \$19,951 for the years ended December 31, 2019 and 2018, and are included in salaries and related expenses on the statement of functional expenses.

**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.

**NOTE 15. 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:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 496,573	\$ 439,435
Pledges and receivables - due within one year	530,614	669,530
Investments	3,320,749	3,320,749
	<u>4,347,936</u>	<u>4,429,714</u>
Less those unavailable for general expenditures within one year:		
Investments - donor restricted	<u>(901,440)</u>	<u>(783,760)</u>
Financial assets available to meet cash needs within one year	<u>\$ 3,446,496</u>	<u>\$ 3,645,954</u>



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**NOTE 16. SUBSEQUENT EVENTS**

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which have the potential to negatively impact the various activities of RMHCA. Specifically, certain revenue generating activities have been and could continue to be suspended due to actions of local and state governments. Additionally, there has been extreme volatility in investment assets held by RMHCA. While the disruption is currently expected to be temporary, there is considerable uncertainty regarding the duration. The duration and related financial impact cannot be reasonably estimated at this time.