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

Financial Report
December 31, 2018

Contents

Independent Auditor's Report

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, 2018 and 2017, the related statements of activities and cash flows for the years then ended, the related statement of functional expenses for the year ended December 31, 2018 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, 2018 and 2017, 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.

Emphasis of Matter
As disclosed in Note 1 to the financial statements, The Children's House adopted the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in additional footnote disclosures, changes to the classification of net assets, and the presentation of a separate statement of functional expenses. Our opinion is not modified with respect to this matter.

RSM US LLP

Baltimore, Maryland
July 3, 2019

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

Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash (Note 2)	$ 117,793	$ 178,020
Promises to give, net of allowance for uncollectible promises (2018 – $18,754; 2017 – $18,365) (Notes 2 and 4)	67,877	66,889
Accrued revenue	33,543	-
Due from related party (Note 3)	27,006	-
Prepaid expenses	5,000	5,000
Total current assets	251,219	249,909
Property and equipment, net (Note 5)	1,165,475	950,971
	1,165,475	950,971
Total assets	$ 1,416,694	$ 1,200,880
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 21,415	$ 23,561
Due to related party (Note 3)	-	32,739
Total current liabilities	21,415	56,300
Notes payable (Note 6)	197,591	-
Total liabilities	219,006	56,300
Commitments (Notes 6 and 7)		
Net assets:		
Without donor restrictions:		
Undesignated	229,804	193,609
Net investment in plant	967,884	950,971
Total net assets	1,197,688	1,144,580
Total liabilities and net assets	$ 1,416,694	$ 1,200,880

See notes to financial statements.

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

Statements of Activities
Years Ended December 31, 2018 and 2017

	2018 Without Donor Restrictions	2017 Without Donor Restrictions
Revenue and support:		
In-kind contributions	**$ 503,109**	$ 488,774
Indirect public support	**241,611**	114,414
Public contributions	**223,435**	127,390
Program service contributions	**77,523**	93,197
Total revenue and support	**1,045,678**	823,775
Expenses:		
Program services	**937,516**	880,041
Management and general	**17,253**	15,984
Fundraising	**37,801**	14,857
Total expenses	**992,570**	910,882
Change in net assets	**53,108**	(87,107)
Net assets, beginning of year	**1,144,580**	1,231,687
Net assets, end of year	**$ 1,197,688**	$ 1,144,580

See notes to financial statements.

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

Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	Total
Salaries	$ 315,717	$ 9,011	$ 9,011	$ 333,739
Resident activities	281,063	-	-	281,063
Occupancy	68,823	702	702	70,227
Depreciation (Note 5)	67,368	687	687	68,742
Janitorial	57,609	588	588	58,785
Payroll taxes and benefits (Note 7)	44,833	1,280	1,280	47,393
Professional fees	26,623	3,241	3,241	33,105
Fundraising	-	-	19,950	19,950
Office supplies and equipment	17,262	176	176	17,614
Volunteer services	17,060	174	174	17,408
Equipment rental and maintenance	17,008	174	174	17,356
Miscellaneous	8,956	1,120	1,119	11,195
Insurance	9,800	100	100	10,000
Dues and subscriptions	5,394	-	599	5,993
Total functional expenses	$ 937,516	$ 17,253	$ 37,801	$ 992,570

See notes to financial statements.

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

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 53,108	$ (87,107)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	68,742	63,646
(Decrease) increase in allowance for promises to give	389	(15,690)
In-kind contributions of fixed assets	(85,655)	(53,370)
Changes in assets and liabilities:		
(Increase) decrease in:		
Promises to give	(1,377)	(6,442)
Accrued revenue	(33,543)	-
Due from related party	(59,745)	86,064
(Decrease) increase in:		
Accounts payable and accrued expenses	(2,146)	5,296
Net cash used in operating activities	(60,227)	(7,603)
Cash flows from investing activities:		
Purchases of property and equipment	(197,591)	-
Net cash used in investing activities	(197,591)	-
Cash flows from financing activities:		
Proceeds from note payable	197,591	-
Net cash provided by financing activities	197,591	-
Net decrease in cash	(60,227)	(7,603)
Cash:		
Beginning of year	178,020	185,623
End of year	$ 117,793	$ 178,020
Supplemental disclosure of noncash investing activities:		
Donations of property and equipment	$ 85,655	$ 53,370

See 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are the net assets that are neither invested in perpetuity, nor purpose or time restricted by donor-imposed stipulations.

