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# TANNER

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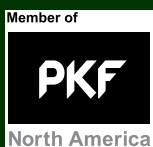


PROACTIVE INSIGHT



**Children's  
Miracle Network  
Hospitals**

**Financial Statements  
As of December 31, 2013 and 2012 and for the years then ended  
Together with Independent Auditors' Report**





## INDEPENDENT AUDITORS' REPORT

### To the Audit Compliance Committee Children's Miracle Network Hospitals

We have audited the accompanying financial statements of Children's Miracle Network (d/b/a Children's Miracle Network Hospitals), a nonprofit organization, (the Organization), which comprise the statements of financial position as of December 31, 2013 and 2012, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Miracle Network Hospitals as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

*Tanner LLC*

May 12, 2014



CHILDREN'S MIRACLE NETWORK HOSPITALS  
Statements of Financial Position

December 31,

	<u>2013</u>	<u>2012</u>
<b><u>Assets</u></b>		
Cash and cash equivalents:		
Unrestricted	\$ 18,671,863	\$ 14,822,482
Restricted	32,192,226	28,547,592
Investments	15,949,419	14,479,014
Accounts receivable, net of allowance for doubtful accounts of \$115,102 in 2013 and \$97,479 in 2012	5,157,666	4,386,091
Contributions receivable	374,313	382,760
Prepaid expenses and other current assets	478,268	462,365
Property, furniture and equipment, net	8,544,945	8,709,043
Other non-current assets	180,519	186,483
Total assets	<u>\$ 81,549,219</u>	<u>\$ 71,975,830</u>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 4,691,712	\$ 3,125,526
Accrued liabilities	1,551,227	1,538,801
Payable to participating hospitals	31,375,530	26,824,600
Payable to partners	816,696	1,722,992
Deferred revenue	13,902,733	11,807,237
Notes payable	4,216,347	4,414,031
Total liabilities	<u>56,554,245</u>	<u>49,433,187</u>
Commitments and contingencies		
<b><u>Net Assets</u></b>		
Unrestricted	21,519,584	19,118,387
Temporarily restricted	1,128,182	1,079,171
Permanently restricted	2,347,208	2,345,085
Total net assets	<u>24,994,974</u>	<u>22,542,643</u>
Total liabilities and net assets	<u>\$ 81,549,219</u>	<u>\$ 71,975,830</u>



# CHILDREN'S MIRACLE NETWORK HOSPITALS

## Statement of Activities

For the year ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Revenues:				
Total amount raised	\$ 153,558,540	\$ 345,000	\$ -	\$ 153,903,540
Less: Amounts transferred to hospitals	146,387,487	-	-	146,387,487
Net production underwriting gifts	7,171,053	345,000	-	7,516,053
Hospital fees	20,640,353	-	-	20,640,353
Direct mail	4,063,749	-	-	4,063,749
Hospital market management fees	7,129	-	-	7,129
Donations-in-kind	733,097	42,541	-	775,638
Campaign	3,149,131	-	-	3,149,131
Ancillary revenue	2,281,479	-	-	2,281,479
Total revenues	38,045,991	387,541	-	38,433,532
Other revenues, gains and support:				
Endowments, major gifts, and grants	97,199	-	2,123	99,322
Gain on sale of property, furniture and equipment, net	2,424	-	-	2,424
Interest and dividend income	417,941	68,601	-	486,542
Net realized gain on investments	294,525	81,601	-	376,126
Net unrealized gain on investments	745,394	109,783	-	855,177
Net assets released from restrictions	598,515	(598,515)	-	-
Total other revenues, gains and support	2,155,998	(338,530)	2,123	1,819,591
Total revenues, gains and support	40,201,989	49,011	2,123	40,253,123
Expenses:				
Program services:				
Public education and awareness	10,259,607	-	-	10,259,607
Fundraising program services	23,308,819	-	-	23,308,819
Total program services	33,568,426	-	-	33,568,426
Support services:				
Fundraising	808,792	-	-	808,792
Management and general	3,396,741	-	-	3,396,741
Total support services	4,205,533	-	-	4,205,533
Total expenses	37,773,959	-	-	37,773,959
Other loss	(26,833)	-	-	(26,833)
Change in net assets	2,401,197	49,011	2,123	2,452,331
Net assets, beginning of the year	19,118,387	1,079,171	2,345,085	22,542,643
Net assets, end of the year	\$ 21,519,584	\$ 1,128,182	\$ 2,347,208	\$ 24,994,974



