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TANNER

Accountants & Advisors



Children's Miracle Network

Financial Statements

As of December 31, 2022 and 2021 and for the Years Then Ended

Together with Independent Auditors' Report

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TANNER

Independent Auditors' Report

To the Audit and Compliance Committee Children's Miracle Network

Opinion

We have audited the accompanying 2022 financial statements of Children's Miracle Network (dba Children's Miracle Network Hospitals), a nonprofit organization (the Organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to financial statements.

In our opinion, the 2022 financial statements referred to above present fairly, in all material respects, the financial position of Children's Miracle Network as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of Children's Miracle Network as of and for the year ended December 31, 2021, were audited by other auditors whose report dated July 15, 2022, expressed an unmodified opinion on those financial statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Tanner LLC

July 27, 2023

Statements of Financial Position

As of December 31,

	2022	2021
<u>Assets</u>		
Cash and cash equivalents	\$ 37,800,622	\$ 40,562,095
Restricted cash and cash equivalents	59,291,468	59,236,753
Accounts receivable, net of allowance for doubtful accounts of \$21,549 and \$24,711, respectively	3,962,220	3,552,033
Contributions receivable	1,557,795	1,333,708
Prepaid expenses and other assets	1,511,837	1,172,829
Investments	18,599,731	21,688,266
Endowment	6,850,280	7,986,713
Property and equipment, net	6,093,033	6,465,992
Total assets	\$ 135,666,986	\$ 141,998,389
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 1,778,151	\$ 1,684,789
Accrued liabilities	1,653,873	1,469,196
Payable to member hospitals	59,291,468	59,236,753
Deferred revenue	19,218,802	20,906,450
Total liabilities	81,942,294	83,297,188
Commitments and contingencies		
Net assets:		
Without donor restrictions		
Undesignated	44,847,221	49,228,666
Designated by board for endowment	1,808,280	2,158,896
	46,655,501	51,387,562
With donor restrictions	7,069,191	7,313,639
Total net assets	53,724,692	58,701,201
Total liabilities and net assets	\$ 135,666,986	\$ 141,998,389

Statements of Activities

For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Fundraising and support			
Total amount raised	\$ 238,090,643	\$ 1,860,465	\$ 239,951,108
Less amounts designated by donors to specific hospitals	(231,846,506)	-	(231,846,506)
Net fundraising and support	6,244,137	1,860,465	8,104,602
Revenues			
Hospital membership fees	30,529,929	-	30,529,929
Direct mail	5,094,405	-	5,094,405
Licensing fees	613,474	-	613,474
Donations in-kind	2,123	93,173	95,296
Registration fees	196,442	-	196,442
Ancillary revenue	381,007	-	381,007
Total revenues	36,817,380	93,173	36,910,553
Other income and gains (losses), net			
Gain on sale of property and equipment	6,750	-	6,750
Gain on sale of contributed artwork	125,811	-	125,811
Net investment return	(3,573,577)	(785,817)	(4,359,394)
Interest income	512,656	-	512,656
Foreign currency exchange loss	(6,550)	-	(6,550)
Net assets released from restrictions	1,412,269	(1,412,269)	-
Total other income and gains (losses), net	(1,522,641)	(2,198,086)	(3,720,727)
Total fundraising and support, revenues, other income, and gains (losses), net	41,538,876	(244,448)	41,294,428
Expenses			
Program services			
Public education and awareness	4,577,140	-	4,577,140
Fundraising program services	33,441,121	-	33,441,121
Total program services	38,018,261	-	38,018,261
Supporting services			
Management and general	5,412,154	-	5,412,154
Fundraising	2,840,522	-	2,840,522
Total supporting services	8,252,676	-	8,252,676
Total expenses	46,270,937	-	46,270,937
Change in net assets	(4,732,061)	(244,448)	(4,976,509)
Net assets, beginning of year	51,387,562	7,313,639	58,701,201
Net assets, end of year	\$ 46,655,501	\$ 7,069,191	\$ 53,724,692

See accompanying notes to financial statements.

