

**ATLANTA RONALD MCDONALD HOUSE CHARITIES, INC.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

ATLANTA RONALD MCDONALD HOUSE CHARITIES, INC.

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ATLANTA RONALD MCDONALD HOUSE CHARITIES, INC.  
MANAGEMENT DISCUSSION AND ANALYSIS - UNAUDITED  
DECEMBER 31, 2016

Dear Donors and Interested Parties:

I would like to extend my sincere gratitude for the opportunity to lead a wonderful team committed to nurturing the health and well-being of children and families. 2016 marks my third year as President & CEO and much has happened in that time. We exceeded our \$18.5 million capital campaign goal to build a new Ronald McDonald House near Children's at Scottish Rite. We completed this new House, tripling our capacity at that location and opening to families in December, 2015.

The year reflected in these audited financials, 2016, was our first full year of operating this new House. We served a record 2,208 families between our two Houses. We financially assisted 76 college students through our scholarship program. In addition, we launched our first Ronald McDonald Care Mobile program to treat children with asthma where they live, learn and play. This new program, in partnership with Children's at Hughes Spalding, serves elementary and middle school children in Atlanta Public Schools. Asthma is the number one diagnosis in the pediatric emergency room and inpatient service at Children's and children are still dying of asthma due to poor disease management.

Financially, we had a very positive revenue year and managed operating expenses better than budgeted expectations excluding non-cash items of depreciation and in-kind donations. Although depreciation is significantly higher with this new larger House, we paid down the majority of our construction loan associated with the new House with funds restricted for this purpose. The loan was fully repaid in the first quarter of 2017. Remaining campaign pledges will create a facility fund to support future repairs and maintenance.

In summary, we are very pleased with ARMHC's performance and accomplishments in 2016 and look forward to an even better year ahead as we continue to expand our programs and impact. I want to extend a heartfelt Thank You to our donors, volunteers, staff and Board of Directors. Your support ensures we can serve thousands of children and families in our community and beyond.

Warm Regards,

Beth Howell  
President & CEO

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Atlanta Ronald McDonald House Charities, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 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 Atlanta Ronald McDonald House Charities, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Disclaimer of Opinion on Other Information**

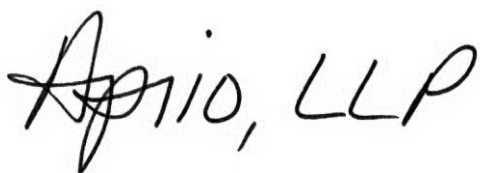
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The management discussion and analysis, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

**Emphasis of Matter**

As discussed in Note B to the financial statements, the Company adopted Accounting Standards Update No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30) in 2016 related to the presentation of debt issuance costs. Our opinion is not modified with respect to this matter.

**Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of scholarships granted on page 26 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Aptio, LLP". The signature is written in a cursive, flowing style.

Atlanta, Georgia

June 23, 2017

ATLANTA RONALD MCDONALD HOUSE CHARITIES, INC.  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 3,167,632	\$ 749,351	\$ -	\$ 3,916,983
Contributions receivable	423,070	-	-	423,070
Pledges receivable	-	1,292,918	-	1,292,918
Prepaid expenses	28,343	-	-	28,343
Investments, at fair value	-	3,209,112	610,750	3,819,862
Property and equipment, net	<u>29,853,088</u>	<u>-</u>	<u>-</u>	<u>29,853,088</u>
 Total assets	 <u>\$ 33,472,133</u>	 <u>\$ 5,251,381</u>	 <u>\$ 610,750</u>	 <u>\$ 39,334,264</u>
 <u>LIABILITIES AND NET ASSETS</u>				
<u>LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 229,796	\$ -	\$ -	\$ 229,796
Pledge payable	1,360,500	-	-	1,360,500
Note payable, net	<u>151,831</u>	<u>-</u>	<u>-</u>	<u>151,831</u>
 Total liabilities	 <u>1,742,127</u>	 <u>-</u>	 <u>-</u>	 <u>1,742,127</u>
 <u>NET ASSETS</u>				
Unrestricted	31,730,006	-	-	31,730,006
Temporarily restricted	-	5,251,381	-	5,251,381
Permanently restricted	<u>-</u>	<u>-</u>	<u>610,750</u>	<u>610,750</u>
 Total net assets	 <u>31,730,006</u>	 <u>5,251,381</u>	 <u>610,750</u>	 <u>37,592,137</u>
 Total liabilities and net assets	 <u>\$ 33,472,133</u>	 <u>\$ 5,251,381</u>	 <u>\$ 610,750</u>	 <u>\$ 39,334,264</u>

