



**Children's
Miracle Network
Hospitals**

Financial Statements
December 31, 2017 and 2016

Children's Miracle Network Hospitals

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December 31, 2017 and 2016

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Independent Auditor's Report

To the Audit and Compliance Committee
Children's Miracle Network
Salt Lake City, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of Children's Miracle Network (dba Children's Miracle Network Hospitals), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the 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 fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 (dba Children's Miracle Network Hospitals) as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Children's Miracle Network (dba Children's Miracle Network Hospitals) as of December 31, 2016, were audited by other auditors, whose report dated July 11, 2017, expressed an unmodified opinion on those statements.

Eide Bailly LLP

Salt Lake City, Utah
June 13, 2018

Children's Miracle Network Hospitals
Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 6,863,665	\$ 5,388,072
Restricted cash	65,173,995	50,021,246
Restricted investments	5,745,379	6,000,000
Accounts receivable, net of allowance for doubtful accounts of \$1,074,096 and \$564,536	10,561,606	11,788,738
Contributions receivable	2,335,002	2,461,429
Prepaid expenses and other assets	788,438	1,692,629
Investments	11,041,473	9,149,886
Endowment	5,408,969	4,705,485
Property and equipment, net	7,881,509	8,536,895
Total assets	\$ 115,800,036	\$ 99,744,380
Liabilities and Net Assets		
Accounts payable	\$ 3,164,119	\$ 2,363,650
Accrued liabilities	3,131,538	2,476,868
Payable to member hospitals and designated organizations	70,919,374	56,021,246
Line of credit	-	2,800,000
Deferred revenue	9,834,306	9,998,535
Note payable	3,169,472	3,440,853
Total liabilities	90,218,809	77,101,152
Net assets		
Unrestricted		
Undesignated	17,795,922	15,461,716
Board-designated endowment	1,634,978	1,411,801
Total unrestricted net assets	19,430,900	16,873,517
Temporarily restricted	3,803,119	3,422,503
Permanently restricted	2,347,208	2,347,208
Total net assets	25,581,227	22,643,228
Total liabilities and net assets	\$ 115,800,036	\$ 99,744,380

Children's Miracle Network Hospitals
Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fundraising and Support				
Total amount raised	\$ 226,208,358	\$ 2,168,335	\$ -	\$ 228,376,693
Less amounts designated by donors to specific hospitals	(221,194,265)	-	-	(221,194,265)
Net fundraising and support	5,014,093	2,168,335	-	7,182,428
Revenues				
Hospital membership fees	30,069,336	-	-	30,069,336
Direct mail	4,756,748	-	-	4,756,748
Licensing fees	312,547	-	-	312,547
Donations in-kind	446,530	41,335	-	487,865
Registration fees	865,864	-	-	865,864
Ancillary revenue	613,037	-	-	613,037
Total revenues	37,064,062	41,335	-	37,105,397
Other income and gains				
Gain on sale of property and equipment	5,444	-	-	5,444
Interest and dividend income	504,427	107,904	-	612,331
Net realized gain (loss) on investments	333,375	77,601	-	410,976
Net unrealized gain (loss) on investments	1,268,665	294,799	-	1,563,464
Foreign currency exchange gain (loss)	45,583	-	-	45,583
Net assets released from restrictions	2,309,358	(2,309,358)	-	-
Total other income and gains	4,466,852	(1,829,054)	-	2,637,798
Total fundraising and support, revenues and gains	46,545,007	380,616	-	46,925,623
Expenses				
Program services				
Public education and awareness	8,240,794	-	-	8,240,794
Fundraising program services	31,483,435	-	-	31,483,435
Total program services	39,724,229	-	-	39,724,229
Supporting services				
Management and general	2,952,388	-	-	2,952,388
Fundraising	1,311,007	-	-	1,311,007
Total supporting services	4,263,395	-	-	4,263,395
Total expenses	43,987,624	-	-	43,987,624
Change in Net Assets	2,557,383	380,616	-	2,937,999
Net Assets, Beginning of Year	16,873,517	3,422,503	2,347,208	22,643,228
Net Assets, End of Year	\$ 19,430,900	\$ 3,803,119	\$ 2,347,208	\$ 25,581,227

