

Audited Financial Statements
THE CHILDREN'S INN AT NIH, INC.

June 30, 2019

The Children's Inn at NIH, Inc.

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Independent Auditor’s Report on the Financial Statements

To the Board of Directors
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 statement of financial position as of June 30, 2019, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the 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 Inn’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 Inn’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 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of The Children’s Inn at NIH, Inc. as of June 30, 2018, were audited by other auditors whose report dated September 20, 2018, expressed an unmodified opinion on those statements.

Adoption of Accounting Standards Update 2016-14

As described in Note A to the financial statements, the Financial Accounting Standards board (FASB) issued Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). As required by the FASB, The Inn adopted the provisions of ASU 2016-14 during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added regarding functional expenses, liquidity and the availability of resources. There was no change in The Inn's previously reported change in net assets as a result of the adoption of the ASU.

Tate & Tryon

Washington, DC
August 30, 2019

The Children's Inn at NIH, Inc.

Statements of Financial Position

June 30,	2019	2018
Assets		
Cash and cash equivalents	\$ 1,094,425	2,160,031
Accounts receivable	219,819	178,332
Pledges receivable, net of discount and allowance for doubtful accounts	1,062,328	993,395
Prepaid expenses	123,501	104,338
Investments	56,686,841	53,156,140
Property and equipment, net	3,131,647	4,020,620
Total assets	\$ 62,318,561	\$ 60,612,856
Liabilities and net assets		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 650,653	319,897
Accrued payroll and leave	263,979	253,725
Deferred revenue	30,000	-
Total liabilities	944,632	573,622
Net assets		
Without donor restrictions	26,395,962	27,032,580
With donor restrictions	34,977,967	33,006,654
Total net assets	61,373,929	60,039,234
Total liabilities and net assets	\$ 62,318,561	\$ 60,612,856

See notes to the financial statements.

The Children's Inn at NIH, Inc.

Statements of Activities

For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support						
Grants, contributions and events revenue	\$ 4,281,195	\$ 728,807	\$ 5,010,002	\$ 3,671,307	\$ 1,379,899	\$ 5,051,206
Contributed facilities, property, goods and services	3,353,620		3,353,620	3,325,136	-	3,325,136
Patient lodging	986,121		986,121	1,245,686	-	1,245,686
Investment income, net	1,679,939	1,850,865	3,530,804	1,555,638	1,474,640	3,030,278
Other income	526,361		526,361	5,418	-	5,418
Net (losses) gains on disposal/sale of property and equipment	(15,458)		(15,458)	255,429	-	255,429
Net assets released from restrictions	608,359	(608,359)	-	2,951,831	(2,951,831)	-
Total revenue and support	11,420,137	1,971,313	13,391,450	13,010,445	(97,292)	12,913,153
Expenses						
Program services						
Housing	6,042,297		6,042,297	5,725,220	-	5,725,220
Resident services	2,685,245		2,685,245	2,724,542	-	2,724,542
Total program services	8,727,542	-	8,727,542	8,449,762	-	8,449,762
Supporting services						
Management and general	1,475,758		1,475,758	1,443,735	-	1,443,735
Fundraising	1,853,455		1,853,455	1,819,589	-	1,819,589
Total supporting services	3,329,213	-	3,329,213	3,263,324	-	3,263,324
Total expenses	12,056,755	-	12,056,755	11,713,086	-	11,713,086
Change in net assets	(636,618)	1,971,313	1,334,695	1,297,359	(97,292)	1,200,067
Net assets, beginning of year	27,032,580	33,006,654	60,039,234	25,735,221	33,103,946	58,839,167
Net assets, end of year	\$ 26,395,962	\$ 34,977,967	\$ 61,373,929	\$ 27,032,580	\$ 33,006,654	\$ 60,039,234

See notes to the financial statements.

