Kennedy Krieger Institute, Inc. and Affiliates

Reports on Federal Awards in Accordance with Uniform Guidance
June 30, 2017
Federal Entity Identification Number 52-1524965

Kennedy Krieger Institute, Inc. and Affiliates
Index
June 30, 2017

Part I

Financial Statements and Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

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Report of Independent Auditors

To the Board of Directors of
Kennedy Krieger Institute, Inc. and Affiliates:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Kennedy Krieger Institute, Inc. and Affiliates (the "Institute"), which comprise the combined balance sheets as of June 30, 2017 and 2016, and the related statements of operations, changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined 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 combined 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 the combined financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the combined 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 combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion based on our audits, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Kennedy Krieger Institute, Inc. and Affiliates as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying combined schedule of expenditures of federal awards for the year ended June 30, 2017 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 28, 2017 on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2017. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Baltimore, Maryland
September 28, 2017

Kennedy Krieger Institute, Inc. and Affiliates
Combined Balance Sheets
As of June 30, 2017 and 2016
(in thousands)

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents	$ 16,955	$ 12,397
Patient receivables, less allowances of $4,715 and $3,750	17,811	19,255
Grant and contract receivable	8,582	7,079
Tuition receivable	4,025	4,611
Pledges receivable	7,410	11,033
Investments limited as to use	24,943	-
Prepaid expenses and other	1,564	1,509
Total current assets	81,290	55,884
Non-current assets:		
Property and equipment, net	121,699	122,508
Investments:		
Board designated endowment	52,227	45,836
Investments limited as to use	7,250	6,544
Pledges receivable, less allowances of $2,561 and $2,366	8,859	10,543
Total non-current assets	190,035	185,431
Total assets	$ 271,325	$ 241,315
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	30,240	25,425
Line of credit	-	2,250
Deferred grant revenue	1,907	2,169
Current portion of tax-exempt bonds	2,361	2,299
Total current liabilities	34,508	32,143
Long-term liabilities:		
Tax-exempt bonds, net	83,473	62,822
Accrued pension	18,193	22,516
Interest rate swap	8,545	12,370
Other long-term liabilities	2,323	2,341
Total long-term liabilities	112,534	100,049
Total liabilities	147,042	132,192
Net assets:		
Unrestricted	86,255	70,500
Temporarily restricted	37,070	37,665
Permanently restricted	958	958
Total net assets	124,283	109,123
Total liabilities and net assets	$ 271,325	$ 241,315

See accompanying notes to combined financial statements.

Kennedy Krieger Institute, Inc. and Affiliates
Combined Statements of Operations
For the years ended June 30, 2017 and 2016
(in thousands)

	2017	2016
Operating revenues:		
Patient service revenue, net of contractual allowances	$ 164,230	$ 149,979
Bad debt expense	(3,583)	(3,170)
Net patient service revenue	160,647	146,809
Tuition revenue	46,870	44,314
Grant and contract revenue	36,518	34,063
Net assets released for operating activities	4,168	6,550
Investment earnings used for operating activities	2,000	2,061
Unrestricted contributions from fundraising activities, net	1,102	1,373
Other operating revenues	1,438	1,857
Total operating revenues	252,743	237,027
Operating expenses:		
Salaries, wages and benefits	182,442	178,120
Supplies, purchased services, and other	51,738	45,776
Depreciation and amortization	9,508	9,287
Rent	2,369	2,257
Interest	1,782	1,525
Total operating expenses	247,839	236,965
Operating revenues over operating expenses	4,904	62
Non-operating activity:		
Investment income and realized (losses), net	(534)	(2,050)
Change in unrealized gains (losses) on investments, net	6,053	(1,408)
Loss on early extinguishment of debt	(167)	-
Realized and unrealized gain (loss) on interest rate swap	2,650	(4,830)
Realized gain on sale of asset	-	716
Restricted fundraising expenses	(988)	(965)
Net non-operating activities	7,014	(8,537)
Excess of revenue (under) over expenses	$ 11,918	$ (8,475)

See accompanying notes to combined financial statements.

Kennedy Krieger Institute, Inc. and Affiliates
Combined Statements of Changes in Net Assets
for the years ended June 30, 2017 and 2016
(in thousands)

	2017	2016
Unrestricted net assets:		
Excess of revenue (under) over expenses	$ 11,918	$ (8,475)
Net assets released from restrictions used for property and equipment	1,414	-
Change in funded status of defined benefit plan, net	2,423	(5,740)
Increase (decrease) in unrestricted net assets	15,755	(14,215)
Unrestricted net assets, beginning of year	70,500	84,715
Unrestricted net assets, end of year	$ 86,255	$ 70,500
Temporarily restricted net assets:		
Contributions from fundraising activities	4,987	7,700
Net assets released from restrictions used for:		
Operating activities	(4,168)	(6,550)
Purchases of property and equipment	(1,414)	-
(Decrease) increase in temporarily restricted net assets	(595)	1,150
Temporarily restricted net assets, beginning of year	37,665	36,515
Temporarily restricted net assets, end of year	$ 37,070	$ 37,665
Permanently restricted net assets:		
Contributions from fundraising activities	-	-
Increase in permanently restricted net assets	-	-
Permanently restricted net assets, beginning of year	958	958
Permanently restricted net assets, end of year	$ 958	$ 958
Increase (decrease) in total net assets	15,160	(13,065)
Total net assets, beginning of year	109,123	122,188
Total net assets, end of year	$ 124,283	$ 109,123

See accompanying notes to combined financial statements.

Kennedy Krieger Institute, Inc. and Affiliates
Combined Statements of Cash Flows
for the years ended June 30, 2017 and 2016
(in thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 15,160	$ (13,065)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized (gains) losses on investments, net	(6,146)	2,209
Depreciation and amortization	9,508	9,287
Bad debt expense	3,583	3,170
Change in pension liability, net	(4,323)	5,100
Change in valuation of interest rate swap	(3,825)	3,517
Restricted contributions	(3,873)	(5,243)
Loss on early extinguishment of debt	167	-
Gain on sale of asset	-	(716)
Changes in assets and liabilities:		
Patient receivables	(2,139)	(4,666)
Other receivables	4,391	1,341
Prepaid expenses	(55)	102
Accounts payable and accrued expenses	4,815	1,574
Deferred grant revenue	(262)	(983)
Other liabilities	13	1,109
Net cash provided by operating activities	17,014	2,736
Cash flows from investing activities:		
Purchase of property and equipment	(8,699)	(5,642)
Net sales of investments	(245)	1,112
Proceeds from sale of asset	-	865
Changes in investments limited to use	(25,649)	448
Net cash used in investing activities	(34,593)	(3,217)
Cash flows from financing activities:		
Proceeds from issuance of tax-exempt Bonds	50,510	-
Payments due to refunding of Bonds	(27,440)	-
Payments on tax-exempt bonds	(2,262)	(2,247)
Proceeds from line of credit	8,000	12,950
Payments on line of credit	(10,250)	(10,700)
Payments on capital lease obligation	(294)	(200)
Proceeds from restricted contributions	3,873	5,243
Net cash provided by financing activities	22,137	5,046
Net increase in cash and cash equivalents	4,558	4,565
Cash and cash equivalents, beginning of year	12,397	7,832
Cash and cash equivalents, end of year	$ 16,955	$ 12,397
Cash paid during the year for interest	$ 1,782	$ 1,525

See accompanying notes to combined financial statements.

1. DESCRIPTION OF ORGANIZATION

Kennedy Krieger Institute, Inc. and Affiliates (the "Institute") is an internationally recognized organization dedicated to improving the lives of children, adolescents and young adults through comprehensive patient care, education and research. The Institute's primary operating activities include healthcare services, research, training, special education and fundraising.

The operations of the Institute are carried out through a number of legal corporate entities. The combined financial statements of the Institute reflect the accounts of the following separate legal corporate entities:

Kennedy Krieger Institute, Inc.
Kennedy Krieger Children's Hospital, Inc.
Hugo W. Moser Research Institute at Kennedy Krieger, Inc.
Kennedy Krieger Education and Community Services, Inc.
Kennedy Krieger Associates, Inc.
PACT: Helping Children with Special Needs, Inc.
Kennedy Krieger Foundation, Inc.
Madison Street Properties, Inc.

Healthcare services are provided through Kennedy Krieger Children's Hospital, Inc. and include a forty-five bed inpatient unit admitting more than 345 patients yearly, over fifty specialty outpatient clinics generating in excess of 196,000 annual visits and the training of over 400 healthcare professionals each year. Net patient service revenue generated through Healthcare activities represents approximately 64% and 62% of the Institute's operating revenue in fiscal years 2017 and 2016, respectively.

Studies conducted through Research activities within the Hugo W. Moser Research Institute at Kennedy Krieger, Inc. are provided through over 125 government and private awards. Research grant and contract revenue represents approximately 14.4% of the Institute's operating revenue in fiscal years 2017 and 2016. Approximately 76.6% of this revenue comes from departments and agencies of the United States government. Major government sponsors included the Department of Health and Human Services, the Department of Defense and the Department of Justice.

Special education services provided through Kennedy Krieger Education & Community Services, Inc. are conducted through non-public special education schools for students from kindergarten to grade eight, high school, specialized autism programs and partnership programs within public schools. Tuition and related contractual revenue generated through special education services represents approximately 18.5% and 18.7% of the Institute's operating revenue in fiscal years 2017 and 2016, respectively.

Kennedy Krieger Institute, Inc., Kennedy Krieger Children's Hospital, Inc., Hugo W. Moser Research Institute at Kennedy Krieger, Inc., Kennedy Krieger Education and Community Services, Inc., Kennedy Krieger Associates, Inc., and PACT: Helping Children with Special Needs, Inc. are Maryland non-stock corporations organized for charitable, scientific and educational purposes and are tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Kennedy Krieger Foundation, Inc. (the "Foundation"), is a Maryland stock corporation and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Madison Street Properties, Inc. ("MSP") is a tax-exempt supporting organization under Section 509(a)(3) of the Internal Revenue Code and is wholly owned by the Foundation. All real and personal property and leasehold rights owned by the Institute are held by MSP, that in turn leases or subleases the property back to each member of the corporate family utilizing it and also provides property management services, including maintenance, security and housekeeping.

The Institute maintains an independent affiliation with The Johns Hopkins University. The formal relationship between the parties is set forth in an affiliation agreement whereby (i) the medical, scientific and other professional staff of the Institute receive primary and adjunct appointments in the appropriate Johns Hopkins University Schools or departments; and (ii) each Institution's independent corporate status is retained. Goods and services are purchased and sold by each organization through arms length transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The financial statements of the Institute have been prepared on the accrual basis, which conforms to accounting principles generally accepted in the United States of America. The combined financial statements include the accounts of the Institute after elimination of all significant intercompany accounts and transactions.

The combining supplemental schedules have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. This is the same basis of presentation as the Kennedy Krieger Institute, Inc. and Affiliates Combined Financial Statements

Excess of Revenue over Expenses
The Statements of Operations include excess of revenues over (under) expenses, which is the Institute's performance indicator. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses consistent with industry practice, include unrealized gains and losses on investments, certain pension related transactions and assets acquired using contributions which by donor restrictions were to be used for the purpose of acquiring such assets.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
Cash and cash equivalents include investments in highly liquid instruments with original maturities of three months or less. These investments are carried at cost, which approximates market value.

Investments and Investment Income
Investments in equity securities with readily determinable fair values and all investments in debt securities are classified as trading and are recorded at fair value in the Combined Balance Sheets.

Investment income is included in the non-operating activity section of the Statement of Operations. Investment income includes interest and dividends, realized and unrealized gains (losses) on investments.

Allowance for Doubtful Accounts
An allowance for doubtful accounts is recorded for patient receivables which are anticipated to become uncollectible in future periods. Receivables deemed to be uncollectible have been written off.

Grant and Contract Revenue and Receivable
Grant and contract revenues are recorded through cost reimbursement arrangements when allowable costs are incurred, through service rates as services are provided or when contractual terms are satisfied. Grant and contract receivables are recorded when earned. A reserve for uncollectible accounts has been estimated and recorded against grant and contract receivables.

Tuition Revenue and Receivable
Tuition revenue is recognized when earned over the school term (July to June). Tuition receivables are recorded when earned. The Institute does not record an allowance as tuition is paid in full by the local education agencies of the State of Maryland at state approved tuition rates.

Pledges Receivable
Unconditional promises to give cash and other assets to the Institute are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the commitment is received in writing.