See Notes to Financial Statements

Children's Miracle Network Hospitals
Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fundraising and Support				
Total amount raised	\$ 217,877,619	\$ 1,901,809	\$ -	\$ 219,779,428
Less amounts designated by donors to specific hospitals	(211,935,583)	-	-	(211,935,583)
Net fundraising and support	5,942,036	1,901,809	-	7,843,845
Revenues				
Hospital membership fees	30,577,152	-	-	30,577,152
Direct mail	5,079,251	-	-	5,079,251
Licensing fees	57,900	-	-	57,900
Donations in-kind	2,488,086	39,619	-	2,527,705
Registration fees	1,147,416	-	-	1,147,416
Ancillary revenue	511,825	-	-	511,825
Total revenues	39,861,630	39,619	-	39,901,249
Other income and gains				
Gain on sale of property and equipment	8,470	-	-	8,470
Interest and dividend income	372,495	95,471	-	467,966
Net realized gain (loss) on investments	(414,927)	150,627	-	(264,300)
Net unrealized gain (loss) on investments	770,819	(67,367)	-	703,452
Foreign currency exchange gain (loss)	(209,292)	-	-	(209,292)
Net assets released from restrictions	1,389,186	(1,389,186)	-	-
Total other income and gains	1,916,751	(1,210,455)	-	706,296
Total fundraising and support, revenues and gains	47,720,417	730,973	-	48,451,390
Expenses				
Program services				
Public education and awareness	10,714,448	-	-	10,714,448
Fundraising program services	33,083,847	-	-	33,083,847
Total program services	43,798,295	-	-	43,798,295
Supporting services				
Management and general	3,378,522	-	-	3,378,522
Fundraising	2,020,263	-	-	2,020,263
Total supporting services	5,398,785	-	-	5,398,785
Total expenses	49,197,080	-	-	49,197,080
Change in Net Assets	(1,476,663)	730,973	-	(745,690)
Net Assets, Beginning of Year	18,350,180	2,691,530	2,347,208	23,388,918
Net Assets, End of Year	\$ 16,873,517	\$ 3,422,503	\$ 2,347,208	\$ 22,643,228

See Notes to Financial Statements

Children's Miracle Network Hospitals
Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services			Supporting Services			Total Expenses
	Public Education and Awareness	Fundraising Program Services	Total	Management and General	Fundraising	Total	
Employment costs	\$ 4,440,965	\$ 13,703,670	\$ 18,144,635	\$ 1,634,887	\$ 782,522	\$ 2,417,409	\$ 20,562,044
Contract services	1,609,503	3,680,790	5,290,293	466,135	136,502	602,637	5,892,930
Travel	840,141	2,896,941	3,737,082	284,574	155,469	440,043	4,177,125
Professional and license fees	444,039	2,612,939	3,056,978	376,084	132,487	508,571	3,565,549
Advertising, printing and photography	520,182	775,565	1,295,747	24,015	17,793	41,808	1,337,555
Corporate campaign	-	2,938,645	2,938,645	-	-	-	2,938,645
Program support	-	3,476,403	3,476,403	-	-	-	3,476,403
Sponsorship support	32,557	187,853	220,410	15,708	12,447	28,155	248,565
Supplies	45,612	127,750	173,362	16,127	8,049	24,176	197,538
Postage and shipping	19,581	89,215	108,796	10,606	6,845	17,451	126,247
Telephone	52,735	198,231	250,966	21,048	10,066	31,114	282,080
Insurance	18,024	60,741	78,765	7,556	3,657	11,213	89,978
Occupancy, utilities and rentals	53,524	182,809	236,333	26,402	11,835	38,237	274,570
Depreciation	138,124	464,913	603,037	58,427	28,099	86,526	689,563
Interest	25,807	86,970	112,777	10,819	5,236	16,055	128,832
Total expenses	\$ 8,240,794	\$ 31,483,435	\$ 39,724,229	\$ 2,952,388	\$ 1,311,007	\$ 4,263,395	\$ 43,987,624

