Kennedy Krieger Institute, Inc. and Affiliates

Reports on Federal Awards in Accordance with Uniform Guidance
June 30, 2018
Federal Entity Identification Number 52-1524965

Kennedy Krieger Institute, Inc. and Affiliates
Index
June 30, 2018

Part I

Financial Statements and
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Report of Independent Auditors

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kennedy Krieger Institute, Inc. and Affiliates (the "Institute"), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kennedy Krieger Institute, Inc. and Affiliates as of June 30, 2018 and 2017, and the consolidated changes in their net assets and cash flows for the year 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 consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2018 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 27, 2018 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, 2018. The purpose of that report is solely 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 the effectiveness of 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 27, 2018

Kennedy Krieger Institute, Inc. and Affiliates
Consolidated Balance Sheets
As of June 30, 2018 and 2017
(in thousands)

ASSETS	2018	2017
Current assets:		
Cash and cash equivalents	$ 15,407	$ 16,955
Patient receivables, less allowances of $5,529 and $4,715	22,313	17,811
Grant and contract receivable	5,048	8,582
Tuition receivable	6,094	4,025
Pledges receivable	9,038	7,410
Investments limited as to use	7,676	24,943
Prepaid expenses and other	2,183	1,564
Total current assets	67,759	81,290
Non-current assets:		
Property and equipment, net	145,234	121,699
Investments:		
Board designated endowment	55,915	52,227
Investments limited as to use	7,765	7,250
Pledges receivable, less allowances of $2,208 and $2,561	3,763	8,859
Total non-current assets	212,677	190,035
Total assets	$ 280,436	$ 271,325
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 34,107	$ 30,240
Deferred grant revenue	2,210	1,907
Current portion of tax-exempt bonds	3,125	2,361
Total current liabilities	39,442	34,508
Long-term liabilities:		
Tax-exempt bonds, net	80,403	83,473
Accrued pension	14,740	18,193
Interest rate swap	6,320	8,545
Other long-term liabilities	3,924	2,323
Total long-term liabilities	105,387	112,534
Total liabilities	144,829	147,042
Net assets:		
Unrestricted	99,783	86,255
Temporarily restricted	34,866	37,070
Permanently restricted	958	958
Total net assets	135,607	124,283
Total liabilities and net assets	$ 280,436	$ 271,325

See accompanying notes to consolidated financial statements.

Kennedy Krieger Institute, Inc. and Affiliates
Consolidated Statements of Operations
For the Years Ended June 30, 2018 and 2017
(in thousands)

	2018	2017
Operating revenues:		
Patient service revenue, net of contractual allowances	$ 170,593	$ 164,230
Bad debt expense	(4,429)	(3,583)
Net patient service revenue	166,164	160,647
Tuition revenue	48,944	46,870
Grant and contract revenue	33,949	36,518
Net assets released for operating activities	3,819	4,168
Investment earnings used for operating activities	2,022	2,000
Unrestricted contributions from fundraising activities, net	1,623	1,102
Other operating revenues	1,574	1,411
Total operating revenues	258,095	252,716
Operating expenses:		
Salaries, wages and benefits	191,473	182,442
Supplies, purchased services, and other	49,356	51,664
Depreciation and amortization	9,214	9,508
Rent	2,800	2,369
Interest	1,882	1,828
Total operating expenses	254,725	247,811
Operating revenues over operating expenses	3,370	4,905
Non-operating activity:		
Investment income and realized gain/(loss), net	344	(534)
Unrealized change in investments, net	2,796	6,053
Realized and unrealized gain on interest rate swap	1,271	2,650
Restricted fundraising expenses	(1,185)	(988)
Loss on early extinguishment of debt	-	(168)
Net non-operating activities	3,226	7,013
Excess of revenue over expenses	$ 6,596	$ 11,918

See accompanying notes to consolidated financial statements.

Kennedy Krieger Institute, Inc. and Affiliates
Consolidated Statements of Changes in Net Assets
For the Years Ended June 30, 2018 and 2017
(in thousands)

	2018	2017
Unrestricted net assets:		
Excess of revenue over expenses	$ 6,596	$ 11,918
Net assets released from restrictions used for property and equipment	5,005	1,414
Change in funded status of defined benefit plan, net	1,927	2,423
Increase in unrestricted net assets	13,528	15,755
Unrestricted net assets, beginning of year	86,255	70,500
Unrestricted net assets, end of year	$ 99,783	$ 86,255
Temporarily restricted net assets:		
Contributions from fundraising activities	$ 6,620	$ 4,987
Net assets released from restrictions used for:		
Operating activities	(3,819)	(4,168)
Purchases of property and equipment	(5,005)	(1,414)
(Decrease) in restricted net assets	(2,204)	(595)
Restricted net assets, beginning of year	37,070	37,665
Restricted net assets, end of year	$ 34,866	$ 37,070
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 in total net assets	11,324	15,160
Total net assets, beginning of year	124,283	109,123
Total net assets, end of year	$ 135,607	$ 124,283

See accompanying notes to consolidated financial statements.

Kennedy Krieger Institute, Inc. and Affiliates
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017
(in thousands)

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 11,324	$ 15,160
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized (gains) on investments, net	(3,490)	(6,146)
Depreciation and amortization	9,214	9,508
Bad debt expense	4,428	3,583
Change in pension liability, net	(3,453)	(4,323)
Change in valuation of interest rate swap	(2,225)	(3,825)
Restricted contributions	(6,881)	(3,873)
Loss on early extinguishment of debt	-	167
Changes in assets and liabilities:		
Patient receivables	(8,930)	(2,139)
Other receivables	4,933	4,391
Prepaid expenses	(619)	(55)
Accounts payable and accrued expenses	3,017	4,815
Deferred grant revenue	303	(262)
Other liabilities	311	13
Net cash provided by operating activities	7,932	17,014
Cash flows from investing activities:		
Purchase of property and equipment	(30,249)	(8,699)
Net sales of investments	(198)	(245)
Funding of construction funds	(1,612)	(27,916)
Draws on construction funds	18,879	2,972
Other changes in investments limited as to use	(515)	(705)
Net cash used in investing activities	(13,695)	(34,593)
Cash flows from financing activities:		
Proceeds from issuance of tax-exempt bonds	-	50,510
Payments for refunding of tax-exempt bonds	-	(27,440)
Payments on tax-exempt bonds	(2,305)	(2,262)
Proceeds from line of credit	8,800	8,000
Payments on line of credit	(8,800)	(10,250)
Payments on capital lease obligation	(361)	(294)
Proceeds from restricted contributions	6,881	3,873
Net cash provided by financing activities	4,215	22,137
Net increase (decrease) in cash and cash equivalents	(1,548)	4,558
Cash and cash equivalents, beginning of year	16,955	12,397
Cash and cash equivalents, end of year	$ 15,407	$ 16,955
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 1,882	$ 1,828
Purchases of property and equipment in accounts payable	2,992	14

See accompanying notes to consolidated 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 consolidated 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 350 patients yearly, over fifty specialty outpatient clinics generating in excess of 200,000 annual visits and the training of over 400 healthcare professionals each year. Net patient service revenue generated through Healthcare activities represents approximately 64.4% and 63.6% of the Institute’s operating revenue in fiscal years 2018 and 2017, 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 13.2% and14.5% of the Institute’s operating revenue in fiscal years 2018 and 2017, respectively. Approximately 78.1% and 78.6% of this revenue in fiscal years 2018 and 2017, respectively, 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 nonpublic 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 19.0% and 18.5% of the Institute’s operating revenue in fiscal years 2018 and 2017, 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 nonstock 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 consolidated financial statements include the accounts of the Institute after elimination of all significant intercompany accounts and transactions.

The consolidating 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 Consolidated 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 Consolidated 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 4% and 3% for 2018 and 2017, respectively.

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. Interest, dividends and realized gains and losses from the endowment are included in investment income and net realized gains on the Consolidated 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.