**CHILDREN'S MIRACLE NETWORK HOSPITALS**  
Statement of Activities

For the year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Revenues:				
Total amount raised	\$ 149,636,505	\$ 415,426	\$ -	\$ 150,051,931
Less: Amounts transferred to hospitals	143,425,284	-	-	143,425,284
Net production underwriting gifts	6,211,221	415,426	-	6,626,647
Hospital fees	19,178,574	-	-	19,178,574
Direct mail	4,313,855	-	-	4,313,855
Licensing fees	124,997	-	-	124,997
Donations-in-kind	1,023,667	215,605	-	1,239,272
Campaign	3,599,037	-	-	3,599,037
Ancillary revenue	1,434,362	-	-	1,434,362
Total revenues	35,885,713	631,031	-	36,516,744
Other revenues, gains and support:				
Endowments, major gifts, and grants	21,950	-	11,460	33,410
Loss on sale of property, furniture and equipment, net	(343)	-	-	(343)
Interest and dividend income	519,163	73,541	-	592,704
Net realized gain on investments	256,697	89,431	-	346,128
Net unrealized gain on investments	561,442	87,161	-	648,603
Net assets released from restrictions	369,566	(369,566)	-	-
Total other revenues, gains and support	1,728,475	(119,433)	11,460	1,620,502
Total revenues, gains and support	37,614,188	511,598	11,460	38,137,246
Expenses:				
Program services:				
Public education and awareness	12,961,835	-	-	12,961,835
Fundraising program services	19,230,034	-	-	19,230,034
Total program services	32,191,869	-	-	32,191,869
Support services:				
Fundraising	787,123	-	-	787,123
Management and general	2,538,189	-	-	2,538,189
Total support services	3,325,312	-	-	3,325,312
Total expenses	35,517,181	-	-	35,517,181
Other gain	14,418	-	-	14,418
Change in net assets	2,111,425	511,598	11,460	2,634,483
Net assets, beginning of the year	17,006,962	567,573	2,333,625	19,908,160
Net assets, end of the year	\$ 19,118,387	\$ 1,079,171	\$ 2,345,085	\$ 22,542,643



## CHILDREN'S MIRACLE NETWORK HOSPITALS

### Statement of Functional Expenses

For the year ended December 31, 2013

	Program services		Support services		Totals
	Public education and awareness	Fundraising program services	Fundraising	Management and general	
Travel	\$ 1,220,765	\$ 2,762,686	\$ 159,377	\$ 346,095	\$ 4,488,923
Employment costs	2,976,140	9,828,105	443,692	1,945,679	15,193,616
Contract services	1,143,817	2,007,310	73,435	325,650	3,550,212
Advertising, printing and photography	4,585,497	687,065	78,106	68,695	5,419,363
Corporate campaign	-	3,229,192	-	-	3,229,192
Sponsorship support	18,844	233,355	12,179	13,650	278,028
Program support	-	2,154,129	-	-	2,154,129
Other cost reimbursements	-	1,271,442	-	-	1,271,442
Occupancy, utilities and rentals	51,615	143,395	8,753	43,517	247,280
Telephone	38,110	132,860	5,876	23,407	200,253
Depreciation	18,830	157,349	322	268,465	444,966
Professional and license fees	65,217	221,863	9,208	146,752	443,040
Insurance	4,731	36,362	219	59,458	100,770
Interest	5,671	49,620	-	86,481	141,772
Postage and shipping	28,084	104,330	3,090	14,322	149,826
Supplies	102,025	287,469	14,535	50,585	454,614
Unrelated business income tax expense	261	2,287	-	3,985	6,533
	<u>\$ 10,259,607</u>	<u>\$ 23,308,819</u>	<u>\$ 808,792</u>	<u>\$ 3,396,741</u>	<u>\$ 37,773,959</u>



## CHILDREN'S MIRACLE NETWORK HOSPITALS

### Statement of Functional Expenses

For the year ended December 31, 2012

	Program services		Support services		Totals
	Public education and awareness	Fundraising program services	Fundraising	Management and general	
Travel	\$ 1,338,365	\$ 2,032,103	\$ 134,756	\$ 193,882	\$ 3,699,106
Employment costs	3,563,084	8,285,742	513,924	1,414,650	13,777,400
Contract services	968,385	1,291,717	54,582	152,279	2,466,963
Advertising, printing and photography	6,724,591	339,743	19,188	38,227	7,121,749
Corporate campaign	-	3,525,623	-	-	3,525,623
Sponsorship support	15,512	108,482	6,876	8,598	139,468
Program support	-	2,543,907	-	-	2,543,907
Other cost reimbursements	21,280	148,100	9,186	14,131	192,697
Occupancy, utilities and rentals	63,281	138,963	11,608	34,107	247,959
Telephone	41,579	111,679	6,671	15,950	175,879
Depreciation	18,321	120,868	386	297,222	436,797
Professional and license fees	79,707	258,478	11,297	174,747	524,229
Insurance	26,406	49,572	4,241	13,016	93,235
Interest	8,436	56,945	-	145,525	210,906
Postage and shipping	20,833	69,388	4,217	10,820	105,258
Supplies	72,030	148,555	10,191	24,602	255,378
Unrelated business income tax expense	25	169	-	433	627
	<u>\$ 12,961,835</u>	<u>\$ 19,230,034</u>	<u>\$ 787,123</u>	<u>\$ 2,538,189</u>	<u>\$ 35,517,181</u>