Children's Miracle Network Hospitals
Statement of Functional Expenses
Year Ended December 31, 2016

	Program Services			Supporting Services			Total Expenses
	Public Education and Awareness	Fundraising Program Services	Total	Management and General	Fundraising	Total	
Employment costs	\$ 4,305,167	\$ 13,993,899	\$ 18,299,066	\$ 1,628,963	\$ 816,072	\$ 2,445,035	\$ 20,744,101
Contract services	1,237,791	4,577,786	5,815,577	462,971	218,458	681,429	6,497,006
Travel	980,563	3,129,484	4,110,047	280,755	150,765	431,520	4,541,567
Professional and license fees	593,467	1,992,901	2,586,368	232,433	110,338	342,771	2,929,139
Advertising, printing and photography	3,170,057	1,662,798	4,832,855	599,012	644,877	1,243,889	6,076,744
Corporate campaign	-	3,151,234	3,151,234	-	-	-	3,151,234
Program support	-	3,110,867	3,110,867	-	-	-	3,110,867
Sponsorship support	28,944	180,187	209,131	15,896	11,325	27,221	236,352
Other cost reimbursements	-	59,107	59,107	-	-	-	59,107
Supplies	64,552	165,960	230,512	21,645	8,971	30,616	261,128
Postage and shipping	26,237	79,685	105,922	9,516	4,072	13,588	119,510
Telephone	50,209	193,855	244,064	20,474	9,575	30,049	274,113
Insurance	16,545	50,582	67,127	6,295	2,819	9,114	76,241
Occupancy, utilities and rentals	63,475	193,224	256,699	31,832	12,492	44,324	301,023
Depreciation	145,997	446,149	592,146	56,766	25,141	81,907	674,053
Interest	31,444	96,129	127,573	11,964	5,358	17,322	144,895
Total expenses	\$ 10,714,448	\$ 33,083,847	\$ 43,798,295	\$ 3,378,522	\$ 2,020,263	\$ 5,398,785	\$ 49,197,080

Children's Miracle Network Hospitals
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 2,937,999	\$ (745,690)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	689,563	674,053
Realized and unrealized gain on investments	(1,420,170)	(310,952)
Endowment net investment return	(703,484)	(262,885)
Gain on sale of property and equipment	(5,444)	(8,470)
Bad debt expense	526,421	419,012
Foreign currency (gains) losses	(45,583)	209,292
Changes in operating assets and liabilities		
Restricted cash	(15,152,749)	(12,032,287)
Accounts receivable	700,711	(1,361,329)
Contributions receivable	126,427	(539,911)
Prepaid expenses and other assets	904,191	(697,320)
Accounts payable	824,930	632,992
Accrued liabilities	654,670	(16,132)
Payable to member hospitals and designated organizations	14,841,474	11,822,995
Deferred revenue	(164,229)	(262,233)
Net Cash from (used for) Operating Activities	4,714,727	(2,478,865)
Investing Activities		
Purchase of investments	(6,086,946)	(508,671)
Proceeds from sale of investments	5,620,953	77,001
Purchase of restricted investments	(5,786,001)	(61,249)
Sale of restricted investments	6,035,198	-
Purchase of property and equipment	(67,797)	(506,851)
Proceeds from sale of property and equipment	14,603	8,470
Net Cash used for Investing Activities	(269,990)	(991,300)

Children's Miracle Network Hospitals
 Statements of Cash Flows
 Years Ended December 31, 2017 and 2016