Statements of Activities - Continued

For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Fundraising and support			
Total amount raised	\$ 211,716,984	\$ 1,341,108	\$ 213,058,092
Less amounts designated by donors to specific hospitals	(205,063,670)	-	(205,063,670)
Net fundraising and support	6,653,314	1,341,108	7,994,422
Revenues			
Hospital membership fees	29,736,359	-	29,736,359
Direct mail	4,392,078	-	4,392,078
Licensing fees	606,679	-	606,679
Donations in-kind	-	71,964	71,964
Registration fees	235,938	-	235,938
Ancillary revenue	226,684	-	226,684
Total revenues	35,197,738	71,964	35,269,702
Other income and gains (losses), net			
Gain on sale of property and equipment	5,837	-	5,837
Gain on Paycheck Protection Program loan forgiveness (including accrued interest)	2,472,900	-	2,472,900
Net investment return	3,238,589	757,736	3,996,325
Foreign currency exchange loss	(1,467)	-	(1,467)
Net assets released from restrictions	1,819,896	(1,819,896)	-
Total other income and gains (losses), net	7,535,755	(1,062,160)	6,473,595
Total fundraising and support, revenues, other income, and gains (losses), net	49,386,807	350,912	49,737,719
Expenses			
Program services			
Public education and awareness	3,978,295	-	3,978,295
Fundraising program services	29,361,279	-	29,361,279
Total program services	33,339,574	-	33,339,574
Supporting services			
Management and general	5,020,013	-	5,020,013
Fundraising	2,416,882	-	2,416,882
Total supporting services	7,436,895	-	7,436,895
Total expenses	40,776,469	-	40,776,469
Change in Net Assets	8,610,338	350,912	8,961,250
Net Assets, Beginning of Year	42,777,224	6,962,727	49,739,951
Net Assets, End of Year	\$ 51,387,562	\$ 7,313,639	\$ 58,701,201

See accompanying notes to financial statements.

Statements of Functional Expenses

For the Year Ended December 31, 2022

	Program Services			Supporting Services			Total Expenses
	Public Education and Awareness	Fundraising Program Services	Total	Management and General	Fundraising	Total	
Employment costs	\$ 2,843,702	\$ 16,927,389	\$ 19,771,091	\$ 3,600,939	\$ 1,777,611	\$ 5,378,550	\$ 25,149,641
Contract services	865,111	4,737,314	5,602,425	800,291	542,154	1,342,445	6,944,870
Program support	-	3,514,353	3,514,353	-	-	-	3,514,353
Travel	247,464	1,456,575	1,704,039	220,440	144,497	364,937	2,068,976
Corporate campaign	-	2,050,771	2,050,771	-	-	-	2,050,771
Professional and license fees	263,494	1,337,711	1,601,205	308,674	123,045	431,719	2,032,924
Bank and donation processing fees	-	1,530,460	1,530,460	24,878	72,576	97,454	1,627,914
Advertising, printing and photography	155,027	839,767	994,794	111,238	69,626	180,864	1,175,658
Depreciation	55,379	277,199	332,578	34,783	29,291	64,074	396,652
Supplies	32,362	167,572	199,934	41,574	17,404	58,978	258,912
Sponsorship support	35,399	157,667	193,066	27,261	15,384	42,645	235,711
Postage and shipping	29,929	171,857	201,786	25,897	20,881	46,778	248,564
Telephone	25,735	161,228	186,963	37,314	16,429	53,743	240,706
Occupancy, utilities and rentals	6,596	26,540	33,136	168,201	2,667	170,868	204,004
Insurance	16,942	84,718	101,660	10,664	8,957	19,621	121,281
Total expenses	\$ 4,577,140	\$ 33,441,121	\$ 38,018,261	\$ 5,412,154	\$ 2,840,522	\$ 8,252,676	\$ 46,270,937