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 Consolidated Statements of Operations as net assets released from restrictions. 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 also 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 Consolidated Balance Sheet at fair value. The change in the value of this derivative is recorded as an unrealized gain or loss in the Consolidated 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 consolidated 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 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 Consolidated 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 January 2016, the FASB issued ASU 2016-01, “Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities”. ASU 2016-01 addresses accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Nonpublic business entities will no longer be required to disclose the fair value of financial instruments carried at amortized cost. The amendments in ASU 2016-01 are effective for years beginning after December 15, 2018, and early adoption is permitted. The Institute is evaluating the impact of this update on consolidated financial statements beginning in fiscal year 2020.

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 consolidated financial statements beginning in fiscal year 2020.

(in thousands)

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 consolidated financial statements beginning in fiscal year 2019.

In June 2018, the FASB issued ASU 2018-08, “Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made”. The new standard applies to all entities that receive or make contributions. The guidance clarifies the definition of transactions accounted for as an exchange transaction subject to ASU 2014-09 or other applicable guidance, and transactions that should be accounted for as contributions (non-exchange) subject to the contribution accounting model. Further, the guidance provides criteria for evaluating whether contributions are unconditional or conditional. Conditional contributions must specify a barrier that the recipient must overcome and a right of return that releases the donor from its obligation if the barrier is not achieved, otherwise the contribution is unconditional. The update is effective for fiscal years beginning after June 15, 2018, with early adoption permitted. The institute is evaluating the impact of this update on consolidated financial statements beginning in fiscal year 2019, and believes there will be no significant impact.

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:

	2018	2017
Gross Inpatient Revenue	$ 59,850	$ 57,365
Less: Contractual Allowances	(11,482)	(10,960)
Bad Debt Expense	(703)	(570)
Net Inpatient Revenue	47,665	45,835
Gross Outpatient Revenue	135,857	130,005
Less: Contractual Allowances	(13,632)	(12,180)
Bad Debt Expense	(3,725)	(3,013)
Net Outpatient Revenue	118,500	114,812
Net Patient Service Revenue	$ 166,165	$ 160,647

(in thousands)

The percentage of patient service revenue generated by payor category for the fiscal years ended June 30, 2018 and 2017 is as follows:

	2018	2017
Medicaid	35 %	36 %
Blue Cross	23 %	25 %
Commerical	25 %	21 %
Managed Care	14 %	13 %
Self pay and other	1 %	3 %
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.

	2018	2017
Beginning Allowance for doubtful accounts	$ 4,715	$ 3,750
Plus: Bad debt expense	4,428	3,583
Less: Bad debt write-offs, net of recoveries	(3,614)	(2,618)
Ending Allowance for doubtful accounts	$ 5,529	$ 4,715

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 2017 and final settled through 2015. 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, 2018 or 2017.

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 $1,079 and $988 in 2018 and 2017, 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:

	2018	2017
High school	$ 14,765	$ 13,925
Lower/middle school	14,026	13,089
Leap/Autism	7,426	7,917
Montgomery County	6,642	5,686
Partnership programs	5,373	5,463
PACT daycare	659	748
Other	53	42
	$ 48,944	$ 46,870

Over 570 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:

	2018	2017
Prince George's County, MD	22.3 %	21.8 %
Other MD Counties	18.4 %	19.5 %
Baltimore City, MD	17.4 %	18.7 %
Baltimore County, MD	14.3 %	15.1 %
Anne Arundel County, MD	12.8 %	11.4 %
Montgomery County, MD	8.3 %	8.6 %
Washington, DC	5.9 %	4.2 %
Other	0.6 %	0.7 %
Total	100.0 %	100.0 %

5. GRANT AND CONTRACT REVENUE

Grant and contract revenue is generated through the following activities:

	2018	2017
Research	$ 26,130	$ 28,588
Community service	6,177	6,294
Training	1,642	1,636
	$ 33,949	$ 36,518

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.

(in thousands)

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 2018 and 2017, the Institute recognized contributions from fundraising activities as summarized below:

	2018	2017
Contributions		
Temporarily Restricted	$ 6,620	$ 4,987
Unrestricted	1,623	1,102
Total Contributions	$ 8,243	$ 6,089
Fundraising expenses		
Unrestricted	2,015	2,041
Restricted	1,185	988
Total Expenses	$ 3,200	$ 3,029

Restricted contributions are made up of annual giving and capital campaign contributions which are classified as temporarily restricted net assets on the Consolidated 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 Consolidated Balance Sheets. Unrestricted contributions reflect gifts with no donor restrictions and are reported on the Consolidated 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, 2018 and 2017 consist of the following:

	2018	2017
Board designated endowment		
Fixed income mutual funds	$ 16,251	$ 13,403
Equity mutual funds	39,156	38,170
Absolute return fund	508	654
Total Board designated endowment	55,915	52,227
Investments limited as to use		
Money market funds	7,701	9,800
Fixed income mutual funds	2,077	17,039
Equity securities and funds	5,663	5,354
Total assets limited to use	15,441	32,193
Total Investments	$ 71,356	$ 84,420

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, 2018 and 2017 are as follows:

	2018	2017
Board Designated Endowment, beginning of year	$ 52,227	$ 45,836
Investment return:		
Unrealized gains	2,478	5,560
Realized gains	776	17
Investment income, net	1,446	1,320
Total investment return	4,700	6,897
Investment earnings appropriated for operating activities	(2,022)	(2,000)
Amount of investment earnings payable	1,010	1,494
Endowment, end of year	$ 55,915	$ 52,227

(in thousands)

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.

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, 2018 and 2017 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	**2018**	**2017**
Equities	70 %	70 %	73 %
Fixed income	30 %	29 %	26 %
Absolute return funds	-	1 %	1 %
	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 $1,012 and $506 were made in 2018 and 2017, respectively to fund operating needs and have been reported as operating revenues.

Investments with a market value of $1,391 and $1,379 as of June 30, 2018 and 2017, 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, 2018 and 2017 are made up of the following:

	2018	2017
Construction funds (bonds and donor cash)	$ 7,138	$ 23,635
Self insurance trust fund	4,212	3,959
Deferred compensation	1,949	1,637
Capital interest fund	537	1,308
Permanently restricted fund	1,045	1,110
Planned gifts, net of reserve	265	249
Donor advised fund	295	295
Total investments limited as to use	15,441	32,193
Less current portion	7,676	24,943
Long-term portion	$ 7,765	$ 7,250

Investment Income and Gains and Losses

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

	2018	2017
Investment income		
Interest and dividend income	$ 1,671	$ 1,394
Realized gain on investments, net	694	72
Less: Investment earnings appropriated for operating activites	(2,022)	(2,000)
Net investment income	$ 343	$ (534)
Net unrealized gain on investments	$ 2,796	$ 6,053

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 2018 and 2017.

The following table presents the fair value and unrealized loss of the Institute's investments including unrealized losses that are not deemed other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2018.

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description						
Fixed income securities	$ 14,734	$ (408)	$ -	$ -	$ 14,734	$ (408)
Equity securities	50	(2)	-	-	50	(2)
Total	$ 14,784	$ (410)	$ -	$ -	$ 14,784	$ (410)

These securities represented nine fixed income securities and two equity securities. The Institute evaluated the near-term prospects of the issuers of each of these 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, 2018.

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.

(in thousands)

The following tables present the fair value of investments and liabilities as of June 30, 2018 and June 30, 2017, by the valuation hierarchy defined above and also presents information on the liquidity aspects of each investment.

Fair Value of Investments
as of June 30, 2018

	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Investments:				
Money market funds (1)	$ 7,701	$ -	$ -	$ 7,701
Fixed income mutual funds (2)	18,328			18,328
Equity securities and funds (3)	44,524			44,524
Alternative investments (4)			803	803
Total Investments	$ 70,553	$ -	$ 803	$ 71,356
Liabilities:				
Interest rate swap	$ -	$ 6,320	$ -	$ 6,320
Total Liabilities	$ -	$ 6,320	$ -	$ 6,320

Fair Value of Investments
as of June 30, 2018

	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

(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, 2018 and 2017 is as follows:

	2018	2017
Land	$ 4,657	$ 4,657
Building and improvements	168,335	166,339
Furniture & equipment	44,960	42,308
	217,952	213,304
Less: Accumulated depreciation	(106,695)	(97,552)
	111,257	115,752
Construction in progress	33,977	5,947
Property and equipment, net	$ 145,234	$ 121,699

Depreciation expense was $9,159 and $9,473 in 2018 and 2017, 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 the end 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 $537 and $1,308 in 2018 and 2017, respectively.

