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BUSINESS ADVISORS AND
CERTIFIED PUBLIC ACCOUNTANTS

CRITICAL KNOWLEDGE
PROACTIVE INSIGHT

Children's Miracle Network Hospitals

Financial Statements
As of December 31, 2014 and 2013 and for the Years Then Ended
Together with Independent Auditors' Report

Member of PKF North America

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TANNER
BUSINESS ADVISORS AND
CERTIFIED PUBLIC ACCOUNTANTS

Member of PKF North America

INDEPENDENT AUDITORS' REPORT

To the Audit and 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 not-for-profit organization, (the Organization), which comprise the statements of financial position as of December 31, 2014 and 2013, 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, 2014 and 2013, 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 15, 2015

As of December 31,

	2014	2013
Assets		
Cash and cash equivalents:		
Unrestricted	$ 15,798,182	$ 18,671,863
Restricted	31,583,102	32,192,226
Investments	15,545,994	15,949,419
Accounts receivable, net of allowance for doubtful accounts of $124,683 in 2014 and $115,102 in 2013	5,904,351	5,157,666
Contributions receivable	505,421	374,313
Prepaid expenses and other current assets	759,003	478,268
Property, furniture and equipment, net	8,567,143	8,544,945
Other assets	166,972	180,519
Total assets	$ 78,830,168	$ 81,549,219
Liabilities		
Accounts payable	$ 6,423,041	$ 4,691,712
Accrued liabilities	2,107,994	1,551,227
Payable to participating hospitals	30,821,934	31,375,530
Payable to partners	761,168	816,696
Deferred revenue	9,861,817	13,902,733
Notes payable	3,985,192	4,216,347
Total liabilities	53,961,146	56,554,245
Commitments and contingencies		
Net Assets		
Unrestricted	20,357,384	21,519,584
Temporarily restricted	2,164,430	1,128,182
Permanently restricted	2,347,208	2,347,208
Total net assets	24,869,022	24,994,974
Total liabilities and net assets	$ 78,830,168	$ 81,549,219

See accompanying notes to financial statements.

CHILDREN'S MIRACLE NETWORK HOSPITALS
Statement of Activities

For the year ended December 31, 2014

	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenues:				
Total amount raised	$ 161,843,661	$ 1,171,297	$ -	$ 163,014,958
Less amounts designated by donors to specific hospitals	(156,142,453)	-	-	(156,142,453)
Net amount raised	5,701,208	1,171,297	-	6,872,505
Hospital fees	21,453,248	-	-	21,453,248
Direct mail	4,325,374	-	-	4,325,374
Licensing fees	8,898	-	-	8,898
Hospital market management fees	6,693	-	-	6,693
Donations-in-kind	825,740	98,141	-	923,881
Campaign	3,393,233	-	-	3,393,233
Endowments, major gifts, and grants	85,190	-	-	85,190
Ancillary revenue	2,650,538	-	-	2,650,538
Total revenues	38,450,122	1,269,438	-	39,719,560
Other income (loss) and reclassifications:				
Gain on sale of property, furniture and equipment, net	1,865	-	-	1,865
Interest and dividend income	463,974	78,265	-	542,239
Net realized gain (loss) on investments	(15,105)	44,582	-	29,477
Net unrealized gain on investments	325,794	30,211	-	356,005
Net assets released from restrictions	386,248	(386,248)	-	-
Total other income (loss) and reclassifications	1,162,776	(233,190)	-	929,586
Total revenues, other income and reclassifications	39,612,898	1,036,248	-	40,649,146
Expenses:				
Program services:				
Public education and awareness	10,092,902	-	-	10,092,902
Fundraising program services	26,378,653	-	-	26,378,653
Total program services	36,471,555	-	-	36,471,555
Support services:				
Fundraising	821,150	-	-	821,150
Management and general	3,461,930	-	-	3,461,930
Total support services	4,283,080	-	-	4,283,080
Total expenses	40,754,635	-	-	40,754,635
Other loss	20,463	-	-	20,463
Change in net assets	(1,162,200)	1,036,248	-	(125,952)
Net assets, beginning of the year	21,519,584	1,128,182	2,347,208	24,994,974
Net assets, end of the year	$ 20,357,384	$ 2,164,430	$ 2,347,208	$ 24,869,022

