



**Children's  
Miracle Network  
Hospitals**

Financial Statements  
December 31, 2019 and 2018

Children's Miracle Network Hospitals

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December 31, 2019 and 2018

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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 statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years 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 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 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, 2019 and 2018, 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.

**Change in Accounting Principle**

As discussed in Note 1 and Note 15 to the financial statements, Children's Miracle Network has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Accordingly, the December 31, 2018 statement of cash flows has been adjusted to adopt this standard. Our opinion is not modified with respect to this matter.

The image shows a handwritten signature in black ink that reads "Eide Sallee LLP". The signature is written in a cursive, flowing style.

Salt Lake City, Utah  
July 9, 2020

Children's Miracle Network Hospitals

Statements of Financial Position

December 31, 2019 and 2018

	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 30,415,091	\$ 21,210,304
Restricted cash and cash equivalents	66,290,604	57,453,741
Accounts receivable, net of allowance for doubtful accounts of \$195,225 and \$340,203	3,706,330	11,854,339
Contributions receivable	2,336,590	2,194,156
Prepaid expenses and other assets	202,394	829,332
Investments	17,782,700	10,101,988
Endowment	6,032,106	5,008,411
Property and equipment, net	6,958,585	7,363,712
	<u>\$ 133,724,400</u>	<u>\$ 116,015,983</u>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 2,251,620	\$ 2,080,474
Accrued liabilities	4,003,472	3,589,471
Payable to member hospitals and designated organizations	66,290,604	57,453,741
Deferred revenue	23,023,256	20,281,814
Note payable	-	2,909,943
	<u>95,568,952</u>	<u>86,315,443</u>
<b>Net assets</b>		
Without donor restrictions		
Undesignated	29,778,982	22,420,815
Designated by board for endowment	1,716,434	1,507,136
	<u>31,495,416</u>	<u>23,927,951</u>
With donor restrictions	<u>6,660,032</u>	<u>5,772,589</u>
	<u>38,155,448</u>	<u>29,700,540</u>
	<u>\$ 133,724,400</u>	<u>\$ 116,015,983</u>

Children's Miracle Network Hospitals

Statement of Activities

Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Fundraising and Support</b>			
Total amount raised	\$ 238,080,047	\$ 2,336,590	\$ 240,416,637
Less amounts designated by donors to specific hospitals	(230,173,969)	-	(230,173,969)
Net fundraising and support	<u>7,906,078</u>	<u>2,336,590</u>	<u>10,242,668</u>
<b>Revenues</b>			
Hospital membership fees	29,838,119	-	29,838,119
Direct mail	4,362,724	-	4,362,724
Licensing fees	582,852	-	582,852
Donations in-kind	441,146	7,770	448,916
Registration fees	1,291,612	-	1,291,612
Ancillary revenue	558,597	-	558,597
Total revenues	<u>37,075,050</u>	<u>7,770</u>	<u>37,082,820</u>
<b>Other Income and Gains</b>			
Gain on sale of property and equipment	4,250	-	4,250
Net investment return	3,990,962	814,397	4,805,359
Foreign currency exchange gain	72,235	-	72,235
Net assets released from restrictions	2,271,314	(2,271,314)	-
Total other income and gains	<u>6,338,761</u>	<u>(1,456,917)</u>	<u>4,881,844</u>
Total fundraising and support, revenues and gains	<u>51,319,889</u>	<u>887,443</u>	<u>52,207,332</u>
<b>Expenses</b>			
<b>Program services</b>			
Public education and awareness	7,797,288	-	7,797,288
Fundraising program services	29,948,152	-	29,948,152
Total program services	<u>37,745,440</u>	<u>-</u>	<u>37,745,440</u>
<b>Supporting services</b>			
Management and general	4,547,880	-	4,547,880
Fundraising	1,459,104	-	1,459,104
Total supporting services	<u>6,006,984</u>	<u>-</u>	<u>6,006,984</u>
Total expenses	<u>43,752,424</u>	<u>-</u>	<u>43,752,424</u>
Change in Net Assets	7,567,465	887,443	8,454,908
Net Assets, Beginning of Year	<u>23,927,951</u>	<u>5,772,589</u>	<u>29,700,540</u>
Net Assets, End of Year	<u>\$ 31,495,416</u>	<u>\$ 6,660,032</u>	<u>\$ 38,155,448</u>