**CHILDREN'S MIRACLE NETWORK HOSPITALS**  
Statements of Cash Flows

For the years ended December 31,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,452,331	\$ 2,634,483
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	444,966	436,797
Net unrealized gain on investments	(855,177)	(648,603)
Net realized gain on investments	(376,126)	(346,128)
(Gain) loss on sale of property, furniture and equipment	(2,424)	343
Non-cash endowment contributions	(2,123)	(11,460)
Increase in allowance for doubtful accounts	17,623	83,921
Other loss	18,046	4,259
Changes in assets and liabilities:		
Restricted cash	(4,002,958)	(371,370)
Accounts and contributions receivable	(780,590)	(564,324)
Prepaid expenses and other current assets	(16,459)	(216,526)
Other non-current assets	5,964	26,613
Accounts payable	1,607,933	2,070,422
Accrued liabilities	13,661	1,371,860
Payable to participating hospitals	4,909,254	317,593
Payable to partners	(906,296)	53,777
Deferred revenue	2,146,379	208,251
Net cash provided by operating activities	<u>4,674,004</u>	<u>5,049,908</u>
Cash flows from investing activities:		
Purchase of property and equipment	(292,433)	(336,060)
Proceeds from sale of property, furniture and equipment	13,565	3,360
Purchase of investments	(1,375,395)	(3,197,417)
Proceeds from sales of investments	1,136,293	1,446,665
Net cash used in investing activities	<u>(517,970)</u>	<u>(2,083,452)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	24,551	-
Principal payments on notes payable	(222,235)	(153,876)
Proceeds from endowment contributions	2,123	11,460
Net cash used in financing activities	<u>(195,561)</u>	<u>(142,416)</u>
Effect of exchange rate changes on cash	<u>(111,092)</u>	<u>27,165</u>
Net increase in cash and cash equivalents	3,849,381	2,851,205
Cash and cash equivalents, beginning of the year	<u>14,822,482</u>	<u>11,971,277</u>
Cash and cash equivalents, end of the year	<u>\$ 18,671,863</u>	<u>\$ 14,822,482</u>



**CHILDREN'S MIRACLE NETWORK HOSPITALS**  
**Statements of Cash Flows**  
*Continued*  
**For the years ended December 31,**

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	<u>2013</u>	<u>2012</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 156,927	\$ 244,900
Cash paid for unrelated business income tax	1,000	750
 Supplemental disclosure non-cash financing information:		
Refinance of notes payable	\$ 4,400,920	\$ -



## CHILDREN'S MIRACLE NETWORK HOSPITALS

### Notes to Financial Statements

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**1. Organization** Children's Miracle Network (d/b/a Children's Miracle Network Hospitals) (the Organization) is a charitable organization recognized by the Internal Revenue Service as an organization that is qualified under Section 501(c)(3) of the United States Internal Revenue Code, organized for the purposes of:

1. Making distributions to other charitable organizations.
2. Supporting fundraising for the benefit of sick and injured children and youth, including treatment, healthcare research, and acquisition of healthcare equipment and supplies.
3. Generating awareness programs concerning the healthcare needs of children and youth and the institutions and people who care for them.
4. Generating educational programs to promote good healthcare practices for children and youth; educating the public in the healthcare needs of children and youth; and educating the public in the needs and practices of institutions and people who provide healthcare to them.

Children's Miracle Network Hospitals strives to raise awareness of children's healthcare needs and supports fundraising for nonprofit children's hospitals. The Organization facilitates fundraising for member children's hospitals by 1) establishing and maintaining relationships with corporate and media partners and 2) creating, maintaining and facilitating fundraising programs that are executed by corporate, media and hospital partners to benefit children's health care. The majority of fundraising solicitations are made by Children's Miracle Network Hospitals' partners—corporate sponsors, media sponsors and member hospitals.

To participate in an upcoming year's fundraising and awareness campaign, hospitals pay a membership fee and license the use of the Children's Miracle Network Hospitals' name and logo. They become sole Children's Miracle Network Hospitals' licensees in their respective markets (geographic areas); the funds raised within these markets are unrestricted funds and may be used by member hospitals as needed. Most funds raised benefit patients and pediatric programs and fund equipment purchases and ongoing research to create better treatments and cure childhood diseases. Corporate sponsors need not become licensees; however, they are generally required to donate all funds they raise to hospitals affiliated with Children's Miracle Network Hospitals.

The Organization's operational activities are primarily supported by hospital membership fees, mentioned above, and corporate underwriting. Corporate underwriting represents donations from corporate sponsors to Children's Miracle Network Hospitals.



**2. Summary  
of Significant  
Accounting  
Policies**

The following is a summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements.

