

The Children's Inn at NIH, Inc.

Financial Report
June 30, 2020

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RSM US LLP

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the financial statements of The Children's Inn at NIH, Inc. (The Inn) which comprise the statement of financial position as of June 30, 2020, 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, 2020, 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.

Other Matters

The financial statements of The Children's Inn at NIH, Inc. as of and for the year ended, June 30, 2019, were audited by other auditors whose report, dated August 30, 2019, expressed an unmodified opinion on those financial statements.

RSM VS LLP

Gaithersburg, Maryland
September 29, 2020

The Children's Inn at NIH, Inc.

Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 1,843,632	\$ 1,094,425
Accounts receivable	46,656	219,819
Pledges receivable, net	565,463	1,062,328
Prepaid expenses	125,734	123,501
Investments	57,111,440	56,686,841
Property and equipment, net	3,506,279	3,131,647
	<u>63,199,204</u>	<u>62,318,561</u>
Total assets	\$ 63,199,204	\$ 62,318,561
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 725,962	\$ 650,653
Accrued payroll and leave	369,338	263,979
Deferred revenue	9,000	30,000
Payroll protection program loan	617,402	-
Total liabilities	<u>1,721,702</u>	<u>944,632</u>
Commitments and contingencies (Note 12, 13 and 15)		
Net assets:		
Without donor restrictions	24,572,728	26,395,962
With donor restrictions	36,904,774	34,977,967
Total net assets	<u>61,477,502</u>	<u>61,373,929</u>
Total liabilities and net assets	<u>\$ 63,199,204</u>	<u>\$ 62,318,561</u>

See notes to financial statements.

The Children's Inn at NIH, Inc.

Statements of Activities
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Grants, contributions and events revenue	\$ 3,715,589	\$ 2,079,398	\$ 5,794,987	\$ 4,281,195	\$ 728,807	\$ 5,010,002
Contributed facilities, property, goods and services	3,430,151	-	3,430,151	3,353,620	-	3,353,620
Patient lodging	952,251	-	952,251	986,121	-	986,121
Investment income, net	835,322	1,096,113	1,931,435	1,679,939	1,850,865	3,530,804
Other income	9,048	-	9,048	526,361	-	526,361
Net assets released from restrictions	1,248,704	(1,248,704)	-	608,359	(608,359)	-
Total support and revenue	10,191,065	1,926,807	12,117,872	11,435,595	1,971,313	13,406,908
Expenses:						
Program services:						
Housing	5,824,260	-	5,824,260	6,132,433	-	6,132,433
Resident services	2,875,452	-	2,875,452	2,702,688	-	2,702,688
Total program services	8,699,712	-	8,699,712	8,835,121	-	8,835,121
Supporting services:						
Management and general	1,547,160	-	1,547,160	1,328,275	-	1,328,275
Fundraising	1,767,427	-	1,767,427	1,908,817	-	1,908,817
Total supporting services	3,314,587	-	3,314,587	3,237,092	-	3,237,092
Total expenses	12,014,299	-	12,014,299	12,072,213	-	12,072,213
Change in net assets	(1,823,234)	1,926,807	103,573	(636,618)	1,971,313	1,334,695
Net assets:						
Beginning of year	26,395,962	34,977,967	61,373,929	27,032,580	33,006,654	60,039,234
End of year	\$ 24,572,728	\$ 36,904,774	\$ 61,477,502	\$ 26,395,962	\$ 34,977,967	\$ 61,373,929

See notes to financial statements.

The Children's Inn at NIH, Inc.

Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services			Supporting Services			
	Housing	Resident Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	\$ 960,106	\$ 1,296,216	\$ 2,256,322	\$ 1,049,014	\$ 981,976	\$ 2,030,990	\$ 4,287,312
Contributed occupancy expense	2,238,614	491,403	2,730,017	22,377	44,755	67,132	2,797,149
Depreciation and amortization	1,203,243	-	1,203,243	91,551	13,079	104,630	1,307,873
Patient services – meals, supplies, other patient support	96,743	938,486	1,035,229	-	-	-	1,035,229
Public relations, promotion and development	82,699	64,374	147,073	57,636	636,258	693,894	840,967
Cleaning, facilities and equipment maintenance	1,133,692	-	1,133,692	8,236	11,026	19,262	1,152,954
Consulting and professional services	17,273	13,445	30,718	45,369	5,324	50,693	81,411
Information technology	12,451	9,692	22,143	111,349	42,051	153,400	175,543
Insurance	35,691	27,782	63,473	26,407	4,974	31,381	94,854
Credit card processing and other fees	14,515	11,299	25,814	8,332	3,793	12,125	37,939
Loss on disposal of property and equipment	-	-	-	5,020	-	5,020	5,020
Other	29,233	22,755	51,988	121,869	24,191	146,060	198,048
Total expenses	\$ 5,824,260	\$ 2,875,452	\$ 8,699,712	\$ 1,547,160	\$ 1,767,427	\$ 3,314,587	\$12,014,299

See notes to financial statements.

The Children's Inn at NIH, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2019**

	Program Services			Supporting Services			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	2,222,907	487,955	2,710,862	22,220	44,440	66,660	2,777,522
Depreciation and amortization	1,230,547	-	1,230,547	102,443	20,893	123,336	1,353,883
Resident services – meals, supplies, other patient support	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	985,713	-	985,713	8,483	10,922	19,405	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
Credit card processing and other fees	19,919	11,394	31,313	8,625	7,673	16,298	47,611
Loss on disposal of property and equipment	-	-	-	15,458	-	15,458	15,458
Other	82,260	47,054	129,314	26,757	25,718	52,475	181,789
Total expenses	\$ 6,132,433	\$ 2,702,688	\$ 8,835,121	\$ 1,328,275	\$ 1,908,817	\$ 3,237,092	\$12,072,213

See notes to financial statements.

The Children's Inn at NIH, Inc.

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 103,573	\$ 1,334,695
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in discount on pledges receivable	(5,836)	(11,535)
Change in allowance for doubtful accounts	(3,226)	755
Depreciation and amortization	1,307,873	1,353,883
Donated property	(237,750)	(7,900)
Net loss on disposal of property and equipment	5,020	15,458
Net realized and unrealized gains on investments	(717,099)	(2,368,114)
Contributions and interest and dividends restricted for long-term purposes	(1,024,369)	(645,708)
Change in assets and liabilities:		
Accounts receivable	173,163	(41,487)
Pledges receivable	505,927	(58,153)
Prepaid expenses	(2,233)	(19,163)
Accounts payable and accrued expenses	(81,687)	330,756
Accrued payroll and leave	105,359	10,254
Deferred revenue	(21,000)	30,000
Net cash provided by (used in) operating activities	107,715	(76,259)
Cash flows from investing activities:		
Purchase of investments	(2,282,317)	(13,652,091)
Proceeds from sale or maturities of investments	2,574,817	12,489,504
Purchase of property and equipment	(1,292,779)	(472,468)
Net cash used in investing activities	(1,000,279)	(1,635,055)
Cash flows from financing activities:		
Contributions and interest and dividends restricted for long-term purposes	1,024,369	645,708
Advances on payroll protection program loan	617,402	-
Net cash provided by financing activities	1,641,771	645,708
Net increase (decrease) in cash and cash equivalents	749,207	(1,065,606)
Cash and cash equivalents:		
Beginning	1,094,425	2,160,031
Ending	\$ 1,843,632	\$ 1,094,425
Supplemental schedules of noncash operating and investing activities:		
Donated property	\$ 237,750	\$ 7,900
Property and equipment purchases included in accounts payable and accrued expenses	\$ 156,996	\$ -

See notes to financial statements.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and of Significant Accounting Policies

Nature of 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.

