



# The **Children's Inn** at NIH

## **Financial Statements**

*For the Years Ended June 30, 2018 and 2017*



**and  
Report Thereon**





*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
The Children's Inn at NIH, Inc.

We have audited the accompanying financial statements of The Children's Inn at NIH, Inc. (The Inn), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 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 auditor's 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 The Children's Inn at NIH, Inc. as of June 30, 2018 and 2017, 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.

*Raffa, P.C.*

**Raffa, P.C.**

Washington, DC  
September 20, 2018

**THE CHILDREN'S INN AT NIH, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2018 and 2017**

|  | 2018                 | 2017                 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Current assets   |                      |                      |
| Cash and cash equivalents  | \$ 2,160,031         | \$ 1,774,321         |
| Pledges receivable, current portion  | 488,149              | 1,564,221            |
| Accounts receivable  | 178,332              | 131,704              |
| Prepaid expenses   | 104,338              | 105,103              |
| Total Current Assets   | 2,930,850            | 3,575,349            |
| Noncurrent assets  |                      |                      |
| Pledges receivable, net of current portion, discount and allowance for doubtful accounts | 505,246              | 588,103              |
| Investments, net of deferred compensation plan   | 53,156,140           | 47,129,273           |
| Deferred compensation plan investments   | -                    | 60,635               |
| Property and equipment, net  | 4,020,620            | 8,224,168            |
| Total Noncurrent Assets  | 57,682,006           | 56,002,179           |
| <b>TOTAL ASSETS</b>  | <b>\$ 60,612,856</b> | <b>\$ 59,577,528</b> |
| <b>LIABILITIES AND NET ASSETS</b>  |                      |                      |
| Liabilities  |                      |                      |
| Current liabilities  |                      |                      |
| Accounts payable and accrued expenses  | \$ 319,897           | \$ 361,850           |
| Accrued payroll and leave  | 253,725              | 254,376              |
| Deferred revenue   | -                    | 61,500               |
| Total Current Liabilities  | 573,622              | 677,726              |
| Noncurrent Liabilities   |                      |                      |
| Deferred compensation  | -                    | 60,635               |
| <b>TOTAL LIABILITIES</b>   | <b>573,622</b>       | <b>738,361</b>       |
| Net Assets   |                      |                      |
| Unrestricted   | 27,032,580           | 25,735,221           |
| Temporarily restricted   | 7,806,695            | 10,025,416           |
| Permanently restricted   | 25,199,959           | 23,078,530           |
| <b>TOTAL NET ASSETS</b>  | <b>60,039,234</b>    | <b>58,839,167</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b>\$ 60,612,856</b> | <b>\$ 59,577,528</b> |

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S INN AT NIH, INC.

STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2018 and 2017

|   | 2018                 |                        |                        |                      | 2017                 |                        |                        |                      |
|---|----------------------|------------------------|------------------------|----------------------|----------------------|------------------------|------------------------|----------------------|
|   | Unrestricted         | Temporarily Restricted | Permanently Restricted | Total                | Unrestricted         | Temporarily Restricted | Permanently Restricted | Total                |
| <b>REVENUE AND SUPPORT</b>                                    |                      |                        |                        |                      |                      |                        |                        |                      |
| Grants, contributions and events revenue                      | \$ 3,671,307         | \$ 451,682             | \$ 928,217             | \$ 5,051,206         | \$ 3,634,398         | \$ 435,988             | \$ 1,324,137           | \$ 5,394,523         |
| Contributed facilities, property, goods and services          | 3,325,136            | -                      | -                      | 3,325,136            | 3,359,860            | -                      | -                      | 3,359,860            |
| Patient lodging   | 1,245,686            | -                      | -                      | 1,245,686            | 1,089,757            | -                      | -                      | 1,089,757            |
| Investment income, net  | 1,633,537            | 281,428                | 1,193,212              | 3,108,177            | 2,383,530            | 311,747                | 1,867,734              | 4,563,011            |
| Other income  | 5,418                | -                      | -                      | 5,418                | 3,777                | -                      | -                      | 3,777                |
| Net gains (losses) on disposal/sale of property and equipment | 255,429              | -                      | -                      | 255,429              | (44,898)             | -                      | -                      | (44,898)             |
| Net assets released from restrictions:                        |                      |                        |                        |                      |                      |                        |                        |                      |
| Satisfaction of program restrictions                          | 2,951,831            | (2,951,831)            | -                      | -                    | 1,015,269            | (1,015,269)            | -                      | -                    |
| <b>TOTAL REVENUE AND SUPPORT</b>                              | <b>13,088,344</b>    | <b>(2,218,721)</b>     | <b>2,121,429</b>       | <b>12,991,052</b>    | <b>11,441,693</b>    | <b>(267,534)</b>       | <b>3,191,871</b>       | <b>14,366,030</b>    |
| <b>EXPENSES</b>   |                      |                        |                        |                      |                      |                        |                        |                      |
| Program Services:   |                      |                        |                        |                      |                      |                        |                        |                      |
| Housing   | 5,725,220            | -                      | -                      | 5,725,220            | 5,528,923            | -                      | -                      | 5,528,923            |
| Resident services   | 2,724,542            | -                      | -                      | 2,724,542            | 2,558,626            | -                      | -                      | 2,558,626            |
| Total Program Services  | 8,449,762            | -                      | -                      | 8,449,762            | 8,087,549            | -                      | -                      | 8,087,549            |
| Supporting Services:  |                      |                        |                        |                      |                      |                        |                        |                      |
| Management and general  | 1,521,634            | -                      | -                      | 1,521,634            | 1,477,639            | -                      | -                      | 1,477,639            |
| Fundraising   | 1,819,589            | -                      | -                      | 1,819,589            | 1,605,423            | -                      | -                      | 1,605,423            |
| Total Supporting Services                                     | 3,341,223            | -                      | -                      | 3,341,223            | 3,083,062            | -                      | -                      | 3,083,062            |
| <b>TOTAL EXPENSES</b>   | <b>11,790,985</b>    | <b>-</b>               | <b>-</b>               | <b>11,790,985</b>    | <b>11,170,611</b>    | <b>-</b>               | <b>-</b>               | <b>11,170,611</b>    |
| <b>CHANGE IN NET ASSETS</b>                                   | <b>1,297,359</b>     | <b>(2,218,721)</b>     | <b>2,121,429</b>       | <b>1,200,067</b>     | <b>271,082</b>       | <b>(267,534)</b>       | <b>3,191,871</b>       | <b>3,195,419</b>     |
| <b>NET ASSETS, BEGINNING OF YEAR</b>                          | <b>25,735,221</b>    | <b>10,025,416</b>      | <b>23,078,530</b>      | <b>58,839,167</b>    | <b>25,464,139</b>    | <b>10,292,950</b>      | <b>19,886,659</b>      | <b>55,643,748</b>    |
| <b>NET ASSETS, END OF YEAR</b>                                | <b>\$ 27,032,580</b> | <b>\$ 7,806,695</b>    | <b>\$ 25,199,959</b>   | <b>\$ 60,039,234</b> | <b>\$ 25,735,221</b> | <b>\$ 10,025,416</b>   | <b>\$ 23,078,530</b>   | <b>\$ 58,839,167</b> |