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 Consolidated Balance Sheets.

(in thousands)

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

2019	$	386
2020		354
Total future minimum lease payments	$	740

10. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2018 and 2017 are summarized below:

		2018		2017
Total pledges receivable	$	15,009	$	18,830
Less: Present value adjustment		(644)		(971)
Allowance for uncollectible pledges		(1,564)		(1,590)
Net pledges receivable		12,801		16,269
Less: Pledges due within one year		(9,038)		(7,410)
Pledges due in one to five years	$	3,763	$	8,859

The present value adjustments for 2018 and 2017 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.

(in thousands)

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, 2018 and 2017 are as follows:

	2018	**2017**
Medicaid	10.0 %	12.3 %
Medicaid Managed Care Organizations	12.3 %	12.1 %
Total Medical Assistance	22.3 %	24.4 %
Commercial Insurance	39.2 %	33.5 %
Blue Cross	19.3 %	22.2 %
Managed Care	11.7 %	11.9 %
Self-pay and other	5.7 %	6.5 %
Medicare	1.8 %	1.5 %
	100.0 %	100.0 %

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2018 and 2017 are made up of the following:

	2018	**2017**
Accounts payable and other accrued expenses	$ 14,978	$ 12,941
Payroll	8,229	7,581
Vacation	5,322	4,917
Workers' compensation, unemployment and health benefits	2,756	2,686
Self-insurance - general/professional liability	1,594	1,431
Research subcontracts	1,228	684
	$ 34,107	$ 30,240

(in thousands)

13. DEBT

Tax-exempt Bonds

Tax-exempt bonds issued through Maryland Health and Higher Educational Facilities Authority ("MHHEFA") at June 30, 2018 and 2017 consisted of the following:

	2018	2017
MHHEFA Series 2011 Bonds	$ 16,543	$ 17,240
MHHEFA Series 2012 Bonds	1,599	2,785
MHHEFA Series 2013 Bonds	16,085	16,100
MHHEFA Series 2017A Bonds	23,000	23,000
MHHEFA Series 2017B Bonds	26,931	27,395
	84,158	86,520
Less: Current portion	(3,125)	(2,361)
Less: Unamortized deferred financing costs	(630)	(686)
	$ 80,403	$ 83,473

The Series 2011 Bonds are privately placed with Bank of America through a $19,610 nonbank 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 nonbank 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 nonbank 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 nonbank 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 called for a fixed rate of interest of 3.21%. Due to the change in the maximum federal corporate tax rate, the loan agreement was amended in May 2018, for a fixed rate of interest of 3.79%.

The Series 2017B Bonds issued through MHHEFA were privately placed with BB&T through a $27,510 nonbank 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.

(in thousands)

The obligated group for the Series 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.

At June 30, 2018 and 2017, 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, 2018.

2019	$	3,125
2020		3,204
2021		3,291
2022		3,384
2023		3,471
Thereafter		67,683
	$	84,158

Unamortized deferred bond financing costs of $630 in 2018 and $686 in 2017 are netted against tax-exempt bonds. Amortization expense was $55 and $35 in 2018 and 2017, 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, 2018. The balance on the line of credit was $0 at June 30, 2018 and 2017. 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 $2,111 and $1,900 were made for 2018 and 2017, respectively.

The net periodic benefit cost calculated in accordance with current guidance for employer’s accounting for pension obligations is $2,381 and $2,479 for 2018 and 2017, respectively.

(in thousands)

The following table sets for the plan's funded status and benefit obligations recognized in the Institute's financial statements at June 30, 2018 and 2017:

	2018	2017
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 56,695	$ 56,876
Service cost	615	-
Interest cost	2,274	2,229
Actuarial loss (gain)	(2,242)	(1,089)
Benefits paid	(2,470)	(1,321)
Projected benefit obligation at end of year	$ 54,872	$ 56,695
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 38,502	$ 34,359
Actual return on plan assets	1,989	3,564
Employer contribution	2,111	1,900
Benefits paid	(2,470)	(1,321)
Fair value of plan assets at end of year	$ 40,132	$ 38,502
Funded status at end of year		
Recognized in noncurent liabilities	$ (14,740)	$ (18,193)
Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets:		
Accumulated actuarial loss	$ (16,937)	$ (20,660)
Net unrestricted net assets previously reflected	2,197	2,467
Net amount recognized	$ (14,740)	$ (18,193)
Components of net periodic pension cost:		
Service cost	$ 615	$ -
Interest cost	2,274	2,229
Expected return on plan assets	(2,382)	(2,234)
Loss on amortization	1,874	2,484
Net periodic pension cost	$ 2,381	$ 2,479
Changes in net assets not yet reflected in the statement of operations:		
Unrecognized net loss (gain)	$ (1,849)	$ (2,418)
Amortization of unrecognized net loss	(1,874)	(2,484)
Total changes in plan assets and obligations not yet reflected	$ (3,723)	$ (4,902)
Total changes in plan assets and benefit obligations	$ (1,342)	$ (2,423)
Unrecognized net loss to be amortized over next fiscal year	$ (1,432)	$ (1,874)

(in thousands)

	2018	2017
Additional information:		
Accumulated benefit obligation	$ 54,872	$ 56,694
Expected contributions in the following year	$ 2,775	$ 2,100

Expected benefit payments for fiscal year ending June 30, 2018:

2019	$ 1,882
2020	1,925
2021	2,095
2022	3,264
2023	2,378
Next five years	13,491

Weighted-average Assumptions to Determine Benefit Obligations:	**2018**	**2017**
Discount rate	4.33%	4.07%
Salary increase	Non applicable	Non applicable
Measurement date	June 30	June 30
Participant census data used	January 1, 2018	January 1, 2017

Weighted-average Assumptions to Determine Pension Expense:	**2018**	**2017**
Discount rates	4.07%	3.97%
Expected return on plan assets	6.25%	6.50%
Salary increase	Non applicable	Non applicable

The discounted rate assumption for fiscal years ending 2018 and 2017 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.

(in thousands)

The following tables present fair value measurements for plan assets as of June 30, 2018 and 2017 by the valuation hierarchy as defined in footnote 8 and also includes the liquidity aspects of each investment:

Fair Value of Investments as of June 30, 2018

	Level 1	Level 2	Level 3	Total Fair Value
Investments:				
Money market funds (1)	$ 218	$ -	$ -	$ 218
Fixed income mutual funds (2)	13,885	-	-	13,885
Equity securities and funds (3)	25,829	-	-	25,829
Alternative investments (4)	-	-	200	200
Total Investments	$ 39,932	$ -	$ 200	$ 40,132

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

(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 2018	Actual Allocation 2017
Money market funds	-	0.5 %	-
Equities	65 %	64.4 %	65 %
Fixed income	35 %	34.6 %	34 %
Absolute return funds	-	0.5 %	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 (IRC). 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 2018 and 2017, the aggregate contributions to the 401(k) plan were $18,025 and $16,293.

Deferred Compensation Plan

The Institute also offers a nonqualified deferred compensation plan (457(b) of the IRC) for certain of its executives which allows for the deferral of compensation up to IRS limits. A deferred balance of $1,949 and $1,637 in fiscal years 2018 and 2017, respectively, was reported in Investments limited as to use in the Consolidated Balance Sheet. An associated liability of an equal amount is included in Other long-term liabilities in the Consolidated 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 $36,659 and $37,273 were effective June 30, 2018 and 2017, respectively. Under the terms of the agreement, no collateral requirements exist on the part of the Institute.

