Note: For the best PDF viewing experience, disable “Enhance thin lines” in Adobe Acrobat. Click on Edit >> Preferences >> Page Display, and uncheck “Enhance thin lines.”

TANNER

TANNER

BUSINESS ADVISORS AND
CERTIFIED PUBLIC ACCOUNTANTS

CRITICAL KNOWLEDGE
PROACTIVE INSIGHT

Children's Miracle Network Hospitals

Financial Statements
As of December 31, 2015 and 2014 and for the Years Then Ended
Together with Independent Auditors' Report

Member of Allinial GLOBAL™
An association of legally independent firms

Tanner LLC
Key Bank Tower at City Creek
36 South State Street, Suite 600
Salt Lake City, Utah 84111-1400
Telephone 801.532.7444
www.tannerco.com

TANNER
BUSINESS ADVISORS AND
CERTIFIED PUBLIC ACCOUNTANTS

Member of Allinial GLOBAL

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, 2015 and 2014, 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, 2015 and 2014, 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

July 19, 2016

CHILDREN'S MIRACLE NETWORK HOSPITALS
Statements of Financial Position

As of December 31,

	2015	2014
Assets		
Cash and cash equivalents:		
Unrestricted	$ 5,668,270	$14,154,972
Restricted	38,648,041	33,226,312
Investments:		
Unrestricted	12,907,969	15,545,994
Restricted	6,000,000	-
Accounts receivable, net of allowance for doubtful accounts of $145,524 and $124,683, respectively	12,126,562	5,904,351
Contributions receivable	1,151,667	505,421
Prepaid expenses and other current assets	841,087	759,003
Property, furniture and equipment, net	8,702,404	8,567,143
Other assets	153,938	166,972
Total assets	$86,199,938	$78,830,168
Liabilities		
Accounts payable	$ 1,713,833	$ 4,779,831
Accrued liabilities	2,486,164	2,107,994
Payable to member hospitals	43,994,593	32,465,144
Payable to partners	653,448	761,168
Deferred revenue	10,257,539	9,861,817
Notes payable	3,705,443	3,985,192
Total liabilities	62,811,020	53,961,146
Commitments and contingencies		
Net Assets		
Unrestricted	18,350,180	20,357,384
Temporarily restricted	2,691,530	2,164,430
Permanently restricted	2,347,208	2,347,208
Total net assets	23,388,918	24,869,022
Total liabilities and net assets	$86,199,938	$78,830,168

CHILDREN'S MIRACLE NETWORK HOSPITALS
Statement of Activities

For the year ended December 31, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenues:				
Total amount raised	$ 176,654,191	$ 1,811,944	$ -	$ 178,466,135
Less amounts designated by donors to specific hospitals	(171,679,848)	-	-	(171,679,848)
Net amount raised	4,974,343	1,811,944	-	6,786,287
Hospital fees	29,826,122	-	-	29,826,122
Direct mail	4,549,556	-	-	4,549,556
Licensing fees	68,149	-	-	68,149
Donations-in-kind	2,180,880	63,697	-	2,244,577
Endowments, major gifts, and grants	13,037	-	-	13,037
Ancillary revenue	1,962,928	-	-	1,962,928
Total revenues	43,575,015	1,875,641	-	45,450,656
Other income (loss) and reclassifications:				
Loss on sale of property, furniture and equipment, net	(795)	-	-	(795)
Interest and dividend income	348,599	70,546	-	419,145
Net realized gain (loss) on investments	1,791,190	(153,398)	-	1,637,792
Net unrealized loss on investments	(2,271,358)	(10,585)	-	(2,281,943)
Net assets released from restrictions	1,255,104	(1,255,104)	-	-
Total other income (loss) and reclassifications	1,122,740	(1,348,541)	-	(225,801)
Total revenues, other income and reclassifications	44,697,755	527,100	-	45,224,855
Expenses:				
Program services:				
Public education and awareness	12,391,571	-	-	12,391,571
Fundraising program services	29,345,178	-	-	29,345,178
Total program services	41,736,749	-	-	41,736,749
Support services:				
Fundraising	1,063,795	-	-	1,063,795
Management and general	3,961,615	-	-	3,961,615
Total support services	5,025,410	-	-	5,025,410
Total expenses	46,762,159	-	-	46,762,159
Other gain	57,200	-	-	57,200
Change in net assets	(2,007,204)	527,100	-	(1,480,104)
Net assets, beginning of the year	20,357,384	2,164,430	2,347,208	24,869,022
Net assets, end of the year	$ 18,350,180	$ 2,691,530	$ 2,347,208	$ 23,388,918

