

The Children's Inn at NIH, Inc.

Financial Report
June 30, 2021

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Independent Auditor's Report

RSM US LLP

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 statements of financial position as of June 30, 2021 and 2020, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Washington, D.C.
September 22, 2021

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The Children's Inn at NIH, Inc.

Statements of Financial Position
June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 2,191,775	\$ 1,843,632
Accounts receivable	128,181	46,656
Promises to give, net	214,877	565,463
Prepaid expenses	113,647	125,734
Investments	67,114,678	57,111,440
Property and equipment, net	4,490,830	3,506,279
	<u>4,490,830</u>	<u>3,506,279</u>
Total assets	\$ 74,253,988	\$ 63,199,204
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 445,457	\$ 725,962
Accrued payroll and leave	389,578	369,338
Deferred revenue	-	9,000
Paycheck protection program loan	660,840	617,402
Total liabilities	1,495,875	1,721,702
Commitments and contingencies (Note 12, 13 and 15)		
Net assets:		
Without donor restrictions	31,010,208	24,572,728
With donor restrictions	41,747,905	36,904,774
Total net assets	72,758,113	61,477,502
Total liabilities and net assets	\$ 74,253,988	\$ 63,199,204

See notes to financial statements.

The Children's Inn at NIH, Inc.

Statements of Activities
Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Grants, contributions and events revenue	\$ 3,793,052	\$ 1,028,490	\$ 4,821,542	\$ 3,715,589	\$ 2,079,398	\$ 5,794,987
Contributed facilities, property, goods and services	3,264,622	-	3,264,622	3,430,151	-	3,430,151
Patient lodging	734,694	-	734,694	952,251	-	952,251
Investment income, net	6,723,323	6,533,636	13,256,959	835,322	1,096,113	1,931,435
Other income and loan forgiveness	626,126	-	626,126	9,048	-	9,048
Net assets released from restrictions	2,718,995	(2,718,995)	-	1,248,704	(1,248,704)	-
Total support and revenue	17,860,812	4,843,131	22,703,943	10,191,065	1,926,807	12,117,872
Expenses:						
Program services:						
Housing	5,395,020	-	5,395,020	5,824,260	-	5,824,260
Resident services	2,837,634	-	2,837,634	2,875,452	-	2,875,452
Total program services	8,232,654	-	8,232,654	8,699,712	-	8,699,712
Supporting services:						
Management and general	1,559,563	-	1,559,563	1,547,160	-	1,547,160
Fundraising	1,631,115	-	1,631,115	1,767,427	-	1,767,427
Total supporting services	3,190,678	-	3,190,678	3,314,587	-	3,314,587
Total expenses	11,423,332	-	11,423,332	12,014,299	-	12,014,299
Change in net assets	6,437,480	4,843,131	11,280,611	(1,823,234)	1,926,807	103,573
Net assets:						
Beginning	24,572,728	36,904,774	61,477,502	26,395,962	34,977,967	61,373,929
Ending	\$ 31,010,208	\$ 41,747,905	\$ 72,758,113	\$ 24,572,728	\$ 36,904,774	\$ 61,477,502

See notes to financial statements.

The Children's Inn at NIH, Inc.

Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services			Supporting Services			Total
	Housing	Resident Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and benefits	\$ 959,010	\$ 1,277,705	\$ 2,236,715	\$ 1,075,029	\$ 1,002,993	\$ 2,078,022	\$ 4,314,737
Contributed occupancy expense	2,322,364	475,665	2,798,029	21,799	42,285	64,084	2,862,113
Cleaning, facilities and equipment maintenance	989,120	-	989,120	6,507	13,015	19,522	1,008,642
Patient services – meals, supplies, other patient support	59,726	902,180	961,906	-	-	-	961,906
Depreciation and amortization	853,116	-	853,116	26,660	8,887	35,547	888,663
Public relations, promotion and development	70,964	61,041	132,005	27,025	413,147	440,172	572,177
Other	76,601	65,890	142,491	117,485	54,344	171,829	314,320
Information technology	12,131	10,434	22,565	161,266	80,619	241,885	264,450
Consulting and professional services	9,321	8,018	17,339	92,629	6,784	99,413	116,752
Insurance	34,624	29,782	64,406	23,863	5,131	28,994	93,400
Credit card processing and other fees	8,043	6,919	14,962	7,300	3,910	11,210	26,172
Total expenses	\$ 5,395,020	\$ 2,837,634	\$ 8,232,654	\$ 1,559,563	\$ 1,631,115	\$ 3,190,678	\$ 11,423,332