	2017	2016
Financing Activities		
Proceeds from line of credit	\$ 2,000,000	\$ 5,000,000
Principal payments on line of credit	(4,800,000)	(2,200,000)
Principal payments on note payable	(271,381)	(264,590)
	(3,071,381)	2,535,410
Net Cash (used for) from Financing Activities		
Effect of Exchange Rate Changes on Cash	102,237	34,839
	1,475,593	(899,916)
Net Change in Cash and Cash Equivalents		
Cash and Cash Equivalents, Beginning of Year	5,388,072	6,287,988
	\$ 6,863,665	\$ 5,388,072
	\$ 6,863,665	\$ 5,388,072
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for		
Interest	\$ 129,396	\$ 142,443
Unrelated business income tax	4,725	600
	\$ 134,121	\$ 143,043
	\$ 134,121	\$ 143,043

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Children's Miracle Network dba 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 in connection with other corporate, media and hospital organizations to benefit children's healthcare. 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, direct mail revenues and corporate underwriting. Corporate underwriting represents donations from corporate sponsors to Children's Miracle Network Hospitals.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes are excluded from this definition.

Restricted Cash

Restricted cash and cash equivalents are resources received from the Organization's campaigns which are payable to member hospitals and designated organizations.

Accounts Receivables

Accounts receivable represent billings to member hospitals for membership fees and various ancillary services. The Organization determines the allowance for doubtful accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. At December 31, 2017 and 2016, the allowance was \$1,074,096 and \$564,536, respectively.

Contributions Receivable

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in fundraising and support in the statements of activities. The Organization determines the allowance for doubtful promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectible. At December 31, 2017 and 2016, the allowance for doubtful contributions receivable was \$0.

Investments

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at fair value in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees. Restricted investments are payable to member hospitals and designated organizations.

Property and Equipment

Property and equipment additions over \$5,000, or over \$2,000 in the case of computer equipment, are recorded at cost, or if donated, at fair value at the date of the donation. Depreciation is computed using the straight-line method based on estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lessor of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2017 and 2016.

Net Assets

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 and reported as follows:

Unrestricted Net Assets - Net assets available for use in general operations. Unrestricted board-designated assets consist of net assets designated by the Board of Trustees for the endowment.

Temporarily Restricted Net Assets - Net assets subject to donor restrictions that may or will be met by expenditures or actions and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Board of Trustees.

The Organization reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization's actions. The restrictions stipulate that resources be maintained permanently but permit expending the income generated in accordance with the provisions of the agreements.

Revenue and Revenue Recognition

Revenue is recognized when earned. Hospital membership fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Amounts Raised on Behalf of Member Hospitals

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 and designated organizations. Children's Miracle Network Hospitals has no discretionary variance power over the distribution of such contributions. Payable to member hospitals and designated organizations at December 31, 2017 and 2016 is \$70,919,374 and \$56,021,246, respectively. Results of fundraising efforts by Children's Miracle Network Hospitals that are received as agency funds are included in fundraising and support in the statements of activities. Before such amounts are paid to specific member hospitals, they are recorded as restricted cash and investments and payable to member hospitals and designated organizations on the statements of financial position. Amounts are distributed to member hospitals quarterly.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Organization's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Donated professional services are recorded at the respective fair values of the services received. Amounts reflected in the financial statements during the years ended December 31, 2017 and 2016 for donated goods and services total \$487,865 and \$2,527,705, respectively.

Advertising Costs

Advertising costs are expensed as incurred, and totaled \$1,121,053 and \$5,806,707 for the years ended December 31, 2017 and 2016, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization performs the following functions:

1. Public Education and Awareness – All costs incurred to develop, package and provide public outreach programs for member children's hospitals throughout the United States.
2. Fundraising Program Services – Activities performed by the Organization to develop national fundraising programs for over 150 children's hospitals throughout the United States. 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 organizations.
3. 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.
4. Fundraising – Activities performed by the Organization to generate funds and/or resources to support its programs and operations.