Statements of Functional Expenses - Continued

For the Year Ended December 31, 2021

	Program Services			Supporting Services			Total Expenses
	Public Education and Awareness	Fundraising Program Services	Total	Management and General	Fundraising	Total	
Employment costs	\$ 2,596,775	\$ 15,681,340	\$ 18,278,115	\$ 3,577,266	\$ 1,610,919	\$ 5,188,185	\$ 23,466,300
Contract services	690,482	3,569,243	4,259,725	671,963	415,412	1,087,375	5,347,100
Program support	-	3,350,877	3,350,877	-	-	-	3,350,877
Travel	75,787	481,321	557,108	65,017	38,367	103,384	660,492
Corporate campaign	-	1,358,610	1,358,610	-	-	-	1,358,610
Professional and license fees	258,453	1,205,858	1,464,311	212,672	103,860	316,532	1,780,843
Bank and donation processing fees	-	1,878,105	1,878,105	22,280	89,008	111,288	1,989,393
Advertising, printing and photography	178,702	836,674	1,015,376	130,250	56,415	186,665	1,202,041
Depreciation	55,572	297,358	352,930	36,076	30,064	66,140	419,070
Supplies	27,411	148,164	175,575	32,607	14,518	47,125	222,700
Sponsorship support	12,373	60,812	73,185	12,083	5,358	17,441	90,626
Postage and shipping	28,141	160,390	188,531	38,351	19,491	57,842	246,373
Telephone	35,110	227,950	263,060	43,609	22,906	66,515	329,575
Occupancy, utilities and rentals	3,419	18,295	21,714	167,300	1,850	169,150	190,864
Insurance	14,239	76,190	90,429	9,244	7,703	16,947	107,376
Interest	1,831	9,797	11,628	1,189	990	2,179	13,807
Income Tax Expense	-	295	295	106	21	127	422
Total expenses	\$ 3,978,295	\$ 29,361,279	\$ 33,339,574	\$ 5,020,013	\$ 2,416,882	\$ 7,436,895	\$ 40,776,469

See accompanying notes to financial statements.

Statements of Cash Flows

	<i>For the Years Ended December 31,</i>	
	2022	2021
Operating activities		
Change in net assets	\$ (4,976,509)	\$ 8,961,250
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	396,652	419,070
Net investment return - investments	3,222,961	(2,982,331)
Net investment return - endowment	1,136,433	(1,013,994)
Gain on sale of property and equipment and other assets	(132,561)	(5,837)
Bad debt recoveries	(3,162)	(32,062)
Gain on Paycheck Protection Program loan forgiveness	-	(2,441,700)
Changes in operating assets and liabilities		
Accounts receivable	(407,025)	665,497
Contributions receivable	(224,087)	248,445
Prepaid expenses and other assets	(419,004)	(143,391)
Accounts payable	93,362	505,918
Accrued liabilities	184,677	490,703
Payable to member hospitals	54,715	4,292,443
Deferred revenue	(1,687,648)	(1,662,035)
Net cash provided by (used in) operating activities	<u>(2,761,196)</u>	<u>7,301,976</u>
Investing activities		
Purchases of investments	(9,023,489)	(5,943,173)
Proceeds from sales of investments	8,889,063	6,344,995
Purchase of property and equipment	(23,693)	-
Proceeds from sale of property and equipment and other assets	212,557	5,837
Net cash provided by investing activities	<u>54,438</u>	<u>407,659</u>
Net change in cash and cash equivalents and restricted cash and cash equivalents	(2,706,758)	7,709,635
Cash and cash equivalents and restricted cash and cash equivalents, beginning of year	<u>99,798,848</u>	<u>92,089,213</u>
Cash and cash equivalents and restricted cash and cash equivalents, end of year	<u>\$ 97,092,090</u>	<u>\$ 99,798,848</u>
Cash and cash equivalents	<u>\$ 37,800,622</u>	<u>\$ 40,562,095</u>
Restricted cash and cash equivalents	<u>59,291,468</u>	<u>59,236,753</u>
Total cash and cash equivalents and restricted cash and cash equivalents	<u><u>\$ 97,092,090</u></u>	<u><u>\$ 99,798,848</u></u>

Notes to Financial Statements

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 the 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.

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United State of America (US GAAP).

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. Cash equivalents consisted of money market accounts.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are resources received from the Organization's campaigns which are payable to member hospitals. Cash equivalents consisted of money market accounts.

Accounts Receivable

Accounts receivable consist primarily of billings to member hospitals for membership fees and various ancillary services. An 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, 2022 and 2021, the allowance was \$21,549 and \$24,711, 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. An 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, 2022 and 2021, 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, 2022 and 2021.

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 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, that is, those with a measurable performance or other barrier, and a right of return, 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 beginning and ending balances for accounts receivable and deferred revenues were as follows for the years ended December 31, 2022 and 2021:

	2022	
	January 1	December 31
Accounts receivable, net	\$ 3,552,033	\$ 3,962,220
Deferred revenue	20,906,450	19,218,802
	2021	
	January 1	December 31
Accounts receivable, net	\$ 4,185,468	\$ 3,552,033
Deferred revenue	22,568,485	20,906,450

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

	2022	2021
Revenue recognized over time	\$ 31,143,403	\$ 30,343,038
Revenue recognized at a point in time	5,671,854	4,854,700
Total revenue from contracts with customers	<u>\$ 36,815,257</u>	<u>\$ 35,197,738</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. Children's Miracle Network Hospitals has no discretionary variance power over the distribution of such contributions. Payable to member hospitals at December 31, 2022 and 2021 is \$59,291,468 and \$59,236,753, 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.