For the year ended December 31, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenues:				
Total amount raised	$ 153,558,540	$ 345,000	$ -	$ 153,903,540
Less amounts designated by donors to specific hospitals	(146,387,487)	-	-	(146,387,487)
Net amount raised	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
Endowments, major gifts, and grants	97,199	-	2,123	99,322
Ancillary revenue	2,281,479	-	-	2,281,479
Total revenues	38,143,190	387,541	2,123	38,532,854
Other income (loss) and reclassifications:				
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 income (loss) and reclassifications	2,058,799	(338,530)	-	1,720,269
Total revenues, other income and reclassifications	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 Functional Expenses

For the year ended December 31, 2014

	Program services		Support services		
	Public education and awareness	Fundraising program services	Fundraising	Management and general	Totals
Travel	$ 1,155,057	$ 2,820,542	$ 156,163	$ 342,257	$ 4,474,019
Employment costs	3,374,830	11,094,920	478,588	1,933,821	16,882,159
Contract services	1,403,034	2,459,170	86,878	381,764	4,330,846
Advertising, printing and photography	3,796,612	801,984	51,132	123,660	4,773,388
Corporate campaign	-	4,227,534	-	-	4,227,534
Sponsorship support	31,924	156,445	8,261	14,121	210,751
Program support	-	2,515,577	-	-	2,515,577
Other cost reimbursements	-	1,190,555	-	-	1,190,555
Occupancy, utilities and rentals	53,948	148,447	9,178	45,159	256,732
Telephone	44,010	150,370	6,817	26,173	227,370
Depreciation	19,556	162,513	374	276,536	458,979
Professional and license fees	72,545	231,665	9,326	141,227	454,763
Insurance	6,387	40,495	394	60,631	107,907
Interest	4,088	35,774	-	62,349	102,211
Postage and shipping	28,397	101,515	4,494	14,723	149,129
Supplies	102,514	241,147	9,545	39,509	392,715
Unrelated business income tax expense	-	-	-	-	-
	$ 10,092,902	$ 26,378,653	$ 821,150	$ 3,461,930	$ 40,754,635

For the year ended December 31, 2013

	Program services		Support services		
	Public education and awareness	Fundraising program services	Fundraising	Management and general	Totals
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
	$ 10,259,607	$ 23,308,819	$ 808,792	$ 3,396,741	$ 37,773,959

CHILDREN'S MIRACLE NETWORK HOSPITALS
Statements of Cash Flows

For the years ended December 31,

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ (125,952)	$ 2,452,331
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	458,979	444,966
Net unrealized gain on investments	(356,005)	(855,177)
Net realized gain on investments	(29,477)	(376,126)
Gain on sale of property, furniture and equipment	(1,865)	(2,424)
Non-cash endowment contributions	-	(2,123)
Increase in allowance for doubtful accounts	14,121	17,623
Other loss	20,463	18,046
Changes in assets and liabilities:		
Restricted cash	305,345	(4,002,958)
Accounts and contributions receivable	(887,998)	(780,590)
Prepaid expenses and other current assets	(280,965)	(16,459)
Other assets	13,547	5,964
Accounts payable	1,821,276	1,607,933
Accrued liabilities	560,935	13,661
Payable to participating hospitals	(249,817)	4,909,254
Payable to partners	(55,528)	(906,296)
Deferred revenue	(4,035,722)	2,146,379
Net cash provided by (used in) operating activities	(2,828,663)	4,674,004
Cash flows from investing activities:		
Purchase of property and equipment	(484,645)	(292,433)
Proceeds from sale of property, furniture and equipment	3,951	13,565
Purchase of investments	(527,051)	(1,375,395)
Proceeds from sales of investments	1,315,958	1,136,293
Net cash provided by (used in) investing activities	308,213	(517,970)
Cash flows from financing activities:		
Proceeds from long-term debt	-	24,551
Principal payments on notes payable	(231,155)	(222,235)
Proceeds from endowment contributions	-	2,123
Net cash used in financing activities	(231,155)	(195,561)
Effect of exchange rate changes on cash	(122,076)	(111,092)
Net increase (decrease) in cash and cash equivalents	(2,873,681)	3,849,381
Cash and cash equivalents, beginning of the year	18,671,863	14,822,482
Cash and cash equivalents, end of the year	$ 15,798,182	$ 18,671,863