See accompanying notes

ATLANTA RONALD MCDONALD HOUSE CHARITIES, INC.  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 4,242,900	\$ 207,195	\$ -	\$ 4,450,095
Certificates of deposit	-	8,780	-	8,780
Contributions receivable	125,502	25,000	-	150,502
Pledges receivable	-	2,580,994	-	2,580,994
Prepaid expenses	6,759	-	-	6,759
Investments, at fair value	-	2,796,519	610,750	3,407,269
Property and equipment, net	<u>31,047,502</u>	<u>-</u>	<u>-</u>	<u>31,047,502</u>
 Total assets	 <u>\$ 35,422,663</u>	 <u>\$ 5,618,488</u>	 <u>\$ 610,750</u>	 <u>\$ 41,651,901</u>
 <u>LIABILITIES AND NET ASSETS</u>				
<u>LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 1,120,404	\$ -	\$ -	\$ 1,120,404
Deferred revenue	13,000	-	-	13,000
Pledge payable	1,360,500	-	-	1,360,500
Note payable, net	<u>1,174,737</u>	<u>-</u>	<u>-</u>	<u>1,174,737</u>
 Total liabilities	 <u>3,668,641</u>	 <u>-</u>	 <u>-</u>	 <u>3,668,641</u>
 <u>NET ASSETS</u>				
Unrestricted	31,754,022	-	-	31,754,022
Temporarily restricted	-	5,618,488	-	5,618,488
Permanently restricted	<u>-</u>	<u>-</u>	<u>610,750</u>	<u>610,750</u>
 Total net assets	 <u>31,754,022</u>	 <u>5,618,488</u>	 <u>610,750</u>	 <u>37,983,260</u>
 Total liabilities and net assets	 <u>\$ 35,422,663</u>	 <u>\$ 5,618,488</u>	 <u>\$ 610,750</u>	 <u>\$ 41,651,901</u>

See accompanying notes

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>REVENUES AND OTHER SUPPORT</u>				
Contributions	\$ 2,304,418	\$ 616,725	\$ -	\$ 2,921,143
Special events revenue	1,416,008	-	-	1,416,008
Less: direct benefit cost	<u>(596,684)</u>	<u>-</u>	<u>-</u>	<u>(596,684)</u>
Special events revenue, net	819,324	-	-	819,324
Room rental	109,434	-	-	109,434
Donated assets and services	211,781	-	-	211,781
Interest income	9,088	-	-	9,088
Net assets released from restrictions	<u>1,125,417</u>	<u>(1,125,417)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>4,579,462</u>	<u>(508,692)</u>	<u>-</u>	<u>4,070,770</u>
<u>EXPENSES</u>				
Program	3,638,392	-	-	3,638,392
Supporting services:				
General and administrative	392,703	-	-	392,703
Fundraising	498,134	-	-	498,134
Unallocated payments to National Organization	<u>74,249</u>	<u>-</u>	<u>-</u>	<u>74,249</u>
Total expenses	<u>4,603,478</u>	<u>-</u>	<u>-</u>	<u>4,603,478</u>
Change in net assets from operations	(24,016)	(508,692)	-	(532,708)
Investment income, net	<u>-</u>	<u>141,585</u>	<u>-</u>	<u>141,585</u>
Change in net assets	(24,016)	(367,107)	-	(391,123)
Net assets at beginning of year	<u>31,754,022</u>	<u>5,618,488</u>	<u>610,750</u>	<u>37,983,260</u>
Net assets at end of year	<u>\$ 31,730,006</u>	<u>\$ 5,251,381</u>	<u>\$ 610,750</u>	<u>\$ 37,592,137</u>