The accompanying notes are an integral part of these financial statements.

**THE CHILDREN'S INN AT NIH, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2018**

|  | Program Services    |                     |                        | Supporting Services    |                     |                           | Total                |
|--|---------------------|---------------------|------------------------|------------------------|---------------------|---------------------------|----------------------|
|  | Housing             | Resident Services   | Total Program Services | Management and General | Fundraising         | Total Supporting Services |                      |
| Salaries   | \$ 548,766          | \$ 966,201          | \$ 1,514,967           | \$ 635,826             | \$ 639,015          | \$ 1,274,841              | \$ 2,789,808         |
| Contributed facilities, property, goods and services | 2,137,374           | 482,767             | 2,620,141              | 148,105                | -                   | 148,105                   | 2,768,246            |
| Depreciation and amortization                        | 1,506,040           | -                   | 1,506,040              | 117,638                | 23,992              | 141,630                   | 1,647,670            |
| Public relations, promotion and development          | 42,251              | 32,807              | 75,058                 | 93,277                 | 905,783             | 999,060                   | 1,074,118            |
| Payroll taxes and benefits                           | 211,214             | 249,215             | 460,429                | 162,444                | 156,066             | 318,510                   | 778,939              |
| Resident family programming                          | -                   | 725,522             | 725,522                | -                      | -                   | -                         | 725,522              |
| Cleaning   | 660,329             | -                   | 660,329                | 39,774                 | -                   | 39,774                    | 700,103              |
| Facility and equipment maintenance                   | 341,033             | 19,631              | 360,664                | 10,856                 | -                   | 10,856                    | 371,520              |
| Resident supplies and expenses                       | 101,308             | 137,008             | 238,316                | -                      | -                   | -                         | 238,316              |
| Information system                                   | 10,995              | 8,537               | 19,532                 | 84,141                 | 46,578              | 130,719                   | 150,251              |
| Finance costs  | 14,945              | 11,604              | 26,549                 | 84,579                 | 11,120              | 95,699                    | 122,248              |
| Consulting and contracted services                   | 22,032              | 17,107              | 39,139                 | 55,079                 | 10,569              | 65,648                    | 104,787              |
| Insurance  | 42,203              | 32,769              | 74,972                 | 20,346                 | 4,152               | 24,498                    | 99,470               |
| Office supplies and expenses                         | 21,500              | 16,694              | 38,194                 | 23,137                 | 13,480              | 36,617                    | 74,811               |
| Board and committee expenses                         | 12,329              | 9,573               | 21,902                 | 20,786                 | 1,605               | 22,391                    | 44,293               |
| Training   | 11,314              | 8,785               | 20,099                 | 6,519                  | 7,229               | 13,748                    | 33,847               |
| Grounds maintenance                                  | 28,091              | -                   | 28,091                 | -                      | -                   | -                         | 28,091               |
| Legal  | -                   | -                   | -                      | 19,127                 | -                   | 19,127                    | 19,127               |
| Volunteer expense                                    | 6,321               | 6,322               | 12,643                 | -                      | -                   | -                         | 12,643               |
| Operations   | 6,529               | -                   | 6,529                  | -                      | -                   | -                         | 6,529                |
| Vehicle expenses                                     | 646                 | -                   | 646                    | -                      | -                   | -                         | 646                  |
| <b>TOTAL EXPENSES</b>                                | <b>\$ 5,725,220</b> | <b>\$ 2,724,542</b> | <b>\$ 8,449,762</b>    | <b>\$ 1,521,634</b>    | <b>\$ 1,819,589</b> | <b>\$ 3,341,223</b>       | <b>\$ 11,790,985</b> |

The accompanying notes are an integral part of these financial statements.