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, 2015

	Program services		Support services		
	Public education and awareness	Fundraising program services	Fundraising	Management and general	Totals
Travel	$ 867,821	$ 2,827,658	$ 151,355	$ 316,377	$ 4,163,211
Employment costs	3,705,110	12,583,073	588,913	2,129,789	19,006,885
Contract services	1,278,315	3,494,598	151,460	554,664	5,479,037
Advertising, printing and photography	6,148,772	1,748,620	108,917	165,855	8,172,164
Corporate campaign	-	3,230,573	-	-	3,230,573
Sponsorship support	18,300	140,292	8,357	10,586	177,535
Program support	-	2,339,152	-	-	2,339,152
Other cost reimbursements	-	246,843	-	-	246,843
Occupancy, utilities and rentals	65,157	185,481	11,767	54,828	317,233
Telephone	51,683	194,498	9,290	29,049	284,520
Depreciation	24,714	199,277	738	334,096	558,825
Professional and license fees	100,294	1,753,244	12,681	171,348	2,037,567
Insurance	4,524	38,102	64	65,254	107,944
Interest	4,745	41,516	-	72,357	118,618
Postage and shipping	56,133	146,984	10,761	16,718	230,596
Supplies	66,003	175,267	9,492	40,694	291,456
	$ 12,391,571	$ 29,345,178	$ 1,063,795	$ 3,961,615	$ 46,762,159

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
	$ 10,092,902	$26,378,653	$ 821,150	$ 3,461,930	$ 40,754,635

For the years ended December 31,

	2015	2014
Cash flows from operating activities:		
Change in net assets	$(1,480,104)	$ (125,952)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	558,825	458,979
Net unrealized loss (gain) on investments	2,281,943	(356,005)
Net realized gain on investments	(1,637,792)	(29,477)
Loss (gain) on sale of property, furniture and equipment	795	(1,865)
Increase in allowance for doubtful accounts	20,841	14,121
Other loss	(2,289)	20,463
Changes in assets and liabilities:		
Restricted cash	(5,963,605)	305,345
Accounts and contributions receivable	(6,946,568)	(887,998)
Prepaid expenses and other current assets	(84,445)	(280,965)
Other assets	13,034	13,547
Accounts payable	(2,936,743)	178,066
Accrued liabilities	380,394	560,935
Payable to participating hospitals	12,071,325	(249,817)
Payable to partners	(107,720)	(55,528)
Deferred revenue	491,525	(4,035,722)
Net cash used in operating activities	(3,340,584)	(4,471,873)
Cash flows from investing activities:		
Purchase of property and equipment	(703,342)	(484,645)
Proceeds from sale of property, furniture and equipment	2,035	3,951
Purchase of restricted investments	(6,000,000)	-
Purchase of investments	(17,506,299)	(527,051)
Proceeds from sales of investments	19,500,173	1,315,958
Net cash (used in) provided by investing activities	(4,707,433)	308,213
Cash flows from financing activities:		
Proceeds from margin loan	5,000,000	-
Principal payments on margin loan	(5,000,000)	-
Principal payments on notes payable	(279,749)	(231,155)
Net cash used in financing activities	(279,749)	(231,155)
Effect of exchange rate changes on cash	(158,936)	(122,076)
Net decrease in cash and cash equivalents	(8,486,702)	(4,516,891)
Cash and cash equivalents, beginning of the year	14,154,972	18,671,863
Cash and cash equivalents, end of the year	$ 5,668,270	$14,154,972

See accompanying notes to financial statements.

	2015	2014
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 124,205	$ 91,933
Cash paid for unrelated business income tax	1,896	4,708

See accompanying notes to financial statements.

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:

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*

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 (U.S. GAAP) 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 – unrestricted and restricted

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) is recognized in the statements of activities.

Restricted investments are payable to member hospitals and partners.