The Children's Inn at NIH, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2019

	Program Services			Supporting Services			2019 Total
	Housing	Resident Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and benefits	\$ 865,300	\$ 1,191,335	\$ 2,056,635	\$ 922,680	\$ 813,109	\$ 1,735,789	\$ 3,792,424
Contributed occupancy expense	2,157,346	470,512	2,627,858	149,664	-	149,664	2,777,522
Depreciation and amortization	1,230,547	-	1,230,547	102,443	20,893	123,336	1,353,883
Resident services and family programming	474,744	821,349	1,296,093	-	-	-	1,296,093
Public relations, promotion, and development	84,765	48,487	133,252	41,484	913,393	954,877	1,088,129
Cleaning, facilities and equipment maintenance	961,138	-	961,138	43,980	-	43,980	1,005,118
Consulting and professional services	35,639	20,386	56,025	109,971	61,224	171,195	227,220
Information technology	83,075	47,521	130,596	50,150	6,563	56,713	187,309
Insurance	47,564	27,207	74,771	20,004	4,882	24,886	99,657
Finance costs	19,919	11,394	31,313	8,625	7,673	16,298	47,611
Other	82,260	47,054	129,314	26,757	25,718	52,475	181,789
Total expenses	\$ 6,042,297	\$ 2,685,245	\$ 8,727,542	\$ 1,475,758	\$ 1,853,455	\$ 3,329,213	\$ 12,056,755

See notes to the financial statements.

The Children's Inn at NIH, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2018

	Program Services			Supporting Services			2018 Total
	Housing	Resident Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and benefits	\$ 771,294	\$ 1,224,201	\$ 1,995,495	\$ 804,789	\$ 802,310	\$ 1,607,099	\$ 3,602,594
Contributed occupancy expense	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
Resident services and family programming	114,158	868,852	983,010	-	-	-	983,010
Public relations, promotion, and development	42,251	32,807	75,058	93,277	905,783	999,060	1,074,118
Cleaning, facilities and equipment maintenance	1,030,099	19,631	1,049,730	50,630	-	50,630	1,100,360
Consulting and professional services	22,032	17,107	39,139	74,206	10,569	84,775	123,914
Information technology	10,995	8,537	19,532	84,141	46,578	130,719	150,251
Insurance	42,203	32,769	74,972	20,346	4,152	24,498	99,470
Finance costs	14,945	11,604	26,549	6,680	11,120	17,800	44,349
Other	33,829	26,267	60,096	43,923	15,085	59,008	119,104
Total expenses	\$ 5,725,220	\$ 2,724,542	\$ 8,449,762	\$ 1,443,735	\$ 1,819,589	\$ 3,263,324	\$ 11,713,086

See notes to the financial statements.

The Children's Inn at NIH, Inc.

Statements of Cash Flows

<i>Year Ended June 30,</i>	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 1,334,695	\$ 1,200,067
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Discount on pledges receivable	(11,535)	(12,541)
Change in allowance for doubtful accounts	755	6,113
Depreciation and amortization	1,353,883	1,647,670
Donated property	(7,900)	(10,000)
Net loss (gain) on disposal/sale of property and equipment	15,458	(255,429)
Net realized and unrealized gains on investments	(2,368,114)	(1,991,580)
Contributions and interest and dividends restricted for long-term purposes	(645,708)	(1,518,301)
Change in assets and liabilities		
Pledges receivable	(58,153)	1,165,357
Accounts receivable	(41,487)	(46,628)
Prepaid expenses	(19,163)	765
Accounts payable and accrued expenses	330,756	(41,953)
Accrued payroll and leave	10,254	(651)
Deferred revenue	30,000	(61,500)
Total adjustments	(1,410,954)	(1,118,678)
Net cash (used in) provided by operating activities	(76,259)	81,389
Cash flows from investing activities		
Purchase of investments	(13,652,091)	(7,238,392)
Proceeds from sale or maturities of investments	12,489,504	3,203,105
Purchase of property and equipment	(472,468)	(292,649)
Proceeds from sale of property and equipment	-	3,113,956
Net cash used in investing activities	(1,635,055)	(1,213,980)
Cash flows from financing activities		
Contributions and interest and dividends restricted for long-term purposes	645,708	1,518,301
Net cash provided by financing activities	645,708	1,518,301
Net (decrease) increase in cash and cash equivalents	(1,065,606)	385,710
Cash and cash equivalents, beginning of year	2,160,031	1,774,321
Cash and cash equivalents, end of year	\$ 1,094,425	\$ 2,160,031
Noncash operating activities		
Donated securities	\$ 237,142	\$ 122,739
Noncash investing activities		
Donated property	\$ 7,900	\$ 10,000

See notes to the financial statements.