***Basis of Presentation***

Not-for-profit organizations are required to provide a statement of financial position, a statement of activities, and a statement of cash flows which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Not-for-profit organizations are required to report total assets, liabilities, and net assets in a statement of financial position; changes in net assets in a statement of activities; and changes in cash and cash equivalents in a statement of cash flows. Not-for-profit organizations are also required to report expenses by their functional classification, such as major programs and supporting activities. The Organization presents expenses by functional classification in a statement of functional expenses.

The Organization maintains its accounts on the accrual basis of accounting. Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

***Basis of Presentation – Continued***

Permanently restricted net assets

Permanently restricted net assets are subject to donor-imposed stipulations that must be maintained indefinitely by the Organization. Children's Miracle Network Hospitals has a long-term funding campaign to benefit its endowment fund. Endowment contributions received with donor restrictions are classified as permanently restricted net assets. Earnings and appreciation thereon are classified as temporarily restricted net assets until such time as the Board appropriates use of the funds.

Temporarily restricted net assets

Temporarily restricted net assets are subject to donor-imposed stipulations that may be met by actions of the Organization or will be met through the passage of time.

Unrestricted net assets

Unrestricted net assets are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.



2. **Summary  
of Significant  
Accounting  
Policies**  
*Continued*

Expirations of temporary restrictions on net assets, i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets. Occasionally, permanent restrictions will be released when a donor communicates to the Organization that a previously permanently restricted endowment contribution can be used for unrestricted purposes. These modifications are reported as reclassifications between the applicable classes of net assets.

***Presentation of Statement of Activities***

The Organization has elected to change the presentation of agency funds received in its financial statements. In prior years, the Organization has presented in its statement of activities the net amount retained from agency funds to cover its related fundraising expenses. The Organization is now presenting the gross amount of the agency funds received and the amount of agency funds transferred to member hospitals. The 2012 financial statements have been adjusted to conform with the current year presentation.

***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, liabilities, and net assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains and support, and expenses during the reporting period. On an ongoing basis, the Organization evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results may differ from these estimates.

***Cash equivalents***

The Organization considers all highly liquid instruments with an original maturity of three months or less when purchased to be cash equivalents. The Organization's cash equivalents consist of money market funds.

***Restricted cash***

Restricted cash and cash equivalents are resources received from the Organization's campaigns and programs which are payable to member hospitals or partners. Restricted cash is excluded from cash and cash equivalents for the purposes of the statements of cash flows.



2. Summary  
of Significant  
Accounting  
Policies  
*Continued*

***Investments***

Investments are stated at fair value determined by quoted market prices as of year-end. Investment income or loss (including realized gains and losses on investments, interest, and dividends) and unrealized gains and losses on investments are recognized in the statements of activities.

***Contributions***

Contributions, grants, and bequests including unconditional promises to give, are recognized upon receipt as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Contributions solicited through corporate-sponsored campaigns and through Children's Miracle Network Hospitals' programs are generally received by Children's Miracle Network Hospitals, acting as an agent, and then paid to member hospitals. Children's Miracle Network Hospitals has no discretionary variance power over the distribution of such contributions. Results of fundraising efforts of corporate-sponsored campaigns and Children's Miracle Network Hospitals' programs that are received as agency funds and later paid to member hospitals are not included in total revenues; however, these funds are included in the statements of activities and are recorded as restricted cash and payables to member hospitals on the statements of financial position. Contributions are distributed to member hospitals quarterly.

Contributions of assets other than cash are recorded at their estimated fair value. Contributions that will be received within one year from the statement of financial position date are not discounted. Contribution pledges that are to be received over multiple years are discounted. Interest income associated with these receivables is recognized on a straight-line basis which approximates the effective interest method. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization received service and material donations included in the accompanying statements of activities at an estimated fair value of approximately \$776,000 and \$1,239,000 in 2013 and 2012, respectively. The Organization received cash donations included in the accompanying statements of activities of approximately \$2,927,000 and \$3,145,000 from three major donors during the year ended December 31, 2013 and 2012, respectively.



2. Summary  
of Significant  
Accounting  
Policies  
*Continued*

***Contributions – Continued***

The Organization has a substantial number of volunteers that have donated a significant amount of time to the Organization's programs and activities. No amounts have been reflected in the financial statements for these services because they do not meet the recognition criteria under accounting principles generally accepted in the United States (U.S. GAAP).

***Temporarily restricted net assets***

The Organization has adopted the following accounting policies with respect to temporarily restricted net assets:

- Contributions with restrictions met in the same year - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in unrestricted net assets.
- Release of restrictions on net assets for acquisition of land, building and equipment - Contributions of land, building, and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with donor stipulations are reported as revenues of temporarily restricted net assets; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

***Accounts receivable***

Accounts receivable represent billings to member hospitals for membership fees and various ancillary services. Accounts receivable are expected to be collected during the next year and are recorded at net realizable value. The allowance for doubtful accounts is directly related to receivables for the ancillary services provided to member hospitals and to contributions receivable.