See Notes to Financial Statements

# Children's Miracle Network Hospitals

## Statement of Activities

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Fundraising and Support</b>			
Total amount raised	\$ 234,277,807	\$ 2,194,156	\$ 236,471,963
Less amounts designated by donors to specific hospitals	(227,156,904)	-	(227,156,904)
Net fundraising and support	7,120,903	2,194,156	9,315,059
<b>Revenues</b>			
Hospital membership fees	29,771,055	-	29,771,055
Direct mail	4,641,678	-	4,641,678
Licensing fees	565,195	-	565,195
Donations in-kind	375,229	77,158	452,387
Registration fees	1,084,029	-	1,084,029
Ancillary revenue	583,558	-	583,558
Total revenues	37,020,744	77,158	37,097,902
<b>Other Income and Gains</b>			
Gain on sale of property and equipment	5,505	-	5,505
Net investment loss	(298,127)	(272,716)	(570,843)
Foreign currency exchange loss	(140,645)	-	(140,645)
Net assets released from restrictions	2,376,336	(2,376,336)	-
Total other income and gains	1,943,069	(2,649,052)	(705,983)
Total fundraising and support, revenues and gains	46,084,716	(377,738)	45,706,978
<b>Expenses</b>			
<b>Program services</b>			
Public education and awareness	7,483,076	-	7,483,076
Fundraising program services	28,524,394	-	28,524,394
Total program services	36,007,470	-	36,007,470
<b>Supporting services</b>			
Management and general	4,285,285	-	4,285,285
Fundraising	1,294,910	-	1,294,910
Total supporting services	5,580,195	-	5,580,195
Total expenses	41,587,665	-	41,587,665
Change in Net Assets	4,497,051	(377,738)	4,119,313
Net Assets, Beginning of Year	19,430,900	6,150,327	25,581,227
Net Assets, End of Year	\$ 23,927,951	\$ 5,772,589	\$ 29,700,540

Children's Miracle Network Hospitals  
Statement of Functional Expenses  
Year Ended December 31, 2019

	Program Services			Supporting Services			Total Expenses
	Public Education and Awareness	Fundraising Program Services	Total	Management and General	Fundraising	Total	
Employment costs	\$ 4,362,396	\$ 13,076,856	\$ 17,439,252	\$ 2,993,169	\$ 759,689	\$ 3,752,858	\$ 21,192,110
Contract services	1,542,105	3,918,299	5,460,404	508,909	267,653	776,562	6,236,966
Travel	819,852	2,933,222	3,753,074	332,706	151,795	484,501	4,237,575
Professional and license fees	302,703	2,925,895	3,228,598	452,755	155,218	607,973	3,836,571
Advertising, printing and photography	420,119	619,582	1,039,701	109,048	47,763	156,811	1,196,512
Corporate campaign	-	2,872,072	2,872,072	-	-	-	2,872,072
Program support	-	2,356,056	2,356,056	-	-	-	2,356,056
Sponsorship support	38,231	211,552	249,783	15,874	12,081	27,955	277,738
Supplies	64,067	171,490	235,557	27,390	10,465	37,855	273,412
Postage and shipping	28,339	110,171	138,510	14,585	10,679	25,264	163,774
Telephone	42,763	155,023	197,786	19,179	7,631	26,810	224,596
Insurance	19,038	64,161	83,199	7,981	3,863	11,844	95,043
Occupancy, utilities and rentals	43,927	150,428	194,355	18,599	9,188	27,787	222,142
Depreciation	88,317	297,638	385,955	37,024	17,919	54,943	440,898
Interest	25,431	85,707	111,138	10,661	5,160	15,821	126,959
<b>Total expenses</b>	<b>\$ 7,797,288</b>	<b>\$ 29,948,152</b>	<b>\$ 37,745,440</b>	<b>\$ 4,547,880</b>	<b>\$ 1,459,104</b>	<b>\$ 6,006,984</b>	<b>\$ 43,752,424</b>



Children's Miracle Network Hospitals  
Statement of Functional Expenses  
Year Ended December 31, 2018