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

A. 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.

Basis of accounting: The Inn prepares its financial statements on the accrual basis of accounting. Accordingly, revenue is recognized when earned and expense when the obligation is incurred.

Use of estimates: 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.

Income taxes: The Inn is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), except on net income derived from unrelated business activities. No provision for income taxes was required for the years ended June 30, 2019 and 2018, as The Inn had no net unrelated business income. The Inn has been classified by the IRS as other than a private foundation.

Cash and cash equivalents: For financial statement purposes, The Inn considers money market funds not held for long-term investment purposes to be cash equivalents.

Net assets: For financial statement purposes, net assets consist of the following:

Without donor restrictions: Net assets without donor restrictions include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation. Net assets without donor restrictions represent funds that are available for support of The Inn's operations.

With donor restrictions: Net assets with donor restrictions include those net assets whose use by The Inn has been donor-restricted with specified time or purpose limitations or that the donated funds be maintained in perpetuity but permit The Inn to use investment income derived from the donated assets for either specified or unspecified purposes. See Notes G and H for details regarding net assets with donor restrictions.

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.

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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 J, 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 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, 2019 and 2018, management had performed a recoverability analysis of The Inn's property and equipment and did not believe an impairment adjustment was required.

Revenue recognition: The Inn reports gifts of cash and other assets, including property and improvements, as net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions. 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.

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

During the year ended June 30, 2019, a portion of The Inn's roof suffered significant damage. As a result, The Inn recovered certain operating costs under its business interruption insurance policy. Revenue from the insurance recovery of \$521,139 is included within other income on the statement of activities for the year ended June 30, 2019.

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 benefited. Costs related to a specific functional activity are charged directly to that activity.

Indirect costs are allocated among the program and supporting services benefited based on management's best estimates. Salaries and benefits are allocated based on employee time and effort studies. Occupancy costs are allocated based on square footage for each department. Depreciation and amortization costs are allocated based on the departmental assignment of each asset. Shared information technology and consulting services are allocated based on estimated usage by project or department. Other shared costs are allocated based on each function's percentage of direct program expenses or departmental staff hours.

Change in accounting policies: The Inn adopted FASB Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended December 31, 2018. ASU 2016-14 refreshes current accounting standards by simplifying the presentation of net assets on the face of the financial statements and enhancing disclosures related to liquidity and functional expense. Accounting and reporting changes related to ASU No. 2016-14 have been retrospectively applied to all prior periods presented as if the policy had always been in effect.

Reclassifications: Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on the previously reported change in net assets. For the year ended June 30, 2018, investment expense of \$77,899 has been netted with investment income to conform with the requirements of ASU 2016-14.

Subsequent events: Subsequent events have been evaluated through August 30, 2019, which is the date the financial statements were available to be issued.

B. COMMITMENTS, RISKS AND CONTINGENCIES

Major Donors: For the years ended June 30, 2019 and 2018, The Inn recognized revenue of \$2,796,162 and \$2,768,246, respectively, in in-kind contributions from NIH and \$510,784 and \$1,015,838, respectively, from the next five largest donors. These amounts represent approximately 25% and 29%, of The Inn's total revenue and support in 2019 and 2018, including contributed facilities, property, goods and services.

Credit Risk: The Inn maintains cash and cash equivalents with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of these accounts are backed solely by the assets of the underlying institutions. Therefore, the failure of an underlying institution could result in financial loss to The Inn. However, The Inn has not experienced any losses in these accounts and believes it is not exposed to a significant level of credit risk.

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

B. COMMITMENTS, RISKS AND CONTINGENCIES - CONTINUED

Market risk: The Inn invests funds in a professionally managed portfolio which includes various types of marketable debt and equity securities. Investments are exposed to market and credit risks. Therefore, investments may be subject to significant fluctuations in fair value and investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods. By policy, investments are kept within limits intended to prevent risks caused by concentration.