Accounts outstanding longer than the contractual payment terms are considered past due. The Organization determines its allowance by considering a number of factors, including the length of time receivables are past due, the Organization's previous loss history, the member hospital's current ability to pay its obligation to the Organization, and the condition of the general economy and the industry as a whole. The Organization writes off receivables when management determines the likelihood of collection is remote and payments subsequently received on such receivables are credited to the allowance.



2. Summary  
of Significant  
Accounting  
Policies  
*Continued*

***Property, furniture and equipment***

Property, furniture and equipment are recorded at cost when purchased or at fair value at the date of gift, if contributed. Other than computer equipment, expenditures over \$2,000 that will benefit future periods are capitalized and expensed over the useful life of the asset. Expenditures in excess of \$1,000 relating to computer equipment are capitalized and expensed over the useful life of the asset. Property, furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to ten years for furniture and equipment and 30 years for property. The cost and accumulated depreciation of property, furniture and equipment sold or otherwise retired are removed from the accounts and the gain or loss on disposition is reflected in the statement of activities in the period of disposition.

***Membership and licensing fees***

Cash is received in advance from hospitals for membership fees. Membership fee revenue is deferred and amortized ratably over the one-year contract period.

During the years ended December 31, 2013 and 2012, the Organization recognized approximately \$0 and \$125,000, respectively, of revenue from licensing agreements. Fees received under licensing agreements are accounted for as exchange transactions and are recognized in the statements of activities when earned under the terms of the contracts.

***Foreign currency translation***

The accounts of Children's Miracle Network Hospitals' Canadian office are translated into U.S. dollars in the accompanying financial statements in accordance with ASC 830-30, *Foreign Currency Matters – Translation of Financial Statements*. The functional currency of Children's Miracle Network Hospitals' Canadian office is the Canadian dollar.

***Income taxes***

The Organization received a tax determination letter from the Internal Revenue Service indicating that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and that it is exempt from federal income tax except to the extent of unrelated business income. The Organization has also been recognized by the State of Utah as an organization exempt from state income taxation except to the extent of unrelated business income.





2. Summary  
of Significant  
Accounting  
Policies  
*Continued*

***Income taxes – Continued***

The Organization applies the provisions of ASC 740-10 to account for uncertainty in income taxes. The Organization has analyzed all tax positions for all applicable tax jurisdictions for which the statute of limitations remained open, including U.S. Federal, Utah state and foreign jurisdictions for the years ended December 31, 2013 and December 31, 2012 and has determined there are no material unrecognized tax benefits or obligations. The open tax years subject to examination in the various jurisdictions are as follows: U.S. Federal, Canada, State of Utah – August 31, 2010 through December 31, 2013; Australia and Ireland – August 31, 2010 through August 31, 2011; United Kingdom – August 31, 2010 through August 31, 2011.

For the years ended December 31, 2013 and 2012, the Organization incurred approximately \$7,000 and \$1,000, respectively, in unrelated business income tax expense resulting from transactions that were not within the scope of the Organization's stated mission.

***Impairment of long-lived assets***

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. An asset to be disposed of is reported at the lower of the carrying amount or fair value less costs to sell.

***Advertising expenses***

Advertising costs are expensed as incurred and are included in advertising, printing and photography on the statements of functional expenses. Advertising costs were approximately \$5,051,000 and \$6,810,000 for the years ended December 31, 2013 and 2012, respectively.

***Functional expenses***

The Organization performs four functions: 1) public education and awareness, 2) fundraising program services, 3) fundraising and 4) management and general. Definitions of these functions are as follows:

*Public Education and Awareness* – All costs incurred to develop, package and provide public outreach programs for member children's hospitals throughout the United States and Canada.



2. Summary  
of Significant  
Accounting  
Policies  
*Continued*

***Functional expenses – Continued***

***Fundraising Program Services*** – Activities performed by the Organization to develop national fundraising programs for over 170 children's hospitals throughout the United States and Canada. Participation in Children's Miracle Network Hospitals provides hospitals access to corporate charity care fundraising programs. Expenses include those related to day-to-day involvement with member hospitals, corporate sponsors and media partners.

***Fundraising*** – Activities performed by the Organization to generate funds and/or resources to support its programs and operations.

***Management and General*** – All costs that are not identifiable with a single program or fundraising activity, but are indispensable to the conduct of such programs and activities and to the Organization's existence. This includes expenses for the overall direction of the Organization, business management, general recordkeeping, budgeting, financial reporting, and activities relating to these functions such as salaries, supplies, equipment, and other general overhead.

The majority of the Organization's expenses are classified as *Public Education and Awareness* and *Fundraising Program Services* as the majority of expenses incurred by the Organization fulfill the purposes or mission for which the Organization exists. Furthermore, the majority of *Fundraising Program Services* expenses are incurred to create, maintain and facilitate fundraising programs that are executed by corporate, media and hospital partners to benefit children's health care. Most actual solicitations to current and potential donors are not made by the Organization; rather, the solicitations are usually made by representatives of the corporate sponsors, media sponsors and member hospitals.