See accompanying notes



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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>REVENUE AND OTHER SUPPORT</u>				
Contributions	\$ 1,933,977	\$ 312,828	\$ 114,500	\$ 2,361,305
Special events revenue	1,274,438	-	-	1,274,438
Less: direct benefit cost	<u>(414,940)</u>	<u>-</u>	<u>-</u>	<u>(414,940)</u>
Special events revenue, net	859,498	-	-	859,498
Room rental	71,712	-	-	71,712
Donated assets and services	464,409	-	-	464,409
Interest income	20,711	-	-	20,711
Net assets released from restrictions	<u>11,841,177</u>	<u>(11,841,177)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>15,191,484</u>	<u>(11,528,349)</u>	<u>114,500</u>	<u>3,777,635</u>
<u>EXPENSES</u>				
Program	2,248,786	-	-	2,248,786
Supporting services:				
General and administrative	340,294	-	-	340,294
Fundraising	832,266	-	-	832,266
Unallocated payments to National Organization	<u>77,930</u>	<u>-</u>	<u>-</u>	<u>77,930</u>
Total expenses	<u>3,499,276</u>	<u>-</u>	<u>-</u>	<u>3,499,276</u>
Change in net assets from operations	11,692,208	(11,528,349)	114,500	278,359
Investment income, net	<u>-</u>	<u>16,889</u>	<u>-</u>	<u>16,889</u>
Change in net assets	11,692,208	(11,511,460)	114,500	295,248
Net assets at beginning of year	<u>20,061,814</u>	<u>17,129,948</u>	<u>496,250</u>	<u>37,688,012</u>
Net assets at end of year	<u>\$ 31,754,022</u>	<u>\$ 5,618,488</u>	<u>\$ 610,750</u>	<u>\$ 37,983,260</u>

See accompanying notes

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

	Program Services				General and Administrative	Fundraising	Total
	House Operations	Grant Making	Care Mobile	Total			
Employee costs	\$ 825,714	\$ 27,780	\$ 43,865	\$ 897,359	\$ 81,475	\$ 256,230	\$ 1,235,064
Scholarships granted	-	142,635	-	142,635	-	-	142,635
Indirect fundraising	-	-	-	-	56,215	72,138	128,353
Interest	-	-	-	-	49,400	-	49,400
Cleaning service and supplies	200,699	-	-	200,699	-	-	200,699
House supplies	11,831	-	-	11,831	-	-	11,831
Utilities	222,458	-	-	222,458	-	-	222,458
Maintenance and repair	293,041	-	-	293,041	-	-	293,041
Insurance	26,056	-	105	26,056	14,285	-	40,341
Payroll taxes	59,367	2,064	2,623	61,431	5,041	17,875	84,347
Bank charges	-	-	-	-	38,209	-	38,209
Office supplies	2,486	-	-	2,486	26,269	-	28,755
Telephone	46,406	-	-	46,406	-	-	46,406
Employee benefits	97,171	2,881	1,733	100,052	-	37,317	137,369
Donor recognition	427	-	-	427	-	5,954	6,381
Technology	15,202	-	-	15,202	67,116	-	82,318
Professional fees	58,631	-	-	58,631	-	-	58,631
Administrative fees	-	2,123	138	2,123	-	-	2,123
Postage	-	-	-	-	13,627	-	13,627
Direct mail	-	-	-	-	-	64,154	64,154
Linens and laundry	13,738	-	-	13,738	-	-	13,738
Meeting/Training/ Seminars	-	-	-	-	14,975	-	14,975
Printing and publishing	17,314	-	-	17,314	21,158	-	38,472
Volunteer recognition	9,484	-	-	9,484	-	371	9,855
Automobile expense	4,438	-	-	4,438	-	-	4,438
Total expenses before depreciation and donated materials and services	1,904,463	177,483	48,464	2,130,410	387,770	454,039	2,972,219
Depreciation	1,296,201	-	-	1,296,201	4,933	44,095	1,345,229
Donated materials and services	211,781	-	-	211,781	-	-	211,781
Total functional expenses	<u>\$ 3,412,445</u>	<u>\$ 177,483</u>	<u>\$ 48,464</u>	<u>\$ 3,638,392</u>	<u>\$ 392,703</u>	<u>\$ 498,134</u>	<u>\$ 4,529,229</u>