**THE CHILDREN'S INN AT NIH, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended June 30, 2017

|  | Program Services    |                     |                        | Supporting Services    |                     |                           | Total                |
|--|---------------------|---------------------|------------------------|------------------------|---------------------|---------------------------|----------------------|
|  | Housing             | Resident Services   | Total Program Services | Management and General | Fundraising         | Total Supporting Services |                      |
| Salaries   | \$ 606,587          | \$ 770,962          | \$ 1,377,549           | \$ 692,682             | \$ 602,482          | \$ 1,295,164              | \$ 2,672,713         |
| Contributed facilities, property, goods and services | 2,070,659           | 476,611             | 2,547,270              | 143,589                | -                   | 143,589                   | 2,690,859            |
| Depreciation and amortization                        | 1,542,991           | -                   | 1,542,991              | 121,607                | 30,402              | 152,009                   | 1,695,000            |
| Public relations, promotion and development          | 61,368              | 79,883              | 141,251                | 36,099                 | 750,065             | 786,164                   | 927,415              |
| Payroll taxes and benefits                           | 191,548             | 245,805             | 437,353                | 184,008                | 151,888             | 335,896                   | 773,249              |
| Resident family programming                          | -                   | 591,002             | 591,002                | -                      | -                   | -                         | 591,002              |
| Cleaning   | 643,661             | -                   | 643,661                | 37,597                 | -                   | 37,597                    | 681,258              |
| Facility and equipment maintenance                   | 192,118             | 18,831              | 210,949                | 4,808                  | -                   | 4,808                     | 215,757              |
| Resident supplies and expenses                       | 40,517              | 173,078             | 213,595                | -                      | -                   | -                         | 213,595              |
| Information system                                   | 38,861              | 50,585              | 89,446                 | 26,351                 | 18,181              | 44,532                    | 133,978              |
| Finance costs  | 11,012              | 14,333              | 25,345                 | 97,350                 | 5,152               | 102,502                   | 127,847              |
| Consulting and contracted services                   | 24,425              | 31,794              | 56,219                 | 62,693                 | 21,760              | 84,453                    | 140,672              |
| Insurance  | 32,394              | 42,168              | 74,562                 | 22,553                 | 5,263               | 27,816                    | 102,378              |
| Office supplies and expenses                         | 14,529              | 18,913              | 33,442                 | 18,701                 | 10,932              | 29,633                    | 63,075               |
| Board and committee expenses                         | 12,119              | 15,776              | 27,895                 | 5,340                  | 3,684               | 9,024                     | 36,919               |
| Training   | 10,470              | 13,629              | 24,099                 | 7,706                  | 5,614               | 13,320                    | 37,419               |
| Grounds maintenance                                  | 32,239              | -                   | 32,239                 | -                      | -                   | -                         | 32,239               |
| Legal  | -                   | -                   | -                      | 16,555                 | -                   | 16,555                    | 16,555               |
| Volunteer expense                                    | 3,425               | 6,953               | 10,378                 | -                      | -                   | -                         | 10,378               |
| Operations   | -                   | 6,219               | 6,219                  | -                      | -                   | -                         | 6,219                |
| Vehicle expenses                                     | -                   | 2,084               | 2,084                  | -                      | -                   | -                         | 2,084                |
| <b>TOTAL EXPENSES</b>                                | <b>\$ 5,528,923</b> | <b>\$ 2,558,626</b> | <b>\$ 8,087,549</b>    | <b>\$ 1,477,639</b>    | <b>\$ 1,605,423</b> | <b>\$ 3,083,062</b>       | <b>\$ 11,170,611</b> |

The accompanying notes are an integral part of these financial statements.

**THE CHILDREN'S INN AT NIH, INC.**

**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2018 and 2017**  
**Increase (Decrease) in Cash and Cash Equivalents**

|   | 2018                | 2017                |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |                     |
| Change in net assets  | \$ 1,200,067        | \$ 3,195,419        |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                     |                     |
| Discount on pledges receivable  | 12,541              | 44,530              |
| Depreciation and amortization   | 1,647,670           | 1,695,000           |
| Donated property  | (10,000)            | (145,270)           |
| Net (gains) losses on disposal/sale of property and equipment   | (255,429)           | 44,898              |
| Net realized and unrealized gains on investments  | (1,441,553)         | (3,410,848)         |
| Contributions and interest and dividends restricted for long-term purposes                            | (1,518,301)         | (1,723,689)         |
| Changes in assets and liabilities:  |                     |                     |
| Pledges receivable  | 1,146,388           | 122,850             |
| Accounts receivable   | (46,628)            | 7,213               |
| Prepaid expenses  | 765                 | (17,433)            |
| Accounts payable and accrued expenses   | (41,953)            | 20,964              |
| Accrued payroll and leave   | (651)               | 8,498               |
| Deferred revenue  | (61,500)            | 61,500              |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>  | <b>631,416</b>      | <b>(96,368)</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                     |                     |
| Purchases of investments  | (7,238,392)         | (9,598,785)         |
| Proceeds from sale or maturities of investments   | 2,653,078           | 8,600,535           |
| Purchases of property and equipment   | (292,649)           | (493,986)           |
| Proceeds from sale of property and equipment  | 3,113,956           | -                   |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  | <b>(1,764,007)</b>  | <b>(1,492,236)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                     |                     |
| Contributions and interest and dividends restricted for long-term purposes                            | 1,518,301           | 1,723,689           |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>  | <b>1,518,301</b>    | <b>1,723,689</b>    |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>385,710</b>      | <b>135,085</b>      |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>   | <b>1,774,321</b>    | <b>1,639,236</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>   | <b>\$ 2,160,031</b> | <b>\$ 1,774,321</b> |
| <b>NONCASH INVESTING ACTIVITIES</b>   |                     |                     |
| Donated property  | <b>\$ 10,000</b>    | <b>\$ 145,270</b>   |

The accompanying notes are an integral part of these financial statements.

**THE CHILDREN'S INN AT NIH, INC.**

**NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2018 and 2017**

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1. Organization and Summary of Significant Accounting Policies

**Organization**

Children's Inn at NIH, Inc., doing business as The Children's Inn at NIH, Inc. (The Inn), is a private, nonprofit residence for families and their children who are participating in pediatric research at the National Institutes of Health's (NIH) Clinical Center. The Inn enhances the opportunities for groundbreaking medical discoveries by providing a free "place like home" that reduces the burdens of illness through a supportive environment including therapeutic, educational and recreational programming. The Inn was incorporated on September 29, 1988, under the laws of the state of Maryland.

These activities are primarily funded by individual, foundation and corporate donations, as well as contributed facilities, property, goods and services.

**Cash Equivalents**

The Inn considers money market funds not held for long-term investment purposes to be cash equivalents.

**Pledges and Accounts Receivable**

The Inn uses the allowance method to record potentially uncollectible pledges and accounts receivable. Pledges and accounts receivable are reported at their outstanding balances, reduced by an allowance for doubtful accounts and discounts, if any. Management periodically evaluates the adequacy of the allowance for doubtful accounts by considering The Inn's past loss experience, known and inherent risks in the pledges and accounts receivable population, and current economic conditions.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates appropriate for the expected term of the promise to give. Amortization of the discount is included in grants, contributions and events revenue in the accompanying statements of activities.

