



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
ASSETS		
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
TOTAL ASSETS	\$ 60,612,856	\$ 59,577,528
LIABILITIES AND NET ASSETS		
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
TOTAL LIABILITIES	573,622	738,361
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
TOTAL NET ASSETS	60,039,234	58,839,167
TOTAL LIABILITIES AND NET ASSETS	\$ 60,612,856	\$ 59,577,528

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
REVENUE AND SUPPORT								
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)	-	-
TOTAL REVENUE AND SUPPORT	13,088,344	(2,218,721)	2,121,429	12,991,052	11,441,693	(267,534)	3,191,871	14,366,030
EXPENSES								
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
TOTAL EXPENSES	11,790,985	-	-	11,790,985	11,170,611	-	-	11,170,611
CHANGE IN NET ASSETS	1,297,359	(2,218,721)	2,121,429	1,200,067	271,082	(267,534)	3,191,871	3,195,419
NET ASSETS, BEGINNING OF YEAR	25,735,221	10,025,416	23,078,530	58,839,167	25,464,139	10,292,950	19,886,659	55,643,748
NET ASSETS, END OF YEAR	\$ 27,032,580	\$ 7,806,695	\$ 25,199,959	\$ 60,039,234	\$ 25,735,221	\$ 10,025,416	\$ 23,078,530	\$ 58,839,167

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
TOTAL EXPENSES	\$ 5,725,220	\$ 2,724,542	\$ 8,449,762	\$ 1,521,634	\$ 1,819,589	\$ 3,341,223	\$ 11,790,985

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
TOTAL EXPENSES	\$ 5,528,923	\$ 2,558,626	\$ 8,087,549	\$ 1,477,639	\$ 1,605,423	\$ 3,083,062	\$ 11,170,611

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
CASH FLOWS FROM OPERATING ACTIVITIES		
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
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	631,416	(96,368)
CASH FLOWS FROM INVESTING ACTIVITIES		
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	-
NET CASH USED IN INVESTING ACTIVITIES	(1,764,007)	(1,492,236)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions and interest and dividends restricted for long-term purposes	1,518,301	1,723,689
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,518,301	1,723,689
NET INCREASE IN CASH AND CASH EQUIVALENTS	385,710	135,085
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,774,321	1,639,236
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,160,031	\$ 1,774,321
NONCASH INVESTING ACTIVITIES		
Donated property	\$ 10,000	\$ 145,270

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**

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

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**

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.

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 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:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds and exchange-traded funds:				
Developed market 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 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 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	<u>110,292</u>	<u>-</u>	<u>110,292</u>	<u>-</u>
Total Assets, at Fair Value	50,769,133	<u>\$ 50,658,841</u>	<u>\$ 110,292</u>	<u>\$ -</u>
Interest-bearing cash deposits	<u>2,387,007</u>			
Total Investments at Fair Value	<u>\$ 53,156,140</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 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 in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments:				
Mutual funds and exchange-traded funds:				
Developed market equity securities	\$ 24,450,294	\$ 24,450,294	\$ -	\$ -
Developed fixed income	9,814,247	9,814,247	-	-
Emerging market 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 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 plan investments:				
Mutual funds:				
Intermediate bond fund	39,784	39,784	-	-
Money market	<u>20,851</u>	<u>20,851</u>	-	-
Total Deferred Compensation Plan Investments	<u>60,635</u>	<u>60,635</u>	<u>-</u>	<u>-</u>
Total Assets, 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 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 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, 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, 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 Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, 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, 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, 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, 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

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

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:

	<u>2018</u>	<u>2017</u>
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	<u>37,769</u>	<u>36,321</u>
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	<u>10,000</u>	<u>101,270</u>
Total	<u>\$ 3,325,136</u>	<u>\$ 3,359,860</u>

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

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
For the Years Ended June 30, 2018 and 2017

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.