	Program Services			Supporting Services			Total Expenses
	Public Education and Awareness	Fundraising Program Services	Total	Management and General	Fundraising	Total	
Employment costs	\$ 4,244,563	\$ 12,773,062	\$ 17,017,625	\$ 2,962,066	\$ 767,484	\$ 3,729,550	\$ 20,747,175
Contract services	1,410,712	3,340,684	4,751,396	374,981	110,045	485,026	5,236,422
Travel	875,244	2,937,115	3,812,359	331,212	156,764	487,976	4,300,335
Professional and license fees	288,642	2,960,684	3,249,326	394,821	138,384	533,205	3,782,531
Advertising, printing and photography	316,144	500,934	817,078	49,160	47,623	96,783	913,861
Corporate campaign	-	2,483,497	2,483,497	-	-	-	2,483,497
Program support	-	2,290,185	2,290,185	-	-	-	2,290,185
Sponsorship support	26,714	149,785	176,499	10,870	8,407	19,277	195,776
Supplies	48,699	133,367	182,066	20,794	8,038	28,832	210,898
Postage and shipping	19,194	71,744	90,938	9,354	5,766	15,120	106,058
Telephone	45,519	168,554	214,073	20,502	8,185	28,687	242,760
Insurance	19,753	80,838	100,591	32,743	6,046	38,789	139,380
Occupancy, utilities and rentals	39,888	135,152	175,040	16,735	8,139	24,874	199,914
Depreciation	119,636	403,189	522,825	50,154	24,273	74,427	597,252
Interest	28,368	95,604	123,972	11,893	5,756	17,649	141,621
<b>Total expenses</b>	<b>\$ 7,483,076</b>	<b>\$ 28,524,394</b>	<b>\$ 36,007,470</b>	<b>\$ 4,285,285</b>	<b>\$ 1,294,910</b>	<b>\$ 5,580,195</b>	<b>\$ 41,587,665</b>

# Children's Miracle Network Hospitals

## Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018 (Adopted Change in Accounting Principle)
<b>Operating Activities</b>		
Change in net assets	\$ 8,454,908	\$ 4,119,313
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	440,898	597,253
Investments net investment (gain) loss	(2,037,187)	1,145,356
Endowment net investment (gain) loss	(1,023,695)	400,558
Gain on sale of property and equipment	(4,250)	(5,505)
Bad debt expense (recoveries)	(144,978)	(516,302)
Foreign currency (gain) loss	(72,235)	140,645
Changes in operating assets and liabilities		
Accounts receivable	8,292,987	(776,431)
Contributions receivable	(142,434)	140,846
Prepaid expenses and other assets	626,938	(40,894)
Accounts payable	171,146	(1,083,645)
Accrued liabilities	414,001	457,933
Payable to member hospitals and designated organizations	8,836,863	(13,465,633)
Deferred revenue	2,741,442	10,447,508
<b>Net Cash from Operating Activities</b>	<b>26,554,404</b>	<b>1,561,002</b>
<b>Investing Activities</b>		
Purchase of investments	(9,666,063)	(4,049,927)
Proceeds from sale of investments	4,022,538	3,844,056
Sale of restricted investments	-	5,745,379
Purchase of property and equipment	(35,771)	(79,456)
Proceeds from sale of property and equipment	4,250	5,505
<b>Net Cash from (used for) Investing Activities</b>	<b>(5,675,046)</b>	<b>5,465,557</b>

Children's Miracle Network Hospitals  
Statements of Cash Flows  
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u> (Adopted Change in Accounting Principle)
Financing Activities		
Principal payments on note payable	\$ (2,909,943)	\$ (259,529)
Net Cash used for Financing Activities	<u>(2,909,943)</u>	<u>(259,529)</u>
Effect of Exchange Rate Changes on Cash	<u>72,235</u>	<u>(140,645)</u>
Net Change in Cash and Cash Equivalents and Restricted Cash and Cash Equivalents	18,041,650	6,626,385
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning of Year	<u>78,664,045</u>	<u>72,037,660</u>
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, End of Year	<u>\$ 96,705,695</u>	<u>\$ 78,664,045</u>
Cash and Cash Equivalents	\$ 30,415,091	\$ 21,210,304
Restricted Cash and Cash Equivalents	<u>66,290,604</u>	<u>57,453,741</u>
Total cash and cash equivalents and restricted cash and cash equivalents	<u>\$ 96,705,695</u>	<u>\$ 78,664,045</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for		
Interest	\$ 116,171	\$ 137,413
Unrelated business income tax	5,989	5,000

**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**

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, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

**Restricted Cash and Cash Equivalents**

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

**Accounts Receivable**

Accounts receivable consist primarily of billings to member hospitals for membership fees and various ancillary services. Allowance for doubtful accounts receivable is determined 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, 2019 and 2018, the allowance was \$195,225 and \$340,203, respectively. Receivables from contracts with customers are reported as accounts receivable, net in the accompanying statements of financial position. Contract liabilities are reported as deferred revenue in the accompanying statements of financial position.