C. FAIR VALUE MEASUREMENTS

The Inn has implemented the accounting standards topic regarding fair value measurements. This standard establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. This standard uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data; and

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

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

2019	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments				
Mutual funds and exchange-traded funds				
Developed market equity securities	\$ 24,455,656	\$ 24,455,656	\$ -	\$ -
Developed fixed income	10,014,993	10,014,993		
Real estate equity fund	2,790,628	2,790,628		
Emerging market equity securities	2,946,770	2,946,770		
High-yield fixed income	1,828,720	1,828,720		
Long/short equity	1,011,162	1,011,162		
Multistrategy	979,420	979,420		
Emerging market fixed income	1,076,697	1,076,697		
Intermediate bond fund	987,868	987,868		
Managed futures	479,820	479,820		
Government obligations	4,150,590		4,150,590	
Corporate obligations	2,390,222		2,390,222	
Certificates of deposit	110,567		110,567	
Investments carried at fair value	53,223,113	\$ 46,571,734	\$ 6,651,379	\$ -
Investments at cost				
Money market funds	3,463,728			
Total investments	\$ 56,686,841			

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

C. FAIR VALUE MEASUREMENTS - CONTINUED

2018	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments				
Mutual funds and exchange-traded funds				
Developed market equity securities	\$ 26,337,898	\$ 26,337,898	\$ -	\$ -
Developed fixed income	8,533,269	8,533,269		
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		
Government obligations	2,039,103		2,039,103	
Corporate obligations	1,077,812		1,077,812	
Certificates of deposit	110,292		110,292	
Investments carried at fair value	49,967,774	\$ 46,740,567	\$ 3,227,207	\$ -
Investments at cost				
Money market funds	3,188,366			
Total investments	\$ 53,156,140			

Investments using Level 1 inputs consist of investments in mutual funds listed on a national market or exchange which are valued at the last sales price or, if there is no sale and the market is still considered active, at the last transaction price before year-end.

Investments using Level 2 inputs consist of certificates of deposit, government obligations, and corporate obligations. Certificates of deposit are valued at amortized cost, which approximates fair value. Government and corporate securities are valued using an outside data and pricing company (the Company). In determining the fair value of the investments, the Company uses a market approach based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security. Management believes the Company's estimate to be a reasonable approximation of the fair value of the investments.

Investments recorded at cost include money market funds. Investments at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

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

	2019	2018
Unrealized gains	\$ 640,792	\$ 1,441,692
Interest and dividends	1,288,386	1,116,597
Realized gains (losses)	1,727,322	549,888
Investment income	3,656,500	3,108,177
Less: investment fees	(125,696)	(77,899)
	\$ 3,530,804	\$ 3,030,278

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

D. PLEDGES RECEIVABLE

The Inn's pledges receivable were due to be received as follows at June 30,:

	2019	2018
Due in less than one year	\$ 575,032	\$ 488,149
Due in one to five years	500,000	528,730
Total pledges receivable	<u>1,075,032</u>	<u>1,016,879</u>
Less: Discount to net present value	(5,836)	(17,371)
Allowance for doubtful accounts	<u>(6,868)</u>	<u>(6,113)</u>
Pledges receivable, net	<u>\$ 1,062,328</u>	<u>\$ 993,395</u>

In 2019 and 2018, the discount rate used in determining the present value of multiyear pledges was 2.39% and 1.53%, respectively.

E. CONDITIONAL PROMISES TO GIVE

In fiscal year 2017, The Inn 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, 2019 and 2018, The Inn received and recognized \$100,000 as revenue each year. As of June 30, 2019 and 2018, a total of \$300,000 and \$200,000, respectively, of the promise to give had been received.

F. PROPERTY AND EQUIPMENT

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

	2019	2018
Licensee improvements	\$ 6,017,652	\$ 6,009,562
Furniture, fixtures and equipment	2,231,506	2,247,983
Playground	1,927,892	1,919,743
Computer equipment	1,061,806	1,054,348
Construction in progress	488,045	118,421
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
	<u>12,093,776</u>	<u>11,716,932</u>
Less: accumulated depreciation and amortization	<u>(8,962,129)</u>	<u>(7,696,312)</u>
Property and equipment - net	<u>\$ 3,131,647</u>	<u>\$ 4,020,620</u>

Depreciation and amortization expense was \$1,353,883 and \$1,647,670 for the years ended June 30, 2019 and 2018, respectively.