	2014	2013
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 91,933	$ 156,927
Cash paid for unrelated business income tax	4,708	1,000
Supplemental disclosure non-cash financing information:		
Refinance of notes payable	$ -	$ 4,400,920

1. Organization and Mission

Children's Miracle Network (d/b/a Children's Miracle Network Hospitals) (the Organization) is a Utah not-for-profit corporation 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:

<u>Permanently restricted net assets</u>

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.

<u>Temporarily restricted net assets</u>

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.

<u>Unrestricted net assets</u>

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*

***Basis of Presentation** – continued*
Expirations of temporary restrictions on net assets through fulfillment of donor-stipulated purposes and/or the passage of time 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.

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 accounts.

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 in the statements of cash flows.

Investments
Investments in equity securities and mutual funds are stated at fair value determined by quoted market prices as of year-end. The Organization's alternative investment consists of a hedge fund, which is measured at fair value based upon the net asset value (NAV) per share reported by the fund. 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.

2. Summary of Significant Accounting Policies *Continued*

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 the Organization, 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 offsetting amounts designated for specific member hospitals are included within revenues in the statements of activities. Before such amounts are paid to specific member hospitals, they 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, 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 $924,000 and $776,000 in 2014 and 2013, respectively. The Organization received cash donations included in the accompanying statements of activities of approximately $2,250,000 and $2,927,000 from three major donors during the years ended December 31, 2014 and 2013, respectively.

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).

2. Summary of Significant Accounting Policies
Continued

Temporarily restricted net assets

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

- <u>Contributions with restrictions met in the same year</u> - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in unrestricted net assets.

- <u>Release of restrictions on net assets for acquisition of land, building and equipment</u> - 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 restricted by donors to be used to acquire land, buildings, and equipment 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 on 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.

Foreign currency translation

The accounts of Children's Miracle Network Hospitals' Canadian office are translated into U.S. dollars in the accompanying 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 Financial Accounting Standards Board Accounting Standards Codification 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 is open, including U.S. Federal, Utah state and foreign jurisdictions for the years ended December 31, 2014 and 2013 and has determined that 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, 2011 through December 31, 2014; Australia and Ireland – August 31, 2011 through August 31, 2012; United Kingdom – August 31, 2011 through August 31, 2012.

For the years ended December 31, 2014 and 2013, the Organization incurred approximately $0 and $7,000, 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 those assets to future undiscounted net cash flows expected to be generated by those assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of an asset exceeds the fair value of that 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 $4,506,000 and $5,051,000 for the years ended December 31, 2014 and 2013, 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:

<u>*Public Education and Awareness*</u> – 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.

Reclassifications

Certain revenues in the 2013 statement of activities have been reclassified to conform to the 2014 presentation.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through May 15, 2015, which is the date the financial statements were available to be issued.

3. Investments and Fair Value Measurements

The net realized gain on investments was approximately $29,000, and the net unrealized gain on investments was approximately $356,000 for the year ended December 31, 2014. 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 gains or losses were reported net of investment advisor commissions of approximately $95,000 and $83,000 for the years ended December 31, 2014 and 2013, respectively. Interest and dividend income was approximately $542,000 and $487,000 for the years ended December 31, 2014 and 2013, 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.

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.

