



**Children's
Miracle Network
Hospitals**

Financial Statements

December 31, 2021 and 2020

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.

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The beginning and ending balances for accounts receivable and deferred revenues were as follows for the years ended December 31, 2021 and 2020:

	2021	
	January 1	December 31
Accounts receivable, net	\$ 4,185,468	\$ 3,552,033
Deferred revenue	22,568,485	20,906,450
	2020	
	January 1	December 31
Accounts receivable, net	\$ 3,706,330	\$ 4,185,468
Deferred revenue	23,023,256	22,568,485

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, 2021:

	2021	2020
Revenue recognized over time	\$ 30,343,038	\$ 29,766,368
Revenue recognized at a point in time	4,854,700	5,860,311
Total revenue from contracts with customers	\$ 35,197,738	\$ 35,626,679

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. Children's Miracle Network Hospitals has no discretionary variance power over the distribution of such contributions. Payable to member hospitals at December 31, 2021 and 2020 is \$59,236,753 and \$54,944,310, 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 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, 2021 and 2020 for donated goods and services total \$71,964 and \$57,263, respectively, the majority of which is included in travel expense.

Advertising Costs

Advertising costs are expensed as incurred, and totaled \$544,519 and \$528,229 for the years ended December 31, 2021 and 2020, 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.

Paycheck Protection Program (PPP) Loan

The Organization was granted a \$2,441,700 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization recorded a note payable and subsequently received forgiveness when the loan obligation was legally released by the SBA. The Company recognized \$2,441,700 of loan forgiveness income for the year ended December 31, 2021 related to this PPP loan. In accordance with PPP loan requirements, the Organization is required to maintain PPP loan files and certain underlying supporting documents for periods ranging from three to six years. The Organization is also required to permit access to such files upon request by the SBA. Accordingly, there is potential the PPP loan could be subject to further review by the SBA and that previously recognized forgiveness could be reversed based on the outcome of this review.

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 and has been determined not to be a private foundation. 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.

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.

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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets. For the year ending December 31, 2020, direct mail revenues and program support expenses totaling \$611,272 were previously netted and have now been separately reported.

Subsequent Events

The Organization has evaluated subsequent events through July 15, 2022, the date which the financial statements were available to be issued.

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:

	2021	2020
Cash and cash equivalents	\$ 40,555,498	\$ 36,939,492
Accounts receivable	3,552,033	4,185,468
Contributions receivable	1,333,708	1,582,153
Operating investments	21,688,266	19,107,757
	<u>\$ 67,129,505</u>	<u>\$ 61,814,870</u>

As part of a liquidity management plan, cash in excess of weekly 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, 2021:

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	\$ 14,738,492	\$ 14,738,492	\$ -	\$ -
International	6,842,866	6,842,866	-	-
Fixed income				
U.S. Domestic	2,736,438	2,736,438	-	-
International	622,756	622,756	-	-
Mutual funds				
Alternative funds	3,672,613	3,672,613	-	-
Commodity funds	857,729	857,729	-	-
Endowment cash	204,085	-	-	-
Total investments and endowment	<u>\$ 29,674,979</u>	<u>\$ 29,470,894</u>	<u>\$ -</u>	<u>\$ -</u>

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The following table presents assets measured at fair value on a recurring basis at December 31, 2020:

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	\$ 13,082,531	\$ 13,082,531	\$ -	\$ -
International	5,629,338	5,629,338	-	-
Fixed income				
U.S. Domestic	2,316,439	2,316,439	-	-
International	636,401	636,401	-	-
Mutual funds				
Alternative funds	3,103,770	3,103,770	-	-
Commodity funds	1,071,825	1,071,825	-	-
Income and growth funds	105,283	105,283	-	-
Endowment cash	134,889	-	-	-
Total restricted investments, investments and endowment	<u>\$ 26,080,476</u>	<u>\$ 25,945,587</u>	<u>\$ -</u>	<u>\$ -</u>

Note 4 - Net Investment Return

Net investment return consists of the following for the years ended December 31, 2021 and 2020:

	2021	2020
Investments		
Interest and dividends, net of management fees	\$ 738,969	\$ 397,948
Net realized and unrealized gain	2,243,362	1,710,219
	<u>2,982,331</u>	<u>2,108,167</u>
Endowment		
Interest and dividends	274,580	159,312
Net realized and unrealized gain	739,414	637,411
	<u>1,013,994</u>	<u>796,723</u>
	<u>\$ 3,996,325</u>	<u>\$ 2,904,890</u>