Income Taxes

The Organization is organized as a Utah nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), that qualifies for the charitable contribution deduction under Section 509(a)(2) and has been determined not to be a private foundation under section 509(a)(1). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

Children's Miracle Network Hospitals believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from entities supportive of the Organization's mission. Investments are made by investment managers whose performance is monitored by management and the Board of Trustees. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Board of Trustees believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

Reclassifications

As discussed in Note 14, certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented.

Subsequent Events

Subsequent events have been evaluated through June 13, 2018, the date which the financial statements were available to be issued.

Note 2 - Fair Value Measurements and Disclosures

The Organization reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Children's Miracle Network Hospitals

Notes to Financial Statements

December 31, 2017 and 2016

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset or liability.

Investments, at fair value, consist of the following as of December 31, 2017:

Assets	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted investments, investments and endowment				
Equities				
U.S. Domestic	\$ 7,672,998	\$ 7,672,998	\$ -	\$ -
International	4,126,260	4,126,260	-	-
Fixed income				
U.S. Domestic	1,371,608	1,371,608	-	-
International	201,996	201,996	-	-
Mutual funds				
Alternative funds	1,830,062	1,830,062	-	-
Commodity funds	569,286	569,286	-	-
Income and growth funds	597,299	597,299	-	-
Endowment cash	80,933	80,933	-	-
Certificates of deposit	5,745,379	5,745,379	-	-
Total restricted investments, investments and endowment	<u>\$ 22,195,821</u>	<u>\$ 22,195,821</u>	<u>\$ -</u>	<u>\$ -</u>

Children's Miracle Network Hospitals

Notes to Financial Statements

December 31, 2017 and 2016

Investments, at fair value, consist of the following as of December 31, 2016:

PY

Assets	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted investments, investments and endowment				
Equities				
U.S. domestic	\$ 5,701,830	\$ 5,701,830	\$ -	\$ -
International	2,884,985	2,884,985	-	-
Fixed income				
U.S. domestic	1,266,186	1,266,186	-	-
International	304,127	304,127	-	-
Mutual funds				
Alternative funds	1,611,666	1,611,666	-	-
Commodity funds	559,530	559,530	-	-
Income and growth funds	477,006	477,006	-	-
Bond funds	6,000,000	6,000,000	-	-
Real estate funds	944,863	944,863	-	-
Endowment cash	105,178	105,178	-	-
Total restricted investments,				

Note 3 - Net Investment Return

Net investment return consists of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Investments		
Interest and dividends, net of management fees	\$ 463,117	\$ 277,903
Net realized and unrealized gain	1,425,594	342,958
	1,888,711	620,861
Restricted Investments		
Interest and dividends, net of management fees	-	55,378
Net realized and unrealized loss	(5,424)	(32,006)
	(5,424)	23,372
Endowment		
Interest and dividends, net of management fees	149,214	134,685
Net realized and unrealized gain	554,270	128,200
	703,484	262,885
	\$ 2,586,771	\$ 907,118

Note 4 - Contributions Receivable

Contributions receivable consist of the following at December 31:

	2017	2016
Due within one year	\$ 2,335,002	\$ 2,294,762
Due in one to 5 years	-	166,667
	\$ 2,335,002	\$ 2,461,429

Included in contributions receivable as of December 31, 2017 and 2016, is an outstanding receivable of \$166,667 and \$333,333, respectively. The receivable will be paid in yearly increments of \$166,667 through the year ended December 31, 2018. The Organization has determined that the discount related to this contribution receivable is not material.

Note 5 - Property and Equipment

Property and equipment consists of the following at December 31:

	2017	2016
Land	\$ 1,912,889	\$ 1,912,889
Buildings and improvements	7,321,555	7,310,871
Furniture, equipment and software	2,685,502	2,746,765
	11,919,946	11,970,525
Less accumulated depreciation	(4,038,437)	(3,433,630)
	\$ 7,881,509	\$ 8,536,895

Note 6 - Line of Credit

In January 2016, the Organization signed a line of credit agreement with the financial institution that holds the Organization's investments. In November 2017, the Organization signed an amendment to the line of credit agreement. Under the revised agreement, the Organization may borrow up to \$6,000,000, which is secured by the Organization's investment holdings with the financial institution and is payable on demand. The interest rate on the line of credit varies based upon the applicable LIBOR rate plus 0.90%.