**Investments**

Investments are composed of mutual funds, exchange-traded funds, money market funds and interest-bearing cash deposits held for investment purposes and certificates of deposit. These investments are recorded in the accompanying financial statements at their estimated fair value.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements for assets and liabilities measured at fair value on a recurring basis. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore a fair value measurement should be determined based on the assumptions that market participants would use in pricing

THE CHILDREN'S INN AT NIH, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2018 and 2017

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1. Organization and Summary of Significant Accounting Policies (continued)

**Investments (continued)**

the asset or liability. In accordance with the fair value measurement topic, The Inn has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based upon the inputs to the valuation techniques as follows:

*Level 1* – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

*Level 2* – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

*Level 3* – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As of June 30, 2018 and 2017, only The Inn's investments, including the investments set aside for the deferred compensation plan, were measured at fair value on a recurring basis.

**Property and Equipment and Related Depreciation and Amortization**

Property and equipment are recorded at cost. The Inn capitalizes all expenditures for property and improvements in excess of \$5,000. Depreciation on computers, furniture, fixtures and equipment is provided for on a straight-line basis over the estimated useful lives of the assets, which range from three to seven years. Licensee improvements made to The Inn's contributed space in connection with The Inn's Use License Agreement with the U.S. federal government (the Government), as discussed in Note 8, are amortized over the estimated useful lives of the assets, which are seven years. Major additions are capitalized, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Upon the retirement or disposal of assets, the accounts are relieved of the cost and accumulated depreciation and amortization, with any resulting gain or loss included in revenue and support or expense.

Costs incurred in the renovation of new property are accumulated in property and equipment, but will not be depreciated until such time as the relevant assets are completed and put into operational use.

**Impairment of Long-Lived Assets**

In accordance with the provisions of FASB ASC Topic 360, *Property, Plant and Equipment*, The Inn periodically evaluates the carrying value of long-lived assets, including, but not limited to, property and equipment and other assets, when events and circumstances warrant such a

THE CHILDREN'S INN AT NIH, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2018 and 2017

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1. Organization and Summary of Significant Accounting Policies (continued)

**Impairment of Long-Lived Assets (continued)**

review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such an asset are separately identifiable and are less than its carrying value. In that event, a loss is recognized to the extent that the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. At June 30, 2018 and 2017, management had performed a recoverability analysis of The Inn's property and equipment and did not believe an impairment adjustment was required.

**Net Assets**

The net assets of The Inn are classified as follows:

- Unrestricted net assets represent funds that are available for support of The Inn's operations.
- Temporarily restricted net assets represent amounts that are subject to donor-imposed restrictions to be used for a particular purpose or within a specific time period.
- Permanently restricted net assets represent amounts that include donor-imposed restrictions stipulating that the resources be maintained in perpetuity.

**Revenue Recognition**

The Inn reports gifts of cash and other assets, including property and improvements, as temporarily restricted if they are received with donor stipulations that limit the use of the donated asset. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. Unrestricted contributions are reported as revenue and support in the year in which payments are received and/or unconditional promises to give are made.

Conditional promises to give are not included as revenue and support until such time as the conditions are substantially met.

Contributed facilities, property, goods and services consist of donated assets, facilities, property, professional services, and other goods and services. The value of in-kind contributions is recorded as revenue and support and expense at the estimated fair value as provided by the donor as of the date of receipt or the date the services were provided. Annual in-kind contributions from NIH are generally valued on the basis of a market valuation study. Contributions that enhance nonfinancial assets such as licensee improvements are capitalized.

Revenue from patient lodging is recognized at the time the service is provided.

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services to which they relate on the basis of direct expenses.

THE CHILDREN'S INN AT NIH, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies (continued)

**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. Accordingly, actual results could differ from those estimates.

2. Pledges Receivable

As of June 30, 2018 and 2017, The Inn's pledges receivable were due to be received as follows:

|                                     | <u>2018</u>       | <u>2017</u>         |
|-------------------------------------|-------------------|---------------------|
| Due in less than one year           | \$ 488,149        | \$ 1,564,221        |
| Due in one to five years            | <u>528,730</u>    | <u>618,015</u>      |
| Total Pledges Receivable            | 1,016,879         | 2,182,236           |
| Less: Discount to Net Present Value | (17,371)          | (29,912)            |
| Allowance for Doubtful Accounts     | <u>(6,113)</u>    | <u>-</u>            |
| Pledges Receivable, Net             | <u>\$ 993,395</u> | <u>\$ 2,152,324</u> |

In 2018 and 2017, the discount rate used in determining the present value of multiyear pledges was 1.53%.

3. Conditional Promises to Give

In fiscal year 2013, The Inn received a promise to give of \$5,000,000 that was due to be received in five payments over a five-year period. Payment was contingent on the donor's availability of funds and would be recorded as support as the funds were received. During the year ended June 30, 2016, the donor modified the terms of the agreement such that the remaining \$2,000,000 would be paid in four annual payments of \$500,000. The future annual payments were still contingent on the donor's availability of funds. Therefore, during the years ended June 30, 2018 and 2017, The Inn received and recognized \$500,000 as revenue each year. As of June 30, 2018 and 2017, a total of \$4,500,000 and \$4,000,000, respectively, of the promise to give had been received. During fiscal year 2018, The Inn was notified that the donor no longer intends to pay the remaining \$500,000 pledge.

In fiscal year 2017, The Inn also received a promise to give of \$500,000 that is due to be received in five payments over a five-year period. Payment is contingent upon the donor's determination that the annual progress report is satisfactory and obtaining sufficient matching contributions, and will be recorded as support as those conditions are met. During the years ended June 30, 2018 and 2017, The Inn received and recognized \$100,000 as revenue each year. As of June 30, 2018 and 2017, a total of \$200,000 and \$100,000, respectively, of the promise to give had been received.

