

The Children's House at The Johns Hopkins Hospital, Inc.

Financial Report
December 31, 2016

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Independent Auditor's Report

RSM US LLP

To the Board of Directors
The Children's House at The Johns Hopkins Hospital, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Children's House at The Johns Hopkins Hospital, Inc. (The Children's House) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Children's House as of December 31, 2016 and 2015, 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

Baltimore, Maryland
June 1, 2017

The Children's House at The Johns Hopkins Hospital, Inc.

Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
Assets		
Cash	\$ 185,623	\$ 273,949
Promises to give, net of allowance for uncollectible promises (2016 – \$34,055; 2015 – \$20,741) (Note 3)	44,757	61,270
Due from related party (Note 2)	53,325	53,162
Prepaid expenses	5,000	5,000
Property and equipment, net (Note 4)	961,247	991,531
	<u>961,247</u>	<u>991,531</u>
Total assets	\$ 1,249,952	\$ 1,384,912
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 18,265	\$ 19,203
Total liabilities	18,265	19,203
Net assets:		
Unrestricted:		
Undesignated	270,440	374,178
Net investment in plant	961,247	991,531
Total net assets	1,231,687	1,365,709
	<u>1,231,687</u>	<u>1,365,709</u>
Total liabilities and net assets	\$ 1,249,952	\$ 1,384,912
	<u>\$ 1,249,952</u>	<u>\$ 1,384,912</u>

See notes to financial statements.

The Children's House at The Johns Hopkins Hospital, Inc.

Statements of Activities

Years Ended December 31, 2016 and 2015

	2016 Unrestricted	2015 Unrestricted
Revenue and support:		
In-kind contributions	\$ 434,239	\$ 277,658
Indirect public support	65,322	73,109
Public contributions	141,233	134,298
Program service contributions	96,027	74,485
Interest and other	-	9
Total revenue and support	736,821	559,559
Expenses:		
Program services	831,435	862,109
Management and general	16,628	9,620
Fundraising	22,780	10,436
Total expenses	870,843	882,165
Change in net assets	(134,022)	(322,606)
Net assets, beginning of year	1,365,709	1,688,315
Net assets, end of year	\$ 1,231,687	\$ 1,365,709

See notes to financial statements.

The Children's House at The Johns Hopkins Hospital, Inc.

Statements of Functional Expenses
Year Ended December 31, 2016

	2016			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 267,343	\$ 9,296	\$ 5,071	\$ 281,710
Resident activities	262,732	-	-	262,732
Depreciation	59,082	603	603	60,288
Janitorial	49,832	508	508	50,848
Occupancy	52,190	533	533	53,256
Payroll taxes and benefits	37,722	1,312	715	39,749
Equipment rental and maintenance	27,573	281	281	28,135
Office supplies and equipment	15,510	158	158	15,826
Volunteer services	26,200	267	267	26,734
Professional fees	13,755	2,948	2,948	19,651
Insurance	9,800	100	100	10,000
Dues and subscriptions	4,716	-	524	5,240
Fundraising	-	-	10,450	10,450
Miscellaneous	4,980	622	622	6,224
Total functional expenses	\$ 831,435	\$ 16,628	\$ 22,780	\$ 870,843

See notes to financial statements.

The Children's House at The Johns Hopkins Hospital, Inc.

Statements of Functional Expenses
Year Ended December 31, 2015

	2015			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 307,401	\$ 3,137	\$ 3,137	\$ 313,675
Resident activities	249,466	-	-	249,466
Depreciation	59,738	610	609	60,957
Janitorial	57,258	584	585	58,427
Occupancy	53,260	544	543	54,347
Payroll taxes and benefits	29,294	299	299	29,892
Equipment rental and maintenance	28,758	293	294	29,345
Office supplies and equipment	20,897	213	213	21,323
Volunteer services	16,308	166	167	16,641
Professional fees	13,230	2,835	2,835	18,900
Insurance	9,800	100	100	10,000
Dues and subscriptions	7,339	-	815	8,154
Miscellaneous	9,360	839	839	11,038
Total functional expenses	\$ 862,109	\$ 9,620	\$ 10,436	\$ 882,165

See notes to financial statements.

The Children's House at The Johns Hopkins Hospital, Inc.

Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (134,022)	\$ (322,606)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	60,288	60,957
Increase (decrease) in allowance for promises to give	13,314	(4,092)
In-kind contributions of fixed assets	(16,133)	(7,360)
Changes in assets and liabilities:		
(Increase) decrease in:		
Promises to give	3,199	33,270
Due from related party	(163)	(73,980)
Prepaid assets	-	3,000
(Decrease) increase in:		
Accounts payable and accrued expenses	(938)	6,459
Net cash used in operating activities	(74,455)	(304,352)
Cash flows from investing activities:		
Purchase of property and equipment	(13,871)	-
Net decrease in cash	(88,326)	(304,352)
Cash and cash equivalents:		
Beginning of year	273,949	578,301
End of year	\$ 185,623	\$ 273,949
Supplemental disclosure of noncash investing activities:		
Donations of property and equipment	\$ 16,133	\$ 7,360

See notes to financial statements.