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			Total
	Housing	Resident Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	
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
Cleaning, facilities and equipment maintenance	1,133,692	-	1,133,692	8,236	11,026	19,262	1,152,954
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
Other	29,233	22,755	51,988	126,889	24,191	151,080	203,068
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
Consulting and professional services	17,273	13,445	30,718	45,369	5,324	50,693	81,411
Credit card processing and other fees	14,515	11,299	25,814	8,332	3,793	12,125	37,939
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.

Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 11,280,611	\$ 103,573
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in discount on pledges receivable	-	(5,836)
Change in allowance for doubtful accounts	(2,258)	(3,226)
Depreciation and amortization	888,663	1,307,873
Donated property	(15,219)	(237,750)
Net loss on disposal of property and equipment	941	5,020
Net realized and unrealized gains on investments	(12,510,589)	(717,099)
Forgiveness of paycheck protection program loan	(617,402)	-
Contributions and interest and dividends restricted for long-term purposes	(247,211)	(1,024,369)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(81,525)	173,163
Promises to give	352,844	505,927
Prepaid expenses	12,087	(2,233)
Increase (decrease) in:		
Accounts payable and accrued expenses	(280,505)	(81,687)
Accrued payroll and leave	20,240	105,359
Deferred revenue	(9,000)	(21,000)
Net cash (used in) provided by operating activities	(1,208,323)	107,715
Cash flows from investing activities:		
Purchase of investments	(2,258,868)	(2,282,317)
Proceeds from sale or maturities of investments	4,766,219	2,574,817
Purchase of property and equipment	(1,858,936)	(1,292,779)
Net cash provided by (used in) investing activities	648,415	(1,000,279)
Cash flows from financing activities:		
Contributions and interest and dividends restricted for long-term purposes	247,211	1,024,369
Advances on payroll protection program loan	660,840	617,402
Net cash provided by financing activities	908,051	1,641,771
Net increase in cash and cash equivalents	348,143	749,207
Cash and cash equivalents:		
Beginning	1,843,632	1,094,425
Ending	\$ 2,191,775	\$ 1,843,632
Supplemental schedules of noncash operating and investing activities:		
Donated property	\$ 15,219	\$ 237,750
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 Activities and Significant Accounting Policies

Nature of activities: 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 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.

Investments: Investments with readily determinable fair values are reflected at fair value. To adjust the carrying value of these investments, the change in fair value is reflected as a component of investment income on the statements of activities.

Financial risk: 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.

The Inn invests funds in a professionally managed portfolio which includes money market funds as well as 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 Activities and Significant Accounting Policies (Continued)

Promises to give and accounts receivable: The Inn uses the allowance method to record potentially uncollectible promises to give and accounts receivable. Promises to give 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 promises to give 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 reported 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, 2021 and 2020.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 1. Nature of Activities 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. Patient lodging revenue is 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.

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 generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. 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, 2021 and 2020, as the Inn had no net unrelated business income. The Inn has been classified by the Internal Revenue Service as other than a private foundation.

Reclassifications: Certain items in the June 30, 2020, financial statements have been reclassified to conform to the June 30, 2021, financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Notes to Financial Statements

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

Recent accounting pronouncements adopted: In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU results in the removal, modification and addition of certain disclosure requirements related to transfers between levels within the fair value hierarchy, valuation processes and unrealized gains/losses presentation for Level 3 measurements and liquidation timing for investments held at net asset value. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied except for the changes related to Level 3 measurements, which should be applied prospectively. The Inn adopted ASU 2018-13 during year ending June 30, 2021. The adoption of ASU 2018-13 had no impact on the financial statements.