Continued

THE CHILDREN'S INN AT NIH, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2018 and 2017

4. Investments and Fair Value Measurement

As of June 30, 2018 and 2017, investments consisted of the following at fair value:

|   | <u>2018</u>          | <u>2017</u>          |
|---|----------------------|----------------------|
| Mutual funds and exchange-traded funds                | \$ 49,857,482        | \$ 44,817,834        |
| Money market funds and interest-bearing cash deposits | 3,188,366            | 2,201,412            |
| Certificates of deposit                               | <u>110,292</u>       | <u>110,027</u>       |
| Investments, Net of<br>Deferred Compensation Plan     | 53,156,140           | 47,129,273           |
| Mutual funds held for the deferred compensation plan  | <u>-</u>             | <u>60,635</u>        |
| Total Investments                                     | <u>\$ 53,156,140</u> | <u>\$ 47,189,908</u> |

Investment income is summarized as follows for the years ended June 30, 2018 and 2017:

|                         | <u>2018</u>         | <u>2017</u>         |
|-------------------------|---------------------|---------------------|
| Unrealized gains        | \$ 1,441,692        | \$ 3,410,490        |
| Interest and dividends  | 1,666,624           | 1,152,163           |
| Realized gains (losses) | <u>(139)</u>        | <u>358</u>          |
| Investment Income, Net  | <u>\$ 3,108,177</u> | <u>\$ 4,563,011</u> |

Investment fees were \$77,899 and \$89,883 for the years ended June 30, 2018 and 2017, respectively, and are included as part of finance costs in the accompanying statements of functional expenses.

**THE CHILDREN'S INN AT NIH, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

4. Investments and Fair Value Measurement (continued)

The following table summarizes The Inn's investments measured at fair value on a recurring basis as of June 30, 2018, aggregated by the fair value hierarchy level within which those measurements were made:

|  | Fair Value    | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets/<br>Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|---------------|---|---|--|
| Investments:                               |               |   |   |  |
| Mutual funds and<br>exchange-traded funds: |               |   |   |  |
| Developed market<br>equity securities      | \$ 26,337,898 | \$ 26,337,898   | \$ -  | \$ -   |
| Developed fixed income                     | 11,650,184    | 11,650,184  | -   | -  |
| Real estate equity fund                    | 3,212,147     | 3,212,147   | -   | -  |
| Emerging market<br>equity securities       | 2,608,811     | 2,608,811   | -   | -  |
| High-yield fixed income                    | 1,742,316     | 1,742,316   | -   | -  |
| Long/short equity                          | 974,855       | 974,855   | -   | -  |
| Multistrategy                              | 959,270       | 959,270   | -   | -  |
| Emerging market<br>fixed income            | 951,793       | 951,793   | -   | -  |
| Intermediate bond fund                     | 934,251       | 934,251   | -   | -  |
| Managed futures                            | 485,957       | 485,957   | -   | -  |
| Money market funds                         | 801,359       | 801,359   | -   | -  |
| Certificates of deposit                    | 110,292       | -   | 110,292   | -  |
| Total Assets,<br>at Fair Value             | 50,769,133    | \$ 50,658,841   | \$ 110,292  | \$ -   |
| Interest-bearing<br>cash deposits          | 2,387,007     |   |   |  |
| Total Investments<br>at Fair Value         | \$ 53,156,140 |   |   |  |

Continued

**THE CHILDREN'S INN AT NIH, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

4. Investments and Fair Value Measurement (continued)

The following table summarizes The Inn's investments measured at fair value on a recurring basis as of June 30, 2017, aggregated by the fair value hierarchy level within which those measurements were made:

|  | <u>Fair Value</u>    | <u>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical<br/>Assets/<br/>Liabilities<br/>(Level 1)</u> | <u>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</u> |
|--|----------------------|--|--|--|
| Investments:                                       |                      |  |  |  |
| Mutual funds and<br>exchange-traded funds:         |                      |  |  |  |
| Developed market<br>equity securities              | \$ 24,450,294        | \$ 24,450,294  | \$ -   | \$ -   |
| Developed fixed income                             | 9,814,247            | 9,814,247  | -  | -  |
| Emerging market<br>equity securities               | 2,317,005            | 2,317,005  | -  | -  |
| Real estate equity fund                            | 2,382,227            | 2,382,227  | -  | -  |
| Commodities fund                                   | 414,516              | 414,516  | -  | -  |
| High-yield fixed income                            | 2,135,173            | 2,135,173  | -  | -  |
| Long/short equity                                  | 912,647              | 912,647  | -  | -  |
| Managed futures                                    | 181,936              | 181,936  | -  | -  |
| Multistrategy                                      | 434,408              | 434,408  | -  | -  |
| Emerging market<br>fixed income                    | 841,933              | 841,933  | -  | -  |
| Intermediate bond fund                             | 933,448              | 933,448  | -  | -  |
| Money market funds                                 | 791,422              | 791,422  | -  | -  |
| Certificates of deposit                            | <u>110,027</u>       | <u>-</u>   | <u>110,027</u>   | <u>-</u>   |
| Subtotal   | <u>45,719,283</u>    | <u>45,609,256</u>  | <u>110,027</u>   | <u>-</u>   |
| Deferred compensation<br>plan investments:         |                      |  |  |  |
| Mutual funds:                                      |                      |  |  |  |
| Intermediate bond fund                             | 39,784               | 39,784   | -  | -  |
| Money market                                       | <u>20,851</u>        | <u>20,851</u>  | -  | -  |
| Total Deferred<br>Compensation<br>Plan Investments | <u>60,635</u>        | <u>60,635</u>  | <u>-</u>   | <u>-</u>   |
| Total Assets,<br>at Fair Value                     | 45,779,918           | <u>\$ 45,669,891</u>   | <u>\$ 110,027</u>  | <u>\$ -</u>  |
| Interest-bearing cash deposits                     | <u>1,409,990</u>     |  |  |  |
| Total Investments<br>at Fair Value                 | <u>\$ 47,189,908</u> |  |  |  |

Continued

**THE CHILDREN'S INN AT NIH, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

4. Investments and Fair Value Measurement (continued)

The Inn used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

*Mutual funds and exchange-traded funds* – Valued at quoted prices in an active market.

*Money market funds* – Valued at quoted prices in an active market.

*Certificates of deposit* – Valued at amortized cost which approximates fair value.