Wherever practicable, expenses are assigned to functional categories on an item-by-item basis. Other expenses that relate to two or more major programs or supporting services are allocated in accordance with ASC 958-720, *Not-for-Profit Entities – Other Expenses*. These expenses are subject to systematic review and allocation.

***Subsequent Events***

Management has evaluated events and transactions for potential recognition or disclosure through May 12, 2014, which is the date the financial statements were available to be issued.



**CHILDREN'S MIRACLE NETWORK HOSPITALS**  
**Notes to Financial Statements**  
*Continued*

3. **Investments and Fair Value Measurements** Investments, at fair value, consist of the following as of December 31:

	<u>2013</u>	<u>2012</u>
Equities:		
International	\$ 4,059,595	\$ 4,055,321
U.S. Domestic	3,148,354	3,182,867
Alternatives:		
International	678,765	-
Commodities:		
U.S. Domestic	-	136,771
Mutual funds:		
International	3,467,724	794,361
U.S. Domestic	4,594,981	6,309,694
Total	<u>\$ 15,949,419</u>	<u>\$ 14,479,014</u>

The net realized gain on investments was approximately \$376,000 and the net unrealized gain on investments was approximately \$855,000 for the year ended December 31, 2013. The net realized gain on investments was approximately \$346,000 and the net unrealized gain on investments was approximately \$649,000 for the year ended December 31, 2012. The net realized gains or losses were reported net of investment advisor commissions of approximately \$83,000 and \$82,000 for the years ended December 31, 2013 and 2012, respectively. Interest and dividend income was approximately \$487,000 and \$593,000 for the years ended December 31, 2013 and 2012, respectively.

ASC 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.



**3. Investments  
and Fair  
Value**

**Measurements  
Continued**

Cash equivalents and investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Financial instruments with unadjusted, quoted prices listed on active market exchanges. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 2 inputs include a) quoted prices for similar assets or liabilities in active markets b) quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly. Although individual investments of a fund may be publicly traded, they are commingled and as a fund are not traded in the open market.

Level 3 - Financial instruments where inputs are unobservable. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques. This level is primarily funds in trusts held by others and private programs in private equity, real estate, venture capital and natural resources. These funds are not traded in the open market, they contain fair values with no observable inputs, and the fair value unobservable inputs contain assumptions market participants would use in pricing the asset or liability.

All of the Organization's investments are valued using Level 1 inputs.



**CHILDREN'S MIRACLE NETWORK HOSPITALS**  
**Notes to Financial Statements**  
*Continued*

**4. Contributions Receivable** Contributions receivable are as follows as of December 31:

	<u>2013</u>	<u>2012</u>
Due within one year	\$ 370,824	\$ 378,387
Due in one to five years	4,000	5,000
	<u>374,824</u>	<u>383,387</u>
Less discount (6.25%)	(511)	(627)
Less allowance for uncollectible receivables	<u>-</u>	<u>-</u>
	<u>\$ 374,313</u>	<u>\$ 382,760</u>

**5. Property, Furniture and Equipment** A summary of property, furniture and equipment as of December 31, are as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,912,889	\$ 1,912,889
Building and improvements	7,090,677	7,075,686
Office furniture and equipment	<u>1,763,038</u>	<u>1,613,485</u>
	10,766,604	10,602,060
Less accumulated depreciation	<u>(2,221,659)</u>	<u>(1,893,017)</u>
	<u>\$ 8,544,945</u>	<u>\$ 8,709,043</u>

Depreciation expense was approximately \$445,000 and \$437,000 for the years ended December 31, 2013 and 2012, respectively.

**6. Commitments and Contingencies** ***Litigation*** Children's Miracle Network Hospitals is involved in litigation and claims arising in the ordinary course of its operations. The Organization's management believes that the liabilities and claims, if any, arising from such litigation will have no material adverse effect on the Organization's financial statements.



**CHILDREN'S MIRACLE NETWORK HOSPITALS**  
**Notes to Financial Statements**  
*Continued*

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**6. Commitments**    ***Operating Leases***

**and**  
**Contingencies**  
*Continued*

The Organization leases certain of its property under long-term operating leases. Certain of the leases have options to renew the lease beyond the initial term. Future minimum lease payments required under operating lease agreements as of December 31, 2013 are as follows:

<u>Years Ending December 31,</u>	
2014	\$    71,717
2015	4,765
2016	4,765
2017	<u>794</u>
Total future minimum lease payments	<u>\$    82,041</u>

Rent expense for the years ended December 31, 2013 and 2012 was approximately \$84,000 and \$89,000, respectively.

***Employee Agreement***

The Organization has entered into an employment agreement with one member of management. The terms of this agreement include stipulated base salary, bonus potential, vacation and other employee benefits, severance, and non-competition agreements.