(in thousands)

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 Consolidated Balance Sheets and Statements of Operations:

	Fair Market Value	
	2018	**2017**
Interest rate swap liability	$ 6,320	$ 8,545

	Amount Recognized in Non-operating Activity	
	2018	**2017**
Unrealized gain (loss) on interest rate swap valuation	$ 2,225	$ 3,825
Interest rate swap payments	(955)	(1,175)
Total	$ 1,270	$ 2,650

16. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were held for the following purposes at June 30, 2018 and 2017:

	2018	**2017**
Capital Campaigns	$ 15,684	$ 18,579
Research and clinical projects	19,182	18,491
	$ 34,866	$ 37,070

During 2018 and 2017, restricted net assets were released by satisfying donor restrictions in the following amounts:

	2018	**2017**
Property and equipment	$ 5,005	$ 1,414
Operating activities	3,819	4,168
Total	$ 8,824	$ 5,582

Permanently restricted net assets were held in perpetuity for the following purpose at June 30, 2018 and 2017:

	2018	**2017**
Inperpetuity 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 $1,594 and $1,431 has been recorded at June 30, 2018 and 2017, respectively, and is included in Accrued expenses. Investments in the Trust have a market value of $4,212 and $3,959 at June 30, 2018 and 2017, respectively and are reported in Investments limited as to use on the Consolidated 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 $2,756 and $2,686 has been recorded at June 30, 2018 and 2017, respectively for these self-insured plans and is included in accrued expenses on the Consolidated 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. The Institute has been successful in defending its position on these cases and do not anticipate any material exposure going forward.

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 consolidating 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, 2018, that have initial or remaining lease terms in excess of one year.

2019	$	2,318
2020		2,120
2021		1,651
2022		1,619
2023		969
Thereafter		200
	$	8,877

Rent expense on external lease commitments for the years ended June 30, 2018 and 2017 was $2,800 and $2,369 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 $689 and $747 and reserves for annuity payments of $423 and $498 to make gift annuity payments have been recorded in 2018 and 2017, respectively, and are included in Investments limited as to use on the Consolidated Balance Sheets.

Epic Outpatient Clinical System

The Institute entered into agreements with Epic to license and implement a new clinical system for use in outpatient services. As part of the agreements, the Institute committed to a 4 year payment plan which included both the license fees and implementation costs. Through the end of fiscal year 2018, $1.0 million has been paid under this commitment. The future year commitments are as follows:

2019	$	1,992
2020		1,992
2021		1,992
2022		992
	$	6,968

(in thousands)

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:

	2018	2017
Special pediatric healthcare services	$ 130,490	$ 123,877
Research	23,194	27,168
Education/community services	43,360	41,915
Fundraising activities	3,200	3,029
Operation of facilities	26,099	26,156
General and administrative	29,567	26,654
	$ 255,910	$ 248,799

20. SUBSEQUENT EVENTS

Kennedy Krieger Institute has evaluated subsequent events through September 27, 2018 which is the date the Financial Statements were issued. There have been no events subsequent to that date that needed to be disclosed.

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Report of Independent Auditors

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

We have audited the consolidated financial statements of Kennedy Krieger Institute, Inc. and Affiliates, as of June 30, 2018 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 consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP

Baltimore, Maryland
September 27, 2018

Supplemental Consolidating Financial Statements

Kennedy Krieger Institute, Inc. and Affiliates
Consolidating Balance Sheet Information
Year Ended June 30, 2018

	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.	Consolidating Eliminations	Consolidated Totals
Assets								
Current assets:								
Cash and cash equivalents	$ 3,720,708	$ -	$ -	$ 11,407,552	$ 279,202	$ -	$ -	$ 15,407,462
Patient receivables, net	22,106,605				206,887			22,313,492
Grant and contract receivable	163,853	3,451,657	979,859		452,309			5,047,678
Tuition receivable			6,093,959					6,093,959
Pledges receivable				9,032,507	5,098			9,037,605
Investments limited as to use				7,132,511		543,284		7,675,795
Due from affiliates	93,778,106		6,549,103		75,621		(100,402,830)	-
Prepaid expenses and other	1,547,175	629,873	185,000	4,149	1,697		(185,000)	2,182,894
Total Current Assets	121,316,447	4,081,530	13,807,921	27,576,719	1,020,814	543,284	(100,587,830)	67,758,885
Non-current assets:								
Property and equipment, net						145,233,603		145,233,603
Investments:								
Board designated endowment				55,559,870	355,026			55,914,896
Investments limted as to use	6,160,123			1,605,298				7,765,421
Pledges receivable, net				3,763,220				3,763,220
Total non-current assets	6,160,123	-	-	60,928,388	355,026	145,233,603	-	212,677,140
Total assets	$ 127,476,570	$ 4,081,530	$ 13,807,921	$ 88,505,107	$ 1,375,840	$ 145,776,887	$ (100,587,830)	$ 280,436,025
Liabilities and net assets								
Current liabilities:								
Accounts payable and accrued expenses	$ 30,386,498	$ 1,227,982	$ 103,547	$ 333,000	$ 72,786	$ 1,983,022		$ 34,106,835
Due to affiliates		15,192,083		1,087,649		84,123,098	(100,402,830)	-
Deferred grant revenue	8,455	1,824,087	127,032		250,646			2,210,220
Line of credit								-
Current portion of tax-exempt bonds						3,124,644		3,124,644
Total Current Liabilities	30,394,953	18,244,152	230,579	1,420,649	323,432	89,230,764	(100,402,830)	39,441,699
Non-current Liabilities:								
Tax-exempt bonds						80,402,971		80,402,971
Accrued pension	14,740,137							14,740,137
Interest rate sw ap						6,319,841		6,319,841
Other long-term liabilities	2,274,050					1,650,000		3,924,050
Total long-term liabilities	17,014,187	-	-	-	-	88,372,812	-	105,386,999
Total liabilities	47,409,140	18,244,152	230,579	1,420,649	323,432	177,603,576	(100,402,830)	144,828,698
Net assets:								
Unrestricted	76,521,572	(19,720,378)	12,832,898	61,751,104	409,405	(31,826,689)	(185,000)	99,782,912
Temporarily restricted	3,545,858	5,557,756	744,444	24,375,132	643,003			34,866,193
Permanently restricted				958,222				958,222
Total net assets	80,067,430	(14,162,622)	13,577,342	87,084,458	1,052,408	(31,826,689)	(185,000)	135,607,327
Total liabilities and net assets	$ 127,476,570	$ 4,081,530	$ 13,807,921	$ 88,505,107	$ 1,375,840	$ 145,776,887	$ (100,587,830)	$ 280,436,025

Kennedy Krieger Institute, Inc. and Affiliates
Consolidating Statement of Operations
Year Ended June 30, 2018

	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.	Consolidating Eliminations	Consolidated Totals
Operating revenues:								
Patient service revenue, net	$ 160,485,182	$ 4,474,019	$ 2,450,564	$ -	$ 279,656		$ (1,525,829)	$ 166,163,592
Tuition revenue	53,432		48,232,031		658,954			48,944,417
Grant and contract revenue	1,642,078	26,129,518	4,540,610		1,636,816			33,949,022
Net assets released for operating activities	1,607,443	647,655	924,306	558,014	81,706			3,819,124
Investment earnings used for operating activities				2,021,736				2,021,736
Unrestricted contributions from								-
fundraising activities, net				1,623,339				1,623,339
Other operating revenues	861,150		7,988	38,770	360,903	30,432,608	(30,127,279)	1,574,140
Total operating revenues	164,649,285	31,251,192	56,155,499	4,241,859	3,018,035	30,432,608	(31,653,108)	258,095,370
Operating expenses:								
Salaries, w ages and benefits	118,893,972	19,140,644	42,584,769	1,312,494	2,539,030	7,001,978		191,472,887
Supplies, purchased services and other	24,641,223	10,306,091	6,026,807	901,054	332,114	9,241,234	(2,092,122)	49,356,401
Space costs, net	16,683,371	5,640,734	6,563,531	241,545	138,026	293,779	(29,560,986)	-
Depreciation						9,213,863		9,213,863
Rent						2,799,843		2,799,843
Interest						1,881,911		1,881,911
Total operating expenses	160,218,566	35,087,469	55,175,107	2,455,093	3,009,170	30,432,608	(31,653,108)	254,724,905
Operating revenues over (under) expenses	4,430,719	(3,836,277)	980,392	1,786,766	8,865	-	-	3,370,465
Non-operating activity:								
Investment income and realized gains (losses), net	156,699			187,604				344,303
Change in unrealized gains on investments, net	158,457			2,484,161	29,547	123,682		2,795,847
Realized and unrealized (loss) on interest rate swap						1,270,500		1,270,500
Loss on early extinguishment of debt								-
Restricted fundraising expenses				(1,184,913)				(1,184,913)
Net non-operating activity	315,156	-	-	1,486,852	29,547	1,394,182	-	3,225,737
Excess of revenues over (under) expenses	$ 4,745,875	$ (3,836,277)	$ 980,392	$ 3,273,618	$ 38,412	$ 1,394,182	$ -	$ 6,596,202