3. Investments and Fair Value Measurements ***Continued***

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 investments in trusts held by others and private programs in private equity, real estate, venture capital and natural resources. These investments 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.

Investments, at fair value, consist of the following as of:

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Equities:				
International	$ 337,692	$ -	$ -	$ 337,692
U.S. domestic	3,367,683	-	-	3,367,683
Mutual funds:				
International	6,412,714	-	-	6,412,714
U.S. domestic	4,729,885	-	-	4,729,885
Alternatives:				
International	-	698,020	-	698,020
	$ 14,847,974	$ 698,020	$ -	$ 15,545,994

	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Equities:				
International	$ 4,059,595	$ -	$ -	$ 4,059,595
U.S. domestic	3,148,354	-	-	3,148,354
Mutual funds:				
International	3,467,724	-	-	3,467,724
U.S. domestic	4,594,981	-	-	4,594,981
Alternatives:				
International	-	678,765	-	678,765
	$ 15,270,654	$ 678,765	$ -	$ 15,949,419

The following table summarizes investments measured at fair value based on NAV.

	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Hedge fund - December 31, 2014	$698,020	$0	Quarterly	65 days
Hedge fund - December 31, 2013	$678,765	$0	Quarterly	65 days

3. Investments and Fair Value Measurements *Continued*

The hedge fund's objective is to provide consistent, superior capital appreciation through the use of a multi-manager investment strategy. The hedge fund's portfolio construction process seeks returns of 8% - 15% and 75% profitable months. The portfolio consists of managers utilizing long/short equity, global macro, multi-strategy and event driven strategies. The hedge fund seeks to avoid managers that rely significantly on illiquid strategies or substantial leverage.

4. Contributions Receivable

Contributions receivable are as follows as of December 31:

	2014	2013
Due within one year	$ 502,565	$ 370,824
Due in one to five years	3,000	4,000
	505,565	374,824
Less discount (6.25%)	(144)	(511)
Less allowance for uncollectible receivables	-	-
	$ 505,421	$ 374,313

5. Property, Furniture and Equipment

A summary of property, furniture and equipment as of December 31, is as follows:

	2014	2013
Land	$ 1,912,889	$ 1,912,889
Building and improvements	7,260,299	7,090,677
Office furniture and equipment	1,962,364	1,763,038
	11,135,552	10,766,604
Less accumulated depreciation	(2,568,409)	(2,221,659)
	$ 8,567,143	$ 8,544,945

Depreciation expense was approximately $459,000 and $445,000 for the years ended December 31, 2014 and 2013, 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.

Operating Leases

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, 2014 are as follows:

Years Ending December 31,	
2015	$ 26,792
2016	26,792
2017	23,241
2018	22,027
2019	9,178
Total future minimum lease payments	$ 108,030

Rent expense for the years ended December 31, 2014 and 2013 was approximately $94,000 and $84,000, respectively.

Employment Agreements

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.

In connection with the above referenced employment agreement, a 457(f) Supplemental Executive Retirement Plan (the SERP) is maintained and annual discretionary employer contributions, as defined by the agreement, are made. Contributions and the related earnings vest according to the terms of the SERP plan document based on certain events. Benefit expense related to the SERP for the years ended December 31, 2014 and 2013 totaled approximately $67,000 and $142,000, respectively. As of December 31, 2014 and 2013, related assets of approximately $139,000 and $0, respectively, were included in cash and cash equivalents and related liabilities of approximately $200,000 and $135,000, respectively, were included in accrued liabilities in the statements of financial position.

6. Commitments and Contingencies *Continued*

Employment Agreements - Continued

The Organization has a 457(b) plan that allowed a former executive the opportunity to defer compensation into the plan, subject to annual limitations. The Organization has not made any contributions to this plan. The 457(b) plan assets and related liabilities of approximately $248,000 as of December 31, 2014, are included as cash and cash equivalents and accrued liabilities in the statement of financial position.