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

F. PROPERTY AND EQUIPMENT - CONTINUED

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 renovating additional housing opportunities on the NIH campus.

G. NET ASSETS

Net assets with donor restrictions: Net assets with donor restrictions consisted of the following at June 30,:

	2019	2018
Perpetual in nature		
Endowment funds*	26,845,413	25,199,959
Specified time or purpose		
Unspent earnings of endowment funds*	\$ 4,009,140	\$ 3,652,214
Capital projects	3,240,135	3,383,128
Resident services program	881,090	707,002
Housing program	2,189	64,351
	<u>\$ 34,977,967</u>	<u>\$ 33,006,654</u>

* See discussion of endowments in Note H.

For the years ended June 30, 2019 and 2018, net assets were released from donor restrictions as follows:

	2019	2018
Resident services program	\$ 366,406	\$ 459,382
Capital projects	172,063	44,619
Housing program	69,890	56,164
Woodmont House	-	2,372,330
Other	-	19,336
	<u>\$ 608,359</u>	<u>\$ 2,951,831</u>

H. ENDOWMENTS

The Inn's endowments consist of donor-restricted endowment funds which are classified within net assets with donor restrictions. As required by generally accepted accounting principles, net assets associated with these endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Inn has interpreted the *Uniform Prudent Management of Institutional Funds Act of 2007* (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Inn retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are also included in net assets with donor restrictions and are available for expenditure by the Inn in a manner consistent with the standard of prudence prescribed by UPMIFA.

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.

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. Permanent 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.

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

H. ENDOWMENTS - CONTINUED

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 permanent endowments, if specified by the donor as designated for particular programmatic purposes, are considered donor-restricted. Earnings on the permanent endowments that the donor has specified may be available to support The Inn's operating expenses, or for which the donor did not provide guidance on the intended use of the investment earnings, are considered donor-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 accumulated to the permanent endowment.

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 deficiencies as of June 30, 2019 and 2018.

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

H. ENDOWMENTS - CONTINUED

Endowment net assets restricted in perpetuity consisted of the following at June 30,:

	2019	2018
Sanofi Aventis Legacy Fund	\$ 13,098,061	\$ 12,201,812
Merck Company Foundation Fund	2,000,000	2,000,000
Weinberg Foundation Fund	2,691,743	2,506,365
Joyce A. Jenkins Endowment Fund	1,697,723	1,612,219
General Endowment Fund	2,673,976	2,562,150
Robert James Fitzgerald Endowment Fund	1,048,250	976,784
AFCEA Endowment Fund	2,618,976	2,439,902
Rose and Harold Kramer Endowment Fund	303,438	300,833
Other Endowment Funds	713,246	599,894
	<u>\$ 26,845,413</u>	<u>\$ 25,199,959</u>

Sanofi Aventis Legacy Fund - This fund was established in 2008 to support the needs of children and their families receiving medical care at NIH.

Merck Company Foundation Fund - This fund was established in 1996 to provide support for future operating expenses of The Inn.

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.

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.

General Endowment Fund - The purpose of this fund is to provide investment income to be used for operating expenses.

Robert James Fitzgerald Endowment Fund - This fund was established in 2008 to provide support for future operating expenses of The Inn.

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.

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.

Other - Other endowments consist of a variety of funds that provide support for future program and operating expenses of The Inn.

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

H. ENDOWMENTS - CONTINUED

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 years ended June 30, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions		Total
		Subject to Expenditure for Time or Purpose	Endowments Given in Perpetuity	
Endowment net assets - June 30, 2018	\$ -	\$ 3,652,214	\$ 25,199,959	\$ 28,852,173
Investment returns		392,071	1,458,794	1,850,865
Appropriations		(35,145)	-	(35,145)
Contributions		-	186,660	186,660
Endowment net assets - June 30, 2019	\$ -	\$ 4,009,140	\$ 26,845,413	\$ 30,854,553

	Without Donor Restrictions	With Donor Restrictions		Total
		Subject to Expenditure for Time or Purpose	Endowments Given in Perpetuity	
Endowment net assets - June 30, 2017	\$ -	\$ 3,416,195	\$ 23,078,530	\$ 26,494,725
Investment returns		259,539	1,193,212	1,452,751
Appropriations		(23,520)		(23,520)
Contributions			928,217	928,217
Endowment net assets - June 30, 2018	\$ -	\$ 3,652,214	\$ 25,199,959	\$ 28,852,173

I. 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 \$986,121 and \$1,245,686 from NIH for the years ended June 30, 2019 and 2018, respectively.