See accompanying notes

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

	Program Services				General and Administrative	Fundraising	Total
	House Operations	Grant Making	Care Mobile	Total			
Employee costs	\$ 557,310	\$ 49,915	\$ 12,500	\$ 619,725	\$ 93,760	\$ 352,489	\$ 1,065,974
Scholarships granted	-	156,500	-	156,500	-	-	156,500
Indirect fundraising	-	-	-	-	48,250	92,478	140,728
Public Relations	-	-	-	-	-	183,765	183,765
Interest	-	-	-	-	9,783	-	9,783
Cleaning service and supplies	121,491	-	-	121,491	-	-	121,491
House supplies	17,618	-	-	17,618	-	-	17,618
Utilities	143,178	-	-	143,178	-	-	143,178
Maintenance and repair	136,705	-	-	136,705	-	-	136,705
Insurance	33,720	-	-	33,720	8,828	-	42,548
Payroll taxes	39,900	3,780	-	43,680	6,570	24,597	74,847
Bank charges	-	-	-	-	32,852	-	32,852
Office supplies	9,443	-	-	9,443	28,797	-	38,240
Telephone	26,832	-	-	26,832	-	-	26,832
Employee benefits	93,825	5,206	-	99,031	-	39,101	138,132
Donor recognition	10,885	-	-	10,885	-	944	11,829
Technology	29,644	-	-	29,644	43,651	-	73,295
Professional fees	47,896	-	-	47,896	-	-	47,896
Administrative fees	-	1,387	-	1,387	-	-	1,387
Postage	-	-	-	-	10,903	-	10,903
Direct mail	-	-	-	-	-	88,780	88,780
Linens and laundry	13,846	-	-	13,846	-	-	13,846
Meeting/Training/ Seminars	-	-	-	-	24,891	-	24,891
Printing and publishing	19,273	-	-	19,273	23,413	-	42,686
Volunteer recognition	-	-	-	-	5,915	-	5,915
Automobile expense	4,248	-	-	4,248	-	-	4,248
Total expenses before depreciation and donated materials and services	1,305,814	216,788	12,500	1,535,102	337,613	782,154	2,654,869
Depreciation	556,777	-	-	556,777	2,681	50,112	609,570
Donated materials and services	156,907	-	-	156,907	-	-	156,907
Total functional expenses	<u>\$ 2,019,498</u>	<u>\$ 216,788</u>	<u>\$ 12,500</u>	<u>\$ 2,248,786</u>	<u>\$ 340,294</u>	<u>\$ 832,266</u>	<u>\$ 3,421,346</u>

See accompanying notes

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

	2016	2015
<u>Operating activities:</u>		
Change in net assets	\$ (391,123)	\$ 295,248
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,345,229	609,570
Amortization of loan costs	29,334	7,817
Realized gain on sales of investments	(215,114)	(35,942)
Unrealized loss on investments and fees	147,688	86,970
Change in present value discount on pledges receivable	(28,732)	3,321
In-kind donation of property and equipment	-	(307,501)
(Increase) decrease in assets:		
Contributions receivable	(272,568)	(43,932)
Pledges receivable	1,316,808	2,815,037
Prepaid expenses	(21,584)	18,517
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(965,608)	138,149
Deferred revenue	(13,000)	3,250
Pledge payable	-	9,730
	931,330	3,600,234
Net cash provided by operating activities	931,330	3,600,234
<u>Investing activities:</u>		
Purchase of property and equipment	(75,815)	-
Proceeds from sale of investments	854,465	1,948,156
Net income reinvested and purchase of investments	(1,190,852)	(1,996,605)
Capital expansion in progress	-	(13,860,531)
	(412,202)	(13,908,980)
Net cash used in investing activities	(412,202)	(13,908,980)
<u>Financing activities:</u>		
Net proceeds from (payments on) construction loan	(1,052,240)	1,204,602
Net decrease in cash and cash equivalents	(533,112)	(9,104,144)
Cash and cash equivalents at beginning of year	4,450,095	13,554,239
Cash and cash equivalents at end of year	\$ 3,916,983	\$ 4,450,095

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	\$ 20,912	\$ 645
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See accompanying notes

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

NON-CASH INVESTING AND FINANCING ACTIVITIES

During the year ended December 31, 2016, the Organization acquired property and equipment in the amount of \$75,000 through accounts payable and accrued expenses.

During the year ended December 31, 2015, the Organization received an in-kind donation of investments in the amount of \$1,350,770. The investments were liquidated and pledged to Children's Healthcare of Atlanta. See Note G for further details.