Recently Adopted Accounting Pronouncement

In September 2020, the Financial Accounting Standards Board (FASB) issued ASU No. 2020-07, Not-For-Profit Entities (Topic 958) (ASU 2020-07). ASU 2020-07 requires not-for-profit entities to improve disclosures regarding non-financial contributions received on the statement of activities and in the notes to the financial statements. ASU 2020-07 was effective for the Organization for the year ended December 31, 2022, using a modified retrospective approach. The Organization adopted the requirements of ASU 2020-07 effective January 1, 2022. Other than the more detailed disclosures pertaining to in-kind contributions, the adoption of this standard did not have a material impact on the accompanying financial statements.

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 and the Organization does not have the practice of monetizing these amounts. 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, 2022 and 2021 for donated goods and services total \$95,296 and \$71,964, respectively, the majority of which is included in travel expense.

Advertising Costs

Advertising costs are expensed as incurred, and totaled \$387,180 and \$544,519 for the years ended December 31, 2022 and 2021, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis on the statements of activities and statements of functional expenses. 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 are done so on the basis estimates of time and effort and include occupancy, utilities and rentals, depreciation, employment costs, contract services, professional and license fees, supplies, interest, and insurance expenses.

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 was uncollateralized and fully guaranteed by the federal government. The Organization was eligible for loan forgiveness of up to 100% of the loan plus accrued interest, 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 Organization recognized \$2,472,900 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 exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. The Organization also holds \$144,866 in Canadian bank accounts, which are insured up to \$100,000 by the Canada Deposit Insurance Corporation. 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. A major customer or vendor is considered to be one that comprises more than 10% of the Organization's accounts receivable, annual revenues or annual purchases. The Organization did not have any customers over the 10% threshold. The Organization had one vendor that exceeded the 10% threshold of annual purchases for the year ended December 31, 2022, comprising 12% of total purchases. 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 have been made to the 2021 financial statement to conform with current year presentation.

Subsequent Events

The Organization has evaluated subsequent events through July 27, 2023, the date which the financial statements were available to be issued.

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, comprised the following as of December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 37,800,622	\$ 40,562,095
Accounts receivable	3,962,220	3,552,033
Contributions receivable	1,557,795	1,333,708
Operating investments	18,599,731	21,688,266
	<u>\$ 61,920,368</u>	<u>\$ 67,136,102</u>

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments using budgets and cash flow projections, while also striving to maximize the use of its available funds. 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.

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.

Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets. The investment categories above reflect the fair value of the investments. For each of the categories described above, the fair value of the investments has been determined by obtaining either the quoted market price of the security or quoted market prices of similar, comparable securities. The following table presents assets measured at fair value on a recurring basis at December 31, 2022:

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	\$ 11,726,975	\$ 11,726,975	\$ -	\$ -
International	5,856,611	5,856,611	-	-
Fixed income				
U.S. Domestic	2,977,869	2,977,869	-	-
International	371,058	371,058	-	-
Mutual funds				
Alternative funds	2,948,875	2,948,875	-	-
Commodity funds*	1,382,324	-	-	-
Endowment cash	186,299	-	-	-
Total investments and endowment	\$ 25,450,011	\$ 23,881,388	\$ -	\$ -

*Commodity funds, which are valued at NAV as a practical expedient, are included in the table above to allow total investments to match to the amount in the Statement of Financial Position.

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	-	-	-
Endowment cash	204,085	-	-	-
Total investments and endowment	\$ 29,674,979	\$ 28,613,165	\$ -	\$ -

*Commodity funds, which are valued at NAV as a practical expedient, are included in the table above to allow total investments to match to the amount in the Statement of Financial Position.