Kennedy Krieger Institute, Inc. and Affiliates
Consolidating Statement of Changes in Net Assets
Year Ended June 30, 2018

	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.	Consolidating Eliminations	Consolidated Totals
Unrestricted net assets:								
Excess of revenue over (under) expenses	$ 4,745,875	$ (3,836,277)	$ 980,392	$ 3,273,608	$ 38,418	$ 1,394,182	$ -	$ 6,596,198
Net assets released from restrictions used for property and equipment						5,005,174		5,005,174
Change in funded status of defined benefit plan	1,926,924							1,926,924
Increase (decrease) in unrestricted net assets	6,672,799	(3,836,277)	980,392	3,273,608	38,418	6,399,356	-	13,528,296
Unrestricted net assets, beginning of year	69,848,774	(13,884,100)	11,852,505	56,477,494	370,990	(38,226,048)	(185,000)	86,254,615
Unrestricted net assets, end of year	$ 76,521,573	$ (17,720,377)	$ 12,832,897	$ 59,751,102	$ 409,408	$ (31,826,692)	$ (185,000)	$ 99,782,911
Temporarily restricted net assets:								
Contributions from fundraising activities	$ 1,557,681	$ 1,468,724	$ 916,042	$ 2,413,038	$ 265,075			$ 6,620,560
Net assets released from restrictions used for operating activities	(1,607,443)	(647,655)	(924,306)	(558,014)	(81,706)			(3,819,124)
Net assets released from restrictions used for property and equipment		(250,358)		(4,754,816)				(5,005,174)
Increase (decrease) in temporarily restricted net assets	(49,762)	570,711	(8,264)	(2,899,792)	183,369	-	-	(2,203,738)
Temporarily restricted net assets, beg. of year	3,595,620	4,987,045	752,708	27,274,924	459,634			37,069,931
Temporarily restricted net assets, end of year	$ 3,545,858	$ 5,557,756	$ 744,444	$ 24,375,132	$ 643,003	$ -	$ -	$ 34,866,193
Permanently restricted net assets:								
Contributions received								
Increase in permanently restricted net assets								
Permanently restricted net assets, beg.of year				$ 958,222				$ 958,222
Permanently restricted net assets, end of year	$ -	$ -	$ -	$ 958,222	$ -	$ -	$ -	$ 958,222
Increase(decrease) in net assets	$ 6,623,037	$ (3,265,566)	$ 972,128	$ 373,816	$ 221,787	$ 6,399,356		$ 11,324,558
Net assets, beginning of year	73,444,394	(8,897,055)	12,605,213	84,710,640	830,624	(38,226,048)	(185,000)	124,282,768
Net assets, end of year	$ 80,067,431	$ (12,162,621)	$ 13,577,341	$ 85,084,456	$ 1,052,411	$ (31,826,692)	$ (185,000)	$ 135,607,326

1. Basis of Presentation and Accounting

The Supplementary Consolidating Financial Statements presented on pages 37-39 were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial positions and changes in net assets of the individual companies within the Institute and are not a required part of the consolidated financial statements. The individual affiliates within the Institute as presented within the supplementary consolidating financial statements are disclosed within Note 1 to the consolidated financial statements.

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, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA No.	Award or Pass-through Entity Identification No.	Total Federal Expenditures	Passed to Sub Recipients
Research and Development Cluster- Direct Awards					
Department of Health and Human Services					
Centers for Disease Control & Prevention					
Maternal Child Health Careers/Research Initatives-Undergrad	R	93.283	U50 MN000025-06	$ 51,780	$ -
Maternal Child Health Careers/Research Initatives-Undergrad	R	93.283	U50 MN000025-07	448,098	90,459
Subtotal Centers for Disease Control & Prevention 93.283				499,878	90,459
Maternal Child Health Careers/Research Initatives-Undergrad	R	93.456	U50 MN000004-01	451,282	15,311
Subtotal Centers for Disease Control & Prevention 93.456				451,282	15,311
Food and Drug Administration					
PH 2 Study of Dextromethorphan in the Treatment of Rett Syndrome	R	93.103	1 R01 FD004247-03	(20,006)	-
Subtotal Food & Drug Administration 93.103				(20,006)	-
National Eye Institute					
Trans Degrad Of Mitoch In The CNS	R	93.867	R01 EY022680-04	(1,606)	-
Subtotal National Eye Institute 93.867				(1,606)	-
National Heart Lung, and Blood Institute					
MRI-based Quantitative Brain Perfusion Mapping for Sickle Cell Disease	R	93.839	25 HL121192-01/04/05	205,550	3,787
Clinical and Neuroimagin Phenotypes of Neurological Disorders In Pediatric Sickle Cell Disease	R	93.839	K 23 HI133455-01A1	148,971	
Subtotal National Heart Lung and Blood Institute 93.839				354,521	3,787
Non-Contrast-Enhanced Velocity-Selective MR Angiography	R	93-837	R01HL138182-01A1	112,466	-
Subtotal National Heart Lung and Blood Institute 93.837				112,466	-
National Institute of Biomedical Imaging and Bioengineering					
Resources for Quantitive Functional MRI	R	93.286	P41 RR15241-16	404,932	43,583
Resources for Quantitive Functional MRI	R	93.286	P41 RR15241-17	843,448	105,680
Novel Approaches for CEST Labeling, Detection, Quantification and Translation	R	93.286	5 R01 EB015032-05/06	676,245	-
MRI Assessment of Glucose Metabolism in Brain Tumor Using GlucoCest	R	93.286	R21 EB018934-01	1,656	-
Development and Translation of D-Glucose as a Diagnostic Agent for MRI	R	93.286	R01EB019934-01/02/03/04	1,080,806	110,719
In Vivo Molecular MR Imaging of Inflammation Using NSAIDS as CEST Agents	R	93.286	R21EB020905-01/02	137,222	-
Optimization of CEST MRI for Detection of Bacteria	R	93.286	R03EB021573-01/02	19,072	-
Presurgical Functional MRI in Paients w/ Large Susceptibility Artifacts	R	93.286	R21EB023538-01/02	272,795	-