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 to use names, marks, symbols, photographs, films, and other representations of the Company in the Organization's marketing, advertising, and promotional materials. Under the terms of the agreement, the Organization paid $500,000 for the first contract year and $550,000 is due in subsequent contract years, subject to Consumer Price Index (CPI) increases. The term of the contract runs through July 31, 2016, and may be extended until July 31, 2019, if both parties agree under the terms of the contract.

7. Long-Term Debt

Notes Payable

The Organization had a 10-year, 6.25 percent, $2,500,000 mortgage to finance renovations on its 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.

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.

During 2013, the Organization refinanced both of the aforementioned loans, 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, 2014 the interest rate was 2.411%.

7. Long-Term Debt *Continued*

Notes Payable - Continued

The following is a schedule by year of aggregate maturities of principal payments for the outstanding loan as of December 31, 2014:

Years Ending December 31,		
2015	$	258,445
2016		264,584
2017		271,374
2018		278,083
2019		284,957
Thereafter		2,627,749
Total future minimum principal payments	$	3,985,192

Interest expense for the years ended December 31, 2014 and 2013 was approximately $102,000 and $142,000, respectively.

8. Margin Loan

In November 2014, the Organization signed a margin loan agreement with the financial institution that holds the Organization's investments. Under the agreement, the Organization may borrow amounts, which are secured by the Organization's investment holdings with the financial institution. The interest rate on the margin loan varies based upon the amount borrowed and ranges between 1.25 percent and 3.50 percent. As of December 31, 2014, there were no borrowings under the margin loan agreement.

9. Contribution Pledges

The Organization had received $735,000 of conditional contribution pledges and unconditional intentions to give as of December 31, 2014 and December 31, 2013, which were not recognized in the respective financial statements in accordance with ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. The conditional pledges will be recognized in the financial statements in the period when the donor-stipulated conditions are satisfied. As of December 31, 2014 and December 31, 2013, approximately $400,000 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.

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 $1,664,000 and $1,540,000 for the years ended December 31, 2014 and 2013, respectively.

11. Temporarily Restricted Net Assets

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

	2014	2013
Purpose restricted in kind contributions	$ 131,951	$ 75,058
Pledged gifts	1,171,297	345,000
Unappropriated endowment earnings	861,182	708,124
	$ 2,164,430	$ 1,128,182

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).

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.

12. Endowment Composition
Continued

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.

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, 2014 and 2013, there were no such deficiencies.

12. Endowment Composition
Continued

Endowment net asset composition by type of fund as of December 31, 2014 was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total endowment assets
Donor-restricted endowment funds	$ -	$ 861,182	$ 2,347,208	$ 3,208,390
Board-designated endowment funds	1,337,973	-	-	1,337,973
Total funds	$ 1,337,973	$ 861,182	$ 2,347,208	$ 4,546,363

Changes in endowment net assets for the year ended December 31, 2014 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total endowment assets
Endowment net assets, December 31, 2013	$ 1,279,117	$ 708,124	$ 2,347,208	$ 4,334,449
Contributions	6,013	-	-	6,013
Investment income	27,066	78,265	-	105,331
Net appreciation	25,777	74,793	-	100,570
Endowment net assets, December 31, 2014	$ 1,337,973	$ 861,182	$ 2,347,208	$ 4,546,363

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

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

12. Endowment Composition *Continued*

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total endowment assets
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
Endowment net assets, December 31, 2013	$ 1,279,117	$ 708,124	$ 2,347,208	$ 4,334,449

13. 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 financial instruments 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 cash equivalents generally exceed the amount of the FDIC insurance coverage. At December 31, 2014, the Organization had approximately $46,723,000 of cash and cash equivalents that exceeded federally insured limits. The Organization does not anticipate nonperformance by the institutions.

14. Subsequent Events

In March and April 2015, the Organization borrowed $2,000,000 and $3,000,000, respectively, under its margin loan agreement (see Note 8). Management believes that the Organization will be able to repay the margin loan by July 2015.