**Contributions Receivable**

The Organization records unconditional promises to give that are expected to be collected within one year 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. Allowance for uncollectible promises to give is determined 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, 2019 and 2018, the allowance for uncollectible promises to give was \$0.

**Property and Equipment**

Property and equipment additions over \$5,000 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 lesser 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. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organization reviews the carrying values of property and equipment 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, 2019 and 2018.

**Investments**

Investment purchases are recorded at cost or, if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values 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 external and direct internal investment expenses.

**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:

*Net Assets without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

*Net Assets with Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**Revenue and Revenue Recognition**

The Organization recognizes contributions 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.

The Organization enters into multi-year contracts with its member hospitals in which the Organization performs fundraising and other events on behalf of the member hospitals and receives an annual fee. Services are performed ratably over the year and the annual hospital membership fees are recognized over the year.

The Organization enters into agreements with member hospitals to administer direct mail programs in their designated markets. The Organization recognizes revenue at a point in time when mailers are sent.

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.

The following table disaggregates the Organization's revenue from contracts with customers based on the timing of satisfaction of performance obligations for the year ended December 31, 2019:

	<u>2019</u>
Revenue recognized over time	\$ 30,420,971
Revenue recognized at a point in time	<u>6,212,933</u>
Total revenue from contracts with customers	<u>\$ 36,633,904</u>

### 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, 2019 and 2018 is \$66,290,604 and \$57,453,741, 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 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 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. Contributed goods are recorded at fair value at the date of donation. 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, 2019 and 2018 for donated goods and services total \$448,916 and \$452,387, respectively.

### Advertising Costs

Advertising costs are expensed as incurred, and totaled \$752,838 and \$609,394 for the years ended December 31, 2019 and 2018, 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.

The financial statements report certain categories of expense that are attributed to more than one program or supporting action. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, utilities and rentals, and depreciation, which are allocated on a square footage basis, as well as employment costs, contract services, professional and license fees, supplies, interest, and insurance, which are allocated on the basis of estimates of time and effort.

### **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 IRC Section 501(a) as an organization described in IRC Section 501(c)(3), that qualifies for the charitable contribution deduction under IRC Section 509(a)(2) and has been determined not to be a private foundation under IRC 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 the Organization 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**

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Organization to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced 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 diversified investment managers whose performance is monitored by the Organization and the Board of Trustees. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Organization and the Board of Trustees believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

**Adoption of Accounting Policies**

As of January 1, 2019, the Organization adopted the provisions of Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents, by including amounts generally described as restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Retrospective application of the amendment is required. The Organization has adopted this standard as management believes this presentation eliminates a diversity in practice in the presentation of restricted cash and restricted cash equivalents in the statement of cash flows.

As of January 1, 2019, the Organization adopted the provisions of FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, which provides a comprehensive revenue recognition model for all contracts with customers. The new model requires revenue recognition to depict the transfer of promised goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those goods or services. The Organization has adopted Topic 606 using the modified retrospective approach. There was no impact on beginning net assets related to the adoption of this standard.

As of January 1, 2019, the Organization adopted the provisions of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This standard assists the entity in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

**Note 2 - Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 30,415,091	\$ 21,210,304
Accounts receivable	3,706,330	11,854,339
Operating investments	17,782,700	10,101,988
Contributions receivable	<u>2,336,590</u>	<u>2,194,156</u>
	<u>\$ 54,240,711</u>	<u>\$ 45,360,787</u>

As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term investments, CDs, and money market funds. In addition, as described in Note 7, the Organization has access to a \$6,000,000 line of credit.

**Note 3 - Fair Value Measurements and Disclosures**

Certain assets are reported 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:

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 the Organization's assessment of the quality, risk or liquidity profile of the asset or liability.

The following table presents assets measured at fair value on a recurring basis at December 31, 2019:

Assets	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments and endowment				
Equities				
U.S. Domestic	\$ 11,891,255	\$ 11,891,255	\$ -	\$ -
International	4,840,340	4,840,340	-	-
Fixed income				
U.S. Domestic	2,141,255	2,141,255	-	-
International	452,771	452,771	-	-
Mutual funds				
Alternative funds	2,745,031	2,745,031	-	-
Commodity funds	892,162	892,162	-	-
Income and growth funds	725,657	725,657	-	-
Endowment cash	126,335	126,335	-	-
Total investments and endowment	<u>\$ 23,814,806</u>	<u>\$ 23,814,806</u>	<u>\$ -</u>	<u>\$ -</u>