Note 5 - Contributions Receivable

Contributions receivable as of December 31, 2021 and 2020, totaling \$1,333,708 and \$1,582,153, 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, 2021 and 2020:

	2021	2020
Land	\$ 1,912,889	\$ 1,912,889
Buildings and improvements	7,333,966	7,333,966
Furniture, equipment and software	2,845,153	2,866,161
	<u>12,092,008</u>	<u>12,113,016</u>
Less accumulated depreciation	<u>(5,626,016)</u>	<u>(5,227,954)</u>
	<u>\$ 6,465,992</u>	<u>\$ 6,885,062</u>

Note 7 - Line of Credit

The Organization has a line of credit agreement with the financial institution that holds the Organization's investments. Under the terms of the 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, 2021 and 2020, the balance of the line of credit was \$0. Borrowings under the line bear interest at the LIBOR Daily Floating rate plus 0.9% (1.53% and 1.05% as of December 31, 2021 and 2020, respectively).

Note 8 - Commitments and Contingencies

Leases

Equipment is leased under various operating leases expiring at various dates through 2026.

Future minimum lease payments are as follows:

Years Ending December 31,		
2022	\$	25,917
2023		22,425
2024		22,425
2025		22,425
2026		14,950
	\$	108,142

Lease expense for the years ended December 31, 2021 and 2020, totaled \$25,784 and \$24,458, respectively.

Employment Agreements

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. During 2021 the amount in this plan was distributed. As of December 31, 2021 and 2020, the 457(b) plan assets and related liabilities of \$0 and \$105,283, 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.

Note 9 - Retirement Plans

The Organization sponsors a defined contribution plan under IRC Section 403(b) which covers all employees. All employees are eligible to make elective deferral contributions. To be eligible to receive contributions from the Organization, employees must be at least 21 years of age and have completed one year of service. Employees may contribute up to 100% of their earnings to the plan, up to the maximum allowed by the IRS. The Organization makes nondiscretionary contributions totaling 18.5% of each participant's eligible compensation. The total expense recognized for these plans was \$2,581,325 and \$2,266,555 for the years ended December 31, 2021 and 2020, respectively.

Note 10 - 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, 2021 and 2020, 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, 2021, endowment net asset composition by type of fund is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Board designated endowment funds	\$ 2,158,896	\$ -	\$ 2,158,896
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	-	3,480,609	3,480,609
Total funds	<u>\$ 2,158,896</u>	<u>\$ 5,827,817</u>	<u>\$ 7,986,713</u>

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As of December 31, 2020, endowment net asset composition by type of fund is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Board designated endowment funds	\$ 1,902,638	\$ -	\$ 1,902,638
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	-	2,722,873	2,722,873
Total funds	\$ 1,902,638	\$ 5,070,081	\$ 6,972,719

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, 2021 and 2020, 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.

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Changes in Endowment net assets for the year ended December 31, 2021, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 1,902,638	\$ 5,070,081	\$ 6,972,719
Interest and dividends	70,524	204,056	274,580
Net realized and unrealized gain	<u>185,734</u>	<u>553,680</u>	<u>739,414</u>
Endowment net assets, end of year	<u>\$ 2,158,896</u>	<u>\$ 5,827,817</u>	<u>\$ 7,986,713</u>

Changes in Endowment net assets for the year ended December 31, 2020, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 1,716,434	\$ 4,459,562	\$ 6,175,996
Interest and dividends	42,512	116,800	159,312
Net realized and unrealized gain	<u>143,692</u>	<u>493,719</u>	<u>637,411</u>
Endowment net assets, end of year	<u>\$ 1,902,638</u>	<u>\$ 5,070,081</u>	<u>\$ 6,972,719</u>

Note 11 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2021 and 2020:

	2021	2020
Subject to Expenditure for Specified Purpose		
Restricted to use for travel	\$ 78,561	\$ 244,340
Subject to the Passage of Time		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	1,333,708	1,582,153
Beneficial interest in charitable remainder trust, which is unavailable for expenditure until funds are received	73,553	66,153
Endowments		
Subject to endowment spending policy and appropriation		
General use	<u>5,827,817</u>	<u>5,070,081</u>
	<u>\$ 7,313,639</u>	<u>\$ 6,962,727</u>

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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, 2021 and 2020:

	2021	2020
Expiration of time restrictions	\$ 1,582,153	\$ 2,336,590
Satisfaction of purpose restrictions		
Restricted to use for travel	237,743	7,770
	\$ 1,819,896	\$ 2,344,360

Note 12 - 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 \$522,839 and \$515,113 for the years ended December 31, 2021 and 2020, 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 agreement was amended to extend through December 31, 2022. 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.