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA No.	Award or Pass-through Entity Identification No.	Total Federal Expenditures	Passed to Sub Recipients
Role of Peripheral and Brain Iron in the Development of Attention	R	93.865	R03EB023359-01A1	125,451	-
Subtotal National Institute of Biomedical Imaging and Bioengineering 93.286				3,561,627	259,982
National Institute of Child Health and Human Development					
Resident Training in Brain Injury Rehab	R	93.865	5T32HD007414-20/21/24/25	246,858	-
Mechanism & Rehabilitation of Cerebella Ataxia	R	93.865	R01 HD40289-15A	35,711	-
Human Locomotors Plasticity in Health and Disease	R	93.865	R37 NS090610-11	118,069	10,812
Human Locomotors Plasticity in Health and Disease	R	93.865	R37 NS090610-12	369,628	45,488
Human Locomotors Plasticity in Health and Disease	R	93.865	R37 NS090610-13	24,445	-
Develpoment of ADHD in Preschool Children: Neuroimaging and Behavioral	R	93.865	R01 HD068425-05	127,078	-
Delineating Subypes of Self-Injurious Behavior Maintained by Automatic	R	93.865	R01 HD076653-04/05	259,741	10,929
Neonatal Ischemic Seizures: Age and Gender Susceptibility	R	93.865	R21 HD073105-02	(1,625)	-
Intellectual and Developmental Disablities Research Centers 2013	R	93.865	U54 HD079123-03	41,010	28,595
Intellectual and Developmental Disablities Research Centers 2013	R	93.865	U54 HD079123-04	995,435	175,866
Intellectual and Developmental Disablities Research Centers 2013	R	93.865	U54 HD079123-04	60,408	-
Intellectual and Developmental Disablities Research Centers 2013	R	93.865	U54 HD079123-01	48,913	-
Mechanisms Regulating KCC@ Hypofunction	R	93.865	R01 HD090884-01A1	336,592	-
Subtle Motor Functioning and Functional Connectivity in Youth After Mild TBI	R	93.865	R01HD090266-01A1	197,789	-
Subtotal National Institute of Child Health and Human Development 93.865				2,860,052	271,690
National Institute of Mental Health					
Autism: Social & Communication Predictors in Siblings	R	93.242	R01 MH59630-15/16	115,091	-
Anomalous Motor Physiology in ADHD	R	93.242	R01 MH78160-10	262,486	7,128
Adolescent Changes in Brain and Behavior in Boys and Girls with ADHD	R	93.242	R01MH085328-11A1	791,958	61,195
Delay Discounting in children with ADHD: Neuroimaging	R	93.242	K23 MH101322-03/04/05	120,204	-
Role of Somatic Mosaicism in Autsim, Schizophrenia and Bipolar Disorder Brain	R	93.242	U01MH106884-01/02/03	976,137	20,734
Risk and Resilience in Maltreated Children	R	93.242	R01MH098073-04	5,323	-
Virtual Brain Electrode (VIBE) for Imaging Neuronal Activity	R	93.242	R24MH109085-02/03	349,963	73,421
Visual-Motor Development in Infants at High Risk for Autism	R	93.242	K01MH109766-01/02/03	140,234	-
The Movement Based Training for Children with ADHD	R	93.242	R21 MH104651-02	89,620	-
Defining the Sluggish Cognitive Tempo Phenotype	R	93.242	R03 MH111965-01A1	76,114	-
A Novel Framework for Impaired Imitation in ASD	R	93.242	R01 MH113652-01	255,731	-
Subtotal National Institute of Mental Health 93.242				3,182,861	162,478
National Institute of Neurological Disorders and Stroke					
The Role of the Transcallosal Pathway	R	93.853	R01NS072171-06/07	(2,860)	841
Suppression of Glioblastoma Stem Cells by Kruppel-Like Factor 11	R	93.853	R01NS076759-05	30,982	-

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA No.	Award or Pass-through Entity Identification No.	Total Federal Expenditures	Passed to Sub Recipients
Brain Cancer Stem Cells Reprog By C-Met	R	93.853	R01NS073611	81,388	-
Drug Discovery for X-Linked Adrenoleukodystrophy	R	93.853	R21 NS091988-01/02	(4,323)	-
Magnetic Resonance Imaging and Apectroscopy	R	93.853	K23NS091379-01/02/03/04	233,361	-
Methyl-CpG-dependent transcription factor function in human glioma	R	93-853	R01NS091165-01/02/03/04	422,103	38,091
Direct Examination of Imitation-Based Learing in Autism	R	93-853	R21NS091569-01A1/02A1/03A1	258,595	-
GABAergic Sensorimotor Dysfunction in Tourette Syndrome	R	93-853	R01NS096207-01/02/03	517,456	248,266
Targeted Therapies for Neonatal White Matter Injury	R	93-853	R01NS097511-01/02/03	569,058	140,450
Child Neurologist Career Development Program	R	93-853	K12NS098482-01-02	716,469	625,216
Chromatin Modifications in GBM-Propagating Cells	R	93-853	R01NS096754-01A/02A	408,842	-
Advanced MRI Methods to Image Vascular Physiology w/ Respiratory Manipulations	R	93.853	R21NS095342	28,914	-
Targeting Hyaluronan-Mediated Motility Receptor in Glioblastoma Stem Cells	R	93.853	R01NS099460-01A1	258,422	17,754
Targeting TAZ-driven Oncogenic Signaling in Medulloblastoma	R	93.853	R21NS106407-01	31,138	5,193
Subtotal National Institute of Neurological Disorders and Stroke 93.853				3,549,545	1,075,811
GEWIS Study of Smoking, Hazardous Drinking & Other Health Risk Behaviors	R	93.394	R21AA024404-02-03	61,630	30,320
Subtotal National Institute on Alcohol Abuse and Alcoholism 93.273				61,630	30,320
Noninvasive Prediction of Tumor Response to Gemcitabine using MRI	R	93.394	R01CA211087-01A/02A	409,802	21,838
CEST MRI Assessment of Tumor Vascular Permeability using Non-Labeled Dextrans	R	93.394	R21CA215860-01/02	212,641	16,382
Subtotal National Cancer Institute 93.394				622,443	38,220
Preventive Dyadic Intervention to Enhance Communication	R	93.173	R21DC015846-01A1/02A1	201,852	-
Subtotal National Institute on Deafness & Other Communication 93.173				201,852	-
MCDD-Creating and Sustaining Diversity Fellowships	R	93.632	90DDUC0047-01	53,496	-
Subtotal Administratin for Community Living 93.632				53,496	-
Total Department of Health and Human Services				15,490,041	1,948,058
<u>Health Resources and Services Administration</u>					
MCH RESEARCH	R	93.11	R40 MC26193-03	1,012	-
MCH RESEARCH	R	93.11	T16MC29832-01/02/03	169,212	-
Subtotal HRSA CFDA 93.110				170,224	-
Telehealth NetworkGrant Program	R	93.211	H2ARH30299-01/02	284,096	3,442
Subtotal HRSA CFDA 93.211				284,096	3,442
Total Health Resources and Services Administration				454,320	3,442

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA No.	Award or Pass-through Entity Identification No.	Total Federal Expenditures	Passed to Sub Recipients
US Army Medical Research					
Adv Rest Therapies In Spinal Cord Injury	R	12.42	W81XWH-14-1-0069	(4,981)	-
Adv Rest Therapies In Spinal Cord Injury	R	12.42	W81XWH-14-1-0176	(952)	-
Neurovascular Changes Associated with Olfactory Deficits in Early Parkinson's Disease	R	12.42	W81XWH016-PRP-FIA	160,779	-
Subtotal US Army Medical Research CFDA 12.420				154,846	-
Total Research and Development - Direct Awards				16,099,207	1,951,500
Research and Development Cluster- Pass Through Awards					
Johns Hopkins University (JHU)					
A Prospective Birth Cohort Study on Pre and Peri-Natal Deterninants	R	93.11	2002367227	8,205	-
Subtotal JHU CFDA 93.110				8,205	-
The Neurobiology of Recovery in Acquired Dysgraphia	R	93.173	2001910762	27,991	-
Subtotal JHU CFDA 93.173				27,991	-
Gene-Environment Interactioons for Cortical Development and Schizophrenia	R	93.242	2001398226	51,370	-
Neurobehavioral Correlates of Frustration in Children with ADHD	R	93.242	2002610904	(8,491)	-
Somatossensory Inhibitory Dysfunction in Austism Spectrum Disorder	R	93.242	2003046760	285,184	-
Investigation of Cerebellar Involvement in Cognitive Function	R	93.242	2002590758	10,758	-
Thalamic Connectivity in Recent Onset Schizophrenia	R	93.242	2002832607	61,077	-
Neuroimaging Epigenetics of Prospective Postpartum Depression	R	93.242	2002412818	76,059	-
Subtotal JHU CFDA 93.242				475,957	-
Behavioral Treatment of Adolescent Marijuana Use	R	93.279	2002852860	74,290	-
HIV-Related Neuroplasticity and Attention to Reward as Predictors	R	93.279	2003097253	38,857	-
Measurement of Persisting Changes in Emotional Brain Functioning	R	93.279	2003192503	26,344	-
Subtotal JHU CFDA 93.279				139,491	-
Enhancing Current Capacity for Surveillance of Autism	R	93.283	2002911409	30,070	-
Subtotal JHU CFDA 93.283				30,070	-