Pledges receivable from capital campaigns and other restricted and unrestricted donations, have been recorded net of an allowance for uncollectible pledges. The allowance for uncollectible pledges receivable is estimated based on the nature and source of each pledge including pledge payment history and the donor’s likelihood of honoring the commitment. The allowance is applied to pledges greater than one year. Multi-year pledges are recorded at their estimated present value using a risk-free rate of return of 3% for 2017 and 2016.

Assets Limited as to Use
Assets limited as to use primarily include assets held by trustees under bond indenture, self-insurance trust arrangements, deferred compensation plans and other restricted gift arrangements.

Property and Equipment
Property and equipment acquisitions are recorded at cost. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	30-40 years
Fixed Equipment	10-15 years
Furniture and Equipment	3-5 years

Equipment purchases under grants, where title to the equipment rests with the grantor, are recorded as expenditures of the grant and are not capitalized or depreciated.

Capital Leases
Capital leased assets are amortized over the shorter of their estimated useful lives or the lease term. Depreciation expense on capitalized leased assets is included in depreciation and amortization expenses in the Consolidated Statements of Operations.

Board Designated Investments for Endowment
The Board of Directors of the Institute has designated certain assets, including accumulated unrestricted gifts to serve as an endowment for the Institute. The Board may authorize the withdrawal or transfer of such amounts at any time to further the purpose of the Institute and,

accordingly, such amounts are classified as unrestricted net assets. Iinterest, dividends and realized gains and losses from the endowment are included in investment income and net realized gains on the Combined Statements of Operations. Unrealized gains and losses are recorded in other changes in unrestricted net assets.

Deferred Financing Costs
Costs incurred related to the issuance of bonds payable have been deferred and are being amortized over the life of the bonds using the effective interest method. In fiscal year 2017, the Institute adopted ASU 2015-03, "Simplifying Presentation of Debt Issuance Costs". These debt issuance costs are now presented as a deduction from the carrying value of the associated debt. The Balance Sheet for 2016 was restated for this change.

Accrued Expenses
Accrued expenses are operating expenses that have been incurred but which have not been paid as of the balance sheet date. These expenses are typically periodic and due within one year or less. They include expenses incurred for payroll, employee benefits, subcontracts, interest and other operating items.

Deferred Grant Revenue
Deferred grant revenue has been recorded to reflect the portion of cash received on awarded grants where the grantor restrictions for its use have not been satisfied. Typically, the donor restrictions are satisfied within a year, therefore, deferred grant revenue is classified as a current liability.

Unrestricted, Temporarily Restricted and Permanently Restricted Net Assets
Unrestricted net assets represent those net assets utilized in the operating activities of the Institute.

Temporarily restricted net assets are those whose use by the Institute has been limited by donors, grantors and other contracts to a specific purpose or time period. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Combined Statements of Operations as net assets released from restrictions. Temporarily restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Permanently restricted net assets represent those net assets that have been restricted by donors to be maintained in perpetuity. The donors of these assets usually permit the Foundation to use all or part of the income earned on the investments for general or specific purposes.

Estimated Professional and General Liability Costs
The provision for estimated professional and general liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Derivatives
The use of derivatives by the Institute is generally limited to interest rate swaps. The Institute follows accounting guidance on derivative financial instruments that are based on whether the derivative instrument meets the criteria for designation as cash flow or fair value hedges. The criteria for designating a derivative as a hedge include the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the assessment of the probability that the underlying transaction will occur. The Institute's only derivative financial instrument is an interest rate swap agreement without hedge accounting designation.

The Institute recognizes its interest rate swap as a liability on the Combined Balance Sheet at fair value. The change in the value of this derivative is recorded as an unrealized gain or loss in the Combined Statements of Operations.

Pension Plans

The Institute follows current technical guidance for reporting and accounting for pension benefits provided to employees. This guidance requires recognition of the funded status of a defined benefit plan in the balance sheet as an asset or liability if the plan is over funded or underfunded, respectively. Changes in the funded status of a plan are required to be recognized in the year in which the changes occur through changes in unrestricted net assets. The guidance also requires the measurement date of the plan's funded status to be the same as the company's fiscal year end.

Short-term investments

Short-term investments are carried at fair value and are comprised of instruments with an average duration of 1 to 3 years.

Investments

The fair values for marketable equity, government, and fixed income securities included in long-term investments are based on quoted market prices. Alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers and are valued at the latest available unaudited net asset value of the investments.

Long-term Debt Obligations

Management estimates that the fair value of long-term debt is equal to its carrying value.

Assets Whose Use is Limited

Assets whose use is limited are comprised of investments held for construction projects, self-insurance obligations, debt service requirements, deferred compensation and donor restricted funds and are valued as stated above.

Reclassifications

Certain reclassifications have been made to conform with the current year financial statement presentation.

New Accounting Pronouncements

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. The Institute is evaluating the impact this will have on the combined financial statements beginning in fiscal year 2019.

In May 2015, the FASB issued ASU 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)". ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 is required to be applied retrospectively to all periods presented beginning in the year of adoption. The amendments in ASU

(in thousands)

2015-07 are effective for years beginning after December 15, 2016. Kennedy Krieger Institute adopted this accounting standard in fiscal year 2017, and there was no impact on the Combined Financial Statements. See footnote 8 “Fair Value Measures”.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs”. ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as deferred financing charges (i.e., as an asset). Kennedy Krieger Institute adopted this presentation in fiscal year 2017. See footnote 13 “Debt”.

In February 2016, the FASB issued a standard on Leases. This standard requires lessees to recognize assets and liabilities for the rights and obligations created by leases with terms in excess of 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease will primarily depend on its classification as a finance or operating lease. The accounting by lessors remains largely unchanged. This standard is effective for fiscal years beginning after December 15, 2018. Kennedy Krieger Institute is evaluating the impact this will have on the combined financial statements beginning in Fiscal Year 2020.

In August 2016, the FASB issued a standard on the Presentation of Financial Statements of Not-for-Profit Entities. The new guidance requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources to donors, grantor, creditors and other users. The standard is effective for fiscal years beginning after December 15, 2017. Kennedy Krieger Institute is evaluating the impacts this will have on the combined financial statements beginning in fiscal year 2019.

3. NET PATIENT SERVICE REVENUE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Net patient service revenues from inpatient and outpatient services are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimates for contractual allowances with third-party payors and bad debts.

The Institute has agreements with third-party payors that provide for payments to the Institute at amounts different from its established rates. Net patient service revenue is comprised of the following:

	2017	2016
Gross Inpatient Revenue	$ 57,365	$ 52,748
Less: Contractual Allowances	(10,960)	(10,381)
Bad Debt Expense	(570)	(501)
Net Inpatient Revenue	45,835	41,866
Gross Outpatient Revenue	130,005	118,947
Less: Contractual Allowances	(12,180)	(11,335)
Bad Debt Expense	(3,013)	(2,669)
Net Outpatient Revenue	114,812	104,943
Net Patient Service Revenue	$ 160,647	$ 146,809

(in thousands)

The percentage of patient service revenue generated by payor category for the fiscal years ended June 30, 2017 and 2016 is as follows:

	2017	**2016**
Medicaid	36%	35%
Blue Cross	25%	24%
Commerical	21%	21%
Managed Care	13%	13%
Self pay and other	3%	5%
Medicare	2%	2%
	100%	100%

The Allowance for Doubtful Accounts is based upon management's assessment of historical and expected net collections considering trends in healthcare coverage, economic conditions and payor mix. Management assesses the adequacy of the allowance periodically based upon historical collection and write off experience. After collection of amounts due from insurers, the Institute follows internal guidelines for placing certain past-due balances with collection agencies.

	2017	**2016**
Beginning Allowance for doubtful accounts	$ 3,750	$ 3,461
Plus: Bad debt expense	3,583	3,170
Less: Bad debt write-offs, net of recoveries	(2,618)	(2,881)
Ending Allowance for doubtful accounts	$ 4,715	$ 3,750

A summary of the payment arrangements with major third-party payors and patient financial assistance follows.

Maryland Medicaid
Since January 1, 2007 the Institute has been under a prospective payment system ("PPS") with Maryland Medicaid for both inpatient and outpatient services. Service-based per diem rates for inpatient services are annually adjusted by market basket update factors published by the Centers for Medicare and Medicaid Services ("CMS"). Outpatient services are reimbursed as a percentage of charges and subject to the lower of cost versus charges. Base year costs are trended forward annually using the CMS outpatient PPS market basket update factor and compared to actual charges. No retroactive settlement occurs under these arrangements.

Out of State Medicaid
The Institute has entered into payment agreements with many out-of-state Medicaid Plans. The majority of these payment agreements reflect similar rates paid by Maryland Medicaid. No retroactive settlement occurs under these agreements.

Commercial Insurance
The Institute has also entered into payment agreements with commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis of payment to the Institute under these agreements includes prospectively determined rates per day or discharge, discounts from established charges and prospectively determined daily rates. No retroactive settlement occurs under these agreements.

Medicare
Certain inpatient and outpatient services rendered to Medicare beneficiaries are subject to retrospective cost-based reimbursement. Medicare cost reports have been filed through 2016 and final settled through 2014. No significant settlement due to or from the Medicare Program has been estimated and as a result no receivable or payable has been recorded at June 30, 2017 or 2016.

Financial Assistance and Community Benefit
The Institute provides services without charge or at discounted charges to patients who meet certain criteria under its financial assistance policy. The criteria for financial assistance considers the patient or patient's family's ability to pay at time of service. The Institute uses the federal poverty guidelines to determine eligibility for free care or discounted care. In addition, the Institute's policy applies to patients who are medically indigent. The Institute also offers payment plan options to assist patients who experience a financial hardship paying their hospital and professional services bills, but who might not qualify for financial assistance. In January 2016, the Institute expanded its financial assistance policy along with developing a plain language summary of the policy that is distributed to patients at registration.

The cost for services and supplies furnished under the Institute's financial assistance policy aggregated approximately $988 and $938 in 2017 and 2016, respectively. The cost has been estimated based on a cost to charge ratio and applied to financial assistance charges.

In addition to patient financial assistance and payment plan options, the Institute provides various community benefits across the developmental disability populations within the State of Maryland. The foundation of its community benefits envisions that all persons with developmental disabilities ("DD") lead fully inclusive and meaningful lives. A community needs assessment was conducted to understand the needs of the community served. Based on the needs assessment, the Institute promotes and hosts educational forums, provides respite care resources, acts as a resource finder, provides advocacy and legal services, promotes and arranges information exchange among patients, families and professionals, promotes workforces development, is a leader in healthcare training in DD, conducts research, among other things.

(in thousands)

4. TUITION REVENUE

Tuition revenue generated by school programs is summarized as follows:

	2017	2016
High school	$ 13,925	$ 12,792
Lower/middle school	13,089	12,678
Leap/Autism	7,917	7,329
Montgomery County	5,686	5,609
Partnership programs	5,463	5,103
PACT daycare	748	757
Other	42	46
	$ 46,870	$ 44,314

Over 550 students are enrolled in special education programs each year and come from fourteen Maryland counties, Washington, D.C. and other sources. The percentage of tuition revenue generated by jurisdiction is as follows:

	2017	2016
Prince George's County, MD	21.8%	20.9%
Baltimore City, MD	18.7%	18.9%
Other MD Counties	19.5%	19.0%
Baltimore County, MD	15.1%	13.8%
Anne Arundel County, MD	11.4%	12.9%
Montgomery County, MD	8.6%	9.6%
Washington, DC	4.2%	4.0%
Other	0.7%	0.9%
Total	100.0%	100.0%

5. GRANT AND CONTRACT REVENUE

Grant and contract revenue is generated through the following activities:

	2017	2016
Research	$ 28,588	$ 25,759
Community service	6,294	6,771
Training	1,636	1,533
	$ 36,518	$ 34,063

(in thousands)

Research revenue includes all research initiatives funded through government and private sources. Community service revenue consists of services provided to individuals and families with special needs in a community-based setting and is funded through government programs. Training revenue represents government funding of training programs for professionals in the field of developmental disabilities.

Grant and contract revenue includes recoveries of facility and administrative costs, with certain limitations and exclusions. Certain revenues and costs in current and prior years are subject to audit and retroactive settlement. No reserve has been recorded for any potential settlements as amounts are not known or are considered immaterial.

6. CONTRIBUTIONS FROM FUNDRAISING ACTIVITIES

During 2017 and 2016, the Institute recognized contributions from fundraising activities as summarized below:

	2017	2016
Contributions		
Temporarily Restricted	$ 4,987	$ 7,700
Unrestricted	1,102	1,373
Total Contributions	6,089	9,073
Fundraising expenses		
Unrestricted	2,041	1,660
Restricted	988	965
Total Expenses	$ 3,029	$ 2,625

Restricted contributions are made up of annual giving and capital campaign contributions which are classified as temporarily restricted net assets on the Combined Balance Sheets. Permanently restricted contributions reflect gifts where the corpus cannot be utilized but where investment earnings are available for use. These contributions are classified as permanently restricted net assets on the Combined Balance Sheets. Unrestricted contributions reflect gifts with no donor restrictions and are reported on the Combined Statements of Operations.