See accompanying notes

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

**Note A**

**Description of Operations**

Atlanta Ronald McDonald House Charities, Inc. (the "Organization") is a charitable organization whose mission is to nurture the health and well-being of children and families through three programs; 1) providing temporary lodging for families whose children are undergoing treatment at local hospitals; 2) providing scholarships to children to assist them in accessing education; and 3) providing asthma care to children through the Ronald McDonald Care Mobile program. The Organization also makes grants and contributions to organizations which engage, in whole or in part, in educating children, providing for the essential needs of children, or carrying on research for, or treatment of, physical and mental diseases and other disorders of children. The Organization is supported primarily through donor contributions, grants, and fundraising activities.

**Note B**

**Summary of Significant Accounting Policies**

**Net Asset Classification:**

The accompanying financial statements have been prepared in accordance with standards set for accounting for contributions received and contributions made and also financial statements for not-for-profit organizations and the associated industry accounting and audit guide. Under these guidelines, contributions of cash and other assets are classified as one of the following categories:

Unrestricted – The part of net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted – The part of the net assets resulting (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

Permanently Restricted – The part of the net assets resulting (a) from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

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

**Note B**

**Summary of Significant Accounting Policies (Continued)**

Basis of Accounting:

The financial statements have been prepared on the accrual basis of accounting. Contributions are recognized upon an unconditional promise to give by a donor to the Organization. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions received from donors with permanent restriction are maintained as permanently restricted net assets in perpetuity. Expenses are recognized when incurred.

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 certain reported amounts and disclosures. Significant estimates include collectability of pledges receivable and discount on pledges receivable. Actual results could differ from those estimates.

Cash Equivalents:

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Concentration of Credit Risk:

The Organization maintains its cash balances in several financial institutions. Such balances, at times, may exceed federally insured limits. The Organization has not experienced any such losses and does not believe that it is exposed to any significant risk on its cash and cash equivalents.

Contributions and Pledges Receivable:

Contributions receivable on the statements of financial position are funds receivable from local restaurants and grants receivable from private organizations. These receivables are due in less than one year. Pledges receivable are recognized when the donor makes an unconditional promise to give to the Organization. Conditional promises are not recorded as support until the conditions are substantially met. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction has been met or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible, unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises to give. Management has determined that no allowance was necessary at December 31, 2016 or 2015.

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

**Note B**

**Summary of Significant Accounting Policies (Continued)**

Investments:

As more fully described in Note E, investments are carried at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Investment income and gains and losses on investments are recorded as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations, or by law. Investment income and gains and losses on investments whose use is temporarily restricted by explicit donor stipulation, or by law, but whose restrictions expire in the same reporting period as earned, are reported as unrestricted investment income.

Investments consist of marketable debt and equity securities and are reported at their fair values in the statements of financial position. All equity and debt securities held by the Organization are considered to be available-for-sale securities. Investment securities are exposed to various risks, such as interest rate risk, market risk and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the accompanying financial statements.

Property and Equipment:

Property and equipment are stated at cost for purchased assets or fair value on the date of donation for donated assets. The Organization reviews for capitalization all expenditures greater than \$2,000. Assets received by donation generally follow the same capitalization policy. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The useful lives used for depreciation are as follows:

Buildings and improvements	15-30 years
Furniture and Equipment	5-20 years

Impairment of Long-Lived Assets:

Long-lived assets and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to their fair value, which is normally determined through analysis of the future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount that the carrying amount of the assets exceeds the fair value of the assets. No impairment loss has been recognized during the years ended 2016 and 2015.



ATLANTA RONALD MCDONALD HOUSE CHARITIES, INC.  
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**Note B**

**Summary of Significant Accounting Policies (Continued)**

Functional Expenses:

The Organization allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program or support service are allocated directly. Expenses common to several functions are allocated according to a formula developed by management.

Donated Assets and Services:

Donated assets and services are reflected as contributions in the accompanying statements of activities at their estimated fair values at the date of receipt. No amounts have been reflected in the statements of activities for donated volunteer services because they do not meet the criteria for revenue recognition.

Income Taxes:

The Organization is a charitable organization and qualifies under Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization for both federal and state income tax purposes. Accordingly, the Organization has provided for no income taxes in the accompanying financial statements. The Organization applies the guidance on accounting for uncertain tax provisions in FASB ASC 740 *Income Taxes*. There were no unrecognized tax benefits or related liabilities at December 31, 2016 or 2015. The Organization is no longer subject to income tax examinations for calendar years prior to 2013.