4. Net Investment Return

Net investment return consisted of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Investments		
Interest and dividends, net of management fees	\$ 499,117	\$ 738,969
Net realized and unrealized gain (loss)	<u>(3,722,078)</u>	<u>2,243,362</u>
	<u>(3,222,961)</u>	<u>2,982,331</u>
Endowment		
Interest and dividends	208,960	274,580
Net realized and unrealized gain (loss)	<u>(1,345,393)</u>	<u>739,414</u>
	<u>(1,136,433)</u>	<u>1,013,994</u>
	<u>\$ (4,359,394)</u>	<u>\$ 3,996,325</u>

Interest income from cash equivalents totaled \$512,656 and \$0 for the years ended December 31, 2022 and 2021, respectively.

5. Contributions Receivable

Contributions receivable as of December 31, 2022 and 2021, totaling \$1,557,795 and \$1,333,708, respectively, are all estimated to be collected within one year.

6. Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Land	\$ 1,912,889	\$ 1,912,889
Buildings and improvements	7,346,096	7,333,966
Furniture, equipment and software	<u>2,856,716</u>	<u>2,845,153</u>
	12,115,701	12,092,008
Less accumulated depreciation	<u>(6,022,668)</u>	<u>(5,626,016)</u>
	<u>\$ 6,093,033</u>	<u>\$ 6,465,992</u>

Depreciation expense on property and equipment for the years ended December 31, 2022 and 2021 totaled \$396,652 and \$419,070, respectively.

7. Commitments and Contingencies

Line of Credit

The Organization has a line of credit agreement with a 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.

As of December 31, 2022 and 2021, the balance of the line of credit was \$0. Borrowings under the line bear interest at the BSBY rate plus 0.9% (5.26% and 1.53% as of December 31, 2022 and 2021, respectively).

Litigation

From time to time, the Organization is involved in litigation incidental to operations. In the opinion of management, the ultimate resolution of these legal proceedings will not have a material adverse effect on the Organizations' financial statements.

8. 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. Employer contributions for this plan were \$2,767,731 and \$2,581,325 for the years ended December 31, 2022 and 2021, respectively.

9. 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, 2022 and 2021, 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, 2022, endowment net asset composition by type of fund is as follows:

	Without Donor Restriction	With Donor Restriction	Total
Board designated endowment funds	\$ 1,808,280	\$ -	\$ 1,808,280
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	2,347,209	2,347,209
Accumulated investment gains	-	2,694,791	2,694,791
Total funds	\$ 1,808,280	\$ 5,042,000	\$ 6,850,280

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	\$ 2,158,896	\$ 5,827,817	\$ 7,986,713

From time to time, certain donor-restricted endowment funds may have a 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, 2022 and 2021, 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, 2022, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 2,158,896	\$ 5,827,817	\$ 7,986,713
Interest and dividends	68,531	140,429	208,960
Net realized and unrealized loss	(419,147)	(926,246)	(1,345,393)
Endowment net assets, end of year	<u>\$ 1,808,280</u>	<u>\$ 5,042,000</u>	<u>\$ 6,850,280</u>

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	185,734	553,680	739,414
Endowment net assets, end of year	<u>\$ 2,158,896</u>	<u>\$ 5,827,817</u>	<u>\$ 7,986,713</u>

10. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose restricted to use for travel	\$ 93,172	\$ 78,561
Subject to the passage of time		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	1,557,795	1,333,708
Beneficial interests in charitable remainder trusts, which are unavailable for expenditure until funds are received	376,224	73,553
Endowments		
Subject to endowment spending policy and appropriation		
General use	5,042,000	5,827,817
	<u>\$ 7,069,191</u>	<u>\$ 7,313,639</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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Expiration of time restrictions	\$ 1,333,708	\$ 1,582,153
Satisfaction of purpose restrictions - Restricted to use for travel	<u>78,561</u>	<u>237,743</u>
	<u>\$ 1,412,269</u>	<u>\$ 1,819,896</u>

The Organization is named as a beneficiary of charitable remainder trusts. The earnings received in cash from the trusts' investments are recognized as net assets with donor restrictions (temporary in nature) until appropriated by the Board of Trustees. The Organization's policy is to record these interests at the present value of future cash flows, using an appropriate discount rate and are permanent in nature. The recorded values of the interests in the trusts are evaluated annually, and the changes in values are recognized in the statements of activities as restricted gains or losses. The Organization received notification of an interest in a trust during the year ended December 31, 2022 in the amount of \$320,240. The total revaluation gain for the Organization's interests in the trusts was \$17,570 for 2022. These beneficial interests are included in other assets on the face of the financial statements.

11. 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 \$530,682 and \$522,839 for the years ended December 31, 2022 and 2021, 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.