Children's Miracle Network Hospitals

Notes to Financial Statements

December 31, 2019 and 2018

The following table presents assets measured at fair value on a recurring basis at December 31, 2018:

Assets	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments and endowment				
Equities				
U.S. Domestic	\$ 6,983,427	\$ 6,983,427	\$ -	\$ -
International	3,430,392	3,430,392	-	-
Fixed income				
U.S. Domestic	1,394,258	1,394,258	-	-
International	203,690	203,690	-	-
Mutual funds				
Alternative funds	1,873,605	1,873,605	-	-
Commodity funds	552,502	552,502	-	-
Income and growth funds	562,762	562,762	-	-
Endowment cash	109,763	109,763	-	-
Total restricted investments, investments and endowment	<u>\$ 15,110,399</u>	<u>\$ 15,110,399</u>	<u>\$ -</u>	<u>\$ -</u>

**Note 4 - Net Investment Return (Loss)**

Net investment return consists of the following for the years ended December 31, 2019 and 2018:

	2019	2018
Investments		
Interest and dividends, net of management fees	\$ 1,744,477	\$ 975,071
Net realized and unrealized gain (loss)	2,037,187	(1,145,356)
	<u>3,781,664</u>	<u>(170,285)</u>
Endowment		
Interest and dividends	175,086	187,553
Net realized and unrealized gain (loss)	848,609	(588,111)
	<u>1,023,695</u>	<u>(400,558)</u>
	<u>\$ 4,805,359</u>	<u>\$ (570,843)</u>

**Note 5 - Contributions Receivable**

Contributions receivable as of December 31, 2019 and 2018, totaling \$2,336,590 and \$2,194,156, respectively, are all estimated to be collected within one year.

**Note 6 - Property and Equipment**

Property and equipment consists of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,912,889	\$ 1,912,889
Buildings and improvements	7,333,966	7,321,555
Furniture, equipment and software	<u>2,707,700</u>	<u>2,745,334</u>
	11,954,555	11,979,778
Less accumulated depreciation	<u>(4,995,970)</u>	<u>(4,616,066)</u>
	<u>\$ 6,958,585</u>	<u>\$ 7,363,712</u>

**Note 7 - 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, 2019 and 2018, the balance of the line of credit was \$0. The variable interest rates as of December 31, 2019 and 2018 were 2.69% and 3.42%, respectively.

**Note 8 - Commitments and Contingencies****Leases**

Equipment is leased under various operating leases expiring at various dates through 2022.

Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	
2020	\$ 27,883
2021	27,647
2022	<u>20,545</u>
	<u>\$ 76,075</u>

Rent expense for the years ended December 31, 2019 and 2018, totaled \$35,540 and \$32,433, 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, 2019 and 2018, totaled \$74,626 and \$72,536. As of December 31, 2019 and 2018, related assets of \$631,248 and \$447,037, respectively, were included in investments and related liabilities of \$705,874 and \$519,573, 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. Subsequent to year-end, the 457(f) Supplemental Executive Retirement Plan was liquidated and paid out to the beneficiary.

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, 2019 and 2018, the 457(b) plan assets and related liabilities of \$94,409 and \$115,725, respectively, 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 an annual participant fee of \$650,000 beginning in 2017, which 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. The Organization terminated the agreement during 2019 after the contract expired.

**Note 9 - 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 five-year LIBOR/Swap Rate (interest rate change will not occur more often than once every five years), using a rate of 1.650 percentage points over the index. The interest rate was 2.31% December 31, 2019 and 2018, with monthly payments of \$32,175. The loan was paid off in full during 2019.

**Note 10 - Conditional Promises to Give**

The Organization has received \$735,000 of conditional contribution promises to give and unconditional intentions to give as of December 31, 2019 and 2018, 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, 2019 and 2018, approximately \$600,000 of this amount 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 11 - Retirement Plans**

The Organization has a noncontributory defined contribution employee benefit plan and a 403(b) plan. The total expense recognized for these plans was \$2,418,674 and \$2,512,692 for the years ended December 31, 2019 and 2018, respectively.

**Note 12 - Endowment**

The Organization's endowment (the Endowment) was established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Trustees.