Change in Accounting Principle:

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30) (“ASU 2015-03”), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 requires retrospective application to all prior period amounts presented, and is effective for annual period beginning on or after December 15, 2015. The Organization adopted ASU 2015-03 for the fiscal year ended December 31, 2016, by applying it retrospectively to all periods presented. The adoption resulted in the reclassification of loan costs in the amount of \$29,965 as of December 31, 2015 from an asset to net with the note payable.

Amortization of Loan Costs:

Loan costs incurred by the Organization to obtain the note payable are recorded as a direct deduction from the carrying amount of the note payable. The loan costs are amortized using the effective interest rate method over the life of the note payable. Amortization of loan costs is included in interest expense.

Reclassifications:

Certain amounts as of and for the year ending December 31, 2015, have been reclassified to conform with the current year presentation.

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

**Note C**

**Pledges Receivable**

Pledges receivable at their net realizable value consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Due in one year or less	\$ 1,130,875	\$ 1,601,852
One to five years	<u>162,043</u>	<u>1,007,874</u>
	1,292,918	2,609,726
Less: present value discount	<u>-</u>	<u>(28,732)</u>
Pledges receivable, net	<u>\$ 1,292,918</u>	<u>\$ 2,580,994</u>

**Note D**

**Investments**

Investments consisted of the following at December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Mutual Funds	\$ -	\$ 1,703,414	\$ 114,500	\$ 1,817,914
Equity Securities	-	862,846	496,250	1,359,096
Exchange -Traded Funds	-	246,364	-	246,364
Debt Securities - Corporate	<u>-</u>	<u>396,488</u>	<u>-</u>	<u>396,488</u>
	<u>\$ -</u>	<u>\$ 3,209,112</u>	<u>\$ 610,750</u>	<u>\$ 3,819,862</u>

Investments consisted of the following at December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Mutual Funds	\$ -	\$ 1,491,219	\$ 114,500	\$ 1,605,719
Equity Securities	-	955,925	496,250	1,452,175
Exchange-Traded Funds	-	20,532	-	20,532
Debt Securities - Corporate	<u>-</u>	<u>328,843</u>	<u>-</u>	<u>328,843</u>
	<u>\$ -</u>	<u>\$ 2,796,519</u>	<u>\$ 610,750</u>	<u>\$ 3,407,269</u>

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

**Note D**

**Investments (Continued)**

The components of investment income are as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 74,159	\$ 67,917
Realized gains	215,114	35,942
Unrealized losses	(125,683)	(69,923)
Less: investment expenses	<u>(22,005)</u>	<u>(17,047)</u>
	<u>\$ 141,585</u>	<u>\$ 16,889</u>

**Note E**

**Fair Value Measurements**

The Organization applies FASB ASC 820, *Fair Value Measurements* (ASC 820), which establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

The three general valuation techniques that may be used to measure fair value are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liability in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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**Note E**

**Fair Value Measurements (Continued)**

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at December 31, 2016:

**Assets measured at fair value on a recurring basis as of December 31, 2016**

	<u>Cost</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds	\$ 1,838,441	\$ 1,817,914	\$ 1,817,914	\$ -	\$ -
Equity Securities	1,088,630	1,359,096	1,359,096	-	-
Exchange-Traded Funds	228,590	246,364	246,364	-	-
Debt Securities - Corporate	<u>401,167</u>	<u>396,488</u>	<u>-</u>	<u>396,488</u>	<u>-</u>
	<u>\$ 3,556,828</u>	<u>\$ 3,819,862</u>	<u>\$ 3,423,374</u>	<u>\$ 396,488</u>	<u>\$ -</u>

**Assets measured at fair value on a non-recurring basis as of December 31, 2016**

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Pledges receivable, net	\$ <u>1,292,918</u>	\$ <u>-</u>	<u>-</u>	\$ <u>1,292,918</u>
	<u>\$ 1,292,918</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 1,292,918</u>

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at December 31, 2015:

**Assets measured at fair value on a recurring basis as of December 31, 2015**

	<u>Cost</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds	\$ 1,676,781	\$ 1,605,719	\$ 1,605,719	\$ -	\$ -
Equity Securities	982,669	1,452,175	1,452,175	-	-
Exchange-Traded Funds	21,219	20,532	20,532	-	-
Debt Securities - Corporate	<u>325,627</u>	<u>328,843</u>	<u>-</u>	<u>328,843</u>	<u>-</u>
	<u>\$ 3,006,296</u>	<u>\$ 3,407,269</u>	<u>\$ 3,078,426</u>	<u>\$ 328,843</u>	<u>\$ -</u>