During the year ended June 30, 2021, the Inn adopted the guidance regarding contributions made from ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions of this standard include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improved guidance to better distinguish between conditional and unconditional contributions. Based on the Inn's review of its contributions made, the timing and amount of expense recognized previously is consistent with how expenses are recognized under this new standard. The Inn adopted the guidance regarding contributions received from ASU 2018-08 during the year ended June 30, 2020.

Upcoming accounting pronouncements: 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 statement of financial position 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 statement 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.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU is effective for the Inn's fiscal year ending June 30, 2022. ASU 2020-07 is not expected to have a significant impact on the Inn's financial statements.

Subsequent events: Subsequent events have been evaluated through September 22, 2021, 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

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, 2021:

	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments:				
Money market funds	\$ 2,691,909	\$ 2,691,909	\$ -	\$ -
Mutual funds and exchange-traded funds:				
Developed fixed income	10,501,825	10,501,825	-	-
High yield fixed income	1,137,415	1,137,415	-	-
Emerging fixed income securities	1,042,674	1,042,674	-	-
Developed market equity securities	35,532,620	35,532,620	-	-
Emerging market equity securities	3,684,936	3,684,936	-	-
Commodities	803,437	803,437	-	-
Real estate	1,403,989	1,403,989	-	-
Long/short equity	1,291,064	1,291,064	-	-
Multialternatives	935,320	935,320	-	-
Intermediate bond fund	1,038,376	1,038,376	-	-
Government obligations	4,603,690	-	4,603,690	-
Corporate bonds	2,334,415	-	2,334,415	-
Certificate of deposits	112,075	-	112,075	-
Investments carried at fair value	67,113,745	\$ 60,063,565	\$ 7,050,180	\$ -
Investments at cost:				
Cash	933			
Total investments	\$ 67,114,678			

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, 2020:

	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments:				
Money market funds	\$ 830,409	\$ 830,409	-	\$ -
Mutual funds and exchange-traded funds:				
Developed fixed income	9,462,707	9,462,707	-	-
High yield fixed income	1,037,470	1,037,470	-	-
Emerging fixed income securities	1,002,980	1,002,980	-	-
Developed market equity securities	26,836,386	26,836,386	-	-
Emerging market equity securities	1,778,959	1,778,959	-	-
Commodities	513,782	513,782	-	-
Real estate	2,249,933	2,249,933	-	-
Long/short equity	1,097,357	1,097,357	-	-
Multialternatives	857,365	857,365	-	-
Intermediate bond fund	1,042,368	1,042,368	-	-
Government obligations	5,654,209	-	5,654,209	-
Corporate bonds	2,581,375	-	2,581,375	-
Certificate of deposits	111,518	-	111,518	-
Investments carried at fair value	55,056,818	\$ 46,709,716	\$ 8,347,102	\$ -
Investments at cost:				
Cash	2,054,622			
Total investments	\$ 57,111,440			

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 cash. 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, 2021 and 2020:

	2021	2020
Interest and dividends	\$ 899,033	\$ 1,361,083
Realized and unrealized gains	12,510,589	717,099
Investment income	13,409,622	2,078,182
Less investment fees	(152,663)	(146,747)
	<u>\$ 13,256,959</u>	<u>\$ 1,931,435</u>

Note 3. Promises to Give

The Inn's promises to give were due to be received as follows at June 30, 2021 and 2020:

	2021	2020
Due in less than one year	\$ 216,261	\$ 569,105
Due in one to five years	-	-
Gross promises to give	216,261	569,105
Less allowance for doubtful accounts	(1,384)	(3,642)
Promises to give, net	<u>\$ 214,877</u>	<u>\$ 565,463</u>

Note 4. Conditional Promises to Give

During May 2021, the Inn received a conditional promise to give of \$500,000 that is due to be received in five annual payments of \$100,000. The payments are due to be received each January during the years 2022 through 2026. Payment is contingent upon the donor's determination that key program goals, objectives and milestones are being met and will be recorded as support as those conditions are met.