Net assets invested in plant are the net assets that have been invested in The Children’s House property over time, net of accumulated depreciation and related notes payable.

As of December 31, 2018 and 2017, The Children’s House had no net assets with donor restrictions.

Credit risk: The Children’s House does not have 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 management 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. Net promises to give are expected to be received in 2019.

Property and equipment: Property and equipment purchased by The Children’s House is recorded at cost, if purchased, or the fair value at the date of the gift, if donated. 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.

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 $503,109 and $488,774 for the years ended December 31, 2018 and 2017, respectively.

Functional allocation of expenses: The costs of providing various program and supporting activities have been presented on a detailed functional bases in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain expenses are attributable to more than one program or supporting function. These expenses are allocated consistently based on the following:

- Volunteer services, personnel related costs and other miscellaneous costs are allocated based on estimates of time and effort for each functional area
- Depreciation, occupancy, and janitorial costs are allocated based on the percentage of fixed assets utilized by each functional area
- Resident activities costs are allocated entirely to program services provided to participants
- Fundraising costs are allocated entirely to fundraising and development supporting services

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, 2018 and 2017, 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 2015.

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

Restricted and unrestricted revenue: Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with restrictions are reclassified to net assets without restrictions 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.

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 July 3, 2019, which is the date the financial statements were available to be issued.

Accounting pronouncement adopted: In August 2016, the FASB issued Accounting Standards Update (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 Children's House has implemented ASU 2016-14 and has adjusted the presentation of its financial statements accordingly. As permitted by the ASU, the statement of functional expenses and liquidity and availability disclosures have not been presented on a comparative basis.

Accounting pronouncements pending: In May 2014, the FASB issued 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 January 1, 2019. The impact of adopting ASU 2014-09 on The Children's House's financial statements for subsequent periods has not yet been determined.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. Where The Children's House is the resource recipient, the ASU is applicable to contributions received for annual periods beginning January 1, 2019. The Children's House is currently evaluating the impact of the adoption of this guidance on its financial statements.

Note 2. Liquidity and Availability

The Children's House is primarily supported by contributions, fundraising events and giving campaigns. As part of The Children's House liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Children's House does not have any donor restricted, board designated or other contractual limitations on its financial assets. In the event of financial distress or an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities, the Children's House would obtain a related party loan from the Believe in Tomorrow National Children's Foundation.

Cash and cash equivalents	$ 117,793
Promises to give, net	67,877
Accrued revenue	33,543
Total financial assets	219,213
Financial assets available to meet cash needs for general expenditures within one year	$ 219,213

Note 3. 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, 2018 and 2017. 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.

The Foundation records salary expense 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 $122,980 for each of the years ended December 31, 2018 and 2017. The following table reflects the activity of such support and outstanding balances due (to) from the Foundation at December 31, 2018 and 2017:

	2018	2017
Due (to) from related party, beginning of year	$ (32,739)	$ 53,325
Advances to related party	351,812	264,450
Advances from related party	(292,067)	(350,514)
Due (to) from related party, end of year	$ 27,006	$ (32,739)

Note 4. Promises to Give

Promises to give consisted of the following at December 31, 2018 and 2017:

	2018	2017
Independent Charities of America	$ -	$ 32,804
America's Charities	86,631	52,450
Gross promises to give	86,631	85,254
Less allowance	(18,754)	(18,365)
Net promises to give	$ 67,877	$ 66,889

Note 5. Property and Equipment

Property and equipment consisted of the following at December 31, 2018 and 2017:

	Depreciable Life (Range)	2018	2017
Building and improvements	5-40 years	$ 2,193,692	$ 1,912,201
Furniture and fixtures	5-10 years	136,765	136,765
Equipment	5-10 years	84,341	82,586
		2,414,798	2,131,552
Less accumulated depreciation		(1,433,457)	(1,364,715)
		981,341	766,837
Land		184,134	184,134
		$ 1,165,475	$ 950,971

Note 6. Notes Payable

On September 26, 2018, The Children's House entered into a loan agreement with the Community Development Administration, a unit of the Division of Development Finance of the Department of Housing and Community Development, of the State of Maryland for energy efficiency and renewable energy improvements to the property for up to $350,000. The loan is a non-interest bearing promissory note and matures on September 1, 2053, whereby all principal becomes due. The loan balance was $197,591 at December 31, 2018.

Note 7. 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 $639 for the year ended December 31, 2017. There were no contributions to the plan from the Children's House for the year ended December 31, 2018.