ATLANTA RONALD MCDONALD HOUSE CHARITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**Note E**

**Fair Value Measurements (Continued)**

**Assets measured at fair value on a non-recurring basis as of December 31, 2015**

	Fair Value	Level 1	Level 2	Level 3
Pledges receivable, net	\$ <u>2,580,994</u>	\$ <u>-</u>	<u>-</u>	\$ <u>2,580,994</u>
	\$ <u><u>2,580,994</u></u>	\$ <u><u>-</u></u>	<u><u>-</u></u>	\$ <u><u>2,580,994</u></u>

There were no significant transfers between the levels during the year. The Organization's policy is to recognize transfers in and out of the levels at the end of the fiscal year; interim changes in the availability of fair value inputs are not recognized.

**Note F**

**Property and Equipment**

Property and equipment consisted of the following at December 31:

	2016	2015
Land	\$ 1,948,846	\$ 1,948,846
Buildings and improvements	30,994,400	30,882,752
Furniture and equipment	<u>3,142,749</u>	<u>3,103,582</u>
	36,085,995	35,935,180
Less accumulated depreciation	<u>(6,232,907)</u>	<u>(4,887,678)</u>
	<u>\$ 29,853,088</u>	<u>\$ 31,047,502</u>

Depreciation expense totaled \$1,345,229 and \$609,570 for the years ended December 31, 2016 and 2015, respectively.

**Note G**

**Pledge Payable**

During 2015, the Organization entered into a grant agreement. Under the terms of the agreement, the Organization received a stock gift of approximately \$1,500,000. Pursuant to the agreement, the Organization was to liquidate the securities and use the proceeds to establish a permanent endowment in the amount of \$114,500 and retain an additional \$12,500 to cover any associated expenses. The remaining amount was pledged to Children's Healthcare of Atlanta (CHOA).

ATLANTA RONALD MCDONALD HOUSE CHARITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**Note G**

**Pledge Payable (Continued)**

Required payments to CHOA under the grant agreement outstanding as of December 31, 2016 are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 651,305
2018	512,010
2019	<u>197,185</u>
	<u>\$ 1,360,500</u>

**Note H**

**Note Payable**

In 2014, the Organization obtained a construction loan with SunTrust bank that is secured by the Peachtree Dunwoody Ronald McDonald House. The agreement provides for advances of up to \$8,000,000. Interest only payments are due monthly. The loan bears interest at one-month LIBOR plus 1.45%. The loan matures on October 30, 2019. At December 31, 2016 and 2015, the loan balance was \$152,462 and \$1,204,702, respectively. Subsequent to December 31, 2016, the note payable was repaid in full.

In connection with obtaining the note payable, the Organization paid loan costs in the amount of \$39,085. As of December 31, 2016 and 2015, the unamortized loan costs totaled \$631 and \$29,965, respectively.

During the years ended December 31, 2016 and 2015, interest expense incurred was \$49,400 and \$9,783, respectively, which includes amortization of loan costs of \$29,334 and \$7,817, respectively.

ATLANTA RONALD MCDONALD HOUSE CHARITIES, INC.  
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**Note I**

**Donor-Designated Endowments**

The state of Georgia adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in July 2008. The Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent the explicit donor stipulations to the contrary. Accordingly, the classification of permanently restricted net assets includes (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with 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 fund.
2. The purpose of the Organization 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 the Organization.
7. The investment policies of the Organization

**Return Objectives and Risk Parameters**

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowments. The endowment assets are invested in a manner that is intended to produce a return that meets or exceeds market index, or blended market index selected by the Board of Directors while assuming a moderate level of investment risk (tolerating a maximum loss of 0% to 15% over any one year period).

ATLANTA RONALD MCDONALD HOUSE CHARITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**Note I**

**Donor-Designated Endowments (Continued)**

Spending Policy

The Organization has a policy in which the general rule of appropriating for distribution each year is 3% of its endowment fund's average appreciation over the prior 3 fiscal years preceding the fiscal year in which the distribution is planned. Spending may be approved for maintenance, specific programs or to contribute to the general operating budget of the charity. There is no minimum requirement for spending from the endowment in any given year. If it is determined that a distribution is not needed or not feasible in any given year, the distribution may be waived for the year. In establishing this policy, the Organization considered the long-term expected returns on its endowment investments. Accordingly, over the long-term, the Organization expects the current spending policy will allow its endowment to retain the original fair value of the gift and to provide ARMHC with an incremental stream of income to be utilized to supplement other recurring sources of revenue for the charity.