A summary of the Inn's significant accounting policies follows:

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

Basis of presentation: The Inn follows the accounting requirements of the Not-for-Profit Entities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under FASB ASC, the Inn is required to report information regarding its net assets and its activities according to two categories: 1) net assets without donor restrictions, and 2) net assets with donor restrictions.

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 6 and 7 for details regarding net assets with donor restrictions.

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.

The Inn maintains cash and cash equivalents with commercial banks and money market funds with financial institutions. For short periods of time due to cash flow fluctuations, 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.

Investments: 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.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

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.

Property and equipment: Property and equipment are recorded at cost. The Inn capitalizes all expenditures for property, improvement and equipment 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 9, 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.

Valuation of long-lived assets: The Inn reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

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. See Note 4 for conditional promises to give as of June 30, 2020 and 2019.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

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 an exchange transaction with NIH whereby recognized over the time a patient stays at the Inn on a per night basis. The rate is fixed annually on a per night stay basis with NIH. NIH is generally billed on a weekly basis and is due upon receipt.

There are limited economic factors that would affect the nature, amount and timing of cash flows or uncertainty or revenue recognition. The Inn did not have any impairment or credit losses on any receivables arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components or variable considerations in pricing.

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.

Use of estimates: Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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, 2020 and 2019, as The Inn had no net unrelated business income. The Inn has been classified by the IRS as other than a private foundation.

Management evaluated the Inn's tax positions and concluded that the Inn had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Reclassifications: Certain items in the June 30, 2019 financial statements have been reclassified to conform to the June 30, 2020 financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Recent accounting pronouncements adopted: In August 2016, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaces most existing revenue recognition guidance in U.S. GAAP. The updated standards also required expanded disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows from contracts with customers. The Inn adopted the new standard effective for the year ended June 30, 2020, using the modified retrospective method to all agreements and contracts not yet completed as of July 1, 2019. Based on The Inn's review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under ASU 2014-09. The adoption of this guidance had no impact on the statements of financial position or activities but resulted in enhanced disclosures.

During the year ended June 30, 2020, the Inn adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* using the modified prospective method. This standard is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. In this standard include clarification and improved guidance to better distinguish between conditional and unconditional contributions. Based on the Inn's review of its grants, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard as a resource recipient. The adoption of this standard had no impact on the statements of financial position and the statements of activities. The Inn is in process of evaluating the impact of this guidance as a resource provider.

Upcoming accounting pronouncement: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for the Inn's year ending June 30, 2023. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Inn is currently evaluating the impact of the adoption of the new standard on the financial statements.

Subsequent events: Subsequent events have been evaluated through September 29, 2020, which is the date the financial statements were available to be issued.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 2. 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, 2020:

	2020			
	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments:				
Mutual funds and exchange-traded funds:				
Developed market equity securities	\$26,836,386	\$26,836,386	\$ -	\$ -
Developed fixed income	8,656,697	8,656,697	-	-
Real estate equity fund	2,249,933	2,249,933	-	-
Emerging market equity securities	1,778,959	1,778,959	-	-
High-yield fixed income	1,207,512	1,207,512	-	-
Long/short equity	1,097,357	1,097,357	-	-
Multi-strategy	857,365	857,365	-	-
Emerging market fixed income	1,002,980	1,002,980	-	-
Intermediate bond fund	1,042,368	1,042,368	-	-
Commodities	513,782	513,782	-	-
Government obligations	5,654,209	-	5,654,209	-
Corporate obligations	2,581,375	-	2,581,375	-
Certificates of deposit	111,518	-	111,518	-
Investments carried at fair value	53,590,441	\$45,243,339	\$ 8,347,102	\$ -
Investments at cost:				
Cash	2,690,590			
Money market funds	830,409			
Total investments	\$57,111,440			

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

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:

	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	-	-
Multi-strategy	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			

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.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

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

	2020	2019
Interest and dividends	\$ 1,361,083	\$ 1,288,386
Realized and unrealized gains	717,099	2,368,114
Investment income	2,078,182	3,656,500
Less investment fees	(146,747)	(125,696)
	<u>\$ 1,931,435</u>	<u>\$ 3,530,804</u>