Fundraising expenses are reported as operating expenses for those expenses related to Unrestricted Contributions and non-operating expenses for those expenses related to Restricted Contributions. Expenses related specifically to special events are netted with the revenue from those events.

(in thousands)

7. INVESTMENTS AND INVESTMENT INCOME

Investments at June 30, 2017 and 2016 consist of the following:

	2017	2016
Board designated endowment		
Fixed income mutual funds	$ 13,403	$ 13,180
Equity mutual funds	38,170	31,780
Absolute return fund	654	876
Total Board designated endowment	52,227	45,836
Investments limited as to use		
Money market funds	9,800	167
Fixed income mutual funds	17,039	1,710
Equity securities and funds	5,354	4,667
Total assets limited to use	32,193	6,544
Total Investments	$ 84,420	$ 52,380

Board Designated for Endowment
The Institute maintains certain investments as Board designated for endowment ("endowment funds"). These endowment funds are made up of unrestricted gifts and bequests and certain reserve funds. They have been set aside by the Institute's Board of Directors to fund new initiatives and other needs necessary in furtherance of the mission of the Institute and its subsidiary entities. The Board of Directors maintains the power to release these funds. The endowment funds are classified within unrestricted net assets.

Changes in endowment funds held by the Institute at June 30, 2017 and 2016 are as follows:

	2017	2016
Board Designated Endowment, beginning of year	$ 45,836	$ 49,157
Investment return:		
Unrealized (losses)	5,560	(1,443)
Realized (losses) gains	17	(809)
Investment income, net	1,320	969
Total investment return	6,897	(1,283)
Investment earnings appropriated for operating activities	(2,000)	(2,061)
Amount payable	1,494	23
Endowment, end of year	$ 52,227	$ 45,836

The Investment Committee of the Board of Directors ("Investment Committee") sets the investment policy for the endowment funds, including investment and spending guidelines. Investments of the endowment funds are based on the objective of achieving capital appreciation and investment income. Assets are invested in a manner that is intended to achieve an average annual real return in excess of inflation while assuming an acceptable level of investment risk. To monitor the effectiveness of the investment strategy of endowment funds, performance goals are established and monitored related to benchmark indices and returns earned by comparable funds.

(in thousands)

To satisfy its long-term rate of return objectives of the endowment funds, the Institute employs a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). The investment policy includes a target asset allocation that is well diversified among suitable asset classes and that is expected to generate, on average, the level of expected return necessary to meet the endowment fund's objectives while assuming a level of risk (volatility) consistent with achieving that return.

In September 2015, the Investment Committee of the Board of Directors voted to move the Endowment, Pension and Self-Insured Trust Fund investments to a new investment manager; Vanguard Institutional Advisory Services. The move was completed in December 2015 in which all assets were liquidated with the old manager and invested with Vanguard with the exception of the Absolute return fund.

The asset allocation of the endowment funds at June 30, 2017 and 2016 is summarized below. The Investment Committee regularly reviews the actual asset allocation against the target and periodically rebalances the investment, as appropriate.

	Target	**Actual Allocation**	
	Allocation	**2017**	**2016**
Equities	70%	73%	69%
Fixed income	30%	26%	29%
Absolute return funds	-	1%	2%
	100%	100%	100%

The investment policy also provides for an endowment earnings withdrawal to be used in support of operating activities, as determined by Institute management and approved through the annual budget. The annual withdrawal is determined based on 4% of the three-year average market value of the portfolio. Withdrawals of $506 and $2,038 were made in 2017 and 2016, respectively to fund operating needs and have been reported as operating revenues.

Investments with a market value of $1,379 and $1,377 as of June 30, 2017 and 2016, respectively have been pledged as collateral under the Institute's self-funded unemployment insurance plan.

(in thousands)

Investments Limited As To Use

Investments limited as to use at June 30, 2017 and 2016 are made up of the following:

	2017	2016
Construction funds (bonds and donor cash)	$ 23,635	$ -
Self insurance trust fund	3,959	3,531
Deferred compensation	1,637	1,291
Capital interest fund	1,308	-
Permanently restricted fund	1,110	998
Planned gifts, net of reserve	249	429
Donor advised fund	295	295
Total investments limited as to use	32,193	6,544
Less current portion	24,943	-
Long-term portion	$ 7,250	$ 6,544

Investment Income and Gains and Losses

Investment income and gains and losses are comprised of the following:

	2017	2016
Investment income		
Interest and dividend income	$ 1,394	$ 812
Realized gain on investments, net	72	(801)
Less: Investment earnings appropriated for operating activites	(2,000)	(2,061)
Net investment income	$ (534)	$ (2,050)
Net unrealized (loss) gain on investments	$ 6,053	$ (1,408)

The Institute reviews investments to determine whether these investments are other-than-temporarily impaired. Factors considered in the evaluation of these assets include the anticipated holding period, the extent and duration of below cost valuation and the current condition and outlook of the business and industry. As a result of this assessment, no impairment losses were recognized in 2017 and 2016.

In addition, two fixed income funds were identified and not deemed other-than-temporarily impaired and are not material for financial statement presentation. The Institute evaluated the near-term prospects of the issuers of each of these two fixed income funds in relation to the severity and duration of the impairment. Based upon this evaluation and the Institute's intent to hold these investments for a reasonable period of time for a forecasted recovery of fair value, the Institute does not consider these investments to be other-than-temporarily impaired at June 30, 2017.

8. FAIR VALUE MEASUREMENTS

FASB's guidance on the fair value option for financial assets and financial liabilities permits companies to choose to measure many financial assets and liabilities, and certain other items at fair value. This guidance requires a company to record unrealized gains and losses on items for which the fair value option has been elected in its performance indicator. The fair value option may be applied on an instrument by instrument basis. Once elected, the fair value option is irrevocable for that instrument. The fair value option can be applied only to entire instruments and not to portions thereof. Kennedy Krieger Institute has not elected fair value accounting for any asset or liability that is not currently required to be measured at fair value.

Kennedy Krieger Institute follows the guidance on fair value measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, this guidance does not require any new fair value measurements.

This guidance discusses valuation techniques such as the market approach, cost approach and income approach. The guidance establishes a three-tier level hierarchy for fair value measurements based upon the transparency of inputs used to value an asset of liability as of the measurement date. The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2 – Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data that requires the reporting entity to develop its own assumptions.

The financial instrument's categorization within the hierarch is based upon the lowest level of input that is significant to the fair value measurement. Each of the financial instruments below has been valued utilizing the market approach.

The following tables present the fair value of investments and liabilities as of June 30, 2017 and June 30, 2016, by the valuation hierarchy defined above and also presents information on the liquidity aspects of each investment.

(in thousands)

Fair Value of Investments
as of June 30, 2017

	Level 1	Level 2	Level 3	Total Fair Value
Investments:				
Money market funds (1)	$ 9,800	$ -	$ -	$ 9,800
Fixed income mutual funds (2)	30,442	-	-	30,442
Equity securities and funds (3)	43,229	-	-	43,229
Alternative investments (4)	-	-	949	949
Total Investments	$83,471	$ -	$ 949	$84,420
Liabilities:				
Interest rate swap	$ -	$ 8,545	$ -	$ 8,545
Total Liabilities	$ -	$ 8,545	$ -	$ 8,545

Fair Value of Investments
as of June 30, 2016

	Level 1	Level 2	Level 3	Total Fair Value
Investments:				
Money market funds (1)	$ 167	$ -	$ -	$ 167
Fixed income mutual funds (2)	14,889	-	-	14,889
Equity securities and funds (3)	36,152	-	-	36,152
Alternative investments (4)	-	-	1,172	1,172
Total Investments	$51,208	$ -	$ 1,172	$52,380
Liabilities:				
Interest rate swap	$ -	$12,370	$ -	$12,370
Total Liabilities	$ -	$12,370	$ -	$12,370

(1) Money market funds include investments in short-term debt securities, including US Treasury bills and commercial paper with same day or next day liquidity.

(2) Fixed income mutual funds include funds whose underlying investments include domestic and international corporate bonds, obligations issued or guaranteed by the U.S. government or its agencies, bankers acceptances, bank certificates of deposit, repurchase agreements, commercial paper, fixed income instruments denominated in currencies of emerging market countries and fixed income instruments represented by forwards or derivatives including options, future contracts and swap agreements. All funds offer next day liquidity. All funds are traded in active markets.

(3) Equity funds include investments in common stock mutual funds with next day liquidity.

(in thousands)

(4) Alternative investments include investments in a pooled investment fund of funds with underlying investments in equity long and short positions, distressed credit and private investments. Distributions from the fund have been limited by the fund of funds manager. In addition, privately held common stock of a privately held company is included. There is currently no market for the common stock.

The Institute has also classified the valuation of its interest rate swap in Level 2 of the fair value hierarchy. For over-the-counter derivatives that trade in liquid markets, such as interest rate swaps, model inputs (i.e. contractual terms, market prices, yield curves, credit curves, and measures of volatility) can generally be verified, and model selection does not involve significant management judgment.

9. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2017 and 2016 is as follows:

	2017	2016
Land	$ 4,657	$ 4,657
Building and improvements	166,339	164,655
Furniture & equipment	42,308	38,780
	213,304	208,092
Less: Accumulated depreciation	(97,552)	(88,596)
	115,752	119,496
Construction in progress	5,947	3,012
Property and equipment, net	$ 121,699	$ 122,508

Depreciation expense was $9,473 and $9,250 in 2017 and 2016, respectively.

Construction of an 8-story, 130,000 square foot building located in the 800 block of N. Broadway adjacent to the current outpatient clinical care building and parking garage began in the fall of 2017 to house clinical programs and support services. The building is expected to cost $48.5 million and be completed by winter of 2018.

The construction of the building is being financed through the Series 2017A Bonds as further described in Note 13 along with state and private support. Interest incurred during the construction is being capitalized as part of the project costs and totaled $1,308 in 2017.

Capital Lease Obligations

The Institute entered into a lease agreement in May 2016 for computer equipment with a value of $1.1 million and a lease term of four years. The Institute recorded the equipment as a capital lease and is reflected in property and equipment on the Combined Balance Sheets.

(in thousands)

The future minimum lease payments required under the capital lease are as follows:

2018	$ 386
2019	386
2020	354
Total future minimum lease payments	$1,126

10. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2017 and 2016 are summarized below:

	2017	2016
Total pledges receivable	$ 18,830	$ 23,941
Less: Present value adjustment	(971)	(1,196)
Allowance for uncollectible pledges	(1,590)	(1,169)
Net pledges receivable	16,269	21,576
Less: Pledges due within one year	(7,410)	(11,033)
Pledges due in one to five years	$ 8,859	$ 10,543

The present value adjustments for 2017 and 2016 were made utilizing discount rates in effects at the time of the gift. The allowance for uncollectible pledges has been estimated based on management evaluation of each pledge's likelihood to be collected and using historical pledge write-off rates.

11. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Institute to concentrations of credit risk consist primarily of cash and cash equivalents, investments and patient accounts receivable.

The Institute typically maintains cash and cash equivalents in commercial banks. The short-term investments consist primarily of money market funds. The Federal Deposit Insurance Corporation insures funds up to $250,000 per depositor.

The fair value of the Institute's investments are subject to various market fluctuations which include changes in the interest rate environment and general economic conditions.