5. Property and Equipment

Property and equipment consisted of the following as of June 30, 2018 and 2017:

|  | 2018         | 2017         |
|--|--------------|--------------|
| Licensee improvements                              | \$ 7,929,305 | \$ 8,114,835 |
| Building (Woodmont House)                          | -            | 2,814,596    |
| Furniture, fixtures and equipment                  | 2,247,983    | 2,413,117    |
| Computer equipment                                 | 1,054,348    | 1,117,629    |
| Land   | -            | 622,517      |
| Land improvements                                  | 154,889      | 154,889      |
| The Children's Inn video production costs          | 124,066      | 124,066      |
| Vehicles   | 77,920       | 77,920       |
| Time-share   | 10,000       | 10,000       |
| Construction in progress                           | 118,421      | 3,470        |
| Total Property and Equipment                       | 11,716,932   | 15,453,039   |
| Less: Accumulated Depreciation<br>and Amortization | (7,696,312)  | (7,228,871)  |
| Property and Equipment, Net                        | \$ 4,020,620 | \$ 8,224,168 |

Depreciation and amortization expense was \$1,647,670 and \$1,695,000 for the years ended June 30, 2018 and 2017, respectively.

At the end of fiscal year 2017, NIH announced it would provide The Inn with a building located across the street from The Inn for young adult and overflow housing. After analyzing its housing needs, The Inn determined that housing needs had significantly changed since the Woodmont House opened in 2010, due to an increasing demand for long-term housing and young adults who benefit from staying on the NIH campus and in close proximity to the NIH Clinical Center and The Inn. As a result, with the Board's approval, the Woodmont House was put on the market for sale in September 2017, and the sale was finalized in February 2018 at the price of \$3,300,000. The gain on the sale was calculated as \$266,839 and was included in gain on disposal of property and equipment in the accompanying statement of activities for the year ended June 30, 2018. The Inn is in the process of evaluating the possibility of securing and renovating additional housing opportunities on the NIH campus.

**THE CHILDREN'S INN AT NIH, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

6. Net Assets

**Temporarily Restricted**

As of June 30, 2018 and 2017, temporarily restricted net assets were available as follows:

|  | 2018         | 2017          |
|--|--------------|---------------|
| Unspent earnings on endowment funds                        | \$ 3,652,214 | \$ 3,416,195  |
| Capital projects*  | 3,383,128    | 69,266        |
| Resident services program                                  | 707,002      | 772,232       |
| Housing program  | 64,351       | 81,682        |
| Woodmont House improvement,<br>maintenance and operations* | -            | 5,686,041     |
| Total  | \$ 7,806,695 | \$ 10,025,416 |

\* Due to the sale of the Woodmont House, The Inn obtained an approval from the donor to lift the restriction on the Woodmont House improvement, maintenance and operations fund and reallocate these funds to cover capital projects.

For the years ended June 30, 2018 and 2017, net assets designated for the following were released from restrictions as follows:

|   | 2018         | 2017         |
|---|--------------|--------------|
| Woodmont House improvement,<br>maintenance and operations | \$ 2,372,330 | \$ 342,009   |
| Resident services program                                 | 459,382      | 476,849      |
| Capital projects  | 44,619       | 97,609       |
| Housing program   | 56,164       | 98,802       |
| Other   | 19,336       | -            |
| Total   | \$ 2,951,831 | \$ 1,015,269 |

**Permanently Restricted**

The Inn holds various permanently restricted endowments, which are described as follows:

*Sanofi Aventis Legacy Fund* – This fund was established in 2008 to support the needs of children and their families receiving medical care at NIH. As of June 30, 2018 and 2017, the permanently restricted net asset balance of the Sanofi Aventis Legacy Fund was \$12,201,812 and \$10,986,758, respectively.

*Merck Company Foundation Fund* – This fund was established in 1996 to provide support for future operating expenses of The Inn. As of June 30, 2018 and 2017, the permanently restricted net asset balance of the Merck Company Foundation Fund was \$2,000,000.

*Weinberg Foundation Fund* – This fund was established in 1993 through restricted contributions from donors to subsidize various programs and services for temporary residents and visitors of The Inn. As of June 30, 2018 and 2017, the permanently restricted net asset balance of the Weinberg Foundation Fund was \$2,506,365 and \$2,361,753, respectively.

Continued

**THE CHILDREN'S INN AT NIH, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

6. Net Assets (continued)

**Permanently Restricted (continued)**

*Joyce A. Jenkins Endowment Fund* – This fund was established in 2006 to support the needs of children receiving medical care at the NIH and those of their families. As of June 30, 2018 and 2017, the permanently restricted net asset balance of the Joyce A. Jenkins Endowment Fund was \$1,612,219 and \$1,543,177, respectively.

*General Endowment Fund* – The purpose of this fund is to provide investment income to be used for operating expenses. As of June 30, 2018 and 2017, the permanently restricted net asset balance of the General Endowment Fund was \$2,562,150 and \$2,268,366, respectively.

*Robert James Fitzgerald Endowment Fund* – This fund was established in 2008 to provide support for future operating expenses of The Inn. As of June 30, 2018 and 2017, the permanently restricted net asset balance of the Robert James Fitzgerald Endowment Fund was \$976,784 and \$915,597, respectively.

*AFCEA Endowment Fund* – This fund was established in 2008 to ensure that children and their families receive the utmost care and comfort during their stay at The Inn. As of June 30, 2018 and 2017, the permanently restricted net asset balance of the AFCEA Endowment Fund was \$2,439,902 and \$2,286,915, respectively.

*Rose and Harold Kramer Endowment Fund* – This fund was established in 2007 to raise funds to provide services to children and/or for research purposes. As of June 30, 2018 and 2017, the permanently restricted net asset balance of the Rose and Harold Kramer Endowment Fund was \$300,833 and \$290,598, respectively.

*Other* – Other permanently restricted endowments, with balances totaling \$599,894 and \$425,366 as of June 30, 2018 and 2017, respectively, consist of a variety of other funds.

All of The Inn's endowment-related activities are related to donor-restricted endowment funds.