Note 3. Pledges Receivable

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

	2020	2019
Due in less than one year	\$ 569,105	\$ 575,032
Due in one to five years	-	500,000
Total pledges receivable	569,105	1,075,032
Less:		
Discount to net present value	-	(5,836)
Allowance for doubtful accounts	(3,642)	(6,868)
Pledges receivable, net	<u>\$ 565,463</u>	<u>\$ 1,062,328</u>

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

Note 4. 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, 2020 and 2019, The Inn received and recognized \$100,000 as support each year. As of June 30, 2020 and 2019, a total of \$400,000 and \$300,000, respectively, of the promise to give had been received.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 5. Property and Equipment

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

	2020	2019
Building improvements	\$ 6,595,936	\$ 6,017,652
Furniture, fixtures and equipment	2,179,757	2,231,506
Playground	1,901,242	1,927,892
Computer equipment	1,032,250	1,061,806
Construction in progress	1,430,685	488,045
Land improvements	166,734	154,889
The Children's Inn video production costs	-	124,066
Vehicles	77,920	77,920
Time-share	10,000	10,000
	<u>13,394,524</u>	<u>12,093,776</u>
Less accumulated depreciation and amortization	(9,888,245)	(8,962,129)
Property and equipment – net	<u>\$ 3,506,279</u>	<u>\$ 3,131,647</u>

Depreciation and amortization expense was \$1,307,873 and \$1,353,883 for the years ended June 30, 2020 and 2019, respectively.

Note 6. Net Assets

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

	2020	2019
Perpetual in nature:		
Endowment funds*	\$28,224,462	\$26,845,413
Specified time or purpose:		
Unspent earnings of endowment funds*	4,153,410	4,009,140
Capital projects	3,572,255	3,240,135
Resident services program	938,271	881,090
Housing program	16,376	2,189
	<u>\$36,904,774</u>	<u>\$34,977,967</u>

* See discussion of endowments in Note 7.

For the years ended June 30, 2020 and 2019, net assets were released from donor restrictions as follows:

	2020	2019
Resident services program	\$ 618,337	\$ 366,406
Capital projects	630,367	172,063
Housing program	-	69,890
	<u>\$ 1,248,704</u>	<u>\$ 608,359</u>

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 7. 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 reapproval.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 7. 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, 2020 and 2019.

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

	2020	2019
Sanofi Aventis Legacy Fund	\$ 13,603,535	\$ 13,098,061
Merck Company Foundation Fund	2,000,000	2,000,000
Weinberg Foundation Fund	2,795,621	2,691,743
Joyce A. Jenkins Endowment Fund	1,733,485	1,697,723
General Endowment Fund	3,230,200	2,673,976
Robert James Fitzgerald Endowment Fund	1,088,703	1,048,250
AFCEA Endowment Fund	2,720,046	2,618,976
Rose and Harold Kramer Endowment Fund	315,148	303,438
Other Endowment Funds	737,724	713,246
	<u>\$ 28,224,462</u>	<u>\$ 26,845,413</u>

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 7. Endowments (Continued)

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.

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, 2020 and 2019:

	<u>With Donor Restrictions</u>		
	Subject to	Endowments	
	Expenditure for	Given in	
	Time or	Perpetuity	Total
	Purpose		
Endowment net assets – June 30, 2019	\$ 4,009,140	\$ 26,845,413	\$ 30,854,553
Investment returns	144,270	910,235	1,054,505
Contributions	-	455,629	455,629
Transfer	-	13,185	13,185
Endowment net assets – June 30, 2020	<u>\$ 4,153,410</u>	<u>\$ 28,224,462</u>	<u>\$ 32,377,872</u>

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 7. Endowments (Continued)

	<u>With Donor Restrictions</u>		
	Subject to	Endowments	
	Expenditure for	Given in	Total
	Time or	Given in	
	Purpose	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
Contributions	-	186,660	186,660
Appropriations	(35,145)	-	(35,145)
Endowment net assets – June 30, 2019	<u>\$ 4,009,140</u>	<u>\$ 26,845,413</u>	<u>\$ 30,854,553</u>

Note 8. 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 \$952,251 and \$986,121 from NIH for the years ended June 30, 2020 and 2019, respectively.