The Institute records patient receivables due for services provided to patients and others. The majority of these patients either qualify for federal/state assistance programs or have insurance through commercial insurance companies or managed care organizations. The Institute maintains reserves for potential losses and such losses have been within management's expectations. The mix of patient receivables due from patients and third-party payors at June 30, 2017 and 2016 are as follows:

(in thousands)

	2017	2016
Medicaid	12.3%	10.1%
Medicaid Managed Care Organizations	12.1%	10.6%
Total Medical Assistance	24.4%	20.7%
Commercial Insurance	33.5%	34.7%
Blue Cross	22.2%	23.1%
Managed Care	11.9%	11.4%
Self-pay and other	6.5%	6.8%
Medicare	1.5%	3.3%
	100.0%	100.0%

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2017 and 2016 are made up of the following:

	2017	2016
Accounts payable and other accrued expenses	$ 12,941	$ 11,014
Payroll	7,581	4,546
Vacation	4,917	4,744
Workers' compensation, unemployment and health benefits	2,686	2,686
Self-insurance - general/professional liability	1,431	1,477
Research subcontracts	684	958
	$ 30,240	$ 25,425

13. DEBT

Tax-exempt Bonds
Tax-exempt bonds issued through Maryland Health and Higher Educational Facilities Authority ("MHHEFA") at June 30, 2017 and 2016 consisted of the following:

(in thousands)

	2017	2016
MHHEFA Series 2010 Bonds	$ -	$ 27,578
MHHEFA Series 2011 Bonds	17,240	17,896
MHHEFA Series 2012 Bonds	2,785	3,925
MHHEFA Series 2013 Bonds	16,100	16,145
MHHEFA Series 2017A Bonds	23,000	-
MHHEFA Series 2017B Bonds	27,395	-
	86,520	65,544
Less: Current portion	(2,361)	(2,299)
Less: Unamortized deferred financing costs	(686)	(423)
	$ 83,473	$ 62,822

The Series 2010 Bonds were privately placed with BB&T through a $30,000 bond qualified term loan with a maturity of December 1, 2017, and have been refunded in March 2017 through the issuance of the Series 2017B Bonds. The Series 2017B Bonds issued through MHHEFA were privately placed with BB&T through a $27,510 non-bank qualified term loan with a maturity date of April 1, 2027. The loan is being amortized through March 1, 2037. Terms of the loan agreement call for interest to be paid based on a percentage of 30-day LIBOR plus a bank spread. Principal and interest payments are due in monthly installments on the first day of each month.

The Series 2011 Bonds are privately placed with Bank of America through a $19,610 non-bank qualified term loan with a maturity date of June 1, 2021. The loan is being amortized through July 1, 2036. Terms of the loan agreement call for interest to be paid based on a percentage of 30-day LIBOR plus a bank spread. Principal payments are due in monthly installments on the first day of each month.

The Series 2012 Bonds were privately placed in October 2012 with BB&T through a $7,880 non-bank qualified term loan with a maturity date of July 1, 2019. The loan is also being amortized through the same period. Principal and interest are due in monthly installments on the first day of each month. Terms of the loan agreement call for a fixed interest rate of 2.21%.

The Series 2013 Bonds issued through MHHEFA were privately placed with Bank of America through a $16,730 non-bank qualified term loan with a maturity date of July 1, 2023. The loan is being amortized through July 1, 2033. Principal and interest are due in monthly installments on the first day of each month. Terms of the loan call for a fixed interest rate of 3.62%.

The Series 2017A Bonds issued through MHHEFA were privately placed in March 2017 with CapitalOne Municipal Funding through a $23,000 non-bank qualified term loan with a maturity date of April 1, 2027. The loan is being amortized through March 1, 2042. Principal and interest payments are due in monthly installments on the first day of each month. Principal payments do not begin until April 1, 2019. Terms of the loan agreement call for a fixed rate of interest of 3.21%.

The obligated group for the Series 2010, 2011, 2012, 2013 and 2017A and B Bonds (the "Bonds") include Kennedy Krieger Institute, Inc. and each of its affiliated entities. The Bonds were issued in parity and contain certain restrictions on the Institute's ability to incur additional indebtedness, restrict its use of facilities, maintain stipulated insurance coverage and maintain a rate structure sufficient to meet its total annual cash requirements. The Institute must maintain compliance with certain financial covenants contained in the bond indentures and loan agreements.

(in thousands)

At June 30, 2017 and 2016, the Institute was in compliance with all covenants in accordance with these agreements.

The aggregate future maturities of bonds payable for the next five years and thereafter are summarized below at June 30, 2017.

2018	$	2,361
2019		3,125
2020		3,204
2021		3,291
2022		3,384
Thereafter		71,155
	$	86,520

Unamortized deferred bond financing costs of $686 in 2017 and $423 in 2016 are netted against tax-exempt bonds. Amortization expense was $35 and $37 in 2017 and 2016, respectively. A loss on the early extinguishment of long-term debt associated with the refunding of the 2010 Bonds was recorded in 2017 in the amount of $167.

Line of Credit
The Institute maintains a working capital line of credit with Bank of America. The committed amount under the line of credit is $10,000 and is committed through December 31, 2017. Total draws of $0 and $2,250 were outstanding against the line of credit at June 30, 2017 and 2016, respectively. The line of credit is secured by a pledge on the revenues of the Institute and the financial covenant requirements are consistent with those of the Series 2011 and 2013 Bonds held by the bank.

14. RETIREMENT PLANS

The Institute maintains defined benefit and defined contribution plans covering substantially all of its employees.

Defined Benefit Plan
The Institute’s defined benefit pension plan (the “plan”) provides benefits to staff-level employees based on years of service and the employees’ final average compensation. The Institute’s policy is to annually fund the amount necessary to meet minimum funding requirement under ERISA. Contributions of $1,900 and $1,225 were made for 2017 and 2016, respectively.

The net periodic benefit cost calculated in accordance with current guidance for employer’s accounting for pension obligations is $2,479 and $1,740 for 2017 and 2016, respectively.

The following table sets for the plan’s funded status and benefit obligations recognized in the Institute’s financial statements at June 30, 2017 and 2016:

(in thousands)

	2017	2016
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 56,876	$ 53,266
Interest cost	2,229	2,287
Actuarial loss (gain)	(1,089)	3,479
Benefits paid	(1,321)	(2,156)
Projected benefit obligation at end of year	$ 56,695	$ 56,876
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 34,359	$ 35,850
Actual return on plan assets	3,564	(560)
Employer contribution	1,900	1,225
Benefits paid	(1,321)	(2,156)
Fair value of plan assets at end of year	$ 38,502	$ 34,359
Funded status at end of year	$ (18,193)	$ (22,516)
Recognized in noncurent liabilities		
Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets:		
Accumulated actuarial loss	$ (20,660)	$ (25,562)
Net unrestricted net assets previously reflected	2,467	3,046
Net amount recognized	$ (18,193)	$ (22,516)
Components of net periodic pension cost:		
Interest cost	$ 2,229	$ 2,287
Expected return on plan assets	(2,234)	(2,503)
Loss on amortization	2,484	1,956
Net periodic pension cost	$ 2,479	$ 1,740
Changes in net assets not yet reflected in the statement of operations:		
Unrecognized net loss (gain)	$ (2,418)	$ 6,541
Amortization of unrecognized net loss	(2,484)	(1,956)
Total changes in plan assets and obligations not yet reflected	$ (4,902)	$ 4,585
Total changes in plan assets and benefit obligations	$ (2,424)	$ 6,325
Unrecognized net loss to be amortized over next fiscal year	$ (1,874)	$ 2,484

(in thousands)

	2017	2016
Additional information:		
Accumulated benefit obligation	$56,694	$56,876
Expected contributions in fiscal year ending June 30, 2017	$2,100	$1,500

Expected benefit payments for fiscal year ending June 30, 2017:

2018	$ 1,653
2019	1,728
2020	1,861
2021	2,047
2022	2,227
Next five years	12,799

Weighted-average assumptions to determine benefit obligations:	**2017**	**2016**
Discount rate	4.07%	3.97%
Salary increase	Non applicable	Non applicable
Measurement date	June 30	June 30
Participant census data used	January 1, 2017	January 1, 2016

Weighted-average assumptions to determine pension expense:	**2017**	**2016**
Discount rates	3.97%	4.35%
Expected return on plan assets	6.50%	7.00%
Salary increase	Non applicable	Non applicable

The discounted rate assumption for fiscal years ending 2017 and 2016 were determined using the actuary's proprietary yield curve, under which the plan's projected benefit payments are matched against a series of spot rates derived from a market basket of high quality fixed income securities.

In determining the expected long-term rate of return on plan assets, the Institute evaluated the historical long-term rate of return for each class of asset in the plan and utilized a proprietary portfolio return calculator in determining an acceptable range of expected returns.

The following tables present fair value measurements for plan assets as of June 30, 2017 and 2016 by the valuation hierarchy as defined in footnote 8 and also includes the liquidity aspects of each investment:

(in thousands)

Fair Value of Investments
as of June 30, 2017

	Level 1	Level 2	Level 3	Total Fair Value
Investments:				
Fixed income mutual funds (2)	$ 13,323	$ -	$ -	$ 13,323
Equity securities and funds (3)	24,926	-	-	24,926
Alternative investments (4)	-	-	253	253
Total Investments	$ 38,249	$ -	$ 253	$ 38,502

Fair Value of Investments
as of June 30, 2016

	Level 1	Level 2	Level 3	Total Fair Value
Investments:				
Money market funds (1)	$ 165	$ -	$ -	$ 165
Fixed income mutual funds (2)	11,774	-	-	11,774
Equity securities and funds (3)	22,074	-	-	22,074
Alternative investments (4)	-	-	346	346
Total Investments	$ 34,013	$ -	$ 346	$ 34,359

(1) Money market funds include investments in short-term debt securities, including US Treasury bills and commercial paper with same day or next day liquidity.

(2) Fixed income mutual funds include funds whose underlying investments include domestic and international corporate bonds, obligations issued or guaranteed by the U.S. government or its agencies, bankers acceptances, bank certificates of deposit, repurchase agreements, commercial paper, fixed income instruments denominated in currencies of emerging market countries and fixed income instruments represented by forwards or derivatives including options, future contracts and swap agreements. All funds offer next day liquidity. All funds are traded in active markets.

(3) Equity funds include investments in common stock mutual funds with next day or monthly liquidity.

(4) Alternative investments include investments in a pooled investment fund of funds with underlying investments in equity long and short positions, distressed credit and private investments. Distributions from the fund have been limited by the fund of funds manager. In addition, privately held common stock of a privately held company is included. There is currently no market for the common stock.

(in thousands)

The plan's target allocations and actual asset allocation at June 30, by asset category, was as follows:

	Target Allocation	Actual Allocation 2017	Actual Allocation 2016
Equities	65%	65%	64%
Fixed income	35%	34%	35%
Absolute return funds	-	1%	1%
	100%	100%	100%

The objectives of the plan's investment strategy are to maximize the plan's funded status and minimize the Institute's contributions and plan expense.

The Investment Committee establishes a target asset allocation and regularly reviews the actual asset allocation against the target. It also periodically rebalances the investment allocations, as appropriate.

Defined Contribution Plan
The Institute maintains a qualified defined contribution retirement plan which is in compliance with section 401(k) of the Internal Revenue Code. The 401(k) plan is active and available to all employees (including all faculty and senior staff members) and provides for up to a 50% employer match on employee contributions up to certain levels of compensation. During 2017 and 2016, the aggregate contributions to the 401(k) plan were $16,293 and $14,948.

Deferred Compensation (457(b)) Plan
The Institute also offers a non-qualified deferred compensation plan for certain of its executives which allows for the deferral of compensation up to IRS limits. A deferred balance of $1,637 and $1,290 in fiscal years 2017 and 2016, respectively, was reported in Investments limited as to use in the Combined Balance Sheet. An associated liability of an equal amount is included in Other long-term liabilities in the Combined Balance Sheet. The Institute makes no contributions to the Deferred Compensation Plan.

15. INTEREST RATE SWAP

The Institute manages the fixed/variable mix of its debt portfolio, including hedging exposure to increasing interest expense on variable rate debt, by utilizing an interest rate swap. The Institute maintains a fixed payor interest rate swap which hedges the variable interest rate risk on the majority of the outstanding balance of the Series 2017B and 2011 Series Bonds. Under the terms of the agreement with a local bank, the Institute pays a fixed rate of 3.636% and receives 67% of 30-day LIBOR on notional amounts that reduce annually until July 2036. Notional amounts of $37,273 and $37,887 were effective June 30, 2017 and 2016, respectively. Under the terms of the agreement, no collateral requirements exist on the part of the Institute.

The fair value of the interest rate swap and the related unrealized (losses) were as follows as of June 30, including the classification on the Combined Balance Sheets and Statements of Operations:

(in thousands)

	Fair Market Value 2017	2016
Interest rate swap liability	$ 8,545	$ 12,370

	Amount recognized in Non-operating activity 2017	2016
Unrealized gain (loss) on interest rate swap valuation	$ 3,825	$ (3,517)
Interest rate swap payments	(1,175)	(1,313)
Total	$ 2,650	$ (4,830)

16. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were held for the following purposes at June 30, 2017 and 2016:

	2017	2016
Capital Campaigns	$ 18,579	$ 18,453
Research and clinical projects	18,491	19,212
	$ 37,070	$ 37,665

During 2017 and 2016, temporarily restricted net assets were released by satisfying donor restrictions in the following amounts:

	2017	2016
Property and equipment	$ 1,414	$ -
Operating activities	4,168	6,550
Total	$ 5,582	$ 6,550

Permanently restricted net assets were held in perpetuity for the following purpose at June 30, 2017 and 2016:

	2017	2016
Restricted for the Physically Challenged Sports Program	$ 958	$ 958

17. SELF INSURANCE

Professional and General Liability

The Institute maintains a self-insurance trust (the "Trust") for general and professional liability to cover liability claims arising out of the ordinary course of its business. Excess coverage with an insurance company is in place to cover losses above self-insured retention levels.

