

The Children's Inn at NIH, Inc.

Financial Report
June 30, 2022

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RSM US LLP

Independent Auditor's Report

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

Opinion

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, 2022 and 2021, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Inn as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Inn and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Inn's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Inn's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Washington, D.C.
November 4, 2022

The Children's Inn at NIH, Inc.

Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 1,314,112	\$ 2,191,775
Accounts receivable	51,430	128,181
Promises to give, net	338,175	214,877
Prepaid expenses	109,976	113,647
Investments	54,254,258	67,114,678
Property and equipment, net	4,290,555	4,490,830
Total assets	\$ 60,358,506	\$ 74,253,988
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 323,757	\$ 445,457
Accrued payroll and leave	586,322	389,578
Paycheck protection program loan	-	660,840
Total liabilities	910,079	1,495,875
Commitments and contingencies (Note 12 and 13)		
Net assets:		
Without donor restrictions	23,147,114	31,010,208
With donor restrictions	36,301,313	41,747,905
Total net assets	59,448,427	72,758,113
Total liabilities and net assets	\$ 60,358,506	\$ 74,253,988

See notes to financial statements.

The Children's Inn at NIH, Inc.

Statements of Activities
Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Grants, contributions and events revenue	\$ 4,357,552	\$ 1,052,426	\$ 5,409,978	\$ 3,793,052	\$ 1,028,490	\$ 4,821,542
Contributed facilities, property, goods and services	3,429,834	-	3,429,834	3,264,622	-	3,264,622
Patient lodging	799,310	-	799,310	734,694	-	734,694
Investment (loss) income, net	(5,489,502)	(4,482,747)	(9,972,249)	6,723,323	6,533,636	13,256,959
Other income and loan forgiveness	664,089	-	664,089	626,126	-	626,126
Net assets released from restrictions	2,016,271	(2,016,271)	-	2,718,995	(2,718,995)	-
Total support and revenue	5,777,554	(5,446,592)	330,962	17,860,812	4,843,131	22,703,943
Expenses:						
Program services:						
Housing	6,981,197	-	6,981,197	5,395,020	-	5,395,020
Resident services	2,843,420	-	2,843,420	2,837,634	-	2,837,634
Total program services	9,824,617	-	9,824,617	8,232,654	-	8,232,654
Supporting services:						
Management and general	1,569,727	-	1,569,727	1,559,563	-	1,559,563
Fundraising	2,246,304	-	2,246,304	1,631,115	-	1,631,115
Total supporting services	3,816,031	-	3,816,031	3,190,678	-	3,190,678
Total expenses	13,640,648	-	13,640,648	11,423,332	-	11,423,332
Change in net assets	(7,863,094)	(5,446,592)	(13,309,686)	6,437,480	4,843,131	11,280,611
Net assets:						
Beginning	31,010,208	41,747,905	72,758,113	24,572,728	36,904,774	61,477,502
Ending	\$ 23,147,114	\$ 36,301,313	\$ 59,448,427	\$ 31,010,208	\$ 41,747,905	\$ 72,758,113

See notes to financial statements.

The Children's Inn at NIH, Inc.

Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services			Supporting Services			
	Housing	Resident Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	\$ 1,008,151	\$ 1,245,017	\$ 2,253,168	\$ 1,160,812	\$ 1,046,618	\$ 2,207,430	\$ 4,460,598
Contributed occupancy expense	2,412,584	526,008	2,938,592	21,034	45,070	66,104	3,004,696
Building construction expense contributed to NIH	1,292,385	-	1,292,385	3,906	7,811	11,717	1,304,102
Patient services—meals, supplies, other patient support	201,488	832,045	1,033,533	877	702	1,579	1,035,112
Public relations, promotion and development	44,956	76,210	121,166	22,127	888,067	910,194	1,031,360
Cleaning, facilities and equipment maintenance	894,621	-	894,621	6,503	13,011	19,514	914,135
Depreciation and amortization	698,714	-	698,714	72,202	30,969	103,171	801,885
Consulting and professional services	310,049	10,412	320,461	60,286	57,216	117,502	437,963
Information technology	47,118	114,454	161,572	138,143	66,043	204,186	365,758
Credit card processing and other fees	-	-	-	35,465	60,369	95,834	95,834
Other	17,225	28,595	45,820	24,264	25,481	49,745	95,565
Insurance	53,906	10,679	64,585	24,108	4,947	29,055	93,640
Total expenses	\$ 6,981,197	\$ 2,843,420	\$ 9,824,617	\$ 1,569,727	\$ 2,246,304	\$ 3,816,031	\$ 13,640,648

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			
	Housing	Resident Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
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	4,990	863,773	868,763	-	-	-	868,763
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	66,867	48,841	115,708	161,266	80,619	241,885	357,593
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.

Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (13,309,686)	\$ 11,280,611
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in allowance for doubtful accounts	794	(2,258)
Depreciation and amortization	801,885	888,663
Donated property	(137,080)	(15,219)
Net loss on disposal of property and equipment	1,960	941
Net realized and unrealized losses (gains) on investments	10,188,284	(12,510,589)
Forgiveness of paycheck protection program loan	(660,840)	(617,402)
Contributions and interest and dividends restricted for long-term purposes	(25,326)	(247,211)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	76,751	(81,525)
Promises to give	(124,092)	352,844
Prepaid expenses	3,671	12,087
Increase (decrease) in:		
Accounts payable and accrued expenses	31,610	(280,505)
Accrued payroll and leave	196,744	20,240
Deferred revenue	-	(9,000)
Net cash used in operating activities	(2,955,325)	(1,208,323)
Cash flows from investing activities:		
Purchase of investments	(144,719,832)	(2,258,868)
Proceeds from sale or maturities of investments	147,391,968	4,766,219
Purchase of property and equipment	(619,800)	(1,858,936)
Net cash provided by investing activities	2,052,336	648,415
Cash flows from financing activities:		
Contributions and interest and dividends restricted for long-term purposes	25,326	247,211
Advances on payroll protection program loan	-	660,840
Net cash provided by financing activities	25,326	908,051
Net (decrease) increase in cash and cash equivalents	(877,663)	348,143
Cash and cash equivalents:		
Beginning	2,191,775	1,843,632
Ending	\$ 1,314,112	\$ 2,191,775
Supplemental schedules of noncash investing and financing activities:		
Donated property	\$ 137,080	\$ 15,219
Property and equipment purchases included in accounts payable and accrued expenses	\$ 153,310	\$ -
Forgiveness of paycheck protection program loan	\$ 660,840	\$ -

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 purposes of reporting cash flows, 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. The Inn's investments represent donor-restricted endowments and other investments held for general operating purposes or restrictions placed by the donor. Investments are reported at fair value. The fair value of equity securities and mutual and exchange traded funds are based on quotations obtained from national securities exchanges. Alternative investments, for which quoted prices are generally not available, are carried at estimated fair values, as provided by the external general partners or investment managers. The Inn reviews and evaluates the values provided by the external managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Additional information regarding The Inn's fair value methodologies for investments is included in Note 2, Fair Value Measurements.

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 Government). The uninsured portions of these accounts are backed solely by the assets of the underlying institutions. Therefore, the failure of an underlying institution could result in financial loss to The Inn. However, The Inn has not experienced any losses in these accounts and believes it is not exposed to a significant level of credit risk.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

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

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.

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 expenditures for property, certain improvements 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 Government, as discussed in Note 9, are amortized over the estimated useful lives of the assets, which are seven years. 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 and equipment 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.

From time to time, the Inn will enter into various agreements to fund improvements to properties that are owned by the Government. In instances where the agreements specify that the improvements are gifts from the Inn to the Government, these expenditures are not capitalized. Noncapitalized gifts to the Government totaled \$488,195 for The Children's Inn main building and \$815,907 for Rabson House during the year ended June 30, 2022.

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.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

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

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, 2022 and 2021.

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. For goods, the fair value is based on actual cost as provided by the donor or an approximation of average cost based on The Inn's online research of similar products sold in the United States. For services, The Inn utilizes the actual market rate provided by the donor or an approximation of the market rate for similar services based on The Inn's online research of similar services in the Washington, D.C. metropolitan area. Annual in-kind contributions from NIH are generally valued on the basis of a market valuation study which is adjusted for changes in the consumer price index. Contributions that enhance nonfinancial assets such as licensee improvements are capitalized. The Inn's policy is to utilize the donated non-financial assets in their operations.

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.