Strategies Employed for Achieving Objectives

The Organization relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield (interest and dividends). The Organization targets a diversified asset allocation that emphasizes fixed income securities to achieve its long-term objectives within prudent risk constraints.

The composition and changes in endowment net assets as of December 31, 2016 and 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2014	\$ -	\$ 1,760,565	\$ 496,250	\$ 2,256,815
Contributions	-	1,373,387	114,500	1,487,887
Investment income	-	103,859	-	103,859
Net depreciation, plus fees	-	(86,970)	-	(86,970)
Appropriation of endowment net assets for expenditure	<u>-</u>	<u>(147,883)</u>	<u>-</u>	<u>(147,883)</u>
Endowment net assets, December 31, 2015	-	3,002,958	610,750	3,613,708
Contributions	-	235,879	-	235,879
Investment income	-	289,273	-	289,273
Net depreciation, plus fees	<u>-</u>	<u>(147,688)</u>	<u>-</u>	<u>(147,688)</u>
Endowment net assets, December 31, 2016	<u>\$ -</u>	<u>\$ 3,380,422</u>	<u>\$ 610,750</u>	<u>\$ 3,991,172</u>



ATLANTA RONALD MCDONALD HOUSE CHARITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**Note J**

**Required Payments to National Organization**

Section 8 of the Affiliation Agreement between the Organization and the National Organization (Ronald McDonald House Charities) requires the Organization to remit, on at least a quarterly basis, 25% of all qualifying monetary contributions (net of normal and customary fund raising expenses) to the National Organization. For the years ended December 31, 2016 and 2015, a total of \$74,249 and \$77,930, respectively, was paid to the National Organization under this agreement. Included in accounts payable and accrued expenses at December 31, 2016 and 2015, is \$20,173 and \$20,703, respectively, owed to the National Organization under this agreement.

**Note K**

**Related Parties**

During the years ended December 31, 2016 and 2015, the Organization received contributions from board members and other related parties totaling \$274,090 and \$106,082, respectively. Contributions and pledges receivable from board members, employees, and other related parties at December 31, 2016 and 2015, totaled \$702,083 and \$1,315,892, respectively. In addition, companies owned by various board members donated construction, marketing, accounting, and legal services to the Organization during 2016 and 2015 in amounts totaling \$99,002 and \$187,042, respectively.

**Note L**

**Commitments**

In 2007, the Organization signed an agreement with Children's Healthcare of Atlanta (CHOA) (whose facilities are served by the Organization's two houses at Gatewood Road and Peachtree Dunwoody Road in Atlanta). Under the terms of the agreement, a portion of the land on which the Peachtree Dunwoody location is housed was gifted to the Organization. If the land ever ceases to be used as a Ronald McDonald Charities location CHOA has an irrevocable right to repurchase the property for the fair market value of the improvements to the land.

CHOA is recognized as a regional treatment center of excellence and one of the top 10 children's hospitals in the country with nationally recognized programs for cancer, heart, and solid organ transplants. Management believes the demand for lodging and respite facilities will continue to increase. The leadership of the Organization, working with CHOA, has undertaken an analysis of the amount and type of additional space needed to serve current and future families. During 2015, the Organization completed construction of the new Peachtree Dunwoody house.

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**Note M**

**Subsequent Events**

The Organization evaluated subsequent events through June 23, 2017, when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date, but prior to the issuance of this report, that would have a material impact on the financial statements.

SUPPLEMENTARY INFORMATION

ATLANTA RONALD MCDONALD HOUSE CHARITIES, INC.  
SCHEDULES OF SCHOLARSHIPS GRANTED  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
African-American Future Achievers	\$ 40,500	\$ 39,125
Asia Scholarship Program	26,000	39,125
Hacer Program	35,000	39,125
RMHC Atlanta Scholarship Program	<u>41,135</u>	<u>39,125</u>
Total Scholarships Granted	<u>\$ 142,635</u>	<u>\$ 156,500</u>

See independent auditors' report