***Promotional Agreement***

During 2013 the Organization entered into an agreement with a company (the "Company") to allow the Organization to present itself as the "Presenting Sponsor" of a half marathon event organized by the Company and use names, marks, symbols, photographs, films, and other representations of the Company in the marketing, advertising, and promotional materials. Under the terms of the agreement, the Organization paid \$250,000 upon execution of the agreement with another \$250,000 due April 1, 2014 for the first contract year and \$550,000 to be paid for subsequent contract years, subject to Consumer Price Index (CPI) increases. The term of the contract is for three years until July 31, 2016, which may be extended until July 31, 2019, if both parties agree under the terms of the contract.

- 7. Notes Payable**    The Organization had a 10-year, 6.25 percent, \$2,500,000 mortgage to finance renovations on its new international headquarters building in Salt Lake City, Utah. The loan was amortized over a 25-year period with a balloon payment after 10 years. The loan was secured by the headquarters building.



**CHILDREN'S MIRACLE NETWORK HOSPITALS**  
**Notes to Financial Statements**  
*Continued*

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- 7. Notes Payable** The Organization also had a subordinated 10-year, 3.0 percent, \$2,500,000 long-term financing arrangement with the Redevelopment Agency (RDA) of Salt Lake City which provided the balance of funds to renovate its international headquarters building in Salt Lake City, Utah. The loan was amortized over a 20-year period with a balloon payment after 10 years. The loan was secured by the headquarters building.

*Continued*

During 2013, the Organization refinanced both of the aforementioned loans, which had outstanding balances as of December 31, 2012 of \$2,293,306 and \$2,120,725, respectively, into one 10-year loan of approximately \$4,400,000. This loan bears interest based on a 5-year LIBOR/Swap Rate (interest rate change will not occur more often than once every 5 years), using a rate of 1.650 percentage points over the index. As of December 31, 2013 the interest rate was 2.411%.

The following is a schedule by year of aggregate maturities of principal payments for the outstanding loan as of December 31, 2013:

**Years Ending December 31,**

2014	\$ 273,352
2015	258,982
2016	265,133
2017	271,938
2018	278,660
Thereafter	<u>2,868,282</u>
Total future minimum principal payments	<u>\$ 4,216,347</u>

Interest expense for the years ended December 31, 2013 and 2012 was approximately \$142,000 and \$211,000, respectively.

- 8. Contribution Pledges** The Organization received \$735,000 and \$2,749,000 in conditional contribution pledges and unconditional intentions to give as of December 31, 2013 and December 31, 2012, respectively, that were not recognized in the respective financial statements in accordance with ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. These conditional pledges will be recognized in the financial statements in the period when the donor-stipulated conditions are satisfied. Approximately \$1,564,000 relate to contributions conditional on future events and sponsor recognition as of December 31, 2012. There were no such planned events as of December 31, 2013. As of December 31, 2013 and December 31, 2012, approximately \$600,000 relates to contributions that are conditional until the death of the donor. The remaining amounts are either intentions to give or are conditional on future fundraising by the donor.



**CHILDREN'S MIRACLE NETWORK HOSPITALS**  
**Notes to Financial Statements**  
*Continued*

**9. Temporarily Restricted Revenues**

The Organization received contributions with donor imposed stipulations that may be met by actions of the Organization or will be met through the passage of time. Included in these contributions are in-kind donations of airline miles and credits and hotel gift certificates that are to be used for travel and accommodations. The following is a schedule of temporarily restricted revenues recognized for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Purpose restricted pledges	\$ 75,058	\$ 215,606
Time restricted pledges	345,000	426,126
Endowment appreciation and earnings	<u>259,984</u>	<u>250,132</u>
	680,042	891,864
Assets received and released from restrictions during the year	<u>(292,501)</u>	<u>(260,833)</u>
	<u>\$ 387,541</u>	<u>\$ 631,031</u>

**10. Employee Benefit Plan**

The Organization has a noncontributory defined contribution employee benefit plan and a 403(b) plan. The total expense recognized for these plans was approximately \$1,540,000 and \$1,385,000 for the years ended December 31, 2013 and 2012, respectively.

**11. Temporarily Restricted Net Assets**

Temporarily restricted net assets are as follows as of December 31:

	<u>2013</u>	<u>2012</u>
Purpose restricted in kind contributions	\$ 75,058	\$ 215,606
Pledged gifts	345,000	415,426
Unappropriated endowment earnings	<u>708,124</u>	<u>448,139</u>
	<u>\$ 1,128,182</u>	<u>\$ 1,079,171</u>

**12. Endowment Composition**

Children's Miracle Network Hospitals applies the provisions of ASC 958-205, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).





**12. Endowment  
Composition**  
*Continued*

The State of Utah adopted UPMIFA effective March 7, 2007. Children's Miracle Network Hospitals has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent donor stipulations to the contrary. As a result of this interpretation, Children's Miracle Network Hospitals classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Children's Miracle Network Hospitals in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Children's Miracle Network Hospitals considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund.
- 2) The purposes of the Organization and the donor-restricted endowment fund.
- 3) General economic conditions.
- 4) The possible effect of inflation and deflation.
- 5) The expected total return from income and the appreciation of investments.
- 6) Other resources of Children's Miracle Network Hospitals.
- 7) The investment policies of the Organization.