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA No.	Award or Pass-through Entity Identification No.	Total Federal Expenditures	Passed to Sub Recipients
Institute for Clinical and Translational Research	R	93.35	2002097583	446,579	-
Subtotal JHU CFDA 93.350				446,579	-
Comparing Two Parenting Programs for At-Risk Families	R	93.853	2001433038	14,565	-
Subtotal JHU CFDA 93.853				14,565	-
Academic-Industrial Partnership to Develop Clinical Brain Cancer Imaging	R	93.394	2003134034	9,885	-
High-Specificity Imaging Agents for Aggressive Prostate Cancer	R	93.394	2003179660	12,904	-
Subtotal JHU CFDA 93.394				22,789	-
Centers for Autism & Developmental Disabilities Research	R	93.073	2003316845/2001438612	243,353	-
Subtotal JHU CFDA 93.703				243,353	-
Excitotoxicity in Circulatory Arrest-Brain Injury	R	93.837	2002405038-2002405090	321,267	-
Computational Assessment of Galectin-3 Significance in Heart Failure	R	93.837	2003534038	197,427	-
Subtotal JHU CFDA 93.837				518,694	-
Functional & Molecular Properties of PAX7	R	93.846	2003341654	68,446	-
Subtotal JHU CFDA 93.846				68,446	-
Neurobehavioral Correlates of Familial/genetic obesity Risk in Adolescents	R	93.847	2002405037	16,453	-
Dual-Mode MRI for In Vivo Sensing of Microcapsule Stability	R	93.847	2002965183	17,368	-
Neurobiologic Alterations in Bariatric Surgery	R	93.847	2003133682	77,517	-
Subtotal JHU CFDA 93.847				111,338	-
Imaging Neurodegeneration In MS	R	93.853	2002975456/2003795776	113,563	-
Neurology Sciences Academic Development Award	R	93.853	2003182897	43,568	-
In-Utero Characterization of Embryonic Mouse Brain Development	R	93.853	2003044061	16,596	-
Dendrimer Therapies for Treatment of Rett Syndrome	R	93.853	2003234282	59,133	-
Development of MRI Microvascular Biomarkers	R	93.853	2003335096	171,593	-
A Multimodel MRI Approach in the Neurosciences	R	93-853	2003584112	12,473	-
Subtotal JHU CFDA 93.853				416,926	-
Novel Strategies to Enhance Motor Function After Stroke	R	93.865	2002876504	63,054	-
Adult Biomarkers in Neonatal Brain Injury	R	93.865	2003671299	30,415	-
Subtotal JHU CFDA 93.865				93,469	-

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA No.	Award or Pass-through Entity Identification No.	Total Federal Expenditures	Passed to Sub Recipients
Biomarkers of Cognitive Decline Amoung Normal Individual: the Biocard Cohort	R	93.866	2002373351	108,730	-
Longitudinal Imaging Of Neuropsy Syms	R	93.866	2001465721	12,114	-
Alzheimers Disease Neuroimaging Initiative	R	93.866	2003373473	618	-
Alzheimers Research	R	93.866	2002582670	26,258	-
OxidativeStree, Cognition & Depression	R	93.866	2003272921	7,708	-
Subtotal JHU CFDA 93.866				155,428	-
Training & Tools for Informationists to Facilitate Sharing of Next Generation Sequencing Data	R	93.879	2002704174	1,360	-
Subtotal JHU CFDA 93.879				1,360	-
Amide Proton Transfer (APT) MRI of Brain Tumors at 3T	R	93.286	2003130538	9,894	-
Developing MRI sensors for Monitoring Zn2+ Using iCEST	R	93.286	2002831848	(5)	-
Neurodegenerative and Neurodevelopmental Subcortical Shape Diff	R	93.286	2003386771	65,651	-
Universal GABA-edited MRS at 3T	R	93.286	2003099180	21,034	-
Simultaneous Hadamard Editing of GABA and Glutathione	R	93.286	2003385023	61,096	-
Label-Free Imaging Research for Technical Innovations	R	93.286	2003464965	11,753	-
Resource for Molecular Imaging agents in Precision Medicine	R	93.286	2003638047	64,329	-
Subtotal JHU CFDA 93.286				233,752	-
Hardening and Scaling Core Genomics Software	R	93.859	2003129512/2003795776	23,636	-
Subtotal JHU CFDA 93.859				23,636	-
Investigating Air Pollution Effects on the Developing Brain and ASD	R	93.113	2003188501	36,052	-
Subtotal JHU CFDA 93.113				36,052	-
Stress and Chronic Alcohol Interactions	R	93.273	2003325699	56,057	-
Subtotal JHU CFDA 93.273				56,057	-
Evaluating the Metabolic Changes Associated with Exercise in MS	R	12.42	2003624821	13,637	-
Subtotal JHU CFDA 12.420				13,637	-
Total Johns Hopkins University				3,137,795	-
Children's Research Institute					
Center for Psychological Consultation	R	93.242	5R44MH094092	92,268	-
Subtotal Children's Research Institute CFDA 93.242				92,268	-

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA No.	Award or Pass-through Entity Identification No.	Total Federal Expenditures	Passed to Sub Recipients
Association Of University Centers on Disabilities (AUCD)					
AUCD-CDC Project	R	93.424	7201	14,985	-
Subtotal AUCD CFDA 93.424				14,985	-
University of California					
The Brain Vascular Matt Clinic Research	R	93.853	8397	327,214	61,833
Subtotal University of California CFDA 93.853				327,214	61,833
University of Maryland, Baltimore					
Grey Matter Lesions & Neurodegeneration in Multiple Sclerosis	R	93.243	SR00003805	(6,669)	-
Automated Quantification of Subpail Demyeliation	R	93.243	SR00004183	14,621	-
Family Informed Trauma Treatment CTR-FITT	R	93.243	719/1701143	41,421	-
Subtotal University of Maryland, Baltimore CFDA 93.243				49,373	-
Massachusetts General Hospital					
A CEST MRI Reporter Gene for Image Incolytic Virotherapy	R	93.394	228473	11,238	-
Subtotal Massachusetts General Hospital CFDA 93.394				11,238	-
University of Massachusetts					
Biomarkers for Therapy of FSHD (U54)	R	93.865	WA00463936/RFS2016036	62,726	-
Biomarkers for Therapy of FSHD (U54)	R	93.865	WA00463940/RFS2016034	41,253	-
Biomarkers for Therapy of FSHD (U54)	R	93.865	WA00463938/RFS2016033	116,372	-
Biomarkers for Therapy of FSHD (U54)	R	93.865	WA00331746/RFS2016035	90,594	-
Subtotal University of Massachusetts CFDA 93.865				310,945	-
Columbia University					
Biomarkers of Alzheimer's Disease in Adults with Down Syndrome	R	93.866	U01AG051412-03	40,809	-
Subtotal Columbia University CFDA 93.866				40,809	-
University of Michigan					
Thera Hypo After Ped Card Arr	R	93.866	U01HL094345	80,731	-
Subtotal University of Michigan CFDA 93.837				80,731	-
Baylor University					
Brittle Bone Disorders Consortium of the Rare Disease Clinical Network	R	93.846	U54AR068069	98,240	-
Subtotal Baylor University CFDA 93.846				98,240	-