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 and partners 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 $2,245,000 and $924,000 in 2015 and 2014, respectively. The Organization received cash donations included in the accompanying statements of activities of approximately $2,656,000 and $2,250,000 from four major donors during the years ended December 31, 2015 and 2014, 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 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:

- 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 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 $5,000 that will benefit future periods are capitalized and expensed over the useful life of the asset. Expenditures in excess of $2,000 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 (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 is open, including U.S. Federal, Utah state and foreign jurisdictions for the years ended December 31, 2015 and 2014 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, 2012 through December 31, 2015.

For the years ended December 31, 2015 and 2014, the Organization incurred approximately $1,900 and $0, 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 $7,738,000 and $4,506,000 for the years ended December 31, 2015 and 2014, 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 liabilities in the 2014 statements of financial position and cash flows have been reclassified to conform to the 2015 presentation.

Subsequent events

Management has evaluated events and transactions for potential recognition or disclosure through July 19, 2016, 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 $1,638,000, and the net unrealized loss on investments was approximately $2,282,000 for the year ended December 31, 2015. 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 gains or losses were reported net of investment advisor commissions of approximately $75,000 and $95,000 for the years ended December 31, 2015 and 2014, respectively. Interest and dividend income was approximately $419,000 and $542,000 for the years ended December 31, 2015 and 2014, 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:

<u>Level 1</u> - 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.

<u>Level 2</u> - 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.

Unrestricted investments, at fair value, consist of the following as of:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Equities:				
International	$ 2,891,993	$ -	$ -	$ 2,891,993
U.S. domestic	5,537,576	-	-	5,537,576
Mutual funds:				
International	613,821	-	-	613,821
U.S. domestic	2,959,994	-	-	2,959,994
Alternatives:				
International	-	34,742	-	34,742
Real estate:				
U.S. domestic	869,843	-	-	869,843
	$ 12,873,227	$ 34,742	$ -	$ 12,907,969

	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

3. Investments and Fair Value Measurements *Continued*

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

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge fund - December 31, 2015	$ 34,742	$ 0	Quarterly	65 days
Hedge fund - December 31, 2014	$ 698,020	$ 0	Quarterly	65 days

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.

Restricted investments, at fair value, consist of the following as of:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
U.S. domestic	$ 6,000,000	$ -	$ -	$ 6,000,000
	$ 6,000,000	$ -	$ -	$ 6,000,000

4. Contributions Receivable

Contributions receivable are as follows as of December 31:

	2015	2014
Due within one year	$ 649,692	$ 502,565
Due in one to five years	501,975	2,856
	1,151,667	505,421
Less allowance for uncollectible receivables	-	-
	$ 1,151,667	$ 505,421

4. Contributions Receivable *Continued*

Included in contributions receivable as of December 31, 2015, is an outstanding $500,000 pledge receivable that will be paid in yearly increments of $166,667 over the next three years ending December 31, 2016 through 2018. The Organization has determined that the discount related to this pledge receivable is not material.

5. Property, Furniture, and Equipment

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

	2015	**2014**
Land	$ 1,912,889	$ 1,912,889
Building and improvements	7,264,015	7,260,299
Office furniture and equipment	2,307,757	1,962,364
	11,484,661	11,135,552
Less accumulated depreciation	(2,782,257)	(2,568,409)
	$ 8,702,404	$ 8,567,143

Depreciation expense was approximately $559,000 and $459,000 for the years ended December 31, 2015 and 2014, 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, 2015 are as follows:

Years Ending December 31,	
2016	$ 121,435
2017	124,709
2018	122,334
2019	108,372
2019	48,450
Total future minimum lease payments	$ 525,300

6. Commitments and Contingencies *Continued*

***Operating Leases** – Continued*

Rent expense for the years ended December 31, 2015 and 2014 was approximately $134,000 and $94,000, 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, 2015 and 2014 totaled approximately $67,000 and $67,000, respectively. As of December 31, 2015 and 2014, related assets of approximately $197,000 and $139,000, respectively, were included in cash and cash equivalents and related liabilities of approximately $267,000 and $200,000, respectively, were included in accrued liabilities in the statements of financial position. The participant in the SERP has responsibility for investing the funds and bears the risk of loss.

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. As of December 31, 2015 and 2014, the 457(b) plan assets and related liabilities of approximately $205,000 and $248,000, respectively, were included as cash and cash equivalents and accrued liabilities in the statements of financial position. The participant in the 457(b) plan has responsibility for investing the funds and bears the risk of loss.

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.