Note 5. Property and Equipment

Property and equipment consisted of the following as of June 30, 2021 and 2020:

	2021	2020
Building improvements	\$ 8,338,904	\$ 6,595,936
Furniture, fixtures and equipment	2,473,946	2,179,757
Playground	1,977,821	1,901,242
Computer equipment	1,105,498	1,032,250
Construction in progress	932,833	1,430,685
Land improvements	170,004	166,734
Vehicles	39,318	77,920
Time-share	10,000	10,000
	<u>15,048,324</u>	<u>13,394,524</u>
Less accumulated depreciation and amortization	(10,557,494)	(9,888,245)
Property and equipment – net	<u>\$ 4,490,830</u>	<u>\$ 3,506,279</u>

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 5. Property and Equipment (Continued)

Depreciation and amortization expense was \$888,663 and \$1,307,873 for the years ended June 30, 2021 and 2020, respectively.

Note 6. Net Assets

Net assets with donor restrictions consisted of the following at June 30, 2021 and 2020:

	2021	2020
Perpetual in nature:		
Endowment funds – contributions and earnings allocated to corpus*	\$ 29,392,230	\$ 28,224,462
Specified time or purpose:		
Unspent earnings of endowment funds*	9,626,125	4,153,410
Capital projects	1,768,558	3,572,255
Resident services program	959,265	938,271
Housing program	1,727	16,376
	<u>\$ 41,747,905</u>	<u>\$ 36,904,774</u>

See discussion of endowments in Note 7.

For the years ended June 30, 2021 and 2020, net assets were released from donor restrictions as follows:

	2021	2020
Resident services program	\$ 762,326	\$ 618,337
Capital projects	1,948,030	630,367
Housing program	8,639	-
	<u>\$ 2,718,995</u>	<u>\$ 1,248,704</u>

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 enacted by Maryland, 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.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 7. Endowments (Continued)

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
- 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.

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
- Complying with the prohibition of direct investment in specific, named strategies that have the potential to amplify the tolerable risk of the portfolio

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 7. Endowments (Continued)

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, 2021 and 2020.

Contributions and investment earnings allocated to the corpus of each fund consisted of the following at June 30, 2021 and 2020:

	2021	2020
Sanofi Aventis Legacy Fund	\$ 13,603,535	\$ 13,603,535
Merck Company Foundation Fund	2,000,000	2,000,000
Weinberg Foundation Fund	3,327,338	2,795,621
Joyce A. Jenkins Endowment Fund	2,142,056	1,733,485
General Endowment Fund	3,254,931	3,230,200
Robert James Fitzgerald Endowment Fund	1,088,703	1,088,703
AFCEA Endowment Fund	2,720,046	2,720,046
Rose and Harold Kramer Endowment Fund	315,148	315,148
Other Endowment Funds	940,473	737,724
	<u>\$ 29,392,230</u>	<u>\$ 28,224,462</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.

The Children’s Inn at NIH, Inc.

Notes to Financial Statements

Note 7. Endowments (Continued)

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:

	<u>With Donor Restrictions</u>		
	Accumulated Investment Gain (Loss)	Contributions and Earnings Allocated to Corpus	Total
Endowment net assets – June 30, 2020	\$ 4,153,410	\$ 28,224,462	\$ 32,377,872
Investment returns	5,337,514	1,108,182	6,445,696
Contributions	-	194,787	194,787
Transfer	135,201	(135,201)	-
Endowment net assets – June 30, 2021	<u>\$ 9,626,125</u>	<u>\$ 29,392,230</u>	<u>\$ 39,018,355</u>

	<u>With Donor Restrictions</u>		
	Accumulated Investment Gain (Loss)	Contributions and Earnings Allocated to Corpus	Total
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>

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 \$734,694 and \$952,251 from NIH for the years ended June 30, 2021 and 2020, respectively.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

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.