The Organization has interpreted the Utah Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent 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

As of December 31, 2019, endowment net asset composition by type of fund is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Board designated endowment funds	\$ 1,716,434	\$ -	\$ 1,716,434
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	2,347,208	2,347,208
Accumulated investment gains	-	1,968,464	1,968,464
Total funds	<u>\$ 1,716,434</u>	<u>\$ 4,315,672</u>	<u>\$ 6,032,106</u>

As of December 31, 2018, endowment net asset composition by type of fund is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Board designated endowment funds	\$ 1,507,136	\$ -	\$ 1,507,136
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	2,347,208	2,347,208
Accumulated investment gains	-	1,154,067	1,154,067
Total funds	<u>\$ 1,507,136</u>	<u>\$ 3,501,275</u>	<u>\$ 5,008,411</u>



From time to time, certain donor-restricted endowment funds may have fair value less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of December 31, 2019 and 2018, there were no such deficiencies.

### Investment and Spending Policies

Children's Miracle Network Hospitals' endowment funds are governed subject to a board-approved Endowment Fund Policy. The Endowment Fund also includes certain net assets without donor restrictions 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).

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. The management fees of the Endowment Fund are paid with operating funds.

Changes in Endowment net assets for the year ended December 31, 2019, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 1,507,136	\$ 3,501,275	\$ 5,008,411
Interest and dividends	38,267	136,819	175,086
Net realized and unrealized loss	171,031	677,578	848,609
Endowment net assets, end of year	<u>\$ 1,716,434</u>	<u>\$ 4,315,672</u>	<u>\$ 6,032,106</u>

Children's Miracle Network Hospitals

Notes to Financial Statements

December 31, 2019 and 2018

Changes in Endowment net assets for the year ended December 31, 2018, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 1,634,978	\$ 3,773,991	\$ 5,408,969
Interest and dividends	62,353	125,200	187,553
Net realized and unrealized gain	<u>(190,195)</u>	<u>(397,916)</u>	<u>(588,111)</u>
Endowment net assets, end of year	<u>\$ 1,507,136</u>	<u>\$ 3,501,275</u>	<u>\$ 5,008,411</u>

**Note 13 - Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose		
In-kind contributions - travel	\$ 7,770	\$ 77,158
Subject to the Passage of Time		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	2,336,590	2,194,156
Endowments		
Subject to endowment spending policy and appropriation		
General use	<u>4,315,672</u>	<u>3,501,275</u>
	<u>\$ 6,660,032</u>	<u>\$ 5,772,589</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donor as follows for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Expiration of time restrictions	\$ 2,194,156	\$ 2,335,002
Satisfaction of purpose restrictions		
In-kind contributions - travel	<u>77,158</u>	<u>41,334</u>
	<u>\$ 2,271,314</u>	<u>\$ 2,376,336</u>

**Note 14 - Related Party Transactions**

During the year ended December 31, 2017, the Organization entered into a Master Agreement with Canada's Children's Hospital Foundations (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 fees of \$524,980 and \$500,000 for the years ended December 31, 2019 and 2018, respectively. The Organization 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 five 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 15 - Adoption of Change in Accounting Principle**

As disclosed in Note 1, the Organization adopted the provisions of Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash* as of January 1, 2019. Following is a summary of the effects of the change in accounting principle in the Organization's December 31, 2018 statement of cash flows:

	As Previously Reported	Change in Accounting Principle	Adopted Change in Accounting Principle
Operating Activities			
Change in restricted cash and cash equivalents	\$ 7,720,254	\$ (7,720,254)	\$ -
Net Cash from Operating Activities	9,281,256	(7,720,254)	1,561,002
Net Change in Cash and Cash Equivalents	14,346,639	(14,346,639)	-
Cash and Cash Equivalents, Beginning of year	6,863,665	(6,863,665)	-
Cash and Cash Equivalents, End of year	21,210,304	(21,210,304)	-
Net Change in Cash and Cash Equivalents and Restricted Cash and Cash Equivalents	-	6,626,385	6,626,385
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning of Year	-	72,037,660	72,037,660
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, End of Year	-	78,664,045	78,664,045

**Note 16 - Subsequent Events**

The Organization has evaluated subsequent events through July 9, 2020, the date which the financial statements were available to be issued.

Subsequent to year-end, world markets, healthcare services and most organizations have been impacted by the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Organization's financial position is unknown.

The Organization applied for and was granted a \$2,441,700 loan under the Paycheck Protection Program administered by a Small Business Administration approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest, but payments are not required to begin for six months after the funding of the loan. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization intends to take measures to maximize the loan forgiveness but cannot reasonably determine the portion of the loan that will ultimately be forgiven.

Subsequent to year-end the CEO of the Organization passed away. In connection with his passing, the 457(f) Supplemental Executive Retirement Plan was liquidated and paid out to the beneficiary.