Assets in the Trust are to provide for payment of professional and general liability claims and expenses. Potential losses from asserted and unasserted claims are accrued based on estimates that incorporate the Institute's past experience, as well as other considerations, including the nature of each claim or incident, applicable insurance coverage and relevant trend factors.

An accrued liability related to asserted and unasserted self-insured general and professional liability claims of $1,431 and $1,477 has been recorded at June 30, 2017 and 2016, respectively, and is included in Accrued expenses. Investments in the Trust have a market value of $3,959 and $3,531 at June 30, 2017 and 2016, respectively and are reported in Investments limited as to use on the Combined Balance Sheets.

Workers' Compensation, Unemployment and Health Benefits

The Institute self-insures its workers' compensation, unemployment and employee health and dental benefits. Losses from claims identified by the Institute, as well as provisions for estimated losses for incurred but not reported incidents, are accrued based on estimates that incorporate the past experience of the Institute, as well as other considerations, including the nature of the claims or incidents and relevant trend factors. An accrued liability of $2,686 and $2,686 has been recorded at June 30, 2017 and 2016, respectively for these self-insured plans and is included in accrued expenses on the Combined Balance Sheets.

18. COMMITMENTS AND CONTINGENCIES

Litigation

The Institute is involved in claims and litigation on professional liability and personnel matters that arise in the ordinary course of its business. This litigation is not expected to result in losses that exceed insurance limits or have a materially adverse effect on the Institute's financial position.

There have been claims filed against the Hugo W. Moser Research Institute at Kennedy Krieger, Inc. arising out of two Federally-funded research studies performed in the early 1990s. The Institute has insurance believed adequate to cover any compensatory damages awarded for these claims. In some of these claims, the plaintiff has asserted punitive damages, which if awarded, would not be covered by insurance. Management believes that it is unlikely that punitive damages would be awarded in any of these claims. The outcome of these claims is not probable or estimable; therefore, no liability has been recorded on the Combining Balance Sheets at June 30, 2017 and 2016.

Rental Lease Commitments

Through the creation of MSP, all property and major equipment is leased/subleased to each operating entity. These transactions are eliminated through the combining of the Institute's financial statements.

(in thousands)

Commitments for leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2017, that have initial or remaining lease terms in excess of one year.

2018	$ 2,011
2019	1,398
2020	1,212
2021	1,241
2022	1,126
Thereafter	570
	$ 7,558

Rent expense on external lease commitments for the years ended June 30, 2017 and 2016 was $2,369 and $2,257 respectively.

Charitable Gift Annuities

The Institute has received charitable gift annuities from donors from which the Institute has guaranteed payments to the donor on a quarterly basis until the donor's death.

The Institute has recorded gift annuities, net of reserves, consistent with the rates adopted by the American Council on Gift Annuities at the time of issuance of the gift annuity. Assets maintained on outstanding annuity agreements exceed the amount of the reserve. Gift annuities with a market value of $747 and $959 and reserves for annuity payments of $498 and $529 to make gift annuity payments have been recorded in 2017 and 2016, respectively, and are included in Investments limited as to use on the Combined Balance Sheets.

19. FUNCTIONAL EXPENSES

The Institute provides specialty pediatric health care services, administers professional training programs, conducts laboratory and clinical research, operates special education school programs, administers community-based services, conducts fundraising activities and operates ancillary ventures. Expenses related to providing these services are as follows:

	2017	2016
Special pediatric healthcare services	$ 123,877	$ 117,463
Research	27,168	21,350
Education/community services	41,915	40,758
Fundraising activities	3,029	2,625
Operation of facilities	26,156	28,060
General and administrative	26,682	27,674
	$ 248,827	$ 237,930

20. SUBSEQUENT EVENTS

Kennedy Krieger Institute has evaluated subsequent events through September 28, 2017, which is the date the Financial Statements were issued. There have been no events subsequent to that date that needed to be disclosed.

Report of Independent Auditors

To the Board of Directors of
Kennedy Krieger Institute, Inc. and Affiliates

We have audited the combined financial statements of Kennedy Krieger Institute, Inc. and Affiliates, as of June 30, 2017 and for the year then ended and our report thereon appears on pages 1-2 of this document. That audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the balance sheet, statement of operations and statement of changes in net assets of the individual companies and is not a required part of the combined financial statements. Accordingly, we do not express an opinion on the balance sheet, statement of operations and statement of changes in net assets of the individual companies.

PricewaterhouseCoopers LLP

September 28, 2017

PricewaterhouseCoopers LLP, 100 East Pratt Street, Suite 1900, Baltimore, MD 21202-1096
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SUPPLEMENTAL COMBINING FINANCIAL STATEMENTS

Kennedy Krieger Institute, Inc. and Affiliates
Combining Balance Sheet
June 30, 2017

	Kennedy Krieger Children's Hospital, Inc	Hugo W. Moser Research Institute at Kennedy Krieger, Inc.	Kennedy Krieger Education & Community Services, Inc.	Kennedy Krieger Foundation, Inc.	PACT: Helping Children with Special Needs, Inc.	Madison Street Properties, Inc.	Combining Eliminations	Combined Totals
Assets								
Current assets:								
Cash and cash equivalents	$ 8,621,841	`		$ 7,642,315	$ 690,621			$ 16,954,777
Patient receivables, net	17,661,526				149,571			17,811,097
Grant and contract receivable	108,329	$ 7,434,850	$ 846,380		192,691			8,582,250
Tuition receivable			4,024,807					4,024,807
Pledges receivable				7,401,564	8,166			7,409,730
Investments limited as to use				5,487,655		$ 19,455,704		24,943,359
Due from affiliates	88,996,472		7,694,381	2,225,485			$ (98,916,338)	-
Prepaid expenses and other	1,404,843	156,011	185,000	2,096	1,697		(185,000)	1,564,647
Total Current Assets	116,793,011	7,590,861	12,750,568	22,759,115	1,042,746	19,455,704	(99,101,338)	81,290,667
Non-current assets:								
Property and equipment, net						121,698,962		121,698,962
Investments:								
Board designated endowment				51,901,713	325,479			52,227,192
Investments limted as to use	5,596,141			1,653,256				7,249,397
Pledges receivable, net				8,856,064	2,514			8,858,578
Total non-current assets	5,596,141	-	-	62,411,033	327,993	121,698,962	-	190,034,129
Total assets	$ 122,389,152	$ 7,590,861	$ 12,750,568	$ 85,170,148	$ 1,370,739	$ 141,154,666	$ (99,101,338)	$ 271,324,796
Liabilities and net assets								
Current liabilities:								
Accounts payable and accrued expenses	28,408,449	683,722	64,563	459,508	74,390	549,668		30,240,300
Due to affiliates		14,063,741			399,822	84,452,775	(98,916,338)	-
Deferred grant revenue	20,034	1,740,453	80,792		65,903			1,907,182
Line of credit								-
Current portion of tax-exempt bonds						2,360,580		2,360,580
Total Current Liabilities	28,428,483	16,487,916	145,355	459,508	540,115	87,363,023	(98,916,338)	34,508,062
Non-current Liabilities:								
Tax-exempt bonds						83,472,757		83,472,757
Accrued pension	18,192,575							18,192,575
Interest rate swap						8,544,934		8,544,934
Other long-term liabilities	2,323,700							2,323,700
Total long-term liabilities	20,516,275	-	-	-	-	92,017,691	-	112,533,966
Total liabilities	48,944,758	16,487,916	145,355	459,508	540,115	179,380,714	(98,916,338)	147,042,028
Net assets:								
Unrestricted	69,848,774	(13,884,100)	11,852,505	56,477,494	370,990	(38,226,048)	(185,000)	86,254,615
Temporarily restricted	3,595,620	4,987,045	752,708	27,274,924	459,634			37,069,931
Permanently restricted				958,222				958,222
Total net assets	73,444,394	(8,897,055)	12,605,213	84,710,640	830,624	(38,226,048)	(185,000)	124,282,768
Total liabilities and net assets	$ 122,389,152	$ 7,590,861	$ 12,750,568	$ 85,170,148	$ 1,370,739	$ 141,154,666	$ (99,101,338)	$ 271,324,796

Kennedy Krieger Institute, Inc. and Affiliates
Combining Statement of Operations
Year Ended June 30, 2017

	Kennedy Krieger Children's Hospital, Inc	Hugo W. Moser Research Institue at Kennedy Krieger, Inc.	Kennedy Krieger Education & Community Services, Inc.	Kennedy Krieger Foundation Inc.	PACT: Helping Children with Special Needs, Inc.	Madison Street Properties Inc.	Combining Eliminations	Combined Totals
Operating revenues:								
Patient service revenue, net	$153,843,338	$ 4,015,403	$ 2,526,228		$ 261,090			$160,646,059
Tuition revenue	42,150		46,079,545		747,841			46,869,536
Grant and contract revenue	1,635,931	28,588,262	4,668,611		1,625,772			36,518,576
Net assets released for operating activities	1,393,006	1,238,667	1,112,674	$1,429,413	408,420		$ (1,414,026)	4,168,154
Investment earnings used for operating activities		2,000,000						2,000,000
Unrestricted contributions from								-
fundraising activities, net				1,102,269				1,102,269
Other operating revenues	616,921				377,469	$29,916,041	(29,471,960)	1,438,471
Total operating revenues	157,531,346	35,842,332	54,387,058	2,531,682	3,420,592	29,916,041	(30,885,986)	252,743,065
Operating expenses:								
Salaries, wages and benefits	112,353,909	19,406,527	40,211,211	1,079,253	2,724,706	6,666,209		182,441,815
Supplies, purchased services and other	23,072,841	13,915,432	6,779,792	1,717,499	602,195	9,246,027	(3,596,150)	51,737,636
Space costs, net	16,135,522	4,298,726	6,154,111	243,770	111,929	(1,068,248)	(25,875,810)	-
Depreciation					1,571	9,506,123		9,507,694
Rent						2,369,498		2,369,498
Interest						1,782,408		1,782,408
Total operating expenses	151,562,272	37,620,685	53,145,114	3,040,522	3,440,401	28,502,017	(29,471,960)	247,839,051
Operating revenues over (under) expenses	5,969,074	(1,778,353)	1,241,944	(508,840)	(19,809)	1,414,024	(1,414,026)	4,904,014
Non-operating activity:								
Investment income and realized gains (losses), net	131,252			(672,719)	5,993	1,813		(533,661)
Change in unrealized gains on investments, net	336,818			5,647,250	23,971	44,755		6,052,794
Realized and unrealized (loss) on interest rate swap						2,650,177		2,650,177
Loss on early extinguishment of debt						(167,435)		(167,435)
Restricted fundraising expenses				(988,292)				(988,292)
Net non-operating activity	468,070	-	-	3,986,239	29,964	2,529,310	-	7,013,583
Excess of revenues over (under) expenses	$ 6,437,144	$ (1,778,353)	$ 1,241,944	$3,477,399	$ 10,155	$ 3,943,334	$ (1,414,026)	$ 11,917,597

Kennedy Krieger Institute, Inc. and Affiliates
Combining Statement of Changes in Net Assets
Year Ended June 30, 2017