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

J. 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.

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

	2019	2018
NIH annual in-kind contributions		
Rent	\$ 1,838,970	\$ 1,811,793
Transportation services	229,773	229,086
Daily security	198,527	195,400
Utilities	127,422	126,410
Telephone services	146,203	143,901
Maintenance	129,178	127,143
Laundry services	81,020	79,744
Volunteer and resident supplies	18,639	17,000
Other services	26,430	37,769
Total NIH annual in-kind contributions	2,796,162	2,768,246
Resident support	414,489	440,217
Event support	83,194	96,963
General and administrative support	51,875	9,710
Capitalized property	7,900	10,000
	\$ 3,353,620	\$ 3,325,136

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 \$517,390 and \$539,220 for the years ended June 30, 2019 and 2018, respectively.

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

K. JOINT COST ALLOCATION

The Inn incurred joint costs from the production of fundraising appeals and newsletters during the years ended June 30, 2019 and 2018. These joint costs were allocated as follows:

	2019	2018
Program services	\$ 115,389	\$ 72,747
Fundraising	127,119	96,480
General and administrative	25,914	16,452
	<u>\$ 268,422</u>	<u>\$ 185,679</u>

L. 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. The initial term of the agreement ended on June 30, 2018, however, it automatically renews for successive one-year terms, unless terminated earlier in accordance with the agreement.

M. 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, 2019 and 2018. In addition, 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 \$253,514 and \$251,573 for the years ended June 30, 2019 and 2018, respectively.

In addition, The Inn has a deferred compensation plan under IRC Section 457(b). There were no contributions by The Inn to the deferred compensation plan for the years ended June 30, 2019 and 2018. During the year ended June 30, 2018, the former CEO withdrew \$60,635 from the 457(b) plan funds, and no contributions were made by other eligible employees during the years ended June 30, 2019 and 2018.

The Children's Inn at NIH, Inc.

Notes to the Financial Statements

N. LIQUIDITY

The Inn manages its liquidity and reserves through the implementation of its Reserves Policy and Investment Policy. According to the policy, The Inn must maintain 50% of its annual expense budget, less depreciation, plus its annual capital budget in Operating Reserves. Operating Reserves are made up of Current and Intermediate Operating Funds. According to the Investment Policy, Current Operating Funds, which contain investments in cash and cash equivalents, should contain 1 to 4 months of the most current operating budget. Intermediate Operating Funds, which contain fixed income securities, should contain 2-5 months of the most current operating budget. Compliance to policy is achieved via monthly reports that show balances in each of the fund pools. The Inn's Reserves Policy includes steps to be taken if any of the funding pools fall outside the designated minimums or maximums.

Financial assets available for general expenditure within one year of June 30 are as follows:

	2019	2018
Cash and cash equivalents	\$ 1,094,425	\$ 2,160,031
Investments	56,686,841	53,156,140
Accounts receivable	219,819	178,332
Pledges receivable	1,062,328	993,395
	<u>59,063,413</u>	<u>56,487,898</u>
<u>Less:</u>		
Donor-restricted net assets	<u>(34,977,967)</u>	<u>(33,006,654)</u>
	<u>\$ 24,085,446</u>	<u>\$ 23,481,244</u>

O. COMMITMENTS

The Inn has several apartment leases in Bethesda, Maryland which provide supplemental residential lodging to patients receiving treatment at NIH. The Inn also has several month-to-month furniture rental agreements in conjunction with the apartment leases. The leases have various start dates and end dates between June 2018 and July 2020. Total rent expense for the leases was \$395,607 for the year ended June 30, 2019. Future lease commitments total \$203,804 for the year ended June 30, 2020.