As of December 31, 2017 and 2016, the balance of the line of credit was \$0 and \$2,800,000, respectively. The variable interest rates as of December 31, 2017 and 2016 was 2.46% and 1.66%, respectively.

Note 7 - Commitments and Contingencies

Leases

The Organization leases certain equipment under various operating leases expiring at various dates through 2022. Future minimum lease payments are as follows:

<u>Year ending June 30,</u>		
2018	\$	29,064
2019		29,064
2020		27,883
2021		27,647
2022		20,545
		\$ 134,203

Rent expense for the years ended December 31, 2017 and 2016 totaled \$46,118 and \$32,066, 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 each of the years ended December 31, 2017 and 2016 totaled \$72,453. As of December 31, 2017 and 2016, related assets of \$430,943 and \$299,191, respectively, were included in investments and related liabilities of \$503,396 and \$371,644, 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, 2017 and 2016, the 457(b) plan assets and related liabilities of \$166,356, were included as investments 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 2016, the Organization amended a promotional 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 is to pay a participant fee of \$650,000 beginning in 2017, and increases 3% in each succeeding year. The term of the contract runs through July 31, 2021 and either party may terminate the agreement after the contract year ending on July 31, 2019.

Note 8 - Note Payable

In 2013, the Organization obtained a 10-year loan for approximately \$4,400,000 secured by real estate and a building. 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, 2017 and 2016, the interest rate was 2.41% and the monthly payments were \$29,372. The loan matures in February 2023.

Future maturities of the note payable are as follows:

Year ending December 31,

2018	\$ 278,083
2019	284,957
2020	291,827
2021	299,216
2022	306,613
Thereafter	1,708,776
	\$ 3,169,472

Note 9 - Conditional Promises to Give

The Organization had received \$735,000 of conditional contribution promises to give and unconditional intentions to give as of December 31, 2017 and 2016, which were not recognized in the accompanying financial statements in accordance with ASC 958-605, Not-for-Profit Entities – Revenue Recognition. The conditional promises to give will be recognized in the financial statements in the period when the donor-stipulated conditions are satisfied. As of December 31, 2017 and 2016, 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.

Note 10 - Retirement Plan

The Organization has a noncontributory defined contribution employee benefit plan and a 403(b) plan. The total expense recognized for these plans was \$2,214,806 and \$2,259,598 for the years December 31, 2017 and 2016, respectively.

Note 11 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

	2017	2016
Time restricted contributions	\$ 2,335,002	\$ 2,401,809
Unappropriated earnings on endowment	1,426,783	946,476
Purpose restricted in-kind contributions	41,334	74,218
	\$ 3,803,119	\$ 3,422,503

Note 12 - Endowment

Children’s Miracle Network Hospitals has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2017 and 2016, there were no such donor stipulations. 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 endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment 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.

Children’s Miracle Network Hospitals considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Children’s Miracle Network Hospitals’ endowment funds are governed subject to a board-approved Endowment Fund Policy. The Endowment Fund also includes certain unrestricted net assets designated for endowment by the Board of Trustees. 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).

Children's Miracle Network Hospitals

Notes to Financial Statements

December 31, 2017 and 2016

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 the 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.

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, 2017 and 2016, there were no such deficiencies.