The Inn had the following endowment-related activities for the year ended June 30, 2018:

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets,<br>June 30, 2017 | \$ -                | \$ 3,416,195                      | \$ 23,078,530                     | \$ 26,494,725        |
| Investment returns:                    |                     |                                   |                                   |                      |
| Interest and dividends                 | -                   | 180,075                           | 590,084                           | 770,159              |
| Net gains on investments               | -                   | 79,464                            | 603,128                           | 682,592              |
| Appropriations                         | -                   | (23,520)                          | -                                 | (23,520)             |
| Contributions                          | -                   | -                                 | 928,217                           | 928,217              |
| Endowment net assets,<br>June 30, 2018 | <u>\$ -</u>         | <u>\$ 3,652,214</u>               | <u>\$ 25,199,959</u>              | <u>\$ 28,852,173</u> |

Continued

**THE CHILDREN'S INN AT NIH, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

6. Net Assets (continued)

**Permanently Restricted (continued)**

The Inn had the following endowment-related activities for the year ended June 30, 2017:

|  | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u>  |
|--|---------------------|-------------------------------|-------------------------------|---------------|
| Endowment net assets,<br>June 30, 2016 | \$ -                | \$ 3,104,276                  | \$ 19,886,659                 | \$ 22,990,935 |
| Investment returns:                    |                     |                               |                               |               |
| Interest and dividends                 | -                   | 128,763                       | 399,552                       | 528,315       |
| Net gains on investments               | -                   | 183,156                       | 1,468,182                     | 1,651,338     |
| Contributions                          | -                   | -                             | 1,324,137                     | 1,324,137     |
| Endowment net assets,<br>June 30, 2017 | \$ -                | \$ 3,416,195                  | \$ 23,078,530                 | \$ 26,494,725 |

**Interpretation of Relevant Law**

The Inn classifies the original value of all gifts donated to the permanent endowments as permanently restricted net assets. The Inn's policy is to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The Inn's Board of Directors has interpreted the Maryland enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing The Inn to appropriate for expenditure or accumulate as much of an endowment fund as The Inn determines is prudent for the uses, benefits, purposes and duration for which the endowment funds are established, subject to the intent of the donor as expressed in the gift instrument.

Investment returns on permanently restricted endowments are classified in accordance with donor specifications. When no specifications are outlined by the donor, investment earnings on the permanently restricted and temporarily restricted net assets arising from earnings thereon are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Inn. In accordance with UPMIFA, The Inn considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The status of The Inn's reserves balance compared to the target;
- The long-term and short-term needs of The Inn in carrying out its purposes;
- The Inn's present and anticipated financial requirements;
- Expected total return on investments;
- Price level trends; and
- General economic conditions.

THE CHILDREN'S INN AT NIH, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Years Ended June 30, 2018 and 2017

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6. Net Assets (continued)

**Return Objectives and Risk Parameters for Endowments and Other Long-Term Investments**

The Inn has adopted investment and spending policies for endowment assets and other long-term investments that attempt to provide appropriate liquidity while seeking to maintain the purchasing power of the assets. Endowment assets are donor-restricted funds that The Inn must hold in perpetuity. After taking into consideration such factors as The Inn's financial stability, uncertainty of future cash flows and market volatility, the Board of Directors of The Inn believes that a medium-high risk strategy is prudent considering the long-term focus of these investments. Under the Investment Policy, as approved by the Board of Directors, The Inn's objective for the Long-Term Investment Funds is to maximize the total return, net of spending and inflation, while maintaining risk parameters consistent with those outlined in the investment guidelines. The Inn's goal is to achieve (after fees and expenses) a return of the then-current "National" Consumer Price Index (CPI) plus 3% over multiple market cycles with as limited a level of volatility as possible. This Investment Policy must be reviewed bi-annually by the Finance Committee and, if necessary, amended and presented to the Board of Directors for re-approval.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate of return objectives, The Inn relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Inn targets a diversified asset allocation to achieve its long-term return objectives with prudent risk constraints.

Management of The Inn's long-term investments is currently delegated to an external investment manager. The investment manager monitors a well-diversified group of mutual funds and other investments that consistently adhere to pre-specified asset allocation guidelines (policy portfolios). The policy portfolios reflect the objectives of The Inn, including the following:

- Complying with specific allowable asset allocation ranges including: 45% to 70% for equities and equity-like investments, 30% to 50% for investment-grade fixed-income securities, and 0% to 20% for other investments;
- Preserving purchasing power relative to inflation;
- Diversifying across multiple asset classes; and
- Complying with the prohibition of direct investment in specific, named strategies that have the potential to amplify the tolerable risk of the portfolio.

**Spending Policy**

Earnings on the permanently restricted endowments, if specified by the donor as designated for particular programmatic purposes, are considered temporarily restricted. Earnings on the permanently restricted endowments that the donor has specified may be available to support

**THE CHILDREN'S INN AT NIH, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

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6. Net Assets (continued)

**Spending Policy (continued)**

The Inn's operating expenses, or for which the donor did not provide guidance on the intended use of the investment earnings, are considered temporarily restricted until such time as they are appropriated by the Board of Directors of The Inn for operating needs. Some of The Inn's endowments require that a portion of the investment earnings be added to the funds required to be held in perpetuity. Such investment returns are considered permanently restricted.

The Inn's Board of Directors determines annually how non-donor-directed investment income from the endowments will be managed during the next fiscal year.

**Funds with Deficiencies**

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires The Inn to retain as a fund of perpetual duration. There were no funds with material deficiencies as of June 30, 2018 and 2017.

7. Patient Lodging

The Inn provides residential lodging to patients receiving treatment at NIH as part of The Inn's program services. The Inn entered into a letter of agreement with NIH for patient lodging that is effective until The Inn revokes the agreement. The Inn received lodging fees of \$1,245,686 and \$1,089,757 from NIH for the years ended June 30, 2018 and 2017, respectively.