	Kennedy Krieger Children's Hospital, Inc	Hugo W. Moser Research Institue at Kennedy Krieger, Inc.	Kennedy Krieger Education & Community Services, Inc.	Kennedy Krieger Foundation Inc.	PACT: Helping Children with Special Needs, Inc.	Madison Street Properties Inc.	Combining Eliminations	Combined Totals
Unrestricted net assets:								
Excess of revenue over (under) expenses	$ 6,437,144	$ (1,778,353)	$ 1,241,944	$ 3,477,399	$ 10,155	$ 3,943,334	$ (1,414,026)	$ 11,917,597
Net assets released from restrictions used for property and equipment							1,414,026	1,414,026
Change in funded status of defined benefit plan	2,423,751							2,423,751
Increase (decrease) in unrestricted net assets	8,860,895	(1,778,353)	1,241,944	3,477,399	10,155	3,943,334	-	15,755,374
Unrestricted net assets, beginning of year	60,987,879	(12,105,747)	10,610,561	53,000,095	360,835	(42,169,382)	$ (185,000)	70,499,241
Unrestricted net assets, end of year	$69,848,774	$ (13,884,100)	$ 11,852,505	$56,477,494	$ 370,990	$ (38,226,048)	$ (185,000)	$ 86,254,615
Temporarily restricted net assets:								
Contributions from fundraising activities	1,095,299	981,352	1,167,327	1,627,977	115,303			4,987,258
Net assets released from restrictions used for operating activities	(1,284,977)	(1,238,667)	(806,677)	(429,413)	(408,420)			(4,168,154)
Net assets released from restrictions used for property and equipment	(108,029)		(305,997)	(1,000,000)				(1,414,026)
Increase (decrease) in temporarily restricted net assets	(297,707)	(257,315)	54,653	198,564	(293,117)			(594,922)
Temporarily restricted net assets, beg. of year	3,893,327	5,244,360	698,055	27,076,360	752,751			37,664,853
Temporarily restricted net assets, end of year	$ 3,595,620	$ 4,987,045	$ 752,708	$27,274,924	$ 459,634	$ -	$ -	$ 37,069,931
Permanently restricted net assets:								
Contributions received								
Increase in permanently restricted net assets								
Permanently restricted net assets, beg, of yr				958,222				958,222
Permanently restricted net assets, end of year	-	-	-	958,222	-	-	-	958,222
Increase(decrease) in net assets	8,563,188	(2,035,668)	1,296,597	3,675,963	(282,962)	3,943,334		15,160,453
Net assets, beginning of year	64,881,206	(6,861,387)	11,308,616	81,034,677	1,113,586	(42,169,382)	(185,000)	109,122,316
Net assets, end of year	$73,444,394	$ (8,897,055)	$ 12,605,213	$84,710,640	$ 830,624	$ (38,226,048)	$ (185,000)	$124,282,769

Schedule of Expenditures of Federal Awards

and

Notes to Schedule of Expenditures of Federal Awards

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA Number	Award or Pass-through Entity ID Number	Total Federal Expenditures	Passed to Sub Recipients
<u>Research and Development Cluster- Direct Awards</u>					
<u>Department of Health and Human Services</u>					
Centers for Disease Control & Prevention					
Maternal Child Health Careers/Research Initiatives-Undergrad	R	93.283	U50 MN000025-05	$ 33,692	$ (899)
Maternal Child Health Careers/Research Initiatives-Undergrad	R	93.283	U50 MN000025-06	339,327	90,489
Maternal Child Health Careers/Research Initiatives-Undergrad	R	93.283	U50 MN000025-07	462,581	16,235
Subtotal Centers for Disease Control & Prevention 93.283				835,600	105,825
Food & Drug Administration					
PH 2 Study of Dextromethorphan in the Treatment of Rett Syndrome	R	93.103	1 R01 FD004247-03	11,896	-
Subtotal Food & Drug Administration 93.103				11,896	-
Office of the Director, National Institute of Health					
State of the Art 3D Research Scanner	R	93.351	S100OD021648-01	1,999,000	-
Subtotal Office of the Director 93.351				1,999,000	-
National Eye Institute					
Trans Degrad Of Mitoch In The CNS	R	93.867	R01 EY022680-04	(57,452)	74,319
Axonal Mitochondria Degradation as the Achilles Heel of Retinal Ganglion Cells	R	93.867	R01 EY026471-01	140,159	-
Subtotal National Eye Institute 93.867				82,707	74,319
National Heart Lung, and Blood Institute					
MRI-based Quantitative Brain Perfusion Mapping for Sickle Cell Disease	R	93.839	K 25 HL121192-03/04	218,689	21,746
Subtotal National Heart Lung and Blood Institute 93.839				218,689	21,746
National Institute of Biomedical Imaging and Bioengineering					
Resources for Quantitive Functional MRI	R	93.286	P41 RR15241-15	979,074	136,756
Resources for Quantitive Functional MRI	R	93.286	P41 RR15241-16	1,157,297	181,855
Novel Approaches for CEST Labeling, Detection, Quantification and Translation	R	93.286	5 R01 EB015032-04/05	239,106	-
MRI Assessment of Glucose Metabolism in Brain Tumor Using GlucoCest	R	93.600	R21 EB018934-01	2,076	-
Development and Translation of D-Glucose as a Diagnostic Agent for MRI	R	93.286	R01EB019934-01/02/03	1,678,725	-
In Vivo Molecular MR Imaging of Inflammation Using NSAIDS as CEST Agents	R	93.286	R21EB020905-01/02	255,375	-
Optimization of CEST MRI for Detection of Bacteria	R	93.286	R03EB021573-01/02	143,025	-
Presurgical Functional MRI in Patients w/ Large Susceptibility Artifacts	R	93.286	R21EB023538-01	29,229	-
Subtotal National Institute of Biomedical Imaging and Bioengineering 93.286				4,483,907	318,611

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA Number	Award or Pass-through Entity ID Number	Total Federal Expenditures	Passed to Sub Recipients
National Institute of Child Health and Human Development					
Resident Training in Brain Injury Rehab	R	93.865	5T32HD007414-19/20/21	$ 244,126	$ -
Mechanism & Rehabilitation of Cerebella Ataxia	R	93.865	R01 HD40289-14	58,581	20,779
Changes in Functioning Among Mentally Retarded Adults	R	93.865	5 P01 HD35897-26	157,664	119,489
Human Locomotors Plasticity in Health and Disease	R	93.865	R37 NS090610-10	144,592	8,136
Human Locomotors Plasticity in Health and Disease	R	93.865	R37 NS090610-11	394,477	57,519
Human Locomotors Plasticity in Health and Disease	R	93.865	R37 NS090610-12	24,670	-
Neural Bais of Recovery of Inhib Ped TB	R	93.865	K23HD061611-06	(825)	-
Development of ADHD in Preschool Children: Neuroimaging and Behavioral	R	93.865	R01 HD068425-04/05	300,737	-
Delineating Subtypes of Self-Injurious Behavior Maintained by Automatic	R	93.865	R01 HD076653-03/04/05	291,268	8,428
Somatosensory Processing-Assessing Youth Sport-Related Concussion	R	93.865	1 R21 HD080378-01/02	28,048	-
Neonatal Ischemic Seizures: Age and Gender Susceptibility	R	93.865	R21 HD073105-01/02	21,649	-
Intellectual and Developmental Disabilities Research Centers 2013	R	93.865	U54 HD079123-01/02/03	1,306,774	215,649
The Role of G Protein-Coupled Signaling in Neurocognitive and Psychosocial Abnormalities	R	93.865	R21 HD078864-01	31,551	-
Subtotal National Institute of Child Health and Human Development 93.865				3,003,312	430,000
National Institute of Mental Health					
Autism: Social & Communication Predictors in Siblings	R	93.242	R01 MH59630-14/15	439,924	
Anomalous Motor Physiology in ADHD	R	93.242	R01 MH78160-08/09/10	257,842	30,508
Anomalous Motor Physiology in ADHD	R	93.242	R01 MH78160-10 CAFFO SUB	16,922	16,922
Adolescent Changes in Brain and Behavior in Boys and Girls with ADHD	R	93.242	R01 MH085328-10/10A1/11/11A	677,949	65,245
Delay Discounting in children with ADHD: Neuroimaging	R	93.242	K23 MH101322-03/04	128,982	-
Role of Somatic Mosaicism in Autism, Schizophrenia and Bipolar Disorder Brain	R	93.242	U01MH106884-01	504,998	31,043
Risk and Resilience in Maltreated Children	R	93.242	R01MH098073	364,898	169,848
Virtual Brain Electrode (VIBE) for Imaging Neuronal Activity	R	93.242	R24MH109085-01/02	509,686	178,811
Visual-Motor Development in Infants at High Risk for Autism	R	93.242	K01MH109766-01/02	113,338	-
The Movement Based Training for Children with ADHD	R	93.242	R21 MH104651-02	66,829	12,864
Subtotal National Institute of Mental Health 93.242				3,081,368	505,241