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

	2021	2020
NIH annual in-kind contributions:		
Rent	\$ 1,922,654	\$ 1,881,267
Transportation services	212,727	207,945
Daily security	203,668	198,507
Utilities	129,575	127,409
Telephone services	149,989	146,188
Maintenance	132,523	129,170
Laundry services	83,118	81,012
Volunteer and resident supplies	21,161	25,698
Other services	27,860	25,651
Total NIH annual in-kind contributions	2,883,275	2,822,847
Resident support	112,298	290,775
Event support	15,897	73,779
General and administrative support	237,933	5,000
Capitalized property	15,219	237,750
	<u>\$ 3,264,622</u>	<u>\$ 3,430,151</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 \$78,528 and \$315,766 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020. These joint costs were allocated as follows:

	2021	2020
Program services	\$ 102,231	\$ 112,298
Fundraising	128,477	148,215
General and administrative	19,957	125,138
	<u>\$ 250,665</u>	<u>\$ 385,651</u>

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 11. Retirement Plans

The Inn has a retirement plan under IRC Section 401(k) covering both full-time and part-time employees who meet certain eligibility requirements. As approved by the board of directors, 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, 2021 and 2020. 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 \$299,572 and \$296,877 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020. No contributions were made by other eligible employees during the years ended June 30, 2021 and 2020.

Note 12. Concentrations

Major donors: For the years ended June 30, 2021 and 2020, the Inn recognized revenue of \$2,883,275 and \$2,822,847, respectively, in in-kind contributions from NIH and \$1,188,095 and \$1,455,404, respectively, from the next five largest donors. These amounts represent approximately 18% and 35%, of the Inn's total revenue and support in 2021 and 2020, respectively, 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 during the year ended June 30, 2021. The apartment leases have various end dates through July 2022. Total rent expense for the leases was \$96,456 and \$235,935 for the years ended June 30, 2021 and 2020, respectively. Future lease commitments total \$52,937 for the year ended June 30, 2022.

Construction agreement: As of June 30, 2021, the Inn was in the process of completing construction work on renovations. Per the agreement with a contractor, there remains \$668,625 of costs to be incurred and paid to complete the construction in 2022.

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 one to four months of the most current operating budget. Intermediate operating funds, which contain fixed income securities, should contain two to five 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.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 14. Liquidity (Continued)

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

	2021	2020
Cash and cash equivalents	\$ 2,191,775	\$ 1,843,632
Investments	67,114,678	57,111,440
Accounts receivable	128,181	46,656
Promises to give, net	214,877	565,463
	<u>69,649,511</u>	<u>59,567,191</u>
Less donor-restricted net assets	<u>(41,747,905)</u>	<u>(36,904,774)</u>
	<u>\$ 27,901,606</u>	<u>\$ 22,662,417</u>

Note 15. COVID-19, PPP Loans and Subsequent Events

COVID-19: The World Health Organization has 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.

PPP loans: As part of its response to the pandemic, during April 2020, the Inn applied for a federal Paycheck Protection Program (PPP) loan under the Coronavirus Aid, Relief and Economic Security Act of March 27, 2020. The Inn's application was approved and a PPP loan of \$617,402 was received. The Inn used the proceeds for payroll costs and other covered operations expenses during the year ended June 30, 2021, as permitted by the loan agreement and then applied for forgiveness. On May 19, 2021, the Inn received a notice that the Small Business Administration had forgiven the entire loan and accrued interest.

The Inn applied for a second PPP loan during March 2021. The Inn's application was approved and a PPP loan of \$660,840 was received which is due to be paid back commencing during the year ended June 30, 2023, at a fixed interest rate of 1% for any portion of the loan that is not forgiven. The Inn believes that the entire amount of the PPP loan will meet the requirements for debt forgiveness at the conclusion of the permitted period.

The Inn has elected to record its PPP loans in accordance with ASC Topic 470: Debt. Therefore, a gain on loan forgiveness is recognized in the period when official notification is received.

Strategic Plan projects: In 2018, the Inn launched its #INN2025 strategic plan and has made considerable progress accelerating the impact on medical discovery and care through three strategic goals:

- Evolve to a state-of-the-art "smart" living environment
- Strengthen the support programs that better integrate discovery and care
- Maximize a diverse group of leaders, supporters and volunteers and ensure the Inn's financial viability

During the year ended June 30, 2021, the Inn hired a Project Manager to assist with major renovations, which are expected to begin with architectural design during the year ended June 30, 2022. The Inn is currently in the design phase to repurpose the Rabson House, which will provide housing for adolescents and young adults. Renovations are projected to be complete during the year ended June 30, 2024.