8. Contributed Facilities, Property, Goods and Services

The Inn's original facility was constructed on land provided by the government with private funds raised by the Friends of The Children's Inn. A subsequent addition/expansion was constructed in 2004 using funds raised by The Inn. The Inn donated the building to the government. Under a Use License Agreement with the government, The Inn has been granted exclusive use of the facility (at no charge) to provide lodging and related services. The government has also agreed to provide utilities, structural and grounds maintenance, telephone, security, and various other services to The Inn. The term is for an indefinite period subject to specified termination options. Either party may terminate the agreement upon six months' notice to the other party. The Inn annually recognizes revenue and expenses for the estimated value of the space and related services received.

**THE CHILDREN'S INN AT NIH, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

8. Contributed Facilities, Property, Goods and Services (continued)

Total contributed facilities, property, goods and services recognized by The Inn were as follows for the years ended June 30, 2018 and 2017:

|  | 2018         | 2017         |
|--|--------------|--------------|
| NIH annual in-kind contributions:      |              |              |
| Rent                                   | \$ 1,811,793 | \$ 1,752,218 |
| Transportation services                | 229,086      | 220,699      |
| Daily security                         | 195,400      | 190,078      |
| Utilities                              | 126,410      | 125,159      |
| Telephone services                     | 143,901      | 139,981      |
| Maintenance                            | 127,143      | 123,680      |
| Laundry services                       | 79,744       | 77,723       |
| Volunteer and resident supplies        | 17,000       | 25,000       |
| Other services                         | 37,769       | 36,321       |
| Total NIH Annual In-Kind Contributions | 2,768,246    | 2,690,859    |
| Resident support                       | 440,217      | 404,932      |
| Capitalized property from NIH          | -            | 44,000       |
| Event support                          | 96,963       | 110,199      |
| General and administrative support     | 9,710        | 8,600        |
| Capitalized property                   | 10,000       | 101,270      |
| Total                                  | \$ 3,325,136 | \$ 3,359,860 |

The estimated value of volunteer services that enhance the operating efficiencies of The Inn, but do not meet the requirements of a specialized skill for inclusion in the financial statements, was approximately \$539,220 and \$543,810 for the years ended June 30, 2018 and 2017, respectively.

9. Commitments, Risks and Contingencies

**Major Donors**

For the years ended June 30, 2018 and 2017, The Inn recognized revenue of \$2,768,247 and \$2,734,859, respectively, in in-kind contributions from NIH and \$1,015,838 and \$1,442,379, respectively, from the next five largest donors. These amounts represent approximately 29% of The Inn's total revenue and support in 2018 and 2017, including contributed facilities, property, goods and services.

**Concentration of Credit Risk**

The Inn maintains cash and cash equivalents at various banks and The Inn's deposit accounts are fully insured by the Federal Deposit Insurance Corporation up to \$250,000 per depositor per bank. At times, The Inn has cash balances that exceed the balance insured by the FDIC. The Inn has not experienced any losses, and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**THE CHILDREN'S INN AT NIH, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

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10. Joint Cost Allocation

The Inn incurred joint costs from the production of 12 fundraising appeals for the year ended June 30, 2018, and 10 fundraising appeals for the year ended June 30, 2017. These joint costs were allocated as follows:

|                            | <u>2018</u>       | <u>2017</u>       |
|----------------------------|-------------------|-------------------|
| Program services           | \$ 72,747         | \$ 65,206         |
| Fundraising                | 96,480            | 79,441            |
| General and administrative | <u>16,452</u>     | <u>20,075</u>     |
| Total                      | <u>\$ 185,679</u> | <u>\$ 164,722</u> |

11. Employment Agreement

The Inn has signed an employment agreement with its Chief Executive Officer (CEO) which provides for severance pay should the CEO be terminated without cause. This agreement ends on June 30, 2019, and will automatically renew for successive one-year terms, unless terminated earlier in accordance with the agreement.

12. Retirement Plans

The Inn has a retirement plan under Internal Revenue Code (IRC) Section 401(k) covering both full-time and part-time employees who meet certain eligibility requirements. As approved by the Board, The Inn is required to make a 3% safe harbor contribution to each eligible employee for the plan year. In addition, The Inn may make an annual discretionary contribution to the plan upon approval by the Board. The Inn made a 4% discretionary contribution to the plan for each of the years ended June 30, 2018 and 2017. In addition, effective July 1, 2016, The Inn made an additional discretionary match to the plan using the following formula: a matching contribution will be made for 100% of the first 1% of employee salary deferral and 50% of any additional employee salary deferral up to 5% of their compensation. Total contributions made to the plan were \$251,573 and \$238,253 for the years ended June 30, 2018 and 2017, respectively.

In addition, The Inn has a deferred compensation plan for its former CEO under IRC Section 457(b). There were no contributions by The Inn to the deferred compensation plan for the years ended June 30, 2018 and 2017. During the years ended June 30, 2018 and 2017, the former CEO withdrew \$60,635 and \$59,685, respectively, from the 457(b) plan funds, and no contributions were made by other eligible employees during the years ended June 30, 2018 and 2017.

13. Income Taxes

The Inn is exempt from the payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the IRC. No provision for income taxes was required for the years ended June 30, 2018 and 2017, as The Inn had no net unrelated business income.

**THE CHILDREN'S INN AT NIH, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
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13. Income Taxes (continued)

The Inn follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in The Inn's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Inn performed an evaluation of uncertainty in income taxes for the years ended June 30, 2018 and 2017, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2018, the statute of limitations for tax years ended June 30, 2015 through 2017, remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which The Inn files tax returns. It is The Inn's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense. As of June 30, 2018 and 2017, The Inn had no accrual for interest and/or penalties.

14. Reclassifications

Certain 2017 balances were reclassified to conform to the 2018 presentation.

15. Subsequent Events

The Inn's management has evaluated subsequent events through September 20, 2018, the date the financial statements were available to be issued. Except for the subsequent event disclosed below, there were no other subsequent events that required recognition or disclosure in these financial statements.

In August 2018, part of The Inn's roof sustained structural damage and forced The Inn to relocate some of its residents. The Inn is in the process of filing an insurance claim for the damage sustained. The potential impact, if any, on The Inn's financial statements has not been determined. Management does not believe that this incident will result in a material loss.