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA Number	Award or Pass-through Entity ID Number	Total Federal Expenditures	Passed to Sub Recipients
National Institute of Neurological Disorders and Stroke					
The Role of the Transcallosal Pathway	R	93.853	R01NS072171-05/06/07	$ 645,985	$ 115,122
Suppression of Glioblastoma Stem Cells by Kruppel-Like Factor 10	R	93.853	R01NS076759-04/05	89,402	-
Adapative Control of Epileptic Seizures	R	93.853	R01NS079288-02/04	(91,491)	-
Brain Cancer Stem Cells Reprog By C-Met	R	93.853	R01NS073611	293,817	32,693
Drug Discovery for X-Linked Adrenoleukodystrophy	R	93.853	R21 NS091988-01/02	226,414	6,129
Role of Prefrontal Cortex in Locomotor Learning	R	93.853	F31NS090751-02/03	57,753	-
Magnetic Resonance Imaging and Apectroscopy	R	93.853	K23NS091379-01/02/03	144,668	-
Methyl-CpG-dependent transcription factor function in human glioma	R	93-853	R01NS091165-01/02/03	368,816	32,862
Direct Examination of Imitation-Based Learning in Autism	R	93-853	R21NS091569-02	163,767	-
GABAergic Sensorimotor Dysfunction in Tourette Syndrome	R	93-853	R01NS096207-01/02	455,533	194,226
Targeted Therapies for Neonatal White Matter Injury	R	93-853	R01NS097511-01/02	312,363	138,053
Child Neurologist Career Development Program	R	93-853	K12NS098482-01	115,630	26,677
Chromatin Modifications in GBM-Propagating Cells	R	93-853	R01NS096754-01	23,762	-
Advanced MRI Methods to Image Vascular Physiology w/ Respiratory Manipulations	R	93.853	R21NS095342	32,606	-
Subtotal National Institute of Neurological Disorders and Stroke 93.853				2,839,025	545,762
National Institute on Alcohol Abuse and Alcoholism					
GEWIS Study of Smoking, Hazardous Drinking & Other Health Risk Behaviors	R	93.273	R21AA024404-02/03	187,674	128,519
Subtotal National Institute on Alcohol Abuse and Alcoholism				187,674	128,519
National Cancer Institute					
Noninvasive Prediction of Tumor Response to Gemcitabine using MRI	R	93.394	R01CA211087-01	61,625	-
CEST MRI Assessment of Tumor Vascular Permeability using Non-Labeled Dextrans	R	93.394	R21CA215860-01	14,593	-
Subtotal National Cancer Institute				76,218	-
Total Department of Health and Human Services				**16,819,396**	
Health Resources and Services Administration					
MCH RESEARCH	R	93.110	R40 MC26193-02/03	94,749	-
MCH RESEARCH	R	93.110	MC29832-01/02	112,454	-
Subtotal Health Resources and Services Administration CFDA 93.110				207,203	-
Telehealth NetworkGrant Program	R	93.211	H2ARH30299-01	226,786	-
				226,786	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA Number	Award or Pass-through Entity ID Number	Total Federal Expenditures	Passed to Sub Recipients
Mental and Behavioral Health Education and Training Program	R	93.732	M 011 HP25314-01	$ 7,244	$ -
Subtotal Health Resources and Services Administration CFDA 93.732				7,244	-
Total Health Resources and Services Administration				**441,233**	
US Army Medical Research					
Adv Rest Therapies In Spinal Cord Injury	R	12.420	W81XWH-14-1-0069	321,360	-
Adv Rest Therapies In Spinal Cord Injury	R	12.420	W81XWH-14-1-0176	25,949	6,283
Subtotal US Army Medical Research CFDA 12.420				347,309	6,283
Total Research and Development Cluster - Direct Awards				**17,607,938**	
Research and Development Cluster- Pass Through Awards					
Children's Research Institute					
Center for Psychological Consultation	R	93.242	5R44MH094092	105,110	-
Subtotal Children's Research Institute CFDA 93.242				105,110	-
Johns Hopkins University (JHU)					
Mech Of Retinal Neurodegeneration	R	93.000	2001869586	36,110	-
Subtotal JHU CFDA 93.000				36,110	-
A Prospective Birth Cohort Study on Pre and Peri-Natal Determinants	R	93.110	2002367227	31,196	-
Subtotal JHU CFDA 93.110				31,196	-
The Neurobiology of Recovery in Acquired Dysgraphia	R	93.173	2001910762	93,288	-
Subtotal JHU CFDA 93.173				93,288	-
Gene-Environment Interactions for Cortical Development and Schizophrenia	R	93.242	2001398226	52,461	-
Neurobehavioral Correlates of Frustration in Children with ADHD	R	93.242	2002610904	34,879	-
Somatosensory Inhibitory Dysfunction in Autism Spectrum Disorder	R	93.242	2003046760	227,365	-
Investigation of Cerebellar Involvement in Cognitive Function	R	93.242	2002590758	100,714	-
Thalamic Connectivity in Recent Onset Schizophrenia	R	93.242	2002832607	42,699	-
Neurotransmitters in Schizophrenia Using High -Field MR Spectroscopy	R	93.242	2003126109	33,524	-
Neuroimaging Epigenetics of Prospective Postpartum Depression	R	93.242	2002412818	27,621	-
Subtotal JHU CFDA 93.242				519,263	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA Number	Award or Pass-through Entity ID Number	Total Federal Expenditures	Passed to Sub Recipients
MRI Investigations of Cognition in Alcoholics	R	93.273	2001197919	$ 35,007	$ -
Subtotal JHU CFDA 93.273				35,007	-
Cortical and Subcortical Mechanisms of Human Cognitive Control	R	93.279	2001229245	424	-
Behavioral Treatment of Adolescent Marijuana Use	R	93.279	2002852860	48,511	-
HIV-Related Neuroplasticity and Attention to Reward as Predictors	R	93.279	2003097253	19,022	-
Measurement of Persisting Changes in Emotional Brain Functioning	R	93.279	2003192503	11,689	-
Subtotal JHU CFDA 93.279				79,646	-
Neuro & Genetic Biomarkers in Bipolar Disease	R	93.242	2001591781	512	-
Subtotal JHU CFDA 93.242				512	-
Enhancing Current Capacity for Surveillance of Autism	R	93.283	20010225702	107,998	-
Subtotal JHU CFDA 93.283				107,998	-
Institute for Clinical and Translational Research	R	93.350	2002097583	477,189	-
Subtotal JHU CFDA 93.350				477,189	-
Comparing Two Parenting Programs for At-Risk Families	R	93.853	2001433038	86,605	-
Subtotal JHU CFDA 93.853				86,605	-
Academic-Industrial Partnership to Develop Clinical Brain Cancer Imaging	R	93.394	2003134034	5,081	-
High-Specificity Imaging Agents for Aggressive Prostate Cancer	R	93.394	2003179660	4,246	-
Subtotal JHU CFDA 93.394				9,327	-
JHU ICMIC Program	R	93.399	2001417774	1,059	-
Subtotal JHU CFDA 93.399				1,059	-
Centers for Autism & Developmental Disabilities Research	R	93.073	2001438612	2,641	-
Centers for Autism & Developmental Disabilities Research	R	93.073	2003316845	170,248	-
Subtotal JHU CFDA 93.703				172,889	-
Beh Health Integration Prg In Prim Care	R	93.789	2001990737	(9,144)	-
Subtotal JHU CFDA 93.789				(9,144)	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA Number	Award or Pass-through Entity ID Number	Total Federal Expenditures	Passed to Sub Recipients
Excitotoxicity in Circulatory Arrest-Brain Injury	R	93.837	2002405038-2002405090	$ 304,985	$ -
Clinical Hematology Research Career Development Program	R	93.837	2002349197	21,828	-
Subtotal JHU CFDA 93.837				326,813	-
Activin Receptor-Based Therapies for Musculoskeletal Disease	R	93.846	2001387087	3,222	-
Subtotal JHU CFDA 93.846				3,222	-
Neurobehavioral Correlates of Familial/genetic obesity Risk in Adolescents	R	93.847	2002405037	20,044	-
Diabetes, Digestive and Kidney Diseases Extramural Research	R	93.847	2002655891	4,515	-
Dual-Mode MRI for In Vivo Sensing of Microcapsule Stability	R	93.847	2002965183	54,941	-
Subtotal JHU CFDA 93.847				79,500	-
Role of NG2+Glial Cells in Recovery From Spinal Cord Injury	R	93.853	2002522137	9,593	-
Amyloid Neuro In Older HIV & IND With Cip	R	93.853	2001726105/2003063093	16,701	-
Imaging Neurodegeneration In MS	R	93.853	2002975456	172,777	-
Neurology Sciences Academic Development Award	R	93.853	2001815866/2003182897	153,890	-
INV Diff IN Gaba & Functional Neuro Project	R	93.853	2001721304	(4,820)	-
Treatment of ALS Based on Transplantation of Glial Restricted Progenitors	R	93.853	2002718049	45,462	-
In-Utero Characterization of Embryonic Mouse Brain Development	R	93.853	2003044061	14,544	-
Dendrimer Therapies for Treatment of Rett Syndrome	R	93.853	2003234282	32,379	-
Development of MRI Microvascular Biomarkers	R	93.853	2003335096	21,173	-
Subtotal JHU CFDA 93.853				461,699	-
Understanding Motor Beh After Stroke	R	93.865	2001606740	13,881	-
JH Pediatric Obesity Research and Training Center	R	93.865	2002015247	6,845	-
Development of a Reliable and Standardized Molecular Assay for Fragile X Protein	R	93.865	R43HD082900-01	17,640	-
Novel Strategies to Enhance Motor Function After Stroke	R	93.865	2002876504	88,882	-
Subtotal JHU CFDA 93.865				127,248	-
Biomarkers of Cognitive Decline Among Normal Individual: the Biocard Cohort	R	93.866	2002373351	102,415	-
PET Studies Of Serotonin & Amyloid MCI	R	93.866	2001465692	3,909	-
Longitudinal Imaging Of Neuropsy Syms	R	93.866	2001465721	14,071	-
Alzheimer's Disease Neuroimaging Initiative	R	93.866	2003373473	13,290	-
Alzheimer's Research	R	93.879	2002704174	48,515	-
Subtotal JHU CFDA 93.866				182,200	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA Number	Award or Pass-through Entity ID Number	Total Federal Expenditures	Passed to Sub Recipients
Training & Tools for Informationists to Facilitate Sharing of Next Generation Sequencing Data	R	93.879	2002704174	$ 20,927	$ -
Subtotal JHU CFDA 93.879				20,927	-
Discovery & Applied Research fro Technological Innovations to Improve Human Health	R	93.286	2002901741	-	-
Amide Proton Transfer (APT) MRI of Brain Tumors at 3T	R	93.286	2002090325/2003130538	107,306	-
Developing MRI sensors for Monitoring Zn2+ Using iCEST	R	93.286	2002831848	20,857	-
Neurodegenerative and Neurodevelopmental Subcortical Shape Diff	R	93.286	2003386771	8,276	-
Universal GABA-edited MRS at 3T	R	93.286	2002000314/2003099180	130,002	-
Subtotal JHU CFDA 93.286				266,441	-
Hardening and Scaling Core Genomics Software	R	93.859	2003129512	14,956	-
Subtotal JHU CFDA 93.859				14,956	-
Investigating Air Pollution Effects on the Developing Brain and ASD	R	93.113	2003188501	21,185	-
Subtotal JHU CFDA 93.113				21,185	-
Repetitive Transcranial Magnetic Stimulation for Treatment of Depression	R	12.420	2002092278	(6)	-
Subtotal JHU CFDA 12.420				(6)	-
Total Johns Hopkins University				**3,145,130**	
Northwestern University					
Engineering Career Development Center in Movement and Rehabilitation Sciences	R	93.865	K12HD073945	70,431	-
Subtotal Northwestern University CFDA 93.865				70,431	-
Partek Incorporated					
Computational Tools To Analyze SNP Data From Patients	R	93.242	2R44MH086192-02A1	(1,749)	-
Subtotal Partek Incorporated CFDA 93.242				(1,749)	-
Association Of University Centers on Disabilities					
AUCD-CDC Project	R	93.424	7201	36,964	-
Subtotal AUCD CFDA 93.424				36,964	-
University of California					
The Brain Vascular Matt Clinic Research	R	93.853	8397	175,686	-
Rapid Phenotyping for Rare Variant Discovery in Autism	R	93.853	1440 G PA522	7,918	-
Subtotal University of California CFDA 93.853				183,604	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA Number	Award or Pass-through Entity ID Number	Total Federal Expenditures	Passed to Sub Recipients
University of Maryland, Baltimore					
Family Informed Trauma Treatment CTR-FITT	R	93.243	SR00003534	$ 19,639	$ -
Grey Matter Lesions & Neurodegeneration in Multiple Sclerosis	R	93.243	SR00003805	1,396	-
Automated Quantification of Subpail Demyelination	R	93.243		61,233	-
Behavioral Health Integration	R	93.243	1200652D	43,702	-
Family Informed Trauma Treatment CTR-FITT	R	93.243	719	32,089	-
Subtotal University of Maryland Baltimore CFDA 93.243				158,059	-
Massachusetts General Hospital					
A CEST MRI Reporter Gene for Image Incolytic Virotherapy	R	93.394	228473	13,800	-
Subtotal Massachusetts General Hospital CFDA 93.394				13,800	-
University of Massachusetts					
Biomarkers for Therapy of FSHD (U54)	R	93.865	WA00227488/RFS2015068	472	-
Biomarkers for Therapy of FSHD (U54)	R	93.865	WA00331748/RFS2016036	70,066	-
Biomarkers for Therapy of FSHD (U54)	R	93.865	WA00463936/RFS2016036	3,237	-
Biomarkers for Therapy of FSHD (U54)	R	93.865	WA00227490/RFS2015066	47,603	-
Biomarkers for Therapy of FSHD (U54)	R	93.865	WA00331753/RFS2016034	69,939	-
Biomarkers for Therapy of FSHD (U54)	R	93.865	WA00227485/RFS2015065	3,558	-
Biomarkers for Therapy of FSHD (U54)	R	93.865	WA00331752/RFS2016033	147,975	-
Biomarkers for Therapy of FSHD (U54)	R	93.865	WA00331746/RFS2016035	121,428	-
Subtotal University of Massachusetts CFDA 93.865				464,278	-
Columbia University					
Biomarkers of Alzheimer's Disease in Adults with Down Syndrome	R	93.866	U01AG051412-01/02/03	94,481	-
Subtotal Columbia University CFDA 93.866				94,481	-
University of Michigan					
Thera Hypo After Ped Card Arr	R	93.837	U01HL094345	92,127	-
Subtotal of University of Michigan CFDA 93.837				92,127	-
Baylor University					
Brittle Bone Disorders Consortium of the Rare Disease Clinical Network	R	93.846	U54AR068069	125,064	-
Arthritis, Musculoskeletal and Skin Disease Research	R	93.846	U01HG007709-03	34,344	-
Subtotal of Baylor University CFDA 93.846				159,408	-
Drexel University					
An ASF Enriched Risk ECHO Cohort	R	93.310	UG30D023342	64,649	-
Subtotal of Drexel University CFDA 93.310				64,649	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA Number	Award or Pass-through Entity ID Number	Total Federal Expenditures	Passed to Sub Recipients
University of Pittsburgh					
Advanced Longitudinal Diffusion Imaging for TBI Diagnosis of Military Personnel	R	93.000	0047800-2	$ 237,301	$ -
Subtotal of University of Pittsburgh CFDA 93.000				237,301	-
West Virginia University					
West Virginia Stroke CoBRE	R	93.859	P20GM109098	19,573	-
Subtotal of West Virginia University CFDA 93.859				19,573	-
Total Research and Development Cluster - Pass Through Awards				**4,843,166**	
Research and Development Cluster - Total Awards				**$ 22,451,104**	
Child Nutrition Cluster					
School Breakfast Program	C	10.553	9962	33,046	-
Subtotal School Breakfast Program CFDA 10.553				33,046	-
School Lunch Program	C	10.555	9962	75,018	-
Subtotal School Lunch Program CFDA 10.555				75,018	-
Total Child Nutrition Cluster - Total Awards				**$ 108,064**	
Specical Education Cluster (IDEA)					
Assistance to the State for Education Students with Disabilities	R	84.027	154653	11,485	-
Assistance to the State for Education Students with Disabilities	R	84.027	164486	26,622	-
Improving Equity & Access & Opportunity for Students w/ Disabilities	R	84.027	170425	58,776	-
Providing Technical Assistance to the Eastern Shore of Maryland	R	84.027	170434	92,872	-
Implementing Models of Best Practice to Improve Outcomes	R	84.027	170435	58,926	-
Subtotal Assistance to the State for Education Students with Disabilities CFDA 84.027				248,681	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA Number	Award or Pass-through Entity ID Number	Total Federal Expenditures	Passed to Sub Recipients
Early Childhood Development					
Pact: World Of Care Child Care Center	P	84.173	164785/170604	$ 137,754	$ -
Pact: Helping Children w/Special Needs Therapeutic Nursery	P	84.173	154619/170606	136,399	-
Subtotal PACT CFDA 84.173				274,153	-
Total Special Education Cluster (IDEA) - Total Awards				**$ 522,834**	
Other Programs - Direct Awards					
Department of Health and Human Services					
Children's Hospital Graduate Medical Education	H	93.255	338-002	321,641	-
Subtotal DHHS CFDA 93.255				321,641	-
Administration for Children and Families					
Developmental Disabilities	H	93.632	90DD0707/03/04	545,896	29,270
Subtotal ADD CFDA 93.632				545,896	29,270
Total Department of Health and Human Services				**867,537**	
Health Resources and Services Administration					
MCH Training Program in Neurodevelopment Disabilities	H	93.110	2 T73 MC17245-07-00	765,303	-
Subtotal MCH Training Program CFDA 93.110				765,303	-
Behavioral Health Workforce Education and Training for Professionals and Paraprofessionals	R	93.243	G02HP27937-01/02/03	88,948	-
Subtotal Behavioral Health Workforce CFDA 93.243				88,948	-
Total Health Resources and Services Administration				**854,251**	
United States Department of Education					
Efficacy Trial of Early Achievements Comp Intervention Preschoolers with Autism	R	84.324A	R 324 A160228	851,031	39,041
Subtotal United States Department of Education CFDA 84.324A				851,031	39,041
Total Other Programs - Direct Awards				**$ 2,572,819**	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA Number	Award or Pass-through Entity ID Number	Total Federal Expenditures	Passed to Sub Recipients
<u>**Other Programs - Pass Through Awards**</u>					
Governor's Office Of Crime Control & Prevention					
Underserved Victims	C	16.575	1299	$ 277,085	$ -
Subtotal Governor's Office CFDA 16.575				277,085	-
MEMA/FEMA	C	97.036	373	73,016	-
Subtotal MEMA CFDA 97.036				73,016	-
Preschool Development	C	84.419	164882/170362	274,495	-
Subtotal MSDE CFDA 84.419				274,495	-
Maryland Developmental Disabilities Council					
Enhancing Advocacy & Public Policy Work Project	H	93.630	15-QA-1/16-QA-1/16-QA-3/17-QA-01	150,478	-
Subtotal Maryland Developmental Disabilities Council CFDA 93.630				150,478	-
Maryland Department of Health and Mental Hygiene (DHMH)					
Within My World	P	93.994	FH795CSN/PHPA-G-1586	400,000	-
Enhancing Child Care For Children	C	93.994	MR554 MFC	465,424	-
Subtotal DHMH CFDA 93.994				865,424	-
Maryland Family Network					
Southeast Baltimore EHS	C	93.600	362	15,159	-
Maryland Family Network	C	93.600	3034	486,293	-
Early Head Start Center	C	93.600	650	640,636	-
Early Head Start Center	C	93.600	650	232,213	-
Subtotal Maryland Family Network CFDA 93.600				1,374,301	-
Baltimore Mental Health Systems					
Therapeutic Nursery	P	93.000	POS#40	164,231	-
Subtotal Baltimore Mental Health Systems CFDA 93.000				164,231	-
Baltimore City					
Baltimore City Infants & Toddlers Program	P	84.181A	CO#36796	46,124	-
Baltimore City Infants & Toddlers Program	P	84.181A	CO#36535	58,419	-
Baltimore City Infants & Toddlers Program	R	84.181A	CO#37233	38,037	-
Subtotal Baltimore City CFDA 84.181A				142,580	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA Number	Award or Pass-through Entity ID Number	Total Federal Expenditures	Passed to Sub Recipients
Service Coord - Baltimore Infants & Toddlers	C	93.000	CO#36539	$ 66,493	$ -
Subtotal Baltimore City CFDA 93.000				66,493	-
Total Baltimore City				**209,073**	
Total Other Programs- Pass Through Awards				**$ 3,388,103**	
Total Other Programs- Total Awards				**$ 5,960,922**	
Total Expenditures of Federal Awards				**$ 29,042,924**	**$ 2,204,617**