6. Commitments and Contingencies *Continued*

Promotional Agreement – Continued

In May 2016, the Organization amended its promotional agreement sponsoring a half marathon event. Under the terms of this amendment, the Organization will pay a $650,000 participant fee during the fourth contract year and the participant fee will increase by 3% in each succeeding year. The term of the contract runs through July 31, 2021 and either party may terminate the agreement after the sixth contract year, July 31, 2019.

7. Long-Term Debt

Notes Payable

In 2013, the Organization obtained a 10-year loan for 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, 2015, the interest rate was 2.411%. The loan matures in February 2023.

The following is a schedule by year of aggregate maturities of principal payments for the outstanding loan as of December 31, 2015:

Years Ending December 31,		
2016	$	286,812
2017		271,938
2018		278,660
2019		285,549
2020		292,433
Thereafter		2,290,051
Total future minimum principal payments	$	3,705,443

Interest expense for the years ended December 31, 2015 and 2014 was approximately $119,000 and $102,000, respectively.

8. Margin Loan

In November 2014, the Organization signed a margin loan agreement with the financial institution that held the Organization's investments. Under the agreement, the Organization was able to borrow amounts, which were secured by the Organization's investment holdings with the financial institution. The interest rate on the margin loan varied based upon the amount borrowed and ranged between 1.25 percent and 3.50 percent. During the year ended December 31, 2015, $5,000,000 was borrowed and then fully repaid under the margin loan. No amounts were borrowed during the year ended December 31, 2014.

9. Contribution Pledges

The Organization had received $735,000 of conditional contribution pledges and unconditional intentions to give as of December 31, 2015 and December 31, 2014, which were not recognized in the accompanying 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, 2015 and December 31, 2014, 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.

10. Employee Benefit Plans

The Organization has a noncontributory defined contribution employee benefit plan and a 403(b) plan. The total expense recognized for these plans was approximately $1,819,000 and $1,664,000 for the years ended December 31, 2015 and 2014, respectively.

11. Temporarily Restricted Net Assets

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

	2015	2014
Purpose restricted in kind contributions	$ 111,840	$ 131,951
Pledged gifts	1,811,945	1,171,297
Unappropriated endowment earnings	767,745	861,182
	$ 2,691,530	$ 2,164,430

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 the Organization.
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).

12. Endowment Composition
Continued

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, 2015 and 2014, there were no such deficiencies.

Endowment net asset composition by type of fund as of December 31, 2015 was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total endowment assets
Donor-restricted endowment funds	$ -	$ 767,745	$ 2,347,208	$ 3,114,953
Board-designated endowment funds	1,327,647	-	-	1,327,647
Total funds	$ 1,327,647	$ 767,745	$ 2,347,208	$ 4,442,600

12. Endowment Composition *Continued*

Changes in endowment net assets for the year ended December 31, 2015 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total endowment assets
Endowment net assets, December 31, 2014	$ 1,337,973	$ 861,182	$ 2,347,208	$ 4,546,363
Contributions	12,532	-	-	12,532
Investment income	32,172	70,546	-	102,718
Net depreciation	(55,030)	(163,983)	-	(219,013)
Endowment net assets, December 31, 2015	$ 1,327,647	$ 767,745	$ 2,347,208	$ 4,442,600

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, January 1, 2014	$ 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

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 to limit its exposure to the risk of loss. Throughout the year, the Organization's cash and cash equivalents generally exceed the amount of the FDIC insurance coverage of $250,000. As of December 31, 2015, the Organization had approximately $43,583,000 of cash and cash equivalents that exceeded federally insured limits. The Organization does not anticipate nonperformance by the institutions.

14. Subsequent Events

In January 2016, the Organization signed a margin loan agreement with the financial institution that holds the Organization's investments. Under the agreement, the Organization may borrow up to $5,000,000, which is secured by the Organization's investment holdings with the financial institution. The interest rate on the margin loan varies based upon the applicable LIBOR rate plus 0.90 percent.

In March 2016 and April 2016, the Organization borrowed $3,500,000 and $1,500,000, respectively, for a total of $5,000,000 under its margin loan agreement with a fluctuating daily LIBOR interest rate, which has ranged from 1.33 to 1.34 percent. The interest rate is variable and could increase. Management believes that the Organization will be able to repay the margin loan by the end of 2016.