Children's Miracle Network Hospitals Endowment Fund is governed subject to a board-approved Endowment Fund Policy. The Board of Trustees, under provisions of the Endowment Fund Policy, has the ability to develop investment policies for the Endowment Fund. Until a separate investment policy is approved, investments of the Endowment Fund are managed in compliance with the policy that governs Children's Miracle Network Hospitals invested net assets (Investment Policy Statement).

The Board of Trustees, under provisions of the Investment Policy Statement, has adopted primary investment objectives (safety of principal, total return on investment; and liquidity needs) and investment characteristics (low degree of default risk, low degree of price risk resulting from changes in the level of interest rates, and high degree of marketability). Children's Miracle Network Hospitals targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.



**CHILDREN'S MIRACLE NETWORK HOSPITALS**  
**Notes to Financial Statements**  
*Continued*

**12. Endowment  
Composition  
Continued**

The Board of Trustees, under provisions of the Endowment Fund Policy, has the ability to develop a disbursement policy for the Endowment Fund. Until such disbursement policy is adopted and implemented, all disbursements from the Endowment Fund must be approved by the Board of Trustees. Any expenditure approved for disbursement must be consistent with the Organization's objective to maintain the corpus of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, the deficiencies of this nature are reported as unrestricted net assets. As of December 31, 2013 and 2012, there were no such deficiencies.

Endowment net asset composition by type of fund as of December 31, 2013 was as follows:

	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total endowment assets</b>
Donor-restricted endowment funds	\$ -	\$ 708,124	\$ 2,347,208	\$ 3,055,332
Board-designated endowment funds	1,279,117	-	-	1,279,117
<b>Total funds</b>	<b>\$ 1,279,117</b>	<b>\$ 708,124</b>	<b>\$ 2,347,208</b>	<b>\$ 4,334,449</b>

Changes in endowment net assets for the year ended December 31, 2013 were as follows:

	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total endowment assets</b>
Endowment net assets, December 31, 2012	\$ 1,185,616	\$ 448,139	\$ 2,345,085	\$ 3,978,840
Contributions	2,199	-	2,123	4,322
Investment income	23,969	68,601	-	92,570
Net appreciation	67,333	191,384	-	258,717
<b>Endowment net assets, December 31, 2013</b>	<b>\$ 1,279,117</b>	<b>\$ 708,124</b>	<b>\$ 2,347,208</b>	<b>\$ 4,334,449</b>



**CHILDREN'S MIRACLE NETWORK HOSPITALS**  
**Notes to Financial Statements**  
*Continued*

**12. Endowment Composition**      Endowment net asset composition by type of fund as of December 31, 2012 was as follows:  
*Continued*

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total endowment assets</u>
Donor-restricted endowment funds	\$ -	\$ 448,139	\$ 2,345,085	\$ 2,793,224
Board-designated endowment funds	1,185,616	-	-	1,185,616
Total funds	<u>\$ 1,185,616</u>	<u>\$ 448,139</u>	<u>\$ 2,345,085</u>	<u>\$ 3,978,840</u>

Changes in endowment net assets for the year ended December 31, 2012 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total endowment assets</u>
Endowment net assets, December 31, 2011	\$ 1,028,699	\$ 198,006	\$ 2,333,625	\$ 3,560,330
Contributions	66,615	-	11,460	78,075
Investment income	26,226	73,541	-	99,767
Net appreciation	64,076	176,592	-	240,668
Endowment net assets, December 31, 2012	<u>\$ 1,185,616</u>	<u>\$ 448,139</u>	<u>\$ 2,345,085</u>	<u>\$ 3,978,840</u>

**13. Related-Party Transactions**

As of December 31, 2012, the Organization had \$2,200,000 outstanding on a mortgage that was entered into in 2008 for renovations on its headquarters building. During 2013, this was refinanced with an unrelated third-party (see Note 7). At the time the mortgage was entered into, the Executive Vice-President (VP) and Chief Operating Officer (COO) of Children's Miracle Network Hospitals was an uncompensated member of the Board of Directors of the lending institution.



**14. Concentrations of Credit Risk** Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, cash equivalents and investments. The Organization places its cash and investments with high credit quality financial institutions and generally limits the amount of credit exposure to the amount in excess of the FDIC insurance coverage limit of \$250,000. Throughout the year, the Organization's cash and investment balances often exceed the amount of the FDIC insurance coverage. At December 31, 2013, the Organization had approximately \$48,800,000 of cash and cash equivalents that exceeded federally insured limits. The Organization does not anticipate nonperformance by the institutions.

The Organization's contributions receivable includes amounts due from two large donors comprising 18% of total contributions receivable as of December 31, 2012. There were no concentration risks in excess of 10% relating to contributions receivable as of December 31, 2013.