See accompanying notes to the Schedule of Expenditures of Federal Awards.

1. Basis of Presentation

The accompanying combined Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant transactions of Kennedy Krieger Institute, Inc. and Affiliates (the "Institute") and includes Federal Awards made to the following corporate entities: Kennedy Krieger Children's Hospital, Inc., Hugo W. Moser Research Institute at Kennedy Krieger, Inc., Kennedy Krieger Education & Community Services, Inc. and PACT: Helping Children with Special Needs, Inc. under programs of the federal government for the year ended June 30, 2017. These corporate entities are denoted on the Schedule as follows:

R – Hugo W. Moser Research Institute at Kennedy Krieger, Inc.
H – Kennedy Krieger Children's Hospital, Inc.
C – Kennedy Krieger Education & Community Services, Inc.
P – PACT: Helping Children with Special Needs, Inc.

	Total Federal Expenditures	Passed to Sub Recipients
R - Hugo W. Moser Research Institute at Kennedy Krieger Inc.	$ 23,677,801	$ 2,175,347
H - Kennedy Krieger Children's Hospital, Inc.	1,783,318	29,270
C - Kennedy Krieger Education & Community Services, Inc.	2,638,878	-
P - PACT: Helping Children with Special Needs, Inc.	942,927	-
	$ 29,042,924	$ 2,204,617

Because the Schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, results of operations and non-operating activity, or cash flows of the Institute. Negative amounts reflect adjustments made to expenditures reported in prior years in the normal course of business.

For purposes of the Schedule, federal awards include all awards in the form of grants, contracts, and similar agreements entered into directly between the Institute and agencies and departments of the federal government, or non-federal pass-through entities. Federal CFDA and pass-through identification numbers are included when available.

2. Summary of Significant Accounting Policies

The Schedule reflects federal award program expenditures recognized on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Institute has not elected to use the 10% de minimis rate for indirect costs. Indirect costs are billed based upon negotiated and budgeted rates.

Part II

Reports on Compliance and Internal Control

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Kennedy Krieger Institute, Inc. and Affiliates:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Kennedy Krieger Institute, Inc. and Affiliates (the "Institute"), which comprise the combined balance sheet as of June 30, 2017, and the related combined statements of operations and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated September 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Baltimore, Maryland
September 28, 2017

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Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the OMB Uniform Guidance

To the Board of Directors of
Kennedy Krieger Institute, Inc. and Affiliates:

Report on Compliance for Each Major Federal Program

We have audited Kennedy Krieger Institute Inc. and Affiliates (the “Institute”) compliance with the types of compliance requirements described in the *OMB Uniform Guidance Compliance Supplement* that could have a direct and material effect on each of the Institute’s major federal programs for the year ended June 30, 2017. The Institute’s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Institute’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Institute’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

The Institute's response to the noncompliance findings identified in our audit is described in the accompanying Federal Award Findings and Questioned Costs and Management's View and Corrective Action Plan. The Institute's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Baltimore, Maryland
October 24, 2017

Part III

Findings

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I – Summary of Auditor's Results

Financial Statement

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	Yes

Identification of major programs:

Name of Federal Program or Cluster	*CFDA Number(s)*
Research and Development Cluster	Various
Efficacy Trial of Early Achievements Comp Intervention Preschoolers with Autism	84.324

Dollar threshold used to distinguish between type A and type B programs:	$871,287
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

There were no matters reported.

Section III – Federal Award Findings and Questioned Costs

Finding 2017-001: Allowable Costs/Costs Principles: Effort Reporting

Federal Agency:	Various, Department of Education
Program:	Research & Development Cluster, Efficacy Trial of Early Achievements Comp Intervention Preschoolers with Autism
CFDA #:	Various, 84.324
Award #:	Various, US DOE R324A160228
Award Year:	Various, July 1, 2016 to June 30, 2017

Criteria

45 CFR 74 Appendix E – *Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations and Commercial Organizations*, states for members of the professional staff, current and reasonable estimates of the percentage distribution of their total effort must be submitted no later than one month (though not necessarily a calendar month) after the month in which the services were performed. The Institute's policy requires monthly creation of effort reports for each professional employee whose salary is charged to its federal grants.

Condition

Efficiency Trial of Early Achievements
During our testing, we noted 16 out of 40 sampled employee payrolls that were between 3 and 100 days late from Efficacy Trial of Early Achievements within the required timeframe of one month. Instead, the certifications were completed outside of the one month timeframe after the service was rendered.

Research and Development
During our testing, we noted 9 out of 40 that were between 1 and 179 days late from the R&D Cluster that require current year effort certification within the required timeframe of one month. Instead, the certifications were completed outside of the one month timeframe after the service was rendered; this is a repeat finding.

Cause

We note the cause of this finding is attributable to the fact that the some of the Institute's personnel fail to effectively leverage the current effort reporting framework in place, resulting in delinquent effort reporting.

Effect

The Institute did not to certify effort reports in a timely manner, which may result in inaccurate payroll charges to the grant not being identified in a reasonable amount of time for correction in each respective award year.

Questioned Costs

We note there are no questioned costs.

Recommendation

We recommend that the Institute continue to train employees that will ensure effort certifications are completed on a timely basis for all professional employees whose salaries are reimbursed by the federal grants and contracts. The Institute may want to explore various ways of incentivizing timely effort reporting through closer integration with the payroll process to ensure that the systems and processes in place are effectively utilized by all employees. We also recommend that the institute send coming due notifications as a reminder as well as coming up with escalation protocols.

Finding 2016-001: Allowable Costs/Costs Principles

Federal Agency:	Various
Program:	Research & Development Cluster, Maternal and Child Health Services Block Grant to the States, and Head Start
CFDA #:	Various, 93.994, 93.600
Award #:	Various MR554 MFC, PHPA-G1622, PHPA-G2084, FH795CNS/PHPA-G-1586 650, 3034, 362
Award Year:	July 1, 2015 to June 30, 2016

During PwC's testing, there were 3 out of 60 sampled employee payrolls that were between 8 and 28 days late from Maternal and Child Health Services, 14 out of 60 that were between 50 days late and not being signed from the R&D Cluster, and 12 out of 60 that were between 1 and 147 days late from the Early Head Start Program that require current year effort certification and did not complete the monthly effort certifications within the required timeframe of one month. Instead, the certifications were completed outside of the one month timeframe after the service was rendered. PwC noted the cause of this finding is attributable to the fact that the some of the Institute's personnel fail to effectively leverage the current effort reporting framework in place, resulting in delinquent effort reporting.

Status

The electronic time and effort reporting system continues to evolve and improve. While the finding reoccurs in 2017, the error rates are staying consistent. There were no instances of employees not signing off, which is an improvement from the prior year. Management is continuing and enhancing their training efforts, including detailed reviews with noncompliant employees, to ensure all the systems and processes in place are being effectively utilized by employees to certify effort timely.

Kennedy Krieger Institute

Finance Department

A comprehensive resource for children with disabilities

September 22, 2017

Management's Views and Corrective Action Plan:

Finding 2017-001 - Allowable Costs/Costs Principles

The Institute's current policy for the certification of time and effort (T&E) expended on sponsored projects is for T&E reports to be created on a monthly basis following the month of T&E and then distributed to all KKI personnel with planned effort or salary funding supported on a sponsored project during that month. The current electronic T&E system is now in its third year of use. The electronic T&E reporting system has enhanced the overall T&E reporting process through use of email notifications and reminders with links to the system, ease of use in completing an T&E certification, date and time stamps of the certification and real-time tracking of certification compliance. With these system enhancements, individual T&E's are consistently being certified on a monthly basis and, outside a few reasonable exceptions, all T&E is getting certified.

However this finding addresses the timeframe for obtaining the T&E certifications from the certifying employees. Errors result when the T&E certification occurs later than 30-days from the date of distribution of the monthly T&E certification email. The error rates (as defined above) for Research & Development programs continue to be in the 20% range in both fiscal years 2017 and 2016. However, in fiscal year 2017, the average number of days for all late T&E certifications was 50 days late versus an average of 63 days late in FY 2016. So progress is being made.

To better understand the reasons behind late certifications, management will reconvene a T&E certification compliance task force to continue to look into reasons for the late T&E certifications and look to find alternative approaches to improve T&E certification tardiness. The task force will include senior individuals from various research areas along with senior research management and administration. The task force will also meet individually with the most tardy employees to educate them on the necessity of timely T&E certification compliance and find out the barriers causing their specific tardiness.

In addition, the T&E taskforce will also consider factors for and against changing the monthly T&E certification to either quarterly, semi-annually or some other appropriate time period. This will not directly change the tardiness problem, however, it would reduce the number of times individuals will be required to certify T&E during the year and could promote more timely compliance.

Lastly, management plans to continue to provide training to those areas that have the highest tardiness rates. Additionally, more frequent reminders will be provided in advance of the 30-day certification due date. Also, greater effort will be made on the review of the pre-certification reports so that planned effort and salary funding is reported accurately on initial distribution of the individual T&E reports to prevent any delays in correcting these amounts before T&E can be certified.

Management believes that with these measures we will be able to continue to improve T&E tardiness with the goal of achieving 100% compliance.

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Sincerely,
Michael J. Neuman
Michael J. Neuman
Senior Vice President - Finance