Contract balances: The timing of revenue recognition may not align with the right to invoice the customer. The Inn records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. If revenue has not yet been recognized, a contract liability (deferred revenue) also is recorded. If revenue is recognized in advance of the right to invoice, a contract asset (unbilled receivable) is recorded. Opening balances as of July 1, 2020, were as follows:

Accounts receivable	\$	46,656
Deferred revenue	\$	9,000

Based on past collection history, The Inn expects to collect all outstanding receivables and, as a result, no allowance for potentially uncollectible receivables have been recorded as of July 1, 2020. Additionally, all accounts receivable were considered billed as of July 1, 2020.

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.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

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

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: The 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 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 Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3) and, therefore, qualifies for the charitable contribution deduction. The Inn has been determined not to be a private foundation under IRC Sections 509(a)(1) and 170(b)(1)(A)(vi). The Inn is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the Internal Revenue Service (IRS). In addition, The Inn is subject to income tax on net income derived from business activities that are unrelated to its exempt purpose. However, management has determined that The Inn is not subject to unrelated business income tax. Therefore, The Inn has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Recent accounting pronouncement adopted: In September 2020, the FASB issued Accounting Standards Update (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 statements 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. The Inn adopted ASU 2020-07 on a retrospective basis during the year ended June 30, 2022, which resulted in expanded disclosures.

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 statements 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 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.

Reclassifications: Certain 2021 amounts have been reclassified to conform to the 2022 presentation with no effect on the previously reported total change in net assets.

Subsequent events: Subsequent events have been evaluated through November 4, 2022, 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

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 government obligations and corporate obligations. Government and corporate securities are valued using an outside data and pricing company (the Company). In determining the fair value of the investments, The Inn 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 Inn's estimate to be a reasonable approximation of the fair value of the investments.

Investments recorded at cost include certificates of deposit and cash. Investments at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

Investments recorded at net asset value (NAV) consist of investments in various partnerships, investment companies and common trust funds, which are considered alternative investments. These alternative investments are not publicly traded; The Inn, therefore, values these investments at the NAV as reported by the fund managers, multiplied by the number of units held. The NAV of these funds is based on the fair value of the underlying securities held by the funds. Because of the inherent uncertainty in the valuations of these investments, their estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the difference could be material. As permitted by U.S. GAAP, The Inn uses the NAV as a practical expedient to determine the fair value of these alternative investments. In accordance with the Fair Value Measurement topic, such investments are not classified within the fair value hierarchy.

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, 2022:

	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments:				
Money market funds	\$ 1,539,138	\$ 1,539,138	\$ -	\$ -
Mutual funds and exchange-traded funds:				
Developed fixed income	2,632,713	2,632,713	-	-
Long/short equity	1,105,730	1,105,730	-	-
Investments carried at fair value	5,277,581	\$ 5,277,581	\$ -	\$ -
Investments valued at cost	112,246			
Investments valued at NAV	48,864,431			
Total investments	<u>\$ 54,254,258</u>			

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	-
Investments carried at fair value	67,001,670	\$ 60,063,565	\$ 6,938,105	\$ -
Investments at cost	113,008			-
Total investments	<u>\$ 67,114,678</u>			

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

The following presents further information regarding the composition of The Inn's investments measured under the NAV practical expedient as of June 30, 2022:

	Fair Value		Unfunded	Unfunded	Redemption	Redemption
	2022	2021	Commitments	Commitments	Frequency (If Currently Eligible)	Notice Period
			June 30, 2022	June 30, 2021		
Alternative investments:						
Domestic equity (a)	\$ 14,533,484	\$ -	\$ -	\$ -	Daily	1 day
International equity (b)	4,321,004	-	-	-	Daily - Monthly	1 - 30 days
Emerging equity (c)	4,705,221	-	-	-	Daily	1 - 30 days
Global equity (d)	11,676,256	-	-	-	Daily	1 - 30 days
Government bonds (e)	8,142,003	-	-	-	Daily	1 day
Global multi-sector bonds (f)	1,830,108	-	-	-	Daily	15 business days
Multi-asset (g)	3,656,355	-	-	-	Quarterly	65 - 100 days
	<u>\$ 48,864,431</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		

- (a) Domestic equity funds seek investment returns that approximates as closely as practicable, before expenses, or exceed the performance of the Russell 2000 Index, Russel Small Cap Completeness® Index, FTSE RAFI U.S. 1000 Index, and S&P 500® Index, respectively, through investment in U.S. equity securities as well as derivatives. Valuations are based on estimated NAV provided by the investment managers. Investments are redeemable at their NAV as of the end of the respective period.
- (b) International equity funds have strategies that include achievement of an above average long-term return from a portfolio invested primarily in equity securities of small and mid-size companies located outside the U.S., and approximation of the performance of the MSCI EAFE 100% Hedged to USD Index over the long term through investment in other collective investment funds which have characteristics consistent with the fund's overall investment objective. Valuations are based on NAV provided by the investment managers. Investments are redeemable at their NAV as of the end of the respective period.
- (c) Emerging equity fund attempts to achieve long-term appreciation and current income by investing in a diversified portfolio of equity securities of companies domiciled or doing primary business in emerging market countries. The fund's objective is to meet or exceed the performance of the MSCI Emerging Markets Index. Valuations are based on estimated NAV provided by the investment managers. Investments are redeemable at their NAV as of the end of the respective period.
- (d) Global equity fund attempts to achieve long-term appreciation and current income by investing in a diversified portfolio of equity securities of companies, either directly, or indirectly through investment funds or managed accounts. The fund invests in global equities, including U.S. companies, seeking to meet or exceed the performance of the MSCI World Index. Valuations are based on estimated NAV provided by the investment managers. Investments are redeemable at their NAV as of the end of the respective period.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 2. Fair Value Measurements (Continued)

- (e) Government bonds funds seek investment returns that approximates as closely as practicable, before expenses, the performance of the Bloomberg Barclays U.S. Treasury Inflation Protected Securities (TIPS) Index and Bloomberg Barclays U.S. Treasury Index over the long term by investing in U.S. treasury inflation protected securities, fixed income, and U.S. treasury securities. Underlying investments also include other collective investment funds, which have characteristics consistent with the fund's overall investment objective. Valuations are based on estimated NAV provided by the investment managers. Investments are redeemable at their NAV as of the end of the respective period.
- (f) Global multisector bonds fund has an investment objective to outperform a blended benchmark composed as follows: 50% of the Bloomberg Capital Investment Grade Corporate Index, 25% of the Bloomberg Barclays Capital 2% Capped High Yield Issuer Index and 25% of the Standard & Poor's/LSTA Leveraged Loan Index. Underlying investments include direct and affiliated funds in a variety of credit instruments including ABS, corporate bonds, and term loans. Investments include investment-grade and below-investment grade securities as well as derivatives. Valuations are based on estimated NAV provided by the investment managers. Investments are redeemable at their NAV as of the end of the respective period.
- (g) Multi-asset funds have various investment objectives including to grow investor value by allocating capital directly and indirectly to investment funds and managed accounts, and to achieve capital appreciation with limited volatility through an actively managed, opportunistic, multi-strategy portfolio of hedge fund investments. Underlying investments are global and include affiliated and unaffiliated hedge funds and derivatives such as forward foreign currency exchange contracts. One of the funds included in this category has a fund-level 25% gate where up to 25% of a participant's shares may be redeemed quarterly upon 100 days' notice. The other fund allows redemptions at quarter-end upon 65 days prior notice. Valuations are based on estimated NAV provided by the investment managers. Investments are redeemable at their NAV as of the end of the respective period.

Investment (loss) income is summarized as follows for the years ended June 30, 2022 and 2021:

	2022	2021
Interest and dividends	\$ 409,769	\$ 899,033
Realized and unrealized (losses) gains	(10,188,284)	12,510,589
Investment income	(9,778,515)	13,409,622
Less investment fees	(193,734)	(152,663)
	<u>\$ (9,972,249)</u>	<u>\$ 13,256,959</u>

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 3. Promises to Give

The Inn's promises to give were due to be received as follows at June 30, 2022 and 2021:

	2022	2021
Due in less than one year	\$ 340,353	\$ 216,261
Due in one to five years	-	-
Gross promises to give	340,353	216,261
Less allowance for doubtful accounts	(2,178)	(1,384)
Promises to give, net	<u>\$ 338,175</u>	<u>\$ 214,877</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. During the year ended June 30, 2022, the conditions for the first installment of \$100,000 were met, and the related contribution was recorded. The remaining \$400,000 is deemed conditional and is not recorded on the financial statements until conditions are met as of June 30, 2022.

Note 5. Property and Equipment

Property and equipment consisted of the following as of June 30, 2022 and 2021:

	2022	2021
Leasehold improvements	\$ 9,083,824	\$ 8,338,904
Furniture, fixtures and equipment	2,540,667	2,473,946
Exterior improvements	2,084,319	2,147,825
IT equipment	1,325,931	1,105,498
Construction in progress	387,122	932,833
Vehicles	39,318	39,318
Time-share	10,000	10,000
	<u>15,471,181</u>	<u>15,048,324</u>
Less accumulated depreciation and amortization	(11,180,626)	(10,557,494)
Property and equipment—net	<u>\$ 4,290,555</u>	<u>\$ 4,490,830</u>

Depreciation and amortization expense was \$801,885 and \$888,663 for the years ended June 30, 2022 and 2021, respectively.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 6. Net Assets

Net assets with donor restrictions consisted of the following at June 30, 2022 and 2021:

	2022	2021
Perpetual in nature:		
Endowment funds—contributions and earnings allocated to corpus	\$ 28,400,845	\$ 29,392,230
Specified time or purpose:		
Unspent earnings of endowment funds	6,187,501	9,626,125
Capital projects	1,095,406	1,768,558
Resident services program	498,060	959,265
Housing program	119,501	1,727
	<u>\$ 36,301,313</u>	<u>\$ 41,747,905</u>

Note 7. Endowments

For the years ended June 30, 2022 and 2021, net assets were released from donor restrictions as follows:

	2022	2021
Resident services program	\$ 898,984	\$ 762,326
Capital projects	1,116,300	1,948,030
Housing program	987	8,639
	<u>\$ 2,016,271</u>	<u>\$ 2,718,995</u>

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 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 outsourced chief investment officer (OCIO). The OCIO 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: 40% to 80% for public equities, 5% to 30% for investment-grade fixed-income securities, and 0% to 5% for liquid real assets, 0% to 15% for multi-asset funds, 0% to 10% for opportunistic investments, 0% to 20% for private investments, and 0% to 10% for cash and cash equivalents.
- 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, 2022 and 2021.

Contributions and investment earnings allocated to the corpus of each fund consisted of the following at June 30, 2022 and 2021:

	2022	2021
Sanofi Aventis Legacy Fund	\$ 13,603,535	\$ 13,603,535
Merck Company Foundation Fund	2,000,000	2,000,000
Weinberg Foundation Fund	2,695,299	3,327,338
Joyce A. Jenkins Endowment Fund	1,808,648	2,142,056
General Endowment Fund	3,256,439	3,254,931
Robert James Fitzgerald Endowment Fund	1,088,703	1,088,703
AFCEA Endowment Fund	2,720,045	2,720,046
Rose and Harold Kramer Endowment Fund	315,148	315,148
Other Endowment Funds	913,028	940,473
	<u>\$ 28,400,845</u>	<u>\$ 29,392,230</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:

	With Donor Restrictions		Total
	Accumulated Investment Gain (Loss)	Contributions and Earnings Allocated to Corpus	
Endowment net assets—June 30, 2021	\$ 9,626,125	\$ 29,392,230	\$ 39,018,355
Investment losses	(3,591,794)	(839,722)	(4,431,516)
Contributions	-	1,507	1,507
Transfer	153,170	(153,170)	-
Endowment net assets—June 30, 2022	<u>\$ 6,187,501</u>	<u>\$ 28,400,845</u>	<u>\$ 34,588,346</u>

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

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 \$799,310 and \$734,694 from NIH for the years ended June 30, 2022 and 2021, 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 based on a valuation study that is adjusted annually based on consumer price indexes for each category.

Donated non-financial assets are not sold and are utilized for The Inn's operations. Unless otherwise noted, contributed facilities, property, goods and services do not have donor-imposed restrictions. Contributed occupancy services were used across all of The Inn's program and supporting services as shown on the statements of functional expenses. Volunteer and resident supplies and resident support were used in The Inn's housing and resident services programs. General and administrative support includes contributed professional consulting services that cover supporting activities, such as team building, surveys and recruitment. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar professional services.

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

	2022	2021
NIH annual in-kind contributions:		
NIH-contributed occupancy services		
Building rent	\$ 1,968,798	\$ 1,922,654
Transportation services	255,486	212,727
Daily security services	218,536	203,668
Utilities, telephone and internet	300,362	279,564
Building maintenance services	142,196	132,523
Laundry services	89,186	83,118
Other services	30,132	27,859
Total NIH-contributed occupancy services	3,004,696	2,862,113
Volunteer and resident supplies	14,979	21,162
Total NIH annual in-kind contributions	3,019,675	2,883,275
Resident meals, supplies and entertainment	91,285	112,298
Donated event services and auction items	74,884	15,897
General and administrative consulting services	106,910	237,933
Capitalized property	137,080	15,219
	<u>\$ 3,429,834</u>	<u>\$ 3,264,622</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 \$149,840 and \$78,528 for the years ended June 30, 2022 and 2021, respectively.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 10. Joint Cost Allocation

The Inn incurred joint costs from the production of fundraising appeals and website maintenance during the years ended June 30, 2022 and 2021. These joint costs were allocated as follows:

	2022	2021
Program services	\$ 96,174	\$ 102,231
Fundraising	126,630	128,477
General and administrative	22,319	19,957
	<u>\$ 245,123</u>	<u>\$ 250,665</u>

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, 2022 and 2021. 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 \$304,282 and \$299,572 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021. No contributions were made by other eligible employees during the years ended June 30, 2022 and 2021.

Note 12. Concentrations

Major donors: For the years ended June 30, 2022 and 2021, The Inn recognized revenue of \$3,019,675 and \$2,883,275, respectively, in in-kind contributions from NIH and \$698,500 and \$1,188,095, respectively, from the next five largest donors. These amounts represent approximately 36% and 43% of The Inn's total revenue and support, excluding investment income or loss, in 2022 and 2021, 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 apartment leases have various end dates through July 2023. Total rent expense for the leases was \$61,280 and \$96,456 for the years ended June 30, 2022 and 2021, respectively. Future lease commitments total \$56,962 for the year ending June 30, 2023.

The Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 14. Liquidity and Reserves

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 funds. Operating funds 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.

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

	2022	2021
Cash and cash equivalents	\$ 1,314,112	\$ 2,191,775
Investments	54,254,258	67,114,678
Accounts receivable	51,430	128,181
Promises to give, net	338,175	214,877
	<u>55,957,975</u>	<u>69,649,511</u>
Less donor-restricted net assets	<u>(36,301,313)</u>	<u>(41,747,905)</u>
	<u>\$ 19,656,662</u>	<u>\$ 27,901,606</u>

The Inn has grown financial reserves due to the prudent management of its assets, the success of its operations and the generosity of its donors. The intended use of these reserves is as follows:

- An Operating Reserve equal to 12 months of annual expense based on the prior year final audited expenses plus 10% to cover any operating shortfalls and 10% as a buffer to cover a market downturn. At June 30, 2022, the Operating Reserve was \$14,800,000.
- The remaining unrestricted reserves are designated for Strategic and Long-term Goals. The unrestricted balance of approximately \$4,900,000 as of June 30, 2022, is intended to be used to help fund the proposed renovations and expansion of The Inn, which is currently in the design phase, with construction expected to commence in 2024. Current cost estimates are between \$35,000,000 and \$45,000,000. A capital campaign is currently being launched to help fund the project.

Note 15. 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 Children's Inn at NIH, Inc.

Notes to Financial Statements

Note 15. PPP Loans (Continued)

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. The Inn used the proceeds for payroll costs and other covered operations expenses during the covered period of March through August 2021, as permitted by the loan agreement and then applied for forgiveness. On December 17, 2021, The Inn received a notice that the Small Business Administration had forgiven the entire loan and accrued interest.

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

Note 16. 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 began with architectural design during the year ended June 30, 2022. The Inn is currently in the sitework engineering phase to repurpose the Rabson House, which will provide housing for adolescents and young adults. As of June 30, 2022, The Inn is contractually obligated to pay approximately \$181,000 for playground renovations, \$2,430,000 for architectural work, and \$700,000 for a Master Plan owner's representative. Renovations are projected to be completed during the year ended June 30, 2025. Current cost estimates are between \$35,000,000 and \$45,000,000. A capital campaign is currently being launched to help fund the project.