As of December 31, 2017 and 2016, the Organization had the following endowment net asset composition by type of fund:

<u>December 31, 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 1,426,783	\$ 2,347,208	\$ 3,773,991
Board-designated endowment funds	1,634,978	-	-	1,634,978
Total funds	<u>\$ 1,634,978</u>	<u>\$ 1,426,783</u>	<u>\$ 2,347,208</u>	<u>\$ 5,408,969</u>
<u>December 31, 2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 946,476	\$ 2,347,208	\$ 3,293,684
Board-designated endowment funds	1,411,801	-	-	1,411,801
Total funds	<u>\$ 1,411,801</u>	<u>\$ 946,476</u>	<u>\$ 2,347,208</u>	<u>\$ 4,705,485</u>

Changes in endowment net assets for the years ended December 31, 2017 and 2016 are as follows:

<u>Year Ended December 31, 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	\$ 1,411,801	\$ 946,476	\$ 2,347,208	\$ 4,705,485
Investment income	41,310	107,904	-	149,214
Net realized and unrealized gain	181,867	372,403	-	554,270
Endowment net assets, end of year	<u>\$ 1,634,978</u>	<u>\$ 1,426,783</u>	<u>\$ 2,347,208</u>	<u>\$ 5,408,969</u>
<u>Year Ended December 31, 2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment net assets, beginning of year	\$ 1,327,647	\$ 767,745	\$ 2,347,208	\$ 4,442,600
Investment income	39,214	95,471	-	134,685
Net realized and unrealized gain	44,940	83,260	-	128,200
Endowment net assets, end of year	<u>\$ 1,411,801</u>	<u>\$ 946,476</u>	<u>\$ 2,347,208</u>	<u>\$ 4,705,485</u>

Note 13 - Related Party Transactions

During the year ended December 31, 2017, the Organization transferred its Canadian operations to another organization, Canada's Children's Hospital Foundations (CCHF), and sold certain assets and transferred certain liabilities to CCHF. The Organization entered into a Master Agreement with CCHF wherein the Organization provides supporting services and allows CCHF access to its trademarks and marketing materials. In exchange for these services, the Organization received a fee of \$250,000 for the period from July 1, 2017 to December 31, 2017 and is to receive annual fees starting at \$500,000 for the year 2018 increasing by 1.5% each year thereafter through 2021, at which time the agreement may be extended for terms of 5 years or as otherwise agreed by the Organization and CCHF. The Organization holds one seat on the Board of Directors at CCHF but does not exhibit significant voting control of CCHF.

Certain members of Children's Miracle Network Hospitals' Board of Trustees are employed by member hospitals.

Note 14 - Reclassifications

During 2017, the Organization identified certain reclassifications of amounts previously reported within the 2016 financial statements. The reclassifications had no impact on previously reported net assets or changes in net assets. Significant reclassifications include the presentation of endowment investments separately from operating investments on the statement of financial position, as well as reclassifications of certain fundraising and registration fee revenue previously presented as ancillary revenues on the statement of activities. In addition, the following significant reclassifications were made on the statement of financial position to maintain consistency between periods presented:

	As Previously Reported	Reclassifications	As Presently Reported
Cash and cash equivalents	\$ 4,368,700	\$ 1,019,372	\$ 5,388,072
Restricted cash	50,288,910	(267,664)	50,021,246
Contributions receivable	3,679,170	(1,217,741)	2,461,429
Total assets	100,012,044	(267,664)	99,744,380
Payable to member hospitals and designated organizations	56,288,910	(267,664)	56,021,246
Total liabilities	77,368,816	(267,664)	77,101,152
Total liabilities and net assets	100,012,044	(267,664)	99,744,380

As the noted reclassifications affect the statement of cash flows, the following is a summary of the effects of these reclassifications in the Organization's December 31, 2016 statement of cash flows:

	As Previously Reported	Reclassifications	As Presently Reported
Change in accounts and contributions receivable	\$ (2,463,218)	\$ 561,978	\$ (1,901,240)
Other operating cash flow reclassifications	-	(162,324)	-
Net cash from (used for) operating activities	(2,878,519)	399,654	(2,478,865)
Cash and Cash Equivalents, Beginning of Year	5,668,270	619,718	6,287,988
Cash and Cash Equivalents, End of Year	4,368,700	1,019,372	5,388,072