Note 9. 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

Note 9. 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:

	2020	2019
NIH annual in-kind contributions:		
Rent	\$ 1,881,267	\$ 1,838,970
Transportation services	207,945	229,773
Daily security	198,507	198,527
Utilities	127,409	127,422
Telephone services	146,188	146,203
Maintenance	129,170	129,178
Laundry services	81,012	81,020
Volunteer and resident supplies	25,698	18,639
Other services	25,651	26,430
Total NIH annual in-kind contributions	2,822,847	2,796,162
Resident support	290,775	414,489
Event support	73,779	83,194
General and administrative support	5,000	51,875
Capitalized property	237,750	7,900
	<u>\$ 3,430,151</u>	<u>\$ 3,353,620</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 estimated at \$315,766 and \$517,390 for the years ended June 30, 2020 and 2019, respectively.

Note 10. Joint Cost Allocation

The Inn incurred joint costs from the production of fundraising appeals and newsletters during the years ended June 30, 2020 and 2019. These joint costs were allocated as follows:

	2020	2019
Program services	\$ 112,298	\$ 115,389
Fundraising	148,215	127,119
General and administrative	125,138	25,914
	<u>\$ 385,651</u>	<u>\$ 268,422</u>

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 11. 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, 2020 and 2019. 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 \$296,877 and \$253,514 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019. No contributions were made by other eligible employees during the years ended June 30, 2020 and 2019.

Note 12. Concentrations

Major donors: For the years ended June 30, 2020 and 2019, The Inn recognized revenue of \$2,822,847 and \$2,796,162, respectively, in in-kind contributions from NIH and \$1,455,404 and \$510,784, respectively, from the next five largest donors. These amounts represent approximately 35% and 25%, of The Inn's total revenue and support in 2020 and 2019, including contributed facilities, property, goods and services.

Note 13. Commitments

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 agreement automatically renews for successive one-year terms, unless terminated earlier in accordance with the agreement.

Apartment and furniture leases: The Inn has several apartment leases in Bethesda, Maryland which provide supplemental residential lodging to patients receiving treatment at NIH. The Inn also had 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 \$235,935 and \$395,607 for the years ended June 30, 2020 and 2019, respectively. Future lease commitments total \$120,017 for the year ended June 30, 2021 and \$1,050 for the year ended June 30, 2022.

Construction agreement: As of June 30, 2020, the Inn was still in process of completing construction work on renovations. Per the agreement with a contractor, there remains \$423,145 of costs to be incurred and paid to complete the construction in 2021.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 14. 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:

	2020	2019
Cash and cash equivalents	\$ 1,843,632	\$ 1,094,425
Investments	57,111,440	56,686,841
Accounts receivable	46,656	219,819
Pledges receivable	565,463	1,062,328
	<u>59,567,191</u>	<u>59,063,413</u>
Less donor-restricted net assets	<u>(36,904,774)</u>	<u>(34,977,967)</u>
	<u>\$ 22,662,417</u>	<u>\$ 24,085,446</u>

Note 15. COVID-19

The World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. The impact of COVID-19 could negatively impact the Inn's operations, suppliers or vendors, and donor or customer base. The extent to which the coronavirus impacts the Inn's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among other factors.

As part of its response to the pandemic, during April 2020, The Inn applied for a federal Paycheck Protection Program (PPP) loan. The Inn's application was approved and a PPP loan of \$617,402 was received to be paid back by April 18, 2022 at a fixed interest rate of 1%. The Inn believes that all of the PPP loan will meet the requirements for debt forgiveness.