Kennedy Krieger Institute, Inc. and Affiliates
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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA No.	Award or Pass-through Entity Identification No.	Total Federal Expenditures	Passed to Sub Recipients
Drexel University					
An ASF Enriched Risk ECHO Cohort	R	93.31	UG30D023342	130,754	-
Subtotal Drexel University CFDA 93.310				130,754	-
University of Pittsburgh					
Advanced Longitudinal Diffusion Imaging for TBI Diagnosis of Military Personnel	R	93	0047800-2	92,653	-
Subtotal University of Pittsburgh CFDA 93.000				92,653	-
North Dakota -Minot State University					
Data and Disability Partnership	R	93.632	90DDUC0029-01-00	8,205	-
Subtotal North Dakota-Minot State University CFDA 93.632				8,205	-
University of South Dakota					
Data and Disability Partnership	R	93.632	90DDUC0024-01-00	11,913	-
Subtotal University of South Dakota CFDA 93.632				11,913	-
University of Connecticut Health Center					
Role of G Protein-Coupled Signaling in Neurocognitive	R	93.865	UCHC7-88-169628-A1	54,546	-
Subtotal University of Connecticut Health Center CFDA				54,546	-
Virgin Islands University Center					
Data and Disability Partnership	R	93.632	202739	3,910	-
Subtotal Virgin Islands University Center CFDA 93.632				3,910	-
Michigan State University					
Bioengineering a Novel Electromagnetic Perspective Gene	R	93.853	RC108091KKI	12,057	-
Subtotal Michigan State University CFDA 93.853				12,057	-
Leland Stanford Junior University					
Child Health and Human Development Extramural Research	R	93.865	61687287-47273	12,878	-
Subtotal Leland Stanford Junior University CFDA 93.865				12,878	-
Total Research and Development Cluster - Pass Through Awards				4,490,514	61,833
Reseach and Development Cluster - Total Awards				20,589,721	2,013,333

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA No.	Award or Pass-through Entity Identification No.	Total Federal Expenditures	Passed to Sub Recipients
Other Programs - Direct Awards					
Department of Health and Human Services (DHHS)					
Children's Hospital Graduate Medical Education	H	93.255	338-002	240,032	-
Subtotal DHHS CFDA 93.255				240,032	-
Administration for Children and Families (ACF)					
Developmental Disabilities	H	93.632	90DD0707/04	546,753	-
Subtotal ACF CFDA 93.632				546,753	-
Total Deparment of Health and Human Services				786,785	-
Health Resources and Services Administration					
MCH Training Program in Neurodevelopment Disabilities	H	93.11	2 T73 MC17245-09-00	790,110	-
Subtotal MCH Training Program CFDA 93.110				790,110	-
Behavioral Health Workforce Education and Training for Professionals and Paraprofessionals	R	93.243	G02HP27937-03	96,678	-
Subtotal Behavioral Health Workforce CFDA 93.243				96,678	-
Total Health Resources and Services Administration				886,788	-
United States Department of Education					
Efficacy Trial of EarlyAchievements Comp Intervention Preschoolers with Austism	R	84.324A	R 324 A160228	829,076	104,409
Subtotal United States Department of Education CFDA 84.324A				829,076	104,409
Total Other Programs - Direct Awards				2,502,649	104,409
Other Programs - Pass Through Awards					
Maryland Department of Education (MDE)					
Child Nutrition School Program					
School Breakfast Program	C	10.553	9962	28,315	-

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA No.	Award or Pass-through Entity Identification No.	Total Federal Expenditures	Passed to Sub Recipients
Subtotal School Breakfast Program CFDA 10.553				28,315	-
School Lunch Program	C	10.555	9962	62,981	-
Subtotal School Lunch Program CFDA 10.555				62,981	-
Total MDE Child Nutrition Program				91,296	-
Assistance to the State for Education of Students with Disabilities	R	84.027	170425		
Improving Equity & Access & Opportunity for Students w/ Disabilities	R	84.027	180564	11,224	
Improving Equity & Access & Opportunity for Students w/ Disabilities	R	84.027	170434	57,722	-
Providing Technical Assistance to the Eastern Shore of Maryland	R	84.027	170435	107,706	-
Implementing Models of Best Practice to Improve Outcomes				64,367	-
Subtotal Assitstance to the State for Education of Students with Disablities CFDA 84.027				241,019	-
Preschool Development	C	84.419	170362/180565	279,103	-
Subtotal Preschool Development CFDA 84.419				279,103	-
PACT					
Pact: World Of Care Child Care Center	P	84.173	170604/180782/180540	139,211	-
Pact: Helping Children w/Special Needs Therapeutic Nursery -YMCA	P	84.173	170606/170991/180785	126,256	-
Subtotal PACT CFDA 84.173				265,467	-
Total Maryland Department of Education				876,885	-
Governor's Office on Crime Control & Prevention					
Underserved Victims	C	16.575	1299	299,215	-
Subtotal Governor's Office on Crime Control & Prevention CFDA 16.575				299,215	-
Maryland Developmental Disablities Council					
Enhancing Advocacy & Public Policy Work Project	H	93.63	16-QA-3/17-QA-01/18-QA-01	132,974	-
Subtotal Maryland Developmental Disablities Council CFDA 93.630				132,974	-
Maryland Department of Health and Mental Hygiene (DHMH)					
Genetics Laboratory	H	93.994	PHPA-G2382/PHPA-G2084	40,718	-
Within My World	P	93.994	FH795CSN/PHPA-G-1586	400,000	-
Enhancing Child Care For Children	C	93.994	MR554 MFC	460,117	-
Subtotal DHMH CFDA 93.994				900,835	-

Kennedy Krieger Institute, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Entity	Federal CFDA No.	Award or Pass-through Entity Identification No.	Total Federal Expenditures	Passed to Sub Recipients
Maryland Family Network					
Southeast Baltimore EHS	C	93.6	362	16,757	-
Maryland Family Network	P	93.6	3034	296,439	-
Early Head Start Center	C	93.6	650	642,969	-
Early Head Start Center	C	93.6	650	234,681	-
Subtotal Maryland Family Network CFDA 93.600				1,190,846	-
Baltimore Mental Health Systems					
Therapeutic Nursery	P	93	POS#40	152,008	-
Subtotal Baltimore Mental Health Systems CFDA 93.000				152,008	-
Baltimore City					
Baltimore City Infants & Toddlers Program	P	84.181A	CO#38176	46,124	-
Baltimore City Infants & Toddlers Program	P	84.181A	CO#38177	58,419	-
Baltimore City Infants & Toddlers Program	R	84.181A	CO#37753	47,706	-
Subtotal Baltimore City CFDA 84.181A				152,249	-
Total Other Programs- Pass Through Awards				3,705,012	-
Total Other Programs- Total Awards				6,207,661	104,409
Total Expenditures of Federal Awards				$ 26,797,382	$ 2,117,742

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, 2018. 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.	$ 21,804,200	$ 2,117,742
H - Kennedy Krieger Children's Hospital, Inc.	1,750,587	-
C - Kennedy Krieger Education & Community Services, Inc.	2,024,138	-
P - PACT: Helping Children with Special Needs, Inc.	1,218,457	-
	$ 26,797,382	$ 2,117,742

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 nonfederal 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 consolidated financial statements of Kennedy Krieger Institute, Inc. and Affiliates (the "Institute"), which comprise the consolidated balance sheet as of June 30, 2018, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated September 27, 2018.

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 27, 2018

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 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 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, 2018. The Institute's major federal programs are identified in the summary of auditors' 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.

Auditors' 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, 2018.

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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
November 1, 2018

Part III

Findings

Section I – Summary of Auditor's Results

Financial Statements

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?	No

Identification of major programs:

Name of Federal Program or Cluster	*CFDA Number(s)*
Research and Development Cluster	Various
MCH Training Program in Neurodevelopment Disabilities	93.110
Dollar threshold used to distinguish between type A and type B programs:	$803,921
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

There are no matters to report.

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

During PwC's testing, there were 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. During PwC's testing, PwC noted there were 9 out of 40 that were between 1 and 179 days late from the R&DCluster that require current year effort certification within the required timeframe of one month. 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

Management elected to change their Effort Reporting Policy during July 2017 to more closely align with OMB Circular A-110. The updated policy allows for a one year timeframe for Effort percentages to be certified by the respective PI and/or individual in a supervisory role. The electronic time and effort reporting system continues to evolve and improve. Effort Reporting was not a finding during PwC's 2018 A-133 procedures. Management continues to enhance 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.