The Children's House at The Johns Hopkins Hospital, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Children's House at The Johns Hopkins Hospital, Inc. (The Children's House) was founded in 1989 for the purpose of providing temporary housing for family members of the children receiving treatment at The Johns Hopkins Hospital. It is a 15-bedroom, four-level facility that includes living rooms, kitchens on each floor, a children's playroom and a large meeting room for groups. The sources of funds are primarily from contributions and various fundraising events.

A summary of The Children's House's significant accounting policies follows:

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB). As required by the Not-for-Profit Entities Topic of the FASB Accounting Standards Codification (ASC), The Children's House is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets: Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets: Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of The Children's House pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

Permanently restricted net assets: Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by The Children's House's actions. As of December 31, 2016 and 2015, The Children's House had no permanently restricted net assets.

Credit risk: The Children's House has deposits in financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation. The Children's House has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Promises to give: Promises to give are recognized when the donor makes a promise to give to The Children's House that is, in substance, unconditional. The Children's House uses the allowance method to determine uncollectible promises to give. Promises to give are written off at the time they are determined to be uncollectible. Promises to give are expected to be collected in 2016.

Property and equipment: Property and equipment purchased by The Children's House is recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the depreciable assets, which range from 5 to 40 years.

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

The Children's House at The Johns Hopkins Hospital, Inc.

Notes to Financial Statements

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

In-kind contributions: Contributions of donated non-cash assets are recorded at their estimated fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received.

The Children's House, through fundraising efforts, generated donated goods and services aggregating \$434,239 and \$277,658 for the years ended December 31, 2016 and 2015, respectively.

Expenses: Functional expenses are allocated between program services, management and general and fundraising, based on time and facility usage studies.

Income taxes: The Children's House is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) as a charitable organization, whereby only unrelated business income, as defined by Section 512(a)(1) of the IRC, is subject to federal income tax. The Children's House is not considered to be a private foundation. Income which is not related to exempt purposes, less applicable deductions, may be subject to federal and state corporate income taxes. For the years ended December 31, 2016 and 2015, The Children's House concluded it has no such unrelated business income.

The Children's House adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, The Children's House may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition classification, interest and penalties on income taxes and accounting in interim periods.

Management evaluated The Children's House's tax positions and concluded that The Children's House has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the guidance. Generally, The Children's House is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2013.

Restricted and unrestricted revenue: Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unconditional promises to give are recognized as revenue in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Children's House at The Johns Hopkins Hospital, Inc.

Notes to Financial Statements

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

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from those estimates.

Subsequent events: Subsequent events have been evaluated through June 1, 2017, which is the date the financial statements were available to be issued.

Accounting pronouncements pending: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers* and supersede the revenue requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018. The impact of adopting ASU 2014-09 on The Children's House consolidated financial statements for subsequent periods has not yet been determined.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in the financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Children's House is in the process of evaluating the impact of this ASU on the financial statements.

Note 2. Related Party Transactions

The Believe in Tomorrow National Children's Foundation, Inc. (the Foundation), a related party, advanced funds to The Children's House during the years ended December 31, 2016 and 2015. The Foundation's Board of Directors has committed to provide support to The Children's House by assisting in its fundraising efforts, including the solicitation of donated goods and services. There is also no formal payment arrangement.

In 2016, the Foundation began recording salary expenses related to operations of The Children's House as an in-kind contribution from the Foundation to The Children's House rather than requiring The Children's House to reimburse the Foundation for the related expense. The contribution totaled \$129,626 for the year ended December 31, 2016. The following table reflects the activity of such support and outstanding balances due (to) from the Foundation at December 31, 2016 and 2015:

	2016	2015
Due (to) from related party, beginning of year	\$ 53,162	\$ (20,818)
Advances to related party	517,891	694,949
Advances from related party	(517,728)	(620,969)
Due from related party, end of year	<u>\$ 53,325</u>	<u>\$ 53,162</u>

The Children's House at The Johns Hopkins Hospital, Inc.

Notes to Financial Statements

Note 3. Promises to Give

Promises to give consisted of the following at December 31, 2016 and 2015:

	2016	2015
Independent Charities of America	\$ 78,812	\$ 82,011
Less allowance	(34,055)	(20,741)
	<u>\$ 44,757</u>	<u>\$ 61,270</u>

Note 4. Property and Equipment

Property and equipment consisted of the following at December 31, 2016 and 2015:

	Depreciable Life (Range)	2016	2015
Building and improvements	5-40 years	\$ 1,858,831	\$ 1,838,827
Furniture and fixtures	5-10 years	136,765	126,765
Equipment	5-10 years	82,586	82,586
		<u>2,078,182</u>	<u>2,048,178</u>
Less accumulated depreciation		(1,301,069)	(1,240,781)
		777,113	807,397
Land		184,134	184,134
		<u>\$ 961,247</u>	<u>\$ 991,531</u>

Note 5. Pension Plan

The Children's House has a defined contribution pension plan that covers substantially all of its full-time employees. The Children's House may contribute a discretionary amount each plan year and employees can contribute a percentage of their compensation to the plan. The Children's House's contributions to the plan were \$710 and \$2,804 for the years ended